



City of Buda, Texas

**Annual Financial Report
For the Year Ended
September 30, 2008**

Prepared by:

Sarah Mangham
Director of Finance

INTRODUCTORY SECTION

City of Buda, Texas
Annual Financial Report
For the Year Ended September 30, 2008

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

The Honorable Mayor and City Council
City of Buda, Texas
P. O. Box 1218
Buda, Texas 78610

The Honorable Mayor and City Council Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buda, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Buda, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buda, Texas as of September 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2009, on our consideration of the City of Buda, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The 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.

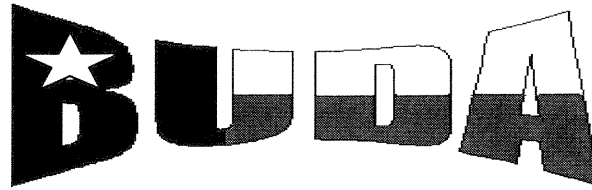
The management's discussion and analysis and budgetary information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Buda's basic financial statements. The combining and individual nonmajor fund financial statements, and combining component units financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Buda, Texas. The combining and individual nonmajor fund financial statements, the combining component units financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Holtman Wagner & Company LLP

New Braunfels, Texas
January 7, 2009



MANAGEMENT’S DISCUSSION AND ANALYSIS

This Section of the City of Buda’s annual financial report presents an overview of the City’s financial activities for the fiscal year ended September 30, 2008. The Management’s Discussion and Analysis should be considered in conjunction with the accompanying financial statements and accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior years. This is the fifth year that the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements and Management’s Discussion and Analysis (MD & A) for State and Local Governments*, as well as the related statements No. 37 and 38 and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

FINANCIAL HIGHLIGHTS

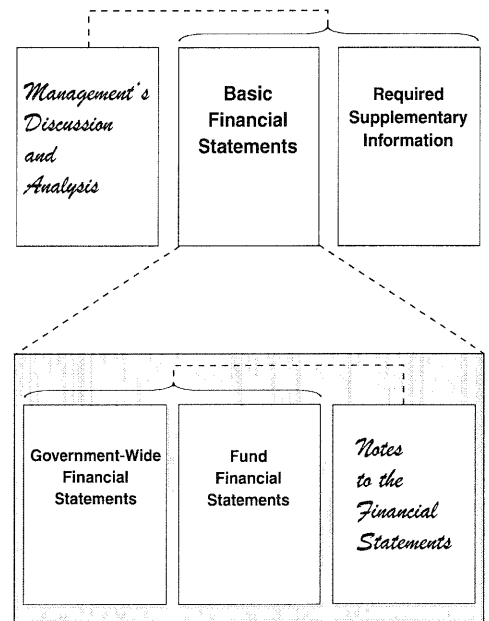
- The City’s total combined net assets were \$51,852,902 as of September 30, 2008.
- During the year, the City’s governmental net assets increased by \$1,810,791.
- The general fund reported a fund balance this year of \$2,472,293.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City’s overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City’s operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short* and *long-term* financial information about the activities the government operates *like businesses*, such as water and wastewater.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong. The City currently has no fiduciary type funds.

Figure A-1, Required Components of the City’s Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial

Summary \longleftrightarrow Detail

statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire agency's government (except fiduciary funds) and the agency's component units	The activities of the agency that are not proprietary or fiduciary	Activities the agency operates similarly to private businesses: self insurance	Instances in which the agency is the trustee or agent for someone else's resources
Required financial statements	• Statement of net assets	• Balance sheet	• Statement of net assets	• Statement of fiduciary net assets
	• Statement of activities	• Statement of revenues, expenditures and changes in fund balances	• Statement of revenues, expenses and changes in fund net assets • Statement of cash flows	• Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental Activities*. Most of the City's basic services are included here, such as public safety, streets and drainage, public improvements, parks and recreation, library, planning and development, and general administration. Property and sales taxes and grants finance a significant portion of these activities.

Fund Financial Statements

The fund financial statements are designed to report information by grouping related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

- Some funds are required by State law and by bond covenants.
- The City establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.
- Over the last several years, the City has worked to consolidate funds where appropriate to better manage, account for and administer its financial resources.

The City has three kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in the reconciliations between the fund level statements and the government-wide statements that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short and long-term financial information.
- *Internal service funds* – Account for the financing of goods or services provided by one fund, department, or agency to other funds, departments or agencies of the financial reporting entity, or to other governments, on a cost-reimbursement basis.

Component Units

Component Units are legally separate entities from the City, but were organized to benefit the City. There were two component units at September 30, 2008, and additional information is presented in the notes of the financial statements.

Notes to the Financial Statements

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets:

The following table reflects the Condensed Statement of Net Assets as of September 30, 2007 and 2008.

Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Current and other assets	\$ 5,096,763	\$ 8,408,446	\$ 5,292,019	\$ 4,460,257	\$ 10,388,782	\$ 12,868,703
Capital assets	31,459,409	37,471,488	22,156,055	24,949,345	53,615,464	62,420,833
Other non-current assets	0		0		0	0
Total assets	36,556,172	45,879,934	27,448,074	29,409,602	64,004,246	75,289,536
Long-term liabilities	4,883,233	11,332,957	7,640,896	7,164,701	12,524,129	18,497,658
Other liabilities	1,107,013	2,170,260	2,372,153	2,768,716	3,479,166	4,938,976
Total liabilities	5,990,246	13,503,217	10,013,049	9,933,417	16,003,295	23,436,634
Net assets:						
Invested in capital assets, net related debt	26,281,115	28,655,982	13,841,055	15,893,557	40,122,170	44,549,539
Restricted	91,475	28,024	1,928,193	897,782	2,019,668	925,806
Unrestricted	4,193,336	3,692,711	1,665,777	2,684,846	5,859,113	6,377,557
Total net assets	\$ 30,565,926	\$ 32,376,717	\$ 17,435,025	\$ 19,476,185	\$ 48,000,951	\$ 51,852,902

Net Assets consists of three components, investment in capital assets net of related debt, restricted net assets and unrestricted net assets. The first and largest portion of net assets \$44,549,539 reflects the City's investment in capital assets, less any related debt used to acquire or construct those assets that is still outstanding. Compared to last year, the city's investment in capital assets net of related debt increased \$4,427,369 or just over 11.03%. The City uses the capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The second portion consists of restricted net assets totaling \$925,806 at September 30, 2008 or 1.79% of overall total net assets. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Restricted net assets decreased by \$1,093,862 or 54.15% compared to September 30, 2007. This is due to an increase in construction of capital projects.

The third portion consists of unrestricted net assets totaled \$6,377,557 of total net assets. Unrestricted net assets may be used to meet the City's ongoing obligation to citizens and creditors. Unrestricted net assets increased by \$518,444 compared to September 30, 2007.

The City's combined net assets were \$51,852,902 as of September 30, 2008. Of the \$51.8 million, \$32.4 million was in the governmental activities and \$19.4 million was in the business-type activities. The City's total net assets increased when compared to the prior year with an increase of 3.9 million or 8%.

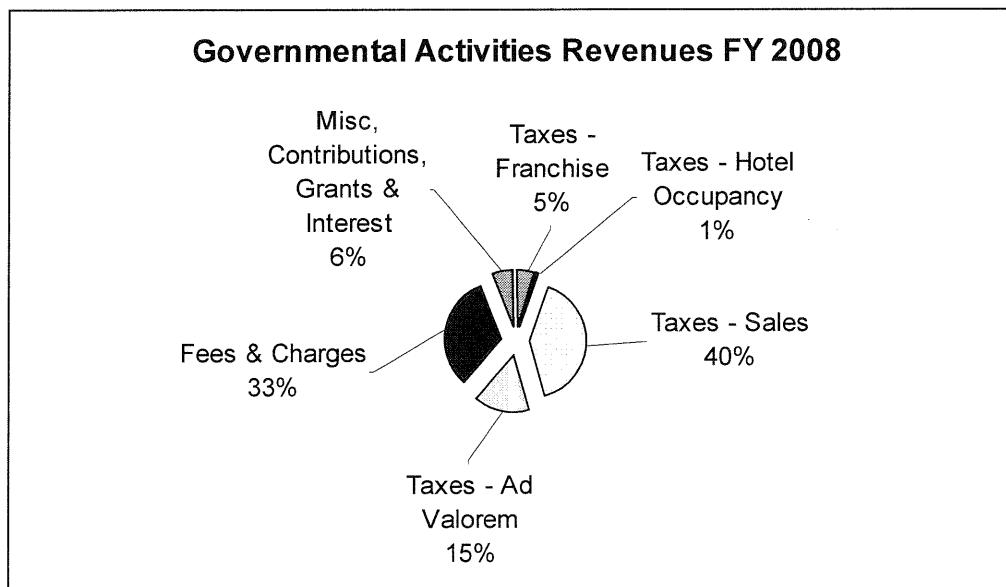
CHANGES IN NET ASSETS

Governmental Activities

Revenues – Governmental Activities

A significant portion of the City's revenue comes from taxes totaling \$2,984,392. Of this total, \$1,928,369 was from sales taxes, excluding the component unit. Charges for services include items such as building inspections, subdivision plat reviews, site development reviews, subdivision construction fees, as well as sanitation collections. Capital grants and contributions are primarily developer constructed streets, curbs, and sidewalks which are contributed to the city.

**Figure A-3
Sources of Revenue for Fiscal Year 2008**



Expenditures – Governmental Activities

Expenditures in governmental activities include depreciation expense, which does not involve a current cash outlay. However, certain cash outlay for capital improvements and the principal portion of debt service are not reported here.

Changes in Net Assets:

Comparison of governmental activities for fiscal year 2007 and 2008 is as follows:

	2007	2008
General Fund Revenues:		
Ad valorem tax	\$ 527,014	\$ 755,986
Sales tax	2,095,479	1,928,369
Franchise fees	226,032	242,860
Hotel occupancy tax	42,214	57,177
Investment earnings	272,254	178,312
Miscellaneous and other	632,640	172,846
Program Revenues:		
Charges for Services	1,395,075	2,073,470
Operating grants and contributions	2,339	27,912
Capital grants and contributions	-	3,212,760
Total Revenue	\$ 5,193,047	\$ 8,649,692
Expenses		
General government	\$ 3,741,152	\$ -
Administration	-	636,545
Streets and infrastructure	-	820,702
Engineering and planning	-	817,215
Parks and recreation	-	1,059,104
Library	340,710	357,651
Community development	-	40,421
Non-departmental	-	2,699,407
Public safety	-	446,180
Interest & Fiscal Charges	216,892	657,225
Total Expenditures	\$ 4,298,754	\$ 7,534,450
Excess (deficiency) before transfers and contributions to other fund	\$ 894,293	\$ 1,115,242
Transfers in (out)	\$ 644,402	\$ 695,549
Contributed system to other fund	\$ -	\$ -
Change in net assets	\$ 1,538,695	\$ 1,810,791
Beginning net assets	\$ 29,027,231	\$ 30,565,926
Ending net assets	\$ 30,565,926	\$ 32,376,717

Note that certain departments were segregated from general government in 2008.

Business-type Activities

The City's business-type activities include providing water and wastewater services. Revenues derived from these business activities were \$5.1 million, and operating expenses were \$3.0 million.

Comparison of business-type activities for fiscal year 2007 and 2008 is as follows:

	<u>2007</u>	<u>2008</u>
Revenues:		
Charges for services	\$ 2,333,114	\$ 3,085,092
Impact fees	1,756,790	418,298
Capital grants and contributions	3,176,236	1,506,178
Investment earnings	229,774	140,850
Total Revenue	<u>7,495,914</u>	<u>5,150,418</u>
Expenses		
Water	1,002,957	1,381,587
Wastewater	1,427,385	1,605,180
Total Expenditures	<u>2,430,342</u>	<u>2,986,767</u>
Excess (deficiency) before transfers and contributions to other fund	5,065,572	2,163,651
Transfers in (out)	780,122	(122,491)
Contributed system from other fund	-	-
Change in net assets	<u>5,845,694</u>	<u>2,041,160</u>
Beginning net assets	11,589,331	17,435,025
Ending net assets	<u>\$ 17,435,025</u>	<u>\$ 19,476,185</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City reports the following types of governmental funds: the General Fund; Debt Service; Special Revenue and Capital Project Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances that are available for spending. Such information is useful in assessing the City's annual financing and budgeting requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the 2008 fiscal year, the City's governmental funds reported combined ending fund balance of \$6.7 million. Approximately \$2.5 million of the fund balance represents unreserved fund balance in the general fund, which is the primary operating fund of the City.

Revenues from the General Fund totaled \$4.4 million for 2008 while the expenditures were \$5.2 million, leaving a deficiency of revenues under expenditures of \$0.8 million. The City had originally planned to use fund balance to cover several one time costs during the budget process which included a transfer out to Stagecoach Park and miscellaneous capital items. The enterprise funds consist of Water and Wastewater. The operating income (loss) from these funds was \$46,120, and \$367,162 respectively.

General Fund Budgetary Highlights

The following is a brief review of the budgetary changes from the original to the final budget.

The City approved General Fund budget amendments during fiscal year 2008. This included a decrease in revenues as a result of a decrease in Sales Tax throughout the fiscal year. The expenditures were increased due to acquiring debt when 100 Houston Street was purchased in Spring, 2008.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the City had invested \$62.2 million in a broad range of capital assets, including land, equipment, buildings, and the road network. (See Table A-4.)

Table A-4
City's Capital Assets

Comparison of the City's capital assets for fiscal year 2007 and 2008 follows:

	Governmental		Business-Type		Total	
	2007	2008	2007	2008	2007	2008
Assets not being depreciated:						
Land	896,400	964,313	65,701	65,701	\$ 962,101	1,030,014
Construction in progress	4,230,741	7,892,798	1,814,646	2,047,742	6,045,387	9,940,540
Capital assets not depreciated	5,127,141	8,857,111	1,880,347	2,113,443	7,007,488	10,970,554
Assets being depreciated:						
Buildings and improvements	1,579,919	1,992,695	716,108	89,728	2,296,027	2,082,423
Property, plant and equipment	5,146,442	5,691,956	22,942,205	26,726,336	28,088,647	32,418,292
Infrastructure	28,023,529	30,202,609	-	-	28,023,529	30,202,609
Capital assets depreciated	34,749,890	37,887,260	23,658,313	26,816,064	58,408,203	64,703,324
Less accumulated depreciation:						
Buildings and improvements	(421,608)	(481,529)	(12,937)	(15,135)	(434,545)	(496,664)
Property, plant and equipment	(4,455,260)	(4,574,842)	(3,369,668)	(4,038,779)	(7,824,928)	(8,613,621)
Infrastructure	(3,540,754)	(4,360,375)	-	-	(3,540,754)	(4,360,375)
	(8,417,622)	(9,416,746)	(3,382,605)	(4,053,914)	(11,800,227)	(13,470,660)
Assets being depreciated, net	26,332,268	28,470,514	20,275,708	22,762,150	46,607,976	51,232,664
Total capital assets, net	\$ 31,459,409	\$ 37,327,625	\$ 22,156,055	\$ 24,875,593	\$ 53,615,464	\$ 62,203,218

At September 30, 2008, net capital assets of the governmental activities totaled \$37.3 million. This amount represents a net increase of \$5.9 Million. The major additions for the year relate to street and drainage improvements. More detailed information about the City's capital assets is presented in Note D to the financial statements.

Long Term Debt

At year-end, the City had \$19.3 million in long-term debt and other obligations outstanding as shown in Table A-5. More detailed information about the City's debt is presented in Note F to the Financial Statements.

Bond Ratings

The City's bonds presently carry "A-" ratings.

Table A-5
City's Long Term Debt

	Governmental		Business-Type		Total	
	2007	2008	2007	2008	2007	2008
Bonded debt	\$ 4,869,000	11,099,104	\$ 8,015,000	\$ 7,640,000	\$ 12,884,000	\$ 18,739,104
Note payable	-	378,510	-	-	-	378,510
Capital leases	309,294	213,584	-	-	309,294	213,584
Compensated absences	48,980	61,813	-	-	48,980	61,813
	<u>\$ 5,227,274</u>	<u>11,753,011</u>	<u>\$ 8,015,000</u>	<u>\$ 7,640,000</u>	<u>\$ 13,242,274</u>	<u>\$ 19,393,011</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Several indicators were taken into account when adopting the General Fund budget for FY 2009. Amounts available for appropriation in the General Fund budget are \$4.1 million, compared to the final FY 2008 budget of \$4.0 million. Property taxes will increase due to the increasing values, as well as with a rate increase. The development of new commercial and residential subdivisions is being budgeted slightly lower to ensure financial stability during this economic downturn. The other main contributing factor will be no change in sales tax dollars. The City will use the limited revenues to finance and maintain current services in this rapidly growing city.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This report is designed to provide the City Council, citizens, customers, bond rating agencies, investors and creditors with a general overview of the City's finances. If you have questions about this report or need additional financial information, contact:

Finance Director
 City of Buda
 P O Box 1218
 Buda, Texas 78610
 (512) 312-0084
www.ci.buda.tx.us

City of Buda, Texas
Statement of Net Assets
September 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 6,805,942	\$ 4,305,718	\$ 11,111,660	\$ 2,009,704
Accounts receivable-net of allowances for uncollectible:				
Property taxes	10,254	-	10,254	-
Other	838,686	327,810	1,166,496	384,265
Due from other governments	-	-	-	-
Internal balances	267,507	(267,507)	-	-
Due from City of Buda	-	-	-	8,253
Due from Buda 4b Development Corporation	484,457	-	484,457	-
Prepaid expenses	1,600	-	1,600	-
Restricted cash, customer deposits	-	94,236	94,236	-
Capitalized bond issue costs	143,863	73,752	217,615	-
Capital assets:				
Land	964,313	65,701	1,030,014	-
Construction in progress	7,892,798	2,047,742	9,940,540	5,457,427
Buildings	1,992,695	89,728	2,082,423	8,400
Property, plant and equipment	5,691,956	26,726,336	32,418,292	9,762
Infrastructure	30,202,609	-	30,202,609	-
Accumulated depreciation	(9,416,746)	(4,053,914)	(13,470,660)	(15,715)
Total assets	\$ 45,879,934	\$ 29,409,602	\$ 75,289,536	\$ 7,862,096
LIABILITIES				
Accounts payable	\$ 1,523,876	\$ 768,846	\$ 2,292,722	\$ -
Accrued expenses	226,330	80,046	306,376	63,339
Due to City of Buda	-	-	-	484,457
Due to Buda 4b Development Corporation	-	8,253	8,253	-
Retainage payable	-	750,000	750,000	-
Payable from restricted assets, customer deposits	-	94,236	94,236	-
Deferred revenue, capital projects	-	592,036	592,036	551,041
Non-current liabilities:				
Due within one year	420,054	475,299	895,353	235,000
Due in more than one year	11,332,957	7,164,701	18,497,658	4,600,000
Total liabilities	13,503,217	9,933,417	23,436,634	5,933,837
NET ASSETS				
Invested in capital assets, net of related debt	28,655,982	15,893,557	44,549,539	581,096
Restricted for:				
Prepaid expenses	1,600	-	1,600	-
Debt service	26,424	-	26,424	-
Impact fees	-	897,782	897,782	-
Unrestricted net assets	3,692,711	2,684,846	6,377,557	1,347,163
Total net assets	32,376,717	19,476,185	51,852,902	1,928,259
Total liabilities and net assets	\$ 45,879,934	\$ 29,409,602	\$ 75,289,536	\$ 7,862,096

The accompanying notes are an integral part of this statement.

City of Buda, Texas
Statement of Activities
For the Year Ended September 30, 2008

Functions and Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government governmental activities:				
Administration	\$ (636,545)	\$ 27,279	\$ -	\$ -
Streets and infrastructure	(820,702)	63,364	-	3,212,760
Engineering and planning	(817,215)	718,670	-	-
Parks and recreation	(1,059,104)	428,546	-	-
Library	(357,651)	23,712	27,912	-
Community development	(40,421)	-	-	-
Non-departmental	(2,699,407)	454,153	-	-
Public safety	(446,180)	357,746	-	-
Debt service:				
Interest	(645,875)	-	-	-
Fiscal agent fees	(11,350)	-	-	-
Total governmental activities	(7,534,450)	2,073,470	27,912	3,212,760
Business-type activities:				
Water	(1,381,587)	1,427,707	-	344,730
Wastewater	(1,605,180)	1,657,385	-	1,161,448
Total business-type activities	(2,986,767)	3,085,092	-	1,506,178
Total primary government	\$ (10,521,217)	\$ 5,158,562	\$ 27,912	\$ 4,718,938
Component Units				
Buda 4b Development Corporation	\$ (517,359)	\$ -	\$ -	\$ -
Dupree Local Government Corporation	(728,494)	-	-	-
Total component units	\$ (1,245,853)	\$ -	\$ -	\$ -
General revenues:				
Property Taxes				
Hotel occupancy tax				
Sales tax				
Franchise fees				
Impact fees				
Interest				
Miscellaneous				
Transfers in (out)				
Total general revenues				
Change in net assets				
Net assets at the beginning of the year				
Net assets at the end of the year				

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total	
			Primary Government	Component Units
\$	(609,266)	\$ -	\$ (609,266)	
	2,455,422	-	2,455,422	
	(98,545)	-	(98,545)	
	(630,558)	-	(630,558)	
	(306,027)	-	(306,027)	
	(40,421)	-	(40,421)	
	(2,245,254)	-	(2,245,254)	
	(88,434)	-	(88,434)	
	(645,875)	-	(645,875)	
	(11,350)	-	(11,350)	
	(2,220,308)	-	(2,220,308)	
	-	390,850	390,850	
	-	1,213,653	1,213,653	
	-	1,604,503	1,604,503	
	(2,220,308)	1,604,503	(615,805)	
				\$ (517,359)
				(728,494)
				(1,245,853)
	755,986	-	755,986	152,771
	57,177	-	57,177	-
	1,928,369	-	1,928,369	1,466,069
	242,860	-	242,860	-
	-	418,298	418,298	-
	178,312	140,850	319,162	107,559
	172,846	-	172,846	280,534
	695,549	(122,491)	573,058	(573,058)
	4,031,099	436,657	4,467,756	1,433,875
	1,810,791	2,041,160	3,851,951	188,022
	30,565,926	17,435,025	48,000,951	1,740,237
\$	32,376,717	19,476,185	51,852,902	1,928,259

**City of Buda, Texas
Balance Sheet
Governmental Funds
September 30, 2008**

	General Fund	Capital Projects	Special Revenue Stagecoach Park	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,282,047	\$ 4,311,388	\$ 694	\$ 1,047,313	\$ 6,641,442
Accounts receivable-net of allowance for uncollectible:					
Property taxes	10,254	-	-	-	10,254
Other	94,882	-	368,402	375,402	838,686
Prepaid expenses	1,600	-	-	-	1,600
Due from other governments	-	-	-	-	-
Due from other funds	1,279,768	83,844	-	-	1,363,612
Due from Buda 4b Development Corporation	-	-	-	484,457	484,457
Total assets	\$ 2,668,551	\$ 4,395,232	\$ 369,096	\$ 1,907,172	\$ 9,340,051
 LIABILITIES					
Accounts payable	\$ 151,662	1,118,631	\$ 166,352	\$ 87,230	\$ 1,523,875
Accrued expenses	37,115	-	-	-	37,115
Deposits payable	-	-	-	-	-
Deferred/unearned revenue	7,481	-	-	-	7,481
Due to other funds	-	-	202,744	893,361	1,096,105
Total liabilities	196,258	1,118,631	369,096	980,591	2,664,576
 FUND BALANCES					
Reserved for:					
Prepaid expenses	1,600	-	-	-	1,600
Debt service	-	-	-	26,424	26,424
Unreserved, reported in:					
General fund	2,470,693	-	-	-	2,470,693
Designated for capital projects	-	3,276,601	-	141,999	3,418,600
Special revenue funds	-	-	-	758,158	758,158
Total fund balances	2,472,293	3,276,601	-	926,581	6,675,475
Total liabilities and fund balances	\$ 2,668,551	\$ 4,395,232	\$ 369,096	\$ 1,907,172	\$ 9,340,051

The accompanying notes are an integral part of this statement.

City of Buda, Texas
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
September 30, 2008

Total fund balance-total governmental funds	\$	6,675,475
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		37,327,624
Property taxes receivable unavailable to pay current expenses are deferred in the funds.		7,481
Bond issue costs which will be amortized in future years are not reported in the the funds.		143,863
Accrued vacation leave payable is not due and payable in the current period and, therefore, is not reported in the funds.		(61,813)
Long-term liabilities consisting of bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.		(11,691,198)
Accrued interest payable on bonded debt is not reported in the funds.		(189,215)
Internal service fund assets and liabilities are included in the governmental activities in the statement of net assets		164,500
Total net assets of governmental activities	\$	<u><u>32,376,717</u></u>

The accompanying notes are an integral part of this statement.

City of Buda, Texas
Statement of Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended September 30, 2008

	General Fund	Capital Projects	Special Revenue Stagecoach	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 322,685	\$ -	\$ -	\$ 431,416	\$ 754,101
Sales taxes	1,928,369	-	-	57,177	1,985,546
Franchise taxes	242,860	-	-	-	242,860
Fees and charges	1,640,667	-	-	410,596	2,051,263
Contributions	27,912	-	-	-	27,912
Grants	-	-	1,148,190	1,493,217	2,641,407
Interest	80,759	57,790	7,025	32,738	178,312
Miscellaneous	172,846	-	-	22,207	195,053
Total revenues	<u>4,416,098</u>	<u>57,790</u>	<u>1,155,215</u>	<u>2,447,351</u>	<u>8,076,454</u>
EXPENDITURES					
Current:					
Administration	556,990	-	-	-	556,990
Streets and infrastructure	939,605	2,609,804	1,851,098	1,552,329	6,952,836
Engineering and planning	746,028	-	-	-	746,028
Parks and recreation	954,430	-	-	432,123	1,386,553
Library	331,376	-	-	13,948	345,324
Community development	-	-	-	36,900	36,900
Non-departmental	1,129,846	-	-	-	1,129,846
Public safety	407,314	-	-	-	407,314
Debt service:					
Principal	101,818	-	-	255,897	357,715
Interest	27,231	-	-	492,002	519,233
Bond issue costs	10,000	51,880	-	52,500	114,380
Fiscal agent fees	-	9,050	-	2,300	11,350
Total expenditures	<u>5,204,638</u>	<u>2,670,734</u>	<u>1,851,098</u>	<u>2,837,999</u>	<u>12,564,469</u>
Excess (deficiency) of revenues over (under) expenditures	(788,540)	(2,612,944)	(695,883)	(390,648)	(4,488,015)
OTHER FINANCING SOURCES (USES)					
Proceeds from bond issue	810,000	5,310,000	-	2,930,000	9,050,000
Proceeds from note	384,619	-	-	-	384,619
Bond refunding	-	-	-	(2,564,000)	(2,564,000)
Transfers in	-	-	696,248	24,336	720,584
Transfers out	(464,057)	-	-	(298,536)	(762,593)
Total other financing sources (uses)	<u>730,562</u>	<u>5,310,000</u>	<u>696,248</u>	<u>91,800</u>	<u>6,828,610</u>
Net change in fund balance	<u>(57,978)</u>	<u>2,697,056</u>	<u>365</u>	<u>(298,848)</u>	<u>2,340,595</u>
Total fund balance-beginning of year	2,530,271	579,545	(365)	1,225,429	4,334,880
Total fund balance-end of year	<u>\$ 2,472,293</u>	<u>\$ 3,276,601</u>	<u>\$ -</u>	<u>\$ 926,581</u>	<u>\$ 6,675,475</u>

The accompanying notes are an integral part of this statement.

City of Buda, Texas
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds to
the Statement of Activities
For the Year Ended September 30, 2008

Net change in fund balances-governmental funds	\$	2,340,595
Amounts reported in governmental activities and in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized.		6,902,319
Capital assets are not recorded in government funds and are not therefore depreciated. However, in the Statement of Activities these assets are depreciated over their estimated useful lives. This is the amount of 2008 depreciation.		(1,034,104)
Revenues that are deferred in governmental activities because they do not provide current financial resources are not deferred in the Statement of Activities. This is the change in deferred from the prior year.		1,885
Bond issue costs are expended in the governmental activities, but are capitalized and amortized over the life of the bond in the Statement of Activities.		87,975
The repayment of principal on debt consumes current financial resources and is expended in the governmental funds, but is a reduction of the liability and does not affect the Statement of Activities .		2,921,715
Proceeds from bond issues and notes are recorded as other resources in the fund statements, but is liabilities in the government-wide statements.		(9,434,619)
Amounts to be expended for long-term employee leave is not recorded as an expenditure in the funds, but is an expense in the Statement of Activities. This is the change in compensated absences from 2007.		(12,833)
Accrued interest payable for bond issues is not reported in the funds, but is an expenditure in the Statement of Activities. This is the change from 2007.		(126,642)
Net revenues in the internal service fund is reported in the governmental activities.		164,500
Change in net assets of governmental activities	\$	<u><u>1,810,791</u></u>

The accompanying notes are an integral part of this statement.

City of Buda, Texas
Statement of Net Assets-Proprietary Funds
September 30, 2008

	Business Type Activities			Governmental Activities- Internal Service Fund
	Water	Wastewater	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,352,441	\$ 2,953,277	\$ 4,305,718	\$ 164,500
Accounts receivable-net of allowance for uncollectible	192,882	134,928	327,810	
Total current assets	1,545,323	3,088,205	4,633,528	164,500
Non-current assets:				
Restricted cash and cash equivalents for customer deposits	94,041	195	94,236	-
Bond issue costs	-	73,752	73,752	-
Capital assets:				
Land	61,497	4,204	65,701	-
Construction in progress	1,885,248	162,494	2,047,742	-
Building and improvements	-	89,728	89,728	-
Property, plant, and equipment	8,347,168	18,379,168	26,726,336	-
Accumulated depreciation	(1,702,625)	(2,351,289)	(4,053,914)	-
Net capital assets	8,591,288	16,284,305	24,875,593	-
Total assets	\$ 10,230,652	\$ 19,446,457	\$ 29,677,109	\$ 164,500
LIABILITIES				
Accounts payable	\$ 326,074	\$ 442,772	\$ 768,846	-
Accrued expenses	-	80,046	80,046	-
Due to other funds	-	267,507	267,507	-
Due to 4b Development Corporation	-	8,253	8,253	-
Total current liabilities	326,074	798,578	1,116,399	-
Non-current liabilities:				
Deferred revenue, capital projects	592,036	-	592,036	-
Bond issue payable	-	7,640,000	7,640,000	-
Retainage payable	-	750,000	750,000	-
Payable from restricted assets:				
Customer deposits payable	94,041	195	94,236	-
Total liabilities	1,012,151	9,188,773	10,200,924	-
NET ASSETS				
Invested in capital assets	7,999,252	7,894,305	15,893,557	-
Restricted net assets:				
Impact fees	719,764	178,018	897,782	-
Unrestricted net assets	499,485	2,185,361	2,684,846	164,500
Total net assets	9,218,501	10,257,684	19,476,185	164,500
Total liabilities and net assets	\$ 10,230,652	\$ 19,446,457	\$ 29,677,109	\$ 164,500

The accompanying notes are an integral part of this statement.

City of Buda, Texas
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2008

	Business Type Activities			Governmental Activities- Internal Service Fund
	Water	Wastewater	Total	
OPERATING REVENUES				
Water sales and fees	\$ 1,427,077	\$ -	\$ 1,427,077	\$ -
Wastewater sales charges	-	1,657,385	1,657,385	-
Total operating revenues	<u>1,427,707</u>	<u>1,657,385</u>	<u>3,085,092</u>	<u>-</u>
OPERATING EXPENSES				
Personnel	239,648	242,747	482,395	-
Supplies	55,488	27,579	83,067	-
GBRA water/wastewater contracts	594,476	472,935	1,067,411	-
Other contracted services	54,013	83,891	137,904	-
Other operating costs	181,944	47,780	229,724	-
Depreciation	256,018	415,291	671,309	-
Total expenses	<u>1,381,587</u>	<u>1,290,223</u>	<u>2,671,810</u>	<u>-</u>
Total operating income	46,120	367,162	413,282	-
NON-OPERATING REVENUES (EXPENSES)				
Interest income	64,775	76,075	140,850	-
Interest expense	-	(314,957)	(314,957)	-
Impact fees/capital recovery fees	146,940	271,358	418,298	-
Developer contributions	344,730	1,161,448	1,506,178	-
Total non-operating revenues	<u>556,445</u>	<u>1,193,924</u>	<u>1,750,369</u>	<u>-</u>
Net income before transfers	<u>602,565</u>	<u>1,561,086</u>	<u>2,163,651</u>	<u>-</u>
TRANSFERS				
Transfers in	-	-	-	164,500
Transfers out	(52,935)	(69,556)	(122,491)	-
Total transfers	<u>(52,935)</u>	<u>(69,556)</u>	<u>(122,491)</u>	<u>164,500</u>
Net change in net assets	549,630	1,491,530	2,041,160	164,500
Total net assets-beginning of year	8,668,871	8,766,154	17,435,025	-
Total net assets-end of year	<u>\$ 9,218,501</u>	<u>\$ 10,257,684</u>	<u>\$ 19,476,185</u>	<u>\$ 164,500</u>

The accompanying notes are an integral part of this statement.

City of Buda, Texas
 Statements of Cash Flows
 For the Year Ended September 30, 2008

	Business Type Activities			Governmental Activities- Internal Service Fund
	Water	Wastewater	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments received from customers	\$ 1,458,588	\$ 1,597,334	\$ 3,055,922	\$ -
Payments to suppliers for goods and services	(598,445)	(422,297)	(1,020,742)	-
Payments for salaries and benefits	(239,648)	(242,747)	(482,395)	-
Net cash provided by operating activities	620,495	932,290	1,552,785	-
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfer (to) from other funds	(52,935)	(69,556)	(122,491)	164,500
Net cash provided (used) by non-capital financing activities	(52,935)	(69,556)	(122,491)	164,500
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(1,695,892)	(188,777)	(1,884,669)	-
Principal paid on bond and debt	-	(375,000)	(375,000)	-
Impact and service fees	146,940	271,358	418,298	-
Interest and fiscal charges paid	-	(314,957)	(314,957)	-
Net cash provided (used) by capital and related financing activities	(1,548,952)	(607,376)	(2,156,328)	-
 CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	64,775	76,075	140,850	-
Net cash provided (used) by investing activities	64,775	76,075	140,850	-
Net increase (decrease) in cash and cash equivalents	(916,617)	331,433	(585,184)	164,500
 Cash and cash equivalents at beginning of period	2,363,099	2,622,039	4,985,138	-
Cash and cash equivalents at end of period	\$ 1,446,482	\$ 2,953,472	\$ 4,399,954	\$ 164,500
 Cash and cash equivalents at end of period consist of:				
Cash and cash equivalents	\$ 1,352,441	\$ 2,953,277	\$ 4,305,718	\$ 164,500
Restricted cash and cash equivalents	94,041	195	94,236	-
Cash and cash equivalents at end of period	\$ 1,446,482	\$ 2,953,472	\$ 4,399,954	\$ 164,500

City of Buda, Texas
Statement of Cash Flows (continued)
For the Year Ended September 30, 2008

	<u>Business Type Activities</u>			<u>Governmental Activities- Internal Service Fund</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 46,120	\$ 367,162	\$ 413,282	\$ -
Depreciation	256,018	415,291	671,309	-
(Increase) decrease in assets:				
Accounts receivable	(23,483)	(41,212)	(64,695)	-
Bond issue costs	-	4,439		-
Increase (decrease) in liabilities:				
Accounts payable	287,476	(32,026)	255,450	-
Accrued expenses	-	(3,860)	(3,860)	-
Customer deposits payable	55,978	(18,839)	37,139	-
Due to other funds	-	241,335	241,335	-
Deferred revenue	(1,614)	-	(1,614)	-
Net cash provided (used) by operating activities	<u>\$ 620,495</u>	<u>\$ 932,290</u>	<u>\$ 1,552,785</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

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City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

A. Summary of Significant Accounting Policies

The combined financial statements of the City of Buda (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its components units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, the City has two component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

Buda 4b Development Corporation ("EDC") is a non-profit corporation organized under the laws of the State of Texas to provide economic development in and for the benefit of the City. The EDC is presented discretely in the annual financial report as a governmental-type because the City appoints the board of directors and approves the annual budget.

The Dupree Local Government Corporation ("LGC") was formed in May 2004. It is a non-profit corporation organized under the laws of the State of Texas for the benefit of the City. The LGC receives sales taxes and property taxes according to the agreement for the Tax Increment Reinvestment Zone-1 between the City, Hays County, and Cabela's. The City appoints the board of directors and approves the annual budget.

2. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

Capital Projects Fund: This fund is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal.

Special Revenue Fund –Stagecoach Park: This fund is used to separately account for grants and contracts related to the Stagecoach Park Project.

In addition, the City reports the following fund types:

Special Revenue Funds: These funds are used to separately account for funds related to grants and contracts.

Debt Service Fund: This fund is used to account for tax revenues and for the payment of principal, interest, and related cost of long-term debt for which property taxes have been dedicated.

Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of the accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen to apply future FASB standards.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The allowance for doubtful accounts in the General Fund was \$2,773.

c. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donations. The cost of the normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$2,500 is used.

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Life
Infrastructure	10-40
Buildings	40
Building improvements	20
Vehicles	2-15
Office equipment	3-15
Equipment and tools	3-15

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of the year end.

f. Compensated Absences

On retirement or death of certain employees, the City pays accrued compensatory time up to 120 hours and vacation leave up to 160 hours in a lump sum payment to such employee or his/her estate. The accumulated leave at September 30, 2008 is \$61,813.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of government-wide statement of net assets.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

i. Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

B. Discretely Presented Component Units

The component unit columns on the government-wide financial statements include the financial data of the City's component units. Component units are presented in a separate column to emphasize that they are legally separate from the primary government. Combining financial statements are presented in the supplementary information section of the statements.

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At September 30, 2008, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,160,695 and the bank balance was \$1,386,769.

The City's cash deposits at September 30, 2008, and during the year ended September 30, 2008, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

2. Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City did not adhere to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (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.

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

The City's investments are shown below:

	Reported at Fair Value	Weighted Average Maturity	Rating	
			Moody's	S&P
TexPool	\$ 9,960,233	n/a	Aaa	AAAm
MBIA Class	84,968	n/a	Aaa	AAAm
Bank deposits	1,160,695	n/a	n/a	n/a
Total cash and cash equivalents	<u>11,205,896</u>			
Unrestricted	11,111,660			
Restricted	\$ <u><u>94,236</u></u>			

The investments of the component units are as follows:

	Reported at Fair Value	Weighted Average Maturity	Rating	
			Moody's	S&P
Public Funds Money Market	\$ 1,223,397	n/a	n/a	n/a
TexSTAR	651,855	n/a	Aaa	AAAm
Bank Deposits	134,452	n/a	n/a	n/a
Total cash and cash equivalents	\$ <u><u>2,009,704</u></u>			

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end, and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. State law dictates that in order to maintain eligibility to receive funds and invest funds on behalf of the City, an investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized statistical rating organization (NRSRO). State law authorizes investments in obligations guaranteed by the U.S. government and does not require that these investments be rated. The City's policy is to comply with state law. At year end, all of the City's investments meet the State's requirements.

At September 30, 2008, the City's investments are rated as to credit quality as shown in the above table.

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law requires settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis. The City's Investment Policy requires that securities be registered in the name of the City. All safekeeping receipts for investment instruments are held in accounts in the City's name, and all securities are registered in the name of the City.

The City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

State law and the City's policy place no limit on the amount the City may invest in any one issuer. The City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages its investment time horizons by averaging investment maturities and chooses to present its exposure to interest rate changes using the weighted average maturity method. In accordance with its investment policy and state law, the City manages its interest rate risk by limiting the weighted average maturity of any investment owned by the City to the maximum of two years. The investment strategy for operating funds requires a dollar weighed average maturity of 365 days or less. Debt service funds cannot be invested in securities that have a stated final maturity date that exceeds the debt service payment date. Investment of debt service reserve funds and special project funds require high quality securities with short-term maturities. Eligible investment pools must have a weighted average maturity of no greater than 90 days. The City was not exposed to interest rate risk at September 30, 2008.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

D. Capital Assets

Capital asset activity for the year ended September 30, 2008, was as follows:

Governmental activities:

	Balance 10-1-07	Additions	Disposals	Balance 9-30-08
Assets not being depreciated:				
Land	\$ 896,400	\$ 67,913	\$ -	\$ 964,313
Construction in progress	4,230,741	6,445,355	(2,783,298)	7,892,798
Assets being depreciated:				
Buildings and improvements	1,579,919	412,776	-	1,992,695
Property and equipment	4,704,065	580,494	(34,980)	5,249,579
Equipment under capital lease	442,377	-	-	442,377
Infrastructure	28,023,529	2,179,080	-	30,202,609
	<u>39,877,031</u>	<u>9,685,618</u>	<u>(2,818,278)</u>	<u>46,744,371</u>
Less accumulated depreciation:				
Buildings	(421,608)	(59,921)	-	(481,529)
Property and equipment	(4,219,192)	(91,471)	34,980	(4,275,683)
Equipment under capital lease	(236,068)	(63,091)	-	(299,159)
Infrastructure	(3,540,754)	(819,621)	-	(4,360,375)
	<u>(8,417,622)</u>	<u>(1,034,104)</u>	<u>34,980</u>	<u>(9,416,746)</u>
Assets being depreciated, net	26,332,268	2,138,246	-	28,470,514
Total capital assets, net	<u>\$ 31,459,409</u>	<u>\$ 8,651,514</u>	<u>\$ (2,783,298)</u>	<u>\$ 37,327,625</u>

Depreciation was charged to functions as follows:

Administration	\$ 53,149
Streets and infrastructure	663,447
Engineering and planning	71,187
Parks and recreation	161,499
Library	42,435
Community development	3,521
Public safety	38,866
	<u>\$ 1,034,104</u>

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

Business-type activities:

	Balance <u>10-1-07</u>	Reclass/ <u>Additions</u>	Reclass/ <u>Disposals</u>	Balance <u>9-30-08</u>
Assets not being depreciated:				
Land	\$ 65,701	\$ -	\$ -	\$ 65,701
Construction in progress	1,814,646	1,832,104	(1,599,008)	2,047,742
Capital assets not depreciated	<u>1,880,347</u>	<u>1,832,104</u>	<u>(1,599,008)</u>	<u>2,113,443</u>
Assets being depreciated:				
Buildings and improvements	716,108		(626,380)	89,728
Property, plant and equipment	<u>22,942,205</u>	<u>3,784,131</u>	<u>-</u>	<u>26,726,336</u>
Capital assets depreciated	<u>23,658,313</u>	<u>3,784,131</u>	<u>(626,380)</u>	<u>26,816,064</u>
Less accumulated depreciation:				
Buildings and improvements	(12,937)	(2,198)	-	(15,135)
Property, plant and equipment	<u>(3,369,668)</u>	<u>(669,111)</u>	<u>-</u>	<u>(4,038,779)</u>
	<u>(3,382,605)</u>	<u>(671,309)</u>	<u>-</u>	<u>(4,053,914)</u>
Assets being depreciated, net	<u>20,275,708</u>	<u>3,112,822</u>	<u>(626,380)</u>	<u>22,762,150</u>
Total capital assets, net	<u>\$ 22,156,055</u>	<u>\$ 4,944,926</u>	<u>\$ (2,225,388)</u>	<u>\$ 24,875,593</u>

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2008, consisted of the following:

General fund

Due from non-major fund:

	\$	<u>Purpose</u>
Grants	809,517	Short-term loan
Due from major grant fund	202,744	Short-term loan
Due from Wastewater Fund	<u>267,507</u>	Short-term loan
	<u>1,279,768</u>	

Capital Projects

Due from non-major fund:

Grants	<u>83,844</u>	Short-term loan
	<u>\$ 1,363,612</u>	

All amounts due are scheduled to be repaid within one year.

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2008, consisted of the following:

				Purpose
General fund				
Transfer to major grant fund	\$	422,048		Stagecoach Park Project
Transfer to internal service fund		42,009		Health Reimbursement
Non-major funds				
Transfer to other non-major fund		24,336		Buda Sportsplex
Transfer to major grant fund		274,200		Stagecoach Park Project
	\$	762,593		
Water and Wastewater Funds				
Transfer to internal service fund	\$	122,491		Health Reimbursement

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2008, are as follows:

Governmental activities

		Balance 10-1-07		Increase		Decrease		Balance 9-30-08		Due Within One Year
General Obligation Bonds	\$	4,869,000	\$	9,050,000	\$	(2,819,896)	\$	11,099,104	\$	344,701
Note Payable		-		384,619		(6,109)		378,510		11,069
Capital Leases		309,294		-		(95,710)		213,584		64,284
Compensated Absences *		48,980		44,515		(31,682)		61,813		-
	\$	5,227,274	\$	9,479,134	\$	(2,953,397)	\$	11,753,011	\$	420,054

Business-type activities:

		Balance 10-1-07		Increase		Decrease		Balance 9-30-08		Due Within One Year
Revenue Bonds	\$	8,015,000	\$	-	\$	(375,000)	\$	7,640,000	\$	475,299

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General Fund

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2008, are as follows:

Governmental activities:

Year ended September 30,	As to Principal	As to Interest	Total
2009	\$ 344,701	\$ 446,568	\$ 791,269
2010	374,701	384,379	759,080
2011	594,701	367,317	962,018
2012	618,507	345,428	963,935
2013	646,119	322,469	968,588
2014-2018	3,106,267	1,262,366	4,368,633
2019-2023	3,151,641	708,039	3,859,680
2024-2028	2,262,467	189,938	2,452,405
	<u>\$ 11,099,104</u>	<u>\$ 4,026,504</u>	<u>\$ 15,125,608</u>

Interest rates on general obligation bonds range from 3.8% to 5%.

Business-type activities:

Year ended September 30,	As to Principal	As to Interest	Total
2009	\$ 475,299	\$ 304,077	\$ 779,376
2010	495,299	285,200	780,499
2011	515,299	265,535	780,834
2012	536,493	245,052	781,545
2013	238,881	458,516	697,397
2014-2018	1,563,733	2,299,382	3,863,115
2019-2023	2,448,359	1,396,988	3,845,347
2024-2028	1,366,637	198,629	1,565,266
	<u>\$ 7,640,000</u>	<u>\$ 5,453,379</u>	<u>\$ 13,093,379</u>

Interest rates on revenue bonds ranges from 3.95% to 5%.

3. Advance Refunding of Debt

In May 2008, the City issued general obligation refunding bonds of \$2,930,000 to advance refund the City's Series 1985 Bonds, 1985-A Bonds, Series 2002 Certificates of Obligation, and Series 2004 Certificates of Obligation. The refunded bonds had an interest rate ranging from 3.87% to 5.90% and a combined par value of \$2,564,000. As a result of the refunding, the City reduced its total debt service requirements by \$93,356, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$71,446.

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

GASB Statement No. 7 "Advance Refundings Resulting in Defeasance of Debt" provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. The balance of the Series 2002 and 2004 bonds that were defeased is \$1,645,000 and \$780,000 respectively.

In May 2006, the City of Buda 4b Development Corporation refunded 2003 sales tax revenue bonds. The balance of the 2003 bonds that were defeased is \$1,065,000.

4. Notes Payable

In February, 2008 the City purchased property and assumed the note payable to the 4B Corporation. The debt service requirements are as follows:

Year ended September 30,	As to Principal	As to Interest	Total
2009	11,069	26,146	37,215
2010	11,870	25,345	37,215
2011	355,571	20,468	376,039
	<u>\$ 378,510</u>	<u>\$ 71,959</u>	<u>\$ 450,469</u>

The effective interest rate on the note is 7.00%.

5. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2008 are as follows:

Year ended September 30,	
2009	\$ 72,732
2010	75,529
2011	56,068
2012	29,551
	<u>233,880</u>
Less amount representing interest	<u>(20,297)</u>
	213,583
Current portion	<u>(64,284)</u>
	<u>\$ 149,299</u>

The effective interest rate on capital leases ranges from 3.92% to 4.625%.

The cost of assets acquired under capital leases is \$442,377 and have accumulated depreciation of \$299,159 at September 30, 2008

6. Continuing Disclosure

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

G. Pension Plan

1. Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of over 827 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the service began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at age 60 and above with 5 or more years of service, or with 20 years of service regardless of age. An employee is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

2. Contributions

The contribution rate for the employee is 7% of the employee's salary, while the City's matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the City's contribution rate is annually determined by the actuary using the Projected Unit Credit actuarial cost method (effective with the December 31, 2007 actuarial valuation). This rate consists of normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City's matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution amortizes the unfunded (over-funded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating updates, such as Updated Service Credit and Annuity Increases. The employer contribution cannot exceed the statutory maximum rate, which is a function of the employee contribution rate and the City's matching percentage. Contributions are made monthly by both employees and the City. Since the City must know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the contribution rate and the calendar year when the rate goes into effect. (i.e. December 31, 2006 valuation is effective for rates beginning January 2008.).

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

Schedule of Actuarial Liabilities and Funding Progress

Year	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability	(C) (A)-(B) Funding Ratio	(D) Unfunded Actuarial Accrued Liability (UAAL)	(E) Annual Covered payroll	(D)/(E) UAAL as a Percent of Covered Payroll
2005	\$ 557,726	\$ 638,273	87.38%	\$ 80,547	\$ 1,048,626	7.68%
2006	\$ 712,393	\$ 1,049,720	67.87%	\$ 337,327	\$ 1,251,396	26.96%
2007	\$ 958,218	\$ 1,691,683	56.64%	733,465	1,467,177	49.99%

The City's annual pension cost was \$155,907, \$107,778, and \$47,813 in 2008, 2007, and 2006 respectively. The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2006 the basis for determining the contribution rate for fiscal year 2008. The December 31, 2007 actuarial valuation is the most recent valuation.

Actuarial Valuation Date	<u>December 31, 2007</u>	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Actuarial Cost Method	Projected Unit Credit	Unit Credit	Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Amortization Period	30 Years-Closed	25 Years-open	25 Years-open
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
Actuarial Assumptions			
Investment Return	7.00%	7.00%	7.00%
Projected Salary Increases	Varies by age and service	None	None
Inflation	3.00%	3.50%	3.50%
Cost of Living Adjustments	2.1% (3.0% CPI)	None	None

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project future liability provisions adopted by a member entity. Two-thirds of the participating entities in TMRS have adopted the Updated Service Credit and Annuity Increase provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change to the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a participating entity requests that the period remain at 25 years. For entities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow entities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been \$1,371,422 and the funded ratio would have been 69.9%.

In addition TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation

City of Buda, Texas
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For the Year Ended September 30, 2008

needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in the City's contribution rates following the December 31, 2009 actuarial valuation.

Supplemental Death Benefits Fund- The City also participates in the Supplemental Death Benefits Fund (SDBF) administered by TMRS. This defined benefit group term life insurance plan is a voluntary program in which participating municipalities may elect, by ordinance, to provide group-term life insurance coverage for their active members and/or retirees. Employers may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January.

Benefits-Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approve application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other post employment benefit (OPEB) other than a pension benefit and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund.

Contributions-Contributions are made monthly based on the covered payroll of employee members of the City of Buda. The contractually required contribution rate is determined annually for each municipality. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. As such, contributions and investment income over payments then become net assets available for OPEB. Contributions for 2008, 2007, and 2006 were \$2,999, \$2,829 and \$2,773 respectively and equaled the required contributions for those years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial information follows:

Actuarial Valuation Date	<u>December 31, 2007</u>
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Amortization Period	25 Years-Open Period
Asset Valuation Method	Fund value
Actuarial Assumptions	
Investment Return	4.25%
Projected Salary Increases	None
Inflation	3.00%
Cost of Living Adjustments	None

All assumptions for the December 31, 2007 valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

City of Buda, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2008

H. Health Care Coverage

During the year ended September 30, 2008, employees of the City were covered by a health insurance plan (the Plan). The City contributed \$487 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid to a third party administrator acting on behalf of the self-funded pool. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the third party administrator is renewable November 1, 2008, and terms of coverage and contribution costs are included in the contractual provisions.

The City increased their deductible for fiscal year 2009 thereby reducing the health insurance premiums. The City established a Health Reimbursement Fund at the end of the year to pay a portion of the employees' deductibles as they are incurred during fiscal year 2009.

I. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies, therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

J. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2008, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL INFORMATION

Required supplementary information includes disclosures required by the GASB but are not considered a part of the basic financial statements.

The budgetary comparison schedule of the General fund is presented as required supplementary information.

City of Buda, Texas
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance-
Budget (GAAP Basis) and Actual
For the Year Ended September 30, 2008

	Budget Amounts		2008 Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 300,784	300,784	\$ 322,685	\$ 21,901
Sales taxes	2,302,581	1,885,985	1,928,369	42,384
Franchise tax	258,000	258,000	242,860	(15,140)
Fees and charges	1,176,681	1,393,096	1,640,667	247,571
Contributions	32,110	32,110	27,912	(4,198)
Grants	8,000	8,000	-	(8,000)
Interest	146,000	79,999	80,759	760
Miscellaneous	10,000	28,720	172,846	144,126
Total revenues	<u>4,234,156</u>	<u>3,986,694</u>	<u>4,416,098</u>	<u>429,404</u>
EXPENDITURES				
Current:				
Administration	527,690	527,690	556,990	(29,300)
Streets	1,054,146	1,021,240	939,605	81,635
Engineering and planning	655,285	668,159	746,028	(77,869)
Parks and recreation	935,122	935,122	954,430	(19,308)
Library	307,745	312,397	331,376	(18,979)
Non-departmental	1,265,806	1,363,238	1,129,846	233,392
Public safety	385,474	385,474	407,314	(21,840)
Debt service	184,439	184,439	139,049	45,390
Total expenditures	<u>5,315,707</u>	<u>5,397,759</u>	<u>5,204,638</u>	<u>193,121</u>
Excess (deficiency) of revenues over (under) expenditures	(1,081,551)	(1,411,065)	(788,540)	622,525
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issue	705,000	800,000	810,000	(10,000)
Proceeds from note	-	-	384,619	(384,619)
Transfers out	(343,265)	(464,057)	(464,057)	-
Total other financing sources (uses)	<u>361,735</u>	<u>335,943</u>	<u>730,562</u>	<u>(394,619)</u>
Net change in fund balance	(719,816)	(1,075,122)	(57,978)	1,017,144
Total fund balance-beginning of year	2,530,271	2,530,271	2,530,271	-
Total fund balance-end of year	<u>\$ 1,810,455</u>	<u>\$ 1,455,149</u>	<u>\$ 2,472,293</u>	<u>\$ 1,017,144</u>

The accompanying notes are an integral part of this statement.

City of Buda, Texas
Notes to Required Supplemental Information
For the Year Ended September 30, 2008

A. The City Council adopts an “appropriated budget” on a basis consistent with GAAP. At a minimum, the City is required to present the original and the final amended budgets for revenues and expenditures as compared to actual.

B. The other major funds, Capital Projects and Special Revenue-Stagecoach do not have legally adopted budgets for the fiscal year. These funds are used to record resources, grants and capital outlay for construction projects. The adopted budgets are for the completed projects, which are anticipated to be multi-year. For that reason, budget to actual comparisons are not presented for the fiscal year.

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COMING STATEMENTS AS SUPPLEMENTARY INFORMATION

Other supplementary information includes the combining nonmajor individual fund statements which are not required by the GASB, nor a part of the basic financial statements.

FUND DESCRIPTION

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues and expenditures that are legally restricted for a specific purpose.

CAPITAL PROJECTS FUND

Capital projects fund is used to account for the proceeds of bonded debt and the interest earned on the proceeds. These are specifically restricted for capital expenditures in accordance with bond covenants.

DEBT SERVICE FUND

This fund is used to account for the accumulation of resources and the related disbursement for the retirement of long-term debt.

COMPONENT UNITS

Component units are legally separate, tax exempt organizations whose resources are used principally to provide support to the City of Buda.

BUDA 4b DEVELOPMENT CORPORATION

Buda 4b Development Corporation provides economic development in and for the benefit of the City.

DUPREE LOCAL GOVERNMENT CORPORATION

The corporation receives sales and property taxes in accordance with the agreement for the Tax Increment Reinvestment Zone-1 between the City, Hays County and Cabela's.

**City of Buda, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2008**

	Loop 4 <u>Enhancement Grant</u>	Overlook <u>Park</u>	YMCA <u>Grant</u>	Buda <u>Sportsplex</u>	Hotel/Motel <u>Tax</u>
ASSETS					
Cash and cash equivalents	\$ 408,047	\$ -	\$ -	\$ -	\$ 64,895
Accounts receivable-net of allowance for uncollectible:	-	375,402	-	-	-
Due from Buda 4b Development Corporation	-	-	-	484,457	-
Total assets	<u>\$ 408,047</u>	<u>\$ 375,402</u>	<u>\$ -</u>	<u>\$ 484,457</u>	<u>\$ 64,895</u>
LIABILITIES					
Accounts payable	\$ 18,796	\$ 37,340	\$ -	\$ 13,152	\$ 4,635
Deferred/unearned revenue	-	-	-	-	-
Due to other funds	83,844	338,062	-	471,305	150
Total liabilities	<u>102,640</u>	<u>375,402</u>	<u>-</u>	<u>484,457</u>	<u>4,785</u>
FUND BALANCES					
Reserved for:					
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Unreserved, reported in:					
Special revenue funds	305,407	-	-	-	60,110
Total fund balances	<u>305,407</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,110</u>
Total liabilities and fund balances	<u>\$ 408,047</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 484,457</u>	<u>\$ 64,895</u>

The accompanying notes are an integral part of this statement.

	Municipal Court	Parks Fees	Library Grants	Total Special Revenue	Drainage Capital Projects	Debt Service	Totals
\$	1,525	\$ 334,705	\$ 57,062	\$ 866,234	\$ 154,655	\$ 26,424	\$ 1,047,313
	-	-	-	375,402	-		375,402
				484,457			484,457
\$	<u>1,525</u>	<u>\$ 334,705</u>	<u>\$ 57,062</u>	<u>\$ 1,726,093</u>	<u>\$ 154,655</u>	<u>\$ 26,424</u>	<u>\$ 1,907,172</u>
\$	-	-	651	\$ 74,574	\$ 12,656	\$	\$ 87,230
	-	-	-	-	-	-	-
	-	-	-	893,361	-	-	893,361
	-	-	651	<u>967,935</u>	<u>12,656</u>	-	<u>980,591</u>
	-	-	-	-	-	26,424	26,424
	-	-	-	-	141,999	-	141,999
	1,525	334,705	56,411	758,158	-	-	758,158
	<u>1,525</u>	<u>334,705</u>	<u>56,411</u>	<u>758,158</u>	<u>141,999</u>	<u>26,424</u>	<u>926,581</u>
\$	<u>1,525</u>	<u>334,705</u>	<u>57,062</u>	<u>\$ 1,726,093</u>	<u>\$ 154,655</u>	<u>\$ 26,424</u>	<u>\$ 1,907,172</u>

City of Buda, Texas
 Statements of Revenues, Expenses, and
 Combining Changes in Net Assets Nonmajor Governmental Funds
 For the Ended September 30, 2008

	Loop 4 Enhancement Grant	Overlook Park	YMCA Grant	Buda Sportsplex	Hotel/Motel Tax
REVENUES					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	57,177
Licenses and fees	-	-	-	-	-
Grants	677,932	401,727	-	413,558	-
Interest	13,136	-	-	-	1,289
Miscellaneous	-	-	6,250	-	-
Total revenues	<u>691,068</u>	<u>401,727</u>	<u>6,250</u>	<u>413,558</u>	<u>58,466</u>
EXPENDITURES					
Current:					
Streets and infrastructure	1,050,089	401,727	-	-	-
Parks and recreation	-	-	17,550	414,573	-
Library	-	-	-	-	-
Community development	-	-	-	-	36,900
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Bond issue costs	-	-	-	-	-
Fiscal agent fees	-	-	-	-	-
Total expenditures	<u>1,050,089</u>	<u>401,727</u>	<u>17,550</u>	<u>414,573</u>	<u>36,900</u>
Excess (deficiency) of revenues over (under) expenditures	(359,021)	-	(11,300)	(1,015)	21,566
OTHER FINANCING SOURCES (USES)					
Bond proceeds					
Bond refunding of existing debt	-	-	-	24,336	-
Transfers in	-	-	-	-	-
Transfers out	-	-	(24,336)	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(24,336)</u>	<u>24,336</u>	<u>-</u>
Net change in fund balance	<u>(359,021)</u>	<u>-</u>	<u>(35,636)</u>	<u>23,321</u>	<u>21,566</u>
Total fund balance-beginning of year	664,428	-	35,636	(23,321)	38,544
Total fund balance-end of year	<u>\$ 305,407</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,110</u>

The accompanying notes are an integral part of this statement.

Municipal Court	Parks Fees	Library Grants	Total Special Revenue	Drainage Capital Projects	Debt Service	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 431,416	\$ 431,416
-	-	-	57,177	-	-	57,177
1,053	409,543	-	410,596	-	-	410,596
-	7,582	1,487	1,493,217	6,412	2,832	1,493,217
-	-	15,957	23,494	-	-	32,738
-	-	-	22,207	-	-	22,207
<u>1,053</u>	<u>417,125</u>	<u>17,444</u>	<u>2,006,691</u>	<u>6,412</u>	<u>434,248</u>	<u>2,447,351</u>
-	-	-	1,451,816	100,513	-	1,552,329
-	-	-	432,123	-	-	432,123
-	-	13,948	13,948	-	-	13,948
-	-	-	36,900	-	-	36,900
-	-	-	-	-	255,897	255,897
-	-	-	-	-	492,002	492,002
-	-	-	-	-	52,500	52,500
-	-	-	-	-	2,300	2,300
<u>-</u>	<u>-</u>	<u>13,948</u>	<u>1,934,787</u>	<u>100,513</u>	<u>802,699</u>	<u>2,837,999</u>
1,053	417,125	3,496	71,904	(94,101)	(368,451)	(390,648)
-	-	-	24,336	-	2,930,000	2,930,000
-	(274,200)	-	(298,536)	-	(2,564,000)	(2,564,000)
-	(274,200)	-	(274,200)	-	-	24,336
-	(274,200)	-	(274,200)	-	366,000	(298,536)
<u>1,053</u>	<u>142,925</u>	<u>3,496</u>	<u>(202,296)</u>	<u>(94,101)</u>	<u>(2,451)</u>	<u>91,800</u>
472	191,780	52,915	960,454	236,100	28,875	1,225,429
<u>\$ 1,525</u>	<u>\$ 334,705</u>	<u>\$ 56,411</u>	<u>\$ 758,158</u>	<u>\$ 141,999</u>	<u>\$ 26,424</u>	<u>\$ 926,581</u>

City of Buda, Texas
Combining Balance Sheet
Component Units
September 30, 2008

	Buda 4b Development Corporation	Dupree Local Government Corporation	Total
ASSETS			
Cash and cash equivalents	\$ 1,223,397	\$ 786,307	\$ 2,009,704
Accounts receivable-net of allowance for uncollectible:			
Other	378,509	5,756	384,265
Due from City of Buda	8,253		8,253
Construction in progress	4,365,335	1,092,092	5,457,427
Building and improvements	8,400	-	8,400
Property, plant, and equipment	9,762	-	9,762
Accumulated depreciation	(15,715)	-	(15,715)
Total assets	\$ 5,977,941	\$ 1,884,155	\$ 7,862,096
 LIABILITIES			
Accrued expenses	63,339	-	63,339
Deferred/unearned revenue	-	551,041	551,041
Due to/(from) component units	44,210	(44,210)	-
Due to City of Buda	484,457	-	484,457
Non-current liabilities:			
Due within one year	235,000	-	235,000
Due in more that one year	4,600,000	-	4,600,000
Total liabilities	5,427,006	506,831	5,933,837
 NET ASSETS			
Invested in capital assets net of related debt	40,045	541,051	581,096
Unrestricted net assets	510,890	836,273	1,347,163
Total net assets	550,935	1,377,324	1,928,259
Total liabilities and net assets	\$ 5,977,941	\$ 1,884,155	\$ 7,862,096

The accompanying notes are an integral part of this statement.

City of Buda, Texas
Statements of Revenues, Expenses, and
Combining Changes in Net Assets Component Units
For the Year Ended September 30, 2008

	<u>Buda 4b Development Corporation</u>	<u>Dupree Local Government Corporation</u>	<u>Total</u>
REVENUES			
Property taxes	\$ -	\$ 152,771	\$ 152,771
Sales taxes	896,470	569,599	1,466,069
Licenses and fees	-	-	-
Fines and forfeitures	-	-	-
Grants	-	-	-
Rent	-	-	-
Interest	81,782	25,777	107,559
Miscellaneous	65,304	-	65,304
Total revenues	<u>1,043,556</u>	<u>748,147</u>	<u>1,791,703</u>
EXPENDITURES			
Current:			
Personnel	149,729	-	149,729
Supplies	7,149	-	7,149
Professional services	30,184	-	30,184
Other operating	74,101	609	74,710
Depreciation	612	-	612
Debt service:			
Interest expense	255,584	-	255,584
Payments made on behalf of Cabella's	-	727,885	727,885
Total expenditures	<u>517,359</u>	<u>728,494</u>	<u>1,245,853</u>
Excess (deficiency) of revenues over (under) expenditures	526,197	19,653	545,850
OTHER FINANCING SOURCES (USES)			
Transfers to the City	(573,058)	-	(573,058)
Recognition of other deferrals	-	215,230	215,230
Total other financing sources (uses)	<u>(573,058)</u>	<u>215,230</u>	<u>(357,828)</u>
Net change in net assets	(46,861)	234,883	188,022
Net assets-beginning of year	597,796	1,142,441	1,740,237
Net assets-end of year	<u>\$ 550,935</u>	<u>\$ 1,377,324</u>	<u>\$ 1,928,259</u>

The accompanying notes are an integral part of this statement.

OTHER SUPPLEMENTARY INFORMATION

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

HOLTMAN, WAGNER & COMPANY, L.L.P.

Certified Public Accountants

876 Loop 337, Building 501
New Braunfels, TX 78130
830-625-1182
Fax 830-625-1498

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

To the Honorable Mayor and
Members of City Council
City of Buda, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buda as of and for the year ended September 30, 2008 which collectively comprise the City of Buda's basic financial statements and have issued our report thereon dated January 7, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Buda's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Buda's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Buda's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Buda's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of City's financial statements that is more than inconsequential will not be detected by the City's internal controls.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Buda's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify any deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider a material weakness as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Buda's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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.

We noted certain matters that we reported to management of the City of Buda in a separate letter dated January 7, 2009.

This report is intended solely for the information and use of management, the Mayor and City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holtman Wagner & Company LLP

New Braunfels, Texas
January 7, 2009

HOLTMAN, WAGNER & COMPANY, L.L.P.

Certified Public Accountants

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New Braunfels, TX 78130
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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Members of City Council
City of Buda, Texas

Compliance

We have audited the compliance of City of Buda, Texas with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2008. The City of Buda, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Buda, Texas' management. Our responsibility is to express an opinion on City of Buda, Texas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Buda, Texas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Buda, Texas' compliance with those requirements.

In our opinion, City of Buda, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of City of Buda, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Buda, Texas' internal control over compliance with the requirements that could have a direct and material effect on a major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Buda, Texas' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies,

that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the Mayor and City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Haltman Wagner & Company LLP

New Braunfels, Texas
January 7, 2009

City of Buda, Texas
 Schedule of Findings and Questions Costs
 For the Year Ended September 30, 2008

A. Summary of Auditors' Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? _____ Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? _____ Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ Yes X No

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Buda Enhancement Project
20.205	Texas Capital Fund-Overlook Park

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

City of Buda, Texas
Schedule of Findings and Questions Costs
For the Year Ended September 30, 2008

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

City of Buda, Texas
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2008

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Not applicable		

City of Buda, Texas
Corrective Action Plan
For the Year Ended September 30, 2008

Not Applicable

City of Buda, Texas
 Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U. S. DEPARTMENT OF TRANSPORTATION</u>			
Passed Through Texas Department of Transportation: Buda Enhancement Program	20.205	CSJ 0914-33-029	\$ <u>677,932</u>
Total U. S. Department of Transportation			<u>677,932</u>
<u>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed Through Texas Department of Agriculture: Texas Capital Fund-Overlook Park	14.228	726152	401,728
Total U. S. Department of Housing and Urban Development			<u>401,728</u>
Total Expenditures of Federal Awards			\$ <u><u>1,079,660</u></u>

The accompanying note is an integral part of this schedule.

City of Buda, Texas
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2008

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Buda, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.