

Control Number: 42946



Item Number: 18

Addendum StartPage: 0

House Bill (HB) 1600 and Senate Bill (SB) 567 83<sup>rd</sup>  
Legislature, Regular Session, transferred the functions  
relating to the economic regulation of water and sewer  
utilities from the TCEQ to the PUC effective  
September 1, 2014.



RAPIER, WILSON & WENDLAND, P.C. Attorneys at Law

John Rapier  
rapier@rapierwilson.com

May 9, 2011

Mr. Brian Dickey - MC 153  
Utilities & Districts Section  
Water Supply Division  
Texas Commission on Environmental Quality  
P. O. Box 13087  
Austin, Texas 78711-3087

42946

RECEIVED  
2014 OCT 16 PM 2:24  
PUBLIC UTILITY COMMISSION  
FILING CLERK  
**RECEIVED**

MAY 11 2011  
TEXAS COMMISSION  
ON  
ENVIRONMENTAL QUALITY

**RE: Application Nos. 36966-S and 36967-S**

Application from Mustang SUD, CCN No. 11856, to Transfer Facilities and Cancel CCN No. 13020 from Denton County FWSD 9, in Denton County

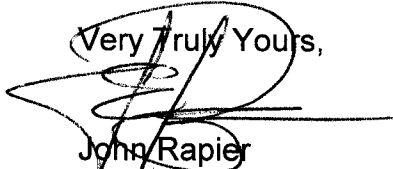
Application from Mustang SUD, CCN No. 20903 to Transfer Facilities and to Transfer and Cancel CCN No. 20922 from Denton County FWSD 9, in Denton County

Mr. Dickey:

Enclosed for filing with the above referenced Application, please find 4 copies of the following supplemental attachments:

1. Attachment 4-1 to Question 12, and
2. Attachment 5-1 to Question 13.

We thank you for your assistance with this Application. Please feel free to contact us should you have any questions or require further information.

Very Truly Yours,  
  
John Rapier

JR/ak

c: Mustang SUD  
Julie Fort  
McKamie Krueger, LLP  
2007 N. Collins Blvd., Suite 501  
Richardson, Texas, 75080

F:\01 - AREA OF LAW\Water Districts\Mustang SUD\STM Application 2010\Correspondence\20110509 Ltr to TCEQ filing att 4-1 and 5-1 wpd

180

10-05-07

**FIRST AMENDMENT TO MERGED, AMENDED, AND RESTATED  
AGREEMENT RELATED TO WATER AND  
SANITARY SEWER SERVICE** **RECEIVED**  
[Mustang / DCFWSD # 9]

MAY 11 2011

TEXAS COMMISSION

This First Amendment to Merged, Amended, and Restated Agreement Related to Water and Sanitary Sewer Service ("First Amendment"), dated as of October 1, 2007, is between Mustang Special Utility District ("Mustang") and Denton County Fresh Water Supply District No. 9 ("District").

**1. RECITATIONS**

A. Mustang is a special utility district established under the provisions of Chapter 65, Texas Water Code, as amended, and a "retail public utility" within the meaning of Chapter 13, Texas Water Code, as amended. Mustang holds Certificates of Convenience and Necessity Nos. 11856 and 20930 (collectively, "Mustang CCNs") to provide retail water and wastewater service to certain areas within Denton County, Texas ("Mustang Certificated Area"), as described by the Mustang CCNs.

B. The District is a political subdivision of the State of Texas organized and operating pursuant to Chapters 49, 51, and, for limited purposes, 53, Texas Water Code, as amended, and a "retail public utility" within the meaning of Chapter 13, Texas Water Code, as amended. The District holds Certificates of Convenience and Necessity Nos. 13020 and 20922 (collectively, "District CCNs") to provide retail water and wastewater services to 421.84 acres within Denton County, Texas ("District Certificated Area").

C. Mustang and the District have heretofore entered into that "Merged, Amended, and Restated Agreement Related to Water and Sanitary Sewer Service" (the "Agreement"), dated effective June 20, 2005, which, among other things, allows for the District provision of retail water and wastewater service and facilities within the District Certificated Area and a 209.92 acre tract within the District known as the "Stallings Tract" by the District.

D. Mustang and the District desire to amend the Agreement as set forth in this First Amendment. It is agreed by the parties that Mustang's and the District's respective agreements and covenants contained herein shall be adequate consideration for the terms and conditions of this First Amendment.

E. This First Amendment is authorized pursuant to the provisions of Section 13.248, Texas Water Code; and Chapters 30, 49, 51, and, for limited purposes, 53, and 65, Texas Water Code; and Chapter 791, Government Code.

## 2. GENERAL

A. All capitalized terms used herein shall have the meanings ascribed to them in the Agreement, unless otherwise defined herein.

B. Except for the amendments to the Agreement provided herein, all of the other terms and provisions of the Agreement shall remain in full force and effect. Further, as of the date hereof, neither party is in default with respect to any provision of the Agreement.

## 3. AMENDMENTS

A. Paragraph 2.G. of the Agreement is amended to read as follows:

“G. (i) During the term of this Agreement, Mustang agrees to read each water meter of each retail water customer of the District one time every month and render a statement to each retail water customer of the District for the amount due District for water service. In addition, Mustang will collect the amount due District for water and wastewater service and remit to the District the funds collected by Mustang on behalf of the District at least once per month. (ii) In addition, Mustang agrees to render a monthly statement to each water customer of the District for solid waste collection services to be provided by third party contractors. Mustang will collect the amount due the District for solid waste collection, including initial deposits, and remit to the District the funds collected by Mustang at least once per month. The foregoing services shall be in addition to the Exhibit B Services. However, the compensation to be paid to Mustang for the services described in this subparagraph G. shall not be in addition to but rather included in the payment to be made to Mustang under paragraph 4.A. below.”

B. Paragraphs 3.A.,B.,C., G. and I of the Agreement are amended to read as follows:

“A. On October 1, 2011 (the “Transfer Date”), the District shall convey to Mustang all of its right, title, and interest to all water distribution and storage facilities and sanitary sewer collection facilities, including land, easements, and rights of way that comprise the District System and that serve the District Certificated Area and the Stallings Tract (the “District Facilities”) that have been acquired by the District with the proceeds of outstanding bonds. Such conveyance will be made free and clear of any lien or encumbrance by deed and bill of sale in a commercially reasonable form acceptable to the attorneys for Mustang. Such conveyance shall be made by District on an “as is” basis with no representation or warranties other than warranties of title. With respect to any portion of the District Facilities that, as of such date, have not been acquired by the District with the proceeds of its bonds, such facilities shall be leased to Mustang in accordance with the provisions of Section 3.B. below. Further, at such time as the District has sold its bonds and acquired the remaining portions of the District Facilities, title thereto shall be conveyed to Mustang as set forth in this subparagraph 3.A.”

“B. Any lease of District Facilities contemplated in subparagraph 3.A. above shall be for an initial term of 25 years, and shall automatically renew for additional successive 25 year terms. Only Mustang shall have the right to terminate the lease upon the issuance of written notice to District. The lease will be in substantially the same form as the lease attached hereto as Exhibit “D”.

“C. As further consideration for the lease of the District Facilities, during the term of any lease Mustang shall be responsible for all costs of the operation, maintenance, repair, and replacement of such facilities in a manner as will insure the provision of continuous and adequate water service to the District Certificated Area and the Stallings Tract.

As part of the conveyance and lease set forth above, beginning October 1, 2011, Mustang agrees to perform the billing for solid waste collection services to be provided by third party contractors of the District by including this as a line item on the customer water bill. Mustang will collect the amount due the District for solid waste collection, including initial deposits, and remit to the District the funds collected by Mustang at least once per month. As consideration for this service, the District will pay Mustang \$0.50 per month per customer to be adjusted effective October 1, 2016, and every fifth (5<sup>th</sup>) year thereafter, by an amount equal to the cumulative annual increases in the Consumer Price Index for the previous five (5) year period. Mustang’s obligation to perform the billing for solid waste collection services to be provided by third party contractors of the District and the District’s obligation to pay for such billing services will survive termination of this Agreement.”

“G. Mustang acknowledges and agrees that pursuant to the Agreement for Reimbursement of Costs and Construction and/or Purchase of Utility Facilities, dated February 21, 2001, between the District and Valerian Properties Associates, L.P., Agreement for Reimbursement of Costs and Construction and/or Purchase of Utility Facilities, dated October 21, 2004, between the District and Valerian Properties Associates, L.P., Agreement for Reimbursement of Costs and Construction and/or Purchase of Utility Facilities, dated April 20, 2006, between the District and CHS Providence, L.P., Assignment of Agreements for Reimbursement of Costs and Construction and/or Purchase of Utility Facilities, dated March 3, 2006, between the District, Valerian Properties Associates, L.P. and CHS Providence, L.P., and Utility Construction and Financing Agreement, dated May 2, 2005, between the District, Mustang, Valerian Properties Associates, L.P. and Custer Road Partners, L.P. (collectively, “Developer Contracts”) funds have been advanced by developers (collectively the “Developers”) on behalf of the District in connection with the design, permitting, and construction of water distribution and storage and wastewater collection facilities to serve the area within the District Certificated Area and the Stallings Tract. Further, as of the date hereof certain amounts so advanced have not been reimbursed to the Developers by the District. Mustang further acknowledges and agrees that pursuant to the Developer Contracts, the Developers have the right to advance additional amounts on behalf of the District in connection with the water distribution and storage facilities and wastewater collection facilities necessary to serve the Stallings Tract.

Such unreimbursed amounts are hereinafter referred to as "Developer Reimbursement". It is hereby expressly understood and agreed by the parties that in the event that any amounts remain due to the Developers by the District for Developer Reimbursement under the Developer Contracts as of the Transfer Date, the transfer of the District System contemplated herein shall not affect or limit in any manner the right and obligation of the District under the Developer Contracts to proceed to issue bonds, notes or other forms of indebtedness to reimburse the Developers therefor."

"I The District and Mustang acknowledge that each charges a different rate for retail water and sewer service. The parties further acknowledge that upon the Transfer Date, the District's water and sewer service customers shall become Mustang's customers and any material increase in water and sewer service rates at or immediately following such date should be avoided. To that end, the parties agree to achieve rate parity prior to the Transfer Date by the periodic mutual evaluation of the possible adjustment of rates. However, no decrease in a party's rates will occur unless specifically permitted by applicable bond covenants and the UTRWD Contracts. The District agrees to adjust its water and sewer rates from time to time on an incremental basis so on or before the Transfer Date, the rates charged by the District to its retail water and sewer customers will at least equal the rates that Mustang charges its retail customers. The District agrees that its incremental adjustments of its rates will be initiated no later than August 1, 2008, and will be completed no later than October 1, 2011. The incremental adjustments will occur at least annually; and each incremental adjustment will reduce the then existing difference between District's rates and Mustang's rates for a residential customer using an average of 10,000 gallons of water per month by not less than 30% in order that parity in rates between the parties as of the Transfer Date is achieved. Mustang will give the District notice of its current rates and any subsequent rate adjustment adopted by Mustang. With respect to the proceeds produced by any increase in the District's rates prior to the Transfer Date, after payment of all reasonable expenses of system administration and operation, including payments under the UTRWD Contracts, and provided it remains in compliance with applicable bond covenants, the District agrees to use such funds in amounts necessary to pay for needed maintenance, repair, and replacement of the District's System as mutually agreed upon by the District and Mustang."

C. Article 4 of the Agreement is amended and replaced in its entirety by the following:

"A. On or before June 1 of each year the District and Mustang agree to initiate discussions relating to the formulation of an Annual Districts O & M Budget of Mustang's Exhibit B services to be rendered for the coming 12 month period to all special districts that propose to contract with Mustang for such services. Such special districts are hereinafter individually referred to as "Client District" and collectively as "Client Districts". A preliminary budget will be finalized by August of each year subject to final approval by Mustang's Board of Directors prior to October first of each year. The Annual Districts O & M Budget for the period commencing October 1, 2007, and ending September 30, 2008, is attached hereto as Exhibit C.

The District agrees that the costs contained in the Annual Districts O & M Budget shall be categorized according to one of the following four (4) descriptions:

1. "MSUD Costs" (Mustang only). Mustang Costs are allocated 100% to Mustang.
2. "Actual Costs" (estimated). Actual Costs are allocated 100% to the Client Districts.
3. "Direct Shared O & M Costs". Direct Shared O & M Costs are allocated to the Client Districts based on the following formula:  
  
$$\text{Total Direct Shared O \& M Costs} \times \left[ \frac{\text{Client Districts' Connections (hereinafter defined)}}{\text{Mustang Connections} + \text{Client Districts' Connections}} \right]$$
4. "Indirect Shared Administration Costs". Indirect Shared Administration Costs are allocated 20% to the Client Districts.

Actual Costs will be invoiced by Mustang to the Client District that incurs such actual costs plus a fifteen percent (15%) overhead charge. The summation of categories no. 3 through no. 4 above plus a fifteen percent (15%) overhead charge shall be allocated among the Client Districts on a "pro rata" basis based upon the number of active equivalent single family connections (referred to singularly as "Connection" and in the plural as "Connections) contained in each district. Further, the number of Connections for each Client District shall be determined on a monthly basis and its pro rata share of the costs for the coming month shall be adjusted accordingly. For the first month of the Annual Districts O & M Budget for 2007-2008, each Client District and its number of Connections and pro rata share is set forth in Exhibit "C".

In addition to fees stated in this Section, the District will pay to Mustang thirty percent (30%) of any disconnection, re-connection fees or return check fee charged by a District related to disconnections or reconnections necessitated by a District customer's failure to timely pay for water and/or wastewater services

B. i. Mustang has established a separate bank account entitled "O&M Account FBO FWSD 8A, 8B, 9, 10 and 11" ("FWSD Fund") at a depository of Mustang. The FWSD Fund shall be kept separate and apart from all other funds and accounts of Mustang, and will be used solely for the deposit of payments received from the customers of the Client Districts for retail water and sewer service and disbursements to the Client Districts. Mustang shall make transfers to each Client District of the collections received from retail customers of such district at least one time per month.

ii. Mustang shall place all funds in the FWSD Fund in demand deposits.

iii. The FWSD Fund shall be secured in the manner and to the fullest extent required by law for the security of funds of the District.

iv. Mustang shall keep proper books of record and accounts in which full, true, and correct entries will be made of all dealings, activities, and transactions relating to the FWSD Fund, and all books, documents, and vouchers relating thereto shall during normal business hours be made available for inspection of District upon 72 hours' notice.

v. During the term of this Agreement Mustang shall provide on an annual basis financial information and operating data with respect to the payments\withdrawals from and investment earnings for the FWSD Fund. Any financial information so provided shall be prepared in accordance with generally accepted accounting practices.

C. In no event shall the compensation to be paid to Mustang exceed the prevailing fees charged by other firms for similar services in the North Texas area.

D. Mustang shall submit statements and/or invoices for services to the District on a monthly basis. Such invoice shall include the District's pro rata share of the Annual Districts O & M Budget costs for the coming month and any billings for repairs or other non budgeted services for the prior month. The District shall pay such statements and/or invoices within 30 days of receipt. The District agrees to pay interest at a rate of 15% per annum to Mustang for all amounts unpaid after 30 days. Interest shall accrue from the 31<sup>st</sup> day following receipt of statements and/or invoices until the date payment in full is made. Items awaiting reasonably requested backup data shall be excluded from interest charges."

E. Section 5 of the Agreement is amended to read as follows:

"Pursuant to the provisions of Section 3 of this Agreement, the District will decertify or transfer the District's CCNs to Mustang. The District will not voluntarily transfer the District's CCNs to any entity other than Mustang or its successors or assigns without the express written approval and consent of Mustang. The transfer of the District's CCNs and its customers to Mustang shall be subject to the approval of and be made under the terms established by the TCEQ or its successor agency(ies) in a future application to surrender the District's CCNs or to transfer those CCNs to Mustang. The District agrees to fully defend or oppose any attempt by a third party to decertify or involuntarily obtain the District's CCNs."




F. Paragraph 8 C of the Agreement is amended to read as follows:

“The parties waive their sovereign immunity only to the extent necessary to enforce the terms of this Section 8C. To the extent allowed by law, the District agrees to and will indemnify Mustang and hold Mustang harmless from claim or damage to Mustang that was caused by the District’s failure to: (1) design or construct an adequate water and wastewater collection system within the District; or (2) comply with the terms of the District CCNs. To the extent allowed by law, Mustang agrees to and will indemnify the District and hold the District harmless from claim or damage to the District that was caused by Mustang’s failure to: (1) adequately maintain, repair, and replace the water and wastewater collection system within the District; or (2) comply with the terms of the Mustang CCNs.


G. Paragraph 8.N. of the Agreement is amended to read as follows:

“N. The term of this Agreement shall be for twenty-five (25) years from the Effective Date hereof. Notwithstanding the foregoing, other than the agreement of Mustang pursuant to 3.C. above, this Agreement shall terminate earlier upon the occurrence of all of the following: (1) conveyance of all District Facilities to Mustang; (2) issuance of an order by TCEQ approving the STM Application; (3) UTRWD approval of the Assignments finally executed by the District, Mustang, and UTRWD; (4) District receipt of the UTRWD Reimbursement; and (5) Developer receipt of the District Reimbursement.” Notwithstanding the foregoing, in no event shall this Agreement extend beyond the earlier of August 1, 2027 or the dissolution of the District.”


**Mustang Special Utility District**

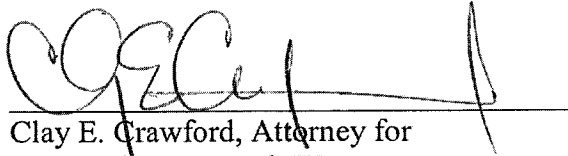
By:   
CHRIS BOYD, General Manager

**Denton County Fresh Water Supply District No. 9**

By:   
Greg Overstreet, President,  
Board of Directors

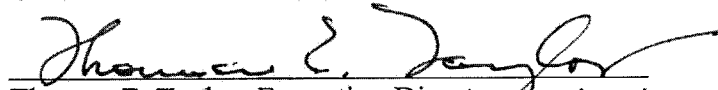
**APPROVED AS TO FORM:**

  
John E. Rapier, Attorney for  
Mustang Special Utility District



Clay E. Crawford, Attorney for  
Denton County Fresh Water  
Supply District No. 9

APPROVED FOR THE LIMITED  
PURPOSE SET OUT IN SECTION 8 (H)  
OF THIS AGREEMENT

  
Thomas E. Taylor, Executive Director  
Upper Trinity Regional Water District

6/16/08

## **EXHIBIT "B"**

### **SCHEDULE OF SERVICES -WATER**

1. Facility operations inspection frequency; as required by the TCEQ.
2. Preventative maintenance, lubrication of pumps and motors, touch-up painting, as required.
3. Monitor chlorine residuals, adjust feed rates, record sample results, and inventory chlorine reserves and supplies.
4. Complete monthly bacteriological samples and record TD analysis.
5. Record ground storage and elevated tank levels, annually inspect tank vents, overflow flap valves, vents screened, roof hatches secured and locked.
6. Exercise all pumps, motors, and record status of all electrical components.
7. Verify adequate pressure switch settings and check operation. Monitor and record distribution system pressure.
8. Verify operation of fault monitoring equipment and telephone line 800 number integrity at each visit; simulate fault and response for answering service (if applicable).
9. System flushing as required to maintain minimum distribution system combined total chlorine residual and water quality.
10. Verify facility security, intruder-resistant fencing, and locale gates, security lighting, unobstructed drainage, buildings with adequate screened ventilation and locale doors.
11. Oversee distribution system repairs and maintenance as required. Verify all customer connections are served with an operational meter. Flushing valves (fire hydrants) shall be operated, lubricated and inspected annually.
12. Meter reading and billing per company schedule, respond to customer inquiries requests.
13. Respond to all governmental inspections and notices of non-compliance, submit all required reports, operational logs, sample results to state and local controlling agencies.
14. Maintain an emergency response list of subcontractors and telephone numbers. Submit copy and any updated numbers to the Owner.

15. Maintain customer service inspection certificates, to be completed before providing continuous water service to new construction or any existing service when there is reason to believe that a cross-connection exists.

16. Inspection of water line infrastructure and facilities during construction (prior to acceptance).

17. Inspection of water service connection.

[OTHER]

## EXHIBIT "B"

### SCHEDULE OF SERVICES – SANITARY SEWER

1. Facility operations inspection frequency; as required by the TCEQ.
2. Preventative maintenance, lubrication of pumps and motors, touch-up painting, as required.
3. Exercise all lift pumps, motors, and record status of all electrical components.
4. Monitor and record gathering system pressure for part of the System that is pressurized.
5. Verify operation of fault monitoring equipment and telephone line 800 number integrity at each visit; simulate fault and response for answering service (if applicable).
6. Verify facility security, intruder-resistant fencing, and locale gates, security lighting, unobstructed drainage, buildings with adequate screened ventilation and locale doors.
7. Oversee gathering system repairs and maintenance as required.
8. Billing with the water statements and respond to customer inquiries requests.
9. Respond to all governmental inspections and notices of non-compliance, submit all required reports, operational logs, sample results to state and local controlling agencies.
10. Maintain an emergency response list of subcontractors and telephone numbers. Submit copy and any updated numbers to the Owner.
11. Inspection of gathering system infrastructure and facilities during construction (prior to acceptance).
12. Inspection of sewer service connection.

[OTHER]

**EXHIBIT "C"**  
**ANNUAL DISTRICTS O&M BUDGET**

MUSTANG SPECIAL UTILITY DISTRICT  
ANNUAL FINANCIAL REPORT  
YEAR ENDED SEPTEMBER 30, 2010

RUTHERFORD, TAYLOR & COMPANY, P.C.  
*Certified Public Accountants*  
2802 Washington Street  
Greenville, Texas 75401  
(903) 455-6252

**MUSTANG SPECIAL UTILITY DISTRICT  
ANNUAL FINANCIAL REPORT  
YEAR ENDED SEPTEMBER 30, 2010**

**TABLE OF CONTENTS**

	<u>Page</u>	<u>Exhibits</u>
<b>INTRODUCTORY SECTION</b>		
Annual Filing Affidavit .....	3	
<b>FINANCIAL SECTION</b>		
<u>Independent Auditor's Reports:</u>		
Report on Basic Financial Statements .....	5	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	7	
Schedule of Findings and Questioned Costs.....	8	
Status of Prior Audit Findings .....	9	
Corrective Action Plan .....	10	
Management's Discussion and Analysis (Required Supplementary Information).....	11	
<u>Basic Financial Statements:</u>		
Statement of Fund Net Assets – Proprietary Funds .....	17	
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	19	
Statement of Cash Flows – Proprietary Funds .....	20	
Notes to the Financial Statements.....	21	
<u>Other Supplementary Information:</u>		
Budgetary Comparison Schedule – Enterprise Fund .....	32	
<b>TEXAS SUPPLEMENTARY INFORMATION (TSI)</b>		
Supplementary Schedules Included Within This Report.....	34	
Independent Auditor's Report on Supplementary Schedules .....	35	
Services and Rates.....	36	TSI-1
Enterprise Fund Expenditures.....	38	TSI-2
Temporary Investments.....	39	TSI-3
Long-Term Debt Service Requirements by Years .....	40	TSI-5
Changes in Long-Term Bonded Debt .....	44	TSI-6
Comparative Schedule of Revenues and Expenses - Enterprise Fund - Five Years .....	45	TSI-7
Board Members, Key Personnel and Consultants .....	46	TSI-8



MUSTANG SPECIAL UTILITY DISTRICT

ANNUAL FILING AFFIDAVIT

STATE OF TEXAS

COUNTY OF \_\_\_\_\_

I, \_\_\_\_\_ of the  
(Name of Duly Authorized District Representative)

\_\_\_\_\_  
Mustang Special Utility District  
(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the \_\_\_\_\_ day of \_\_\_\_\_,

its annual audit report for the fiscal period ended September 30, 2010

and that copies of the annual report have been filed in the District's office, located at \_\_\_\_\_

7985 FM 2931 Aubrey, TX 76227

\_\_\_\_\_  
(Address of the District's Office)

This filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: \_\_\_\_\_, \_\_\_\_\_ By: \_\_\_\_\_

(Signature of District Representative)

\_\_\_\_\_  
(Typed Name and Title of District Representative)

Sworn to and subscribed to before me this \_\_\_\_\_ day of \_\_\_\_\_,

(SEAL)

\_\_\_\_\_  
(Signature of Notary)

My Commission Expires On: \_\_\_\_\_,

Notary Public of the State of Texas.

FINANCIAL SECTION

RUTHERFORD,  
TAYLOR &  
COMPANY, P.C.  
*Certified Public Accountants*

2802 Washington Street

Greenville, Texas 75401

(903) 455-6252

Fax (903) 455-6667

---

INDEPENDENT AUDITOR'S REPORT

---

Board of Directors  
Mustang Special Utility District  
7985 FM 2931  
Aubrey, Texas 76227

Members of the Board:

We have audited the accompanying basic financial statements of the proprietary funds of the Mustang Special Utility District (District), as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Mustang Special Utility District as of September 30, 2010, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued our report dated February 8, 2011, on our consideration of the District's 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance of the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The schedules identified as other supplementary information identified in the table of contents are presented for the purpose of additional analysis, are not a required part of the basic financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 8, 2011  
Greenville, Texas

RUTHERFORD,  
TAYLOR &  
COMPANY, P.C.  
*Certified Public Accountants*

2802 Washington Street

Greenville, Texas 75401

(903) 455-6252

Fax (903) 455-6667

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

Board of Directors  
Mustang Special Utility District  
7985 FM 2931  
Aubrey, Texas 76227

Members of the Board:

We have audited the basic financial statements of the proprietary funds of the Mustang Special Utility District (District), as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 8, 2011. 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 District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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*.

This report is intended solely for the information of the District's management and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

February 8, 2011  
Greenville, Texas

MUSTANG SPECIAL UTILITY DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2010

**Schedule  
Reference  
Number**

**Findings**

---

NONE

MUSTANG SPECIAL UTILITY DISTRICT  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED SEPTEMBER 30, 2010

Schedule  
Reference  
Number

Prior Findings

---

NONE

MUSTANG SPECIAL UTILITY DISTRICT  
CORRECTIVE ACTION PLAN  
YEAR ENDED SEPTEMBER 30, 2010

**Schedule  
Reference  
Number**

**Prior Findings**

---

NONE



MUSTANG SPECIAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2010

This section of Mustang Special Utility District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended September 30, 2010. Please read it in conjunction with the District's basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's total net assets were \$ 20,788,058 at September 30, 2010.
- The District did not issue any new debt during the year.
- During the year, the District's expenses were \$ 1,322,967 more than the \$ 4,523,416 generated from charges for services and other revenues for business-type activities.

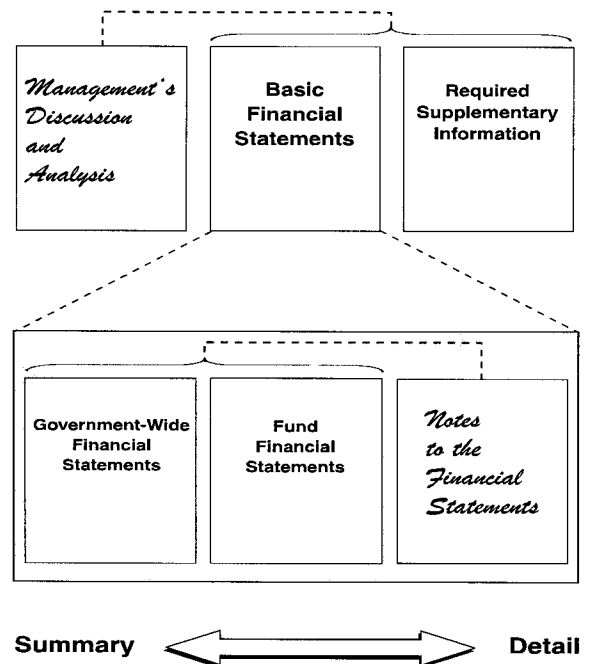
**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – Managements Discussion and Analysis (this section), the basic financial statements and required supplementary information. Management's Discussion and Analysis provides an overview of the financial activities of the District. The basic financial statements include three statements that present a financial view of the District: The Statement of Fund Net Assets presents financial information, including assets and liabilities, representing a one day snapshot; the Statement of Revenues, Expenses and Changes in Fund Net Assets presents a review of operating and non-operating activities for the fiscal period; the Statement of Cash Flows reflects the inflows and outflows of cash resources.

- Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as water sales.
- Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The basic financial statements also include notes that explain some of the information in the basic 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 basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

**Figure A-1, Required Components of the District's Annual Financial Report**



**MUSTANG SPECIAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2010**

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

Figure A-2 summarizes the major features of the District's basic financial statements, including the portion of the District 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 District 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.

<i>Type of Statements</i>	<b>Fund Statements</b>			
	<b>Government-wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses self insurance	Instances in which the district is the trustee or agent for someone else's resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures &amp; changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
<i>Accounting basis and measurement focus</i>	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
<i>Type of asset/liability information</i>	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
<i>Type of inflow/outflow information</i>	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 year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant funds—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Directors establishes other funds to control and manage money for particular purposes or to show that it is properly using certain funds.

The District has the following kinds of funds:

- Proprietary funds—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. We use enterprise funds to report activities that provide potable water and wastewater services for the District.

MUSTANG SPECIAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2010

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

The District's total net assets were \$ 20,788,058 at September 30, 2010.

<b>Mustang Special Utility District's Net Assets</b>			<b>Table A-1</b>
	Business - Type Activities		Total Percentage Change 2009-2010
	2010	2009	
<b>Assets:</b>			
Cash and Investments	\$ 443,244	\$ 683,745	-35.17%
Other Assets	676,332	1,175,223	-42.45%
Restricted Assets	4,285,364	5,041,077	-14.99%
Non-current Assets	27,220,630	28,349,618	-3.98%
<b>Total Assets</b>	<b>\$ 32,625,570</b>	<b>\$ 35,249,663</b>	<b>-7.44%</b>
<b>Liabilities:</b>			
Current Liabilities	\$ 1,710,960	\$ 2,491,507	-31.33%
Long-term Liabilities	10,126,552	10,528,753	-3.82%
<b>Total Liabilities</b>	<b>\$ 11,837,512</b>	<b>\$ 13,020,260</b>	<b>-9.08%</b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	\$ 10,656,424	\$ 9,858,403	8.09%
Unrestricted	10,131,634	12,371,000	-18.10%
<b>Total Net Assets</b>	<b>\$ 20,788,058</b>	<b>\$ 22,229,403</b>	<b>-6.48%</b>

**Business-Type Activities**

<b>Changes in Mustang Special Utility District's Net Assets</b>			<b>Table A-2</b>
	Business - Type Activities		Total Percentage Change 2009-2010
	2010	2009	
<b>Program Revenues:</b>			
Operating Revenue	\$ 4,496,702	\$ 4,433,126	1.43%
<b>General Revenues:</b>			
Interest Income	26,714	48,221	-44.60%
<b>Total Revenues</b>	<b>\$ 4,523,416</b>	<b>\$ 4,481,347</b>	<b>0.94%</b>
<b>Expenses:</b>			
Operating Expenses	\$ 5,033,293	\$ 5,383,359	-6.50%
Non-operating Expenses	647,096	526,722	22.85%
<b>Total Expenses</b>	<b>\$ 5,680,389</b>	<b>\$ 5,910,081</b>	<b>-3.89%</b>
<b>Increase in Net Assets before Capital Contributions</b>	<b>\$ (1,156,973)</b>	<b>\$ (1,428,734)</b>	<b>-19.02%</b>
<b>Capital Contributions:</b>			
Wastewater Capacity Fee Refunded to Developers	\$ (165,994)	\$ 61,875	-368.27%
<b>Total Capital Contributions</b>	<b>\$ (165,994)</b>	<b>\$ 61,875</b>	<b>-368.27%</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ (1,322,967)</b>	<b>\$ (1,366,859)</b>	<b>-3.21%</b>

MUSTANG SPECIAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2010

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

At September 30, 2010, the District had invested \$ 27,912,892 in a broad range of capital assets, including land, distribution system, equipment and vehicles (See Table A-3).

Changes in Mustang Special Utility District's Net Assets			Table A-3
	Business - Type Activities		Total Percentage Change 2009-2010
	2010	2009	
Land and Improvements	\$ 469,255	\$ 469,255	0.00%
Construction in Progress	98,420	-	100.00%
Buildings and Improvements	1,360,966	1,360,966	0.00%
Water Distribution System	24,889,115	24,589,752	1.22%
Furniture and Fixtures	760,261	760,261	0.00%
Vehicles	334,875	318,038	5.29%
<b>Totals at Historical Cost</b>	<b>\$ 27,912,892</b>	<b>\$ 27,498,272</b>	<b>1.51%</b>
Total Accumulated Depreciation	(7,265,825)	(6,150,174)	18.14%
<b>Net Capital Assets</b>	<b>\$ 20,647,067</b>	<b>\$ 21,348,098</b>	<b>-3.28%</b>

Long Term Debt

At year-end, the District had \$ 10,041,205 in debt outstanding as shown in Table A-4. More detailed information about the District's debt is presented in the notes to the basic financial statements.

Changes in Mustang Special Utility District's Net Assets			Table A-4
	Business - Type Activities		Total Percentage Change 2009-2010
	2010	2009	
Bonds Payable	\$ 7,615,000	\$ 8,975,000	-15.15%
Loans Payable	2,375,643	2,461,595	-3.49%
Other Debt Payable	50,562	53,100	-4.78%
<b>Total Debt Payable</b>	<b>\$ 10,041,205</b>	<b>\$ 11,489,695</b>	<b>-12.61%</b>

MUSTANG SPECIAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2010

**BUDGET, ECONOMIC ENVIRONMENT AND RATES**

In past years, the economic factors impacting the District's budget were the development and tremendous growth of the Northeast Denton County area. Due to the fast-paced growth rate in the area, Mustang SUD increased staff, built new facilities and infrastructure for increased water capacity to accommodate current and future customers.

Despite past rapid growth realized in the surrounding area, the current economy remains slow, with growth remaining below 2%. Slower growth continues to impact housing communities surrounding the District, a phenomenon typical of the entire region. While the District continues to expand, we expect growth to remain slow, but steady, through 2011.

Any variances in the budgets are due to increased costs to meet the demands of the growth, system upgrades and/or maintenance of the current system.

Effects on our current and future financial position continue to be growth, system upgrades/maintenance, surface water purchase prices and consistency in performing Capital Improvement Projects.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Chris Boyd, General Manager for the District.

**BASIC FINANCIAL STATEMENTS**

MUSTANG SPECIAL UTILITY DISTRICT  
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS  
SEPTEMBER 30, 2010

	Business-Type Activities
<b>ASSETS</b>	
Current Assets:	
Cash and Investments	\$ 443,244
Accounts Receivable, Net	594,788
Other Assets	989
Prepaid Expenses, Supplies and Materials	80,555
Total Current Assets	\$ 1,119,576
Restricted Assets:	
Cash and Investments	\$ 4,285,364
Total Restricted Assets	\$ 4,285,364
Non-Current Assets:	
Equity Buy-in Fees, Net	\$ 6,294,588
SUD Conversion Costs, Net	94,827
Bond Issuance Costs, Net	184,148
Capital Assets:	
Land and Improvements	469,255
Construction in Progress	98,420
Buildings and Improvements, Net	1,115,991
Water Distribution System, Net	18,850,034
Vehicles, Net	23,769
Furniture and Equipment, Net	89,598
Total Non-Current Assets	\$ 27,220,630
<b>Total Assets</b>	<b>\$ 32,625,570</b>

The accompanying notes are an integral part of this statement.

MUSTANG SPECIAL UTILITY DISTRICT  
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS  
SEPTEMBER 30, 2010

	Business-Type Activities
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	\$ 283,753
Other Payables	26,745
Due to Other Districts Payable from Restricted Assets	909,679
Accrued Interest Payable	54,528
Bonds Payable	345,000
Loans Payable	91,255
Total Current Liabilities	\$ 1,710,960
Non-Current Liabilities:	
Bonds Payable	\$ 7,270,000
Loans Payable	2,284,388
Other Debt Payable	50,562
Escrow Payable	119,160
Customer Deposits	402,442
Total Non-Current Liabilities	\$ 10,126,552
<b>Total Liabilities</b>	<b>\$ 11,837,512</b>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	\$ 10,656,424
Unrestricted	10,131,634
<b>Total Net Assets</b>	<b>\$ 20,788,058</b>

The accompanying notes are an integral part of this statement.



MUSTANG SPECIAL UTILITY DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET ASSETS - PROPRIETARY FUND  
YEAR ENDED SEPTEMBER 30, 2010

	Enterprise Fund
	Water Utilities
<b>OPERATING REVENUES</b>	
Water/Wastewater Sales	\$ 3,338,626
Customer Charges/Fees	1,134,975
Miscellaneous	23,101
Total Operating Revenues	\$ 4,496,702
<b>OPERATING EXPENSES</b>	
Payroll and Benefits	\$ 756,843
Water Distribution System	2,260,955
Other Operating Costs	214,036
Professional and Legal Fees	109,688
Insurance	150,700
Amortization	425,420
Depreciation	1,115,651
Total Operating Expenses	\$ 5,033,293
Operating Income (Expenses)	\$ (536,591)
<b>NON-OPERATING REVENUE (EXPENSES)</b>	
Interest Income	\$ 26,714
Interest Expense	(585,126)
Bad Debt Expense – Sale of CCN	(61,970)
Total Non-Operating Revenue (Expenses)	\$ (620,382)
Change in Net Assets Before Capital Contributions	\$ (1,156,973)
<b>CAPITAL CONTRIBUTIONS</b>	
Wastewater Capacity Fee Refunded to Developers	\$ (165,994)
Total Capital Contributions	\$ (165,994)
Change in Net Assets	\$ (1,322,967)
Total Net Assets - Unadjusted Beginning (October 1)	22,229,403
Prior Period Adjustments	(118,378)
Total Net Assets - Adjusted Beginning (October 1)	22,111,025
Total Net Assets - Ending (September 30)	\$ 20,788,058

The accompanying notes are an integral part of this statement.

MUSTANG SPECIAL UTILITY DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2010

		Enterprise Fund
		Water Utilities
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$	4,830,938
Cash Payments for Goods and Services		(2,641,047)
Cash Payments to Employees		(757,993)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>\$</b>	<b>1,431,898</b>
<b>Cash Flows from Capital and Other Related Financing Activities:</b>		
Escrow for Land Easements Received	\$	276
Principal Paid on Bonds and Notes		(1,445,952)
Interest Paid on Bonds and Notes		(643,035)
Wastewater Capacity Fee Received from Developers		5,000
<b>Net Cash Provided by (Used for) Capital and Other Related Financing Activities</b>	<b>\$</b>	<b>(2,083,711)</b>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Increase (Decrease) in Customer Deposits	\$	36,316
<b>Net Cash Provided by (Used for) Noncapital Financing Activities</b>	<b>\$</b>	<b>36,316</b>
<b>Cash Flows from Investing Activities:</b>		
Acquisition and Construction of Capital Assets	\$	(398,985)
Interest Received		18,268
<b>Net Cash Provided by (Used for) Investing Activities</b>	<b>\$</b>	<b>(380,717)</b>
<b>Net Increase (Decrease) in Cash and Investments</b>	<b>\$</b>	<b>(996,214)</b>
Cash and Investments - Beginning (October 1)		5,724,822
<b>Cash and Investments - Ending (September 30)</b>	<b>\$</b>	<b>4,728,608</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating Income (Loss)	\$	(536,591)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>		
Depreciation		1,115,651
Amortization		425,420
<b>Change in Assets and Liabilities:</b>		
(Increase) Decrease in Accounts Receivable		230,754
(Increase) Decrease in Prepaid Expenses, Supplies and Materials		43,619
Increase (Decrease) in Accounts Payable		46,478
Increase (Decrease) in Other Payables		3,085
Increase (Decrease) in Due to Other Districts		103,482
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>\$</b>	<b>1,431,898</b>

The accompanying notes are an integral part of this statement.

MUSTANG SPECIAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

The Mustang Special Utility District (District) was approved by the voters within the District on May 4, 2002. The Mustang Special Utility District is an organization as set forth under the terms and conditions of Article XVI, Section 59 of the Texas Constitution and Chapter 65 of the Texas Water Code. The Mustang Water Supply Corporation was dissolved and all assets, liabilities and equity of that organization were transferred to the newly created Mustang Special Utility District. This transfer of ownership took place on October 1, 2002, for financial reporting purposes.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

1. Reporting Entity

The Board of Directors (Board), a nine member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to providing water services within the jurisdiction of the Mustang Special Utility District. Members of the Board are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters. The District is not included in any other governmental "Reporting Entity" as defined by GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units presented.

2. Basis of Presentation

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenue and expenses. The fund type utilized by the District is described below:

a. Proprietary fund types include the following –

The *Enterprise Fund* is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. 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 and continue to follow new FASB pronouncements unless they conflict with GASB guidance.

3. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the balance sheet. Fund equity is identified as net assets.

4. Budget

The Board adopts an annual budget for the Enterprise Fund. The Budget for the Enterprise Fund is adopted under a basis consistent with GAAP. The Board approves amendments to the annual budget as prepared by the General Manager of the District.

MUSTANG SPECIAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies (Continued)

5. Property, Plant and Equipment

Additions to the utility system are recorded at cost or, if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recovered by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income. The District uses a capitalization policy of \$ 5,000.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Vehicles	5 years
Office Furniture and Equipment	5-10 years
Machinery and Equipment	5-10 years
Water Distribution System	5-40 years
Buildings	20-40 years

6. Amortization of Equity Fee and Organizational Costs

The District has assets recorded in the basic financial statements entitled "UTRWD Equity Fee, Net, Bond Issuance Costs, Net and SUD Conversion Costs, Net." Accounting principles generally accepted in the United States of America require that the District capitalize the costs associated with these assets and amortize those costs over the life of the asset or loan, and not less than 60 months, respectively, rather than expensing the entire amount in the year acquired. The expense associated with this amortization appears in the basic financial statements as "Amortization." The amount expensed during the year ended September 30, 2010, was \$ 425,420. The amount recorded as assets (net of amortization) in the basic financial statements at September 30, 2010, totaled \$ 6,389,415.

7. Prepaid Expenses, Materials and Supplies

Prepaid expenses consist of items paid for in the current period to be used in the following accounting period. Prepaid materials and supplies consist of supplies and repair parts for the distribution system, valued at cost. The cost of materials and supplies is recorded as an expense when consumed rather than when purchased.

8. Cash and Investments

Cash and Investments are comprised of deposits in financial institutions including time deposits. For the purpose of the statement of cash flows, an investment is considered any highly liquid investment with a maturity of ninety days or less.

9. Retirement Plan

The District is a member of the Texas County & District Retirement System (TCDRS). The District matches up to 5% of employee contributions 1 to 1, and employees vest after 10 years of service. The plan also provides for disability retirement for members with 10 years of service or more. The District's contributions for the fiscal year totaled \$ 15,798.

10. Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Sick leave does not vest but accumulates and is recorded as an expense as it is paid.

MUSTANG SPECIAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2010

B. Changes in Property, Plant and Equipment

The following is a summary of changes in property, plant and equipment for the year:

	Beginning Balances	Additions and Reclassifications	Retirements	Ending Balances
Land	\$ 469,255	\$ -	\$ -	\$ 469,255
Buildings and Improvements	1,360,966	-	-	1,360,966
Construction in Progress	-	98,420	-	98,420
Water Distribution System	24,589,752	299,363	-	24,889,115
Furniture and Equipment	760,261	-	-	760,261
Vehicles	318,038	16,837	-	334,875
<b>Totals at Historical Cost</b>	<b>\$ 27,498,272</b>	<b>\$ 414,620</b>	<b>\$ -</b>	<b>\$ 27,912,892</b>
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 190,536	\$ 54,439	\$ -	\$ 244,975
Water Distribution System	5,043,125	995,956	-	6,039,081
Furniture and Equipment	621,959	48,704	-	670,663
Vehicles	294,554	16,552	-	311,106
<b>Total Accumulated Depreciation</b>	<b>\$ 6,150,174</b>	<b>\$ 1,115,651</b>	<b>\$ -</b>	<b>\$ 7,265,825</b>
<b>Net Capital Assets</b>	<b>\$ 21,348,098</b>	<b>\$ (701,031)</b>	<b>\$ -</b>	<b>\$ 20,647,067</b>

C. Restricted Assets

The District is required to maintain certain bank accounts to be in compliance with the bond covenants. The District also maintains separate bank accounts to account for monies collected from freshwater supply district customers to be remitted to the respective freshwater supply districts. At September 30, 2010, the District had the following accounts restricted for these purposes:

Cash - Northstar System Growth	\$ 93,653
Cash - Northstar Debt Service	34,904
Cash - Northstar Construction	1,052,570
Cash - Northstar I & S	36,500
Cash - Northstar Developer's Escrow	4,869
Cash - Logic Cust Deposits	419,627
Cash - Logic 2006 Debt Reserve	406,222
Cash - Logic System Growth	931,393
Cash - Logic UTRWD I&S	80,279
Cash - Logic Dev Escrow	105,291
Cash - DCFWSD #9 Providence	241,501
Cash - DCFWSD #8A Paloma Creek	38,938
Cash - DCFWSD #8B Paloma Creek	126,222
Cash - DCFWSD #11A Paloma Creek	138,535
Cash - DCFWSD #10 Savannah	180,087
Cash - DCFWSD #11B Paloma Creek	12,989
Cash - Northstar 08 Debt Reserve	265,811
Cash - Northstar 08 I & S	8,186
Cash - Northstar 09 I & S	6,983
Cash - Northstar 09 Debt Reserve	100,804
<b>Total</b>	<b>\$ 4,285,364</b>

MUSTANG SPECIAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2010

C. Restricted Assets (Continued)

<u>Northstar System Growth</u> -	This account, held at Northstar Bank, represents monies designated for future expansion and system repair and maintenance.
<u>Northstar Debt Service</u> -	This account, held at Northstar Bank, represents the amount required by the bond covenant to be held in reserve until bond is paid in full.
<u>Northstar Construction</u> -	This account, held at Northstar Bank, represents bond proceeds held for future construction.
<u>Northstar I &amp; S</u> -	This account, held at Northstar Bank, represents amounts set aside for the next principal and interest payment on bonded debt.
<u>Northstar Developer's Escrow</u> -	This account, held at Northstar Bank, represents amounts held by the District for utility easements on construction projects.
<u>Northstar 07 Revenue Note I &amp; S</u> -	This account, held at Northstar Bank, represents amounts set aside for the next principal and interest payment on bonded debt.
<u>Logic Cust Deposits</u> -	This account, held at Logic, represents refundable customer deposits.
<u>Logic - 2006 Debt Service</u> -	This account, held at Logic, represents the amount required by the bond covenant to be held in reserve until bond is paid in full.
<u>Logic - System Growth</u> -	This account, held at Logic, represents monies designated for future expansion and system repair and maintenance.
<u>Logic - UTRWD Interest &amp; Sinking</u> -	This account, held at Logic, represents amounts set aside for the next principal and interest payment on Upper Trinity Regional Water District Note.
<u>Logic - Developer's Escrow Account</u> -	This account, held at Logic, represents amounts held by the District for utility easements on construction projects.
<u>DCFWSW #9 - Providence</u> -	This account, held at Northstar Bank, represents the payments collected from Providence customers to be remitted to the Freshwater Supply District.
<u>DCFWSW #8A - Paloma Lakeview</u> -	This account, held at Northstar Bank, represents the payments collected from Paloma Lakeview customers to be remitted to the Freshwater Supply District.
<u>DCFWSW # 8B - Paloma North</u> -	This account, held at Northstar Bank, represents the payments collected from Paloma North customers to be remitted to the Freshwater Supply District.
<u>DCFWSW # 11A - Paloma South</u> -	This account, held at Northstar Bank, represents the payments collected from Paloma South customers to be remitted to the Freshwater Supply District.
<u>DCFWSW #11B - Paloma Creek</u> -	This account, held at Northstar Bank, represents the payment collected from Paloma Creek #11B customers to be remitted to the Freshwater Supply District.
<u>DCFWSW - Savannah</u> -	This account, held at Northstar Bank, represents the payments collected from Savannah customers to be remitted to the Freshwater Supply District.
<u>Northstar 08 Debt Reserve</u> -	This account held at Northstar Bank, represents the amount required by the bond covenant to be held in reserve until bond is paid in full.
<u>Northstar 08 I &amp; S</u> -	This account, held at Northstar Bank, represents amounts set aside for the next principal and interest payment on bonded debt.
<u>Northstar 09 Debt Reserve</u> -	This account, held at Northstar Bank, represents the amount required by the bond covenant to be held in reserve until bond is paid in full.
<u>Northstar 09 I &amp; S</u> -	This account, held at Northstar Bank, represents amounts set aside for the next principal and interest payment on bonded debt.

D. Deposits, Securities and Investments

The District's funds are deposited and invested under the terms of a depository contract. The contract requires the depository to pledge approved securities in an amount significant to protect the District's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2010, all District cash deposits appeared to be covered by FDIC insurance or by pledged collateral held by the depository in the District's name. The District's deposits appear to have been secured at all times throughout the fiscal year.

The District's investment policies and types of investments are governed by the Public Funds Investment Act. The Act requires specific training, reporting and establishment of local policies. The District appears to be in compliance with the requirements of the Act.

MUSTANG SPECIAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2010

D. Deposits, Securities and Investments (Continued)

State statutes and local policy authorize the District to invest in the following types of investment goods:

- a. obligations of the U.S. or its agencies or instrumentalities,
- b. obligations of the State of Texas or its agencies,
- c. obligations guaranteed by the U.S. or State of Texas or their agencies or instrumentalities,
- d. obligations of other states, agencies or political subdivisions having a national investment rating of "A" or greater,
- e. guaranteed or securitized certificates of deposit issued by a bank domiciled in the State of Texas, or
- f. fully collateralized repurchase agreements.

District investments include deposits in external investment pools, such as LOGIC. All LOGIC investments are reported at share price (fair value) and are presented as cash and investments.

The LOGIC Investment Pool is managed by an elected Board of Directors. The Board is comprised of elected members of the organization. An advisory board of qualified investment members advises the Directors on investment decisions.

The following table categorizes the District's investment at September 30, 2010:

	<u>Credit Rating</u>	<u>Fair Value</u>
LOGIC	AAAm	<u>\$ 1,942,812</u>
Total		<u><u>\$ 1,942,812</u></u>

\* Local government pool investments are based upon a contract and not the security itself. Therefore, these types of investments are not categorized above.

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

- a. Name of bank: NorthStar Bank of Texas, Denton, Texas.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 5,500,000.
- c. Largest cash, savings and time deposit combined account balances amounted to \$ 4,226,316 and occurred during the month of October, 2009.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$ 500,000.

GASB Statement No. 40 requires a determination as to whether the District 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 agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

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 District's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

MUSTANG SPECIAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2010

D. Deposits, Securities and Investments (Continued)

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District 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. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

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

E. Long - Term Obligations

The following schedule presents changes in long-term debt for the year ended September 30, 2010.

	Beginning Balances	Additions	Deletions	Ending Balances	Current Portion
Bonds Payable	\$ 8,975,000	\$ -	\$ 1,360,000	\$ 7,615,000	\$ 345,000
Loans Payable	2,461,595	-	85,952	2,375,643	91,255
Other Debt Payable	53,100	-	2,538	50,562	-
<b>Total Debt Payable</b>	<b>\$ 11,436,595</b>	<b>\$ -</b>	<b>\$ 1,448,490</b>	<b>\$ 10,041,205</b>	<b>\$ 436,255</b>

Loans

The District executed an agreement with Upper Trinity Regional Water District to provide for capital investments. The agreement requires semi-annual interest payments and annual principal payments. Principal maturing in the next twelve months has been classified as current liabilities. The District executed the following agreement:

Payee / Purpose	Original Issue Date	Original Amount	Interest Rate	Outstanding Balance 09/30/10
Upper Trinity Regional Water District % of Water Lines and Pump Station	4/19/2000	\$ 2,202,850	6.0%	\$ 2,375,643

Maturities of loan balances are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2011	\$ 91,255	\$ 143,002	\$ 234,257
2012	96,885	137,372	234,257
2013	102,862	131,395	234,257
2014	109,208	125,049	234,257
2015	115,945	118,312	234,257
2016 - 2020	696,265	475,020	1,171,285
2021 - 2025	939,226	232,059	1,171,285
2026 - 2030	223,997	10,260	234,257
<b>Totals</b>	<b>\$ 2,375,643</b>	<b>\$ 1,372,469</b>	<b>\$ 3,748,112</b>



MUSTANG SPECIAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2010

E. Long - Term Obligations (Continued)

Payee / Purpose	Interest Rate	Original Amount	Outstanding Balances
Mustang SUD, Series 2006	4.00% – 5.00%	\$ 4,415,000	\$ 3,680,000
Mustang SUD, Series 2008	5.75% – 6.00%	2,715,000	2,715,000
Mustang SUD, Series 2009	3.00% – 6.00%	1,220,000	<u>1,220,000</u>
Totals			<u>\$ 7,615,000</u>

Maturities of revenue bonds are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2011	\$ 345,000	\$ 375,235	\$ 720,235
2012	370,000	357,698	727,698
2013	310,000	339,223	649,223
2014	315,000	325,423	640,423
2015	335,000	311,560	646,560
2016 - 2020	1,880,000	1,306,000	3,186,000
2021 - 2025	2,335,000	819,270	3,154,270
2026 - 2030	1,635,000	276,595	1,911,595
2031 - 2035	90,000	4,950	94,950
Totals	<u>\$ 7,615,000</u>	<u>\$ 4,115,954</u>	<u>\$ 11,730,954</u>

The District is required to maintain certain deposits to satisfy the provisions of the debt authorization. The required deposits are outlined in Section 10 and 11 of the debt authorization. The following describes these sections and the requirements:

## Section 10 – Interest &amp; Sinking Covenants - Series 2006

The District is required to deposit and credit to the Interest and Sinking Fund prior to each principal, interest payment or redemption date from the available pledged revenues an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and the principal of the prior lien obligations then coming due and payable. At September 30, 2010, the following is reported:

Amount Required	\$ -0-
Amount Available	<u>36,500</u>
Excess (Deficiency)	<u>\$ 36,500</u>

## Section 11 – Reserve Covenants - Series 2006

The District shall deposit and credit to the 2006 Reserve Fund amounts required to maintain the balance in the 2006 Reserve Fund in an amount equal to \$ 389,408, which is the lesser of (1) 10 percent of the stated principal amount of the bonds, (2) 1.25 percent of the average annual debt service requirements on the bonds, or (3) maximum annual debt service requirements on the bonds. At September 30, 2010, the following is reported:

Amount Required	\$ 389,408
Amount Available	<u>406,222</u>
Excess (Deficiency)	<u>\$ 16,814</u>

MUSTANG SPECIAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2010

E. Long - Term Obligations (Continued)

Section 10 – Interest & Sinking Covenants - Series 2008

The District is required to deposit and credit to the Interest and Sinking Fund prior to each principal, interest payment or redemption date from the available pledged revenues an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and the principal of the prior lien obligations then coming due and payable. At September 30, 2010, the following is reported

Amount Required	\$ -0-
Amount Available	<u>8,186</u>
Excess (Deficiency)	<u>\$ 8,186</u>

Section 11 – Reserve Covenants - Series 2008

The District shall deposit and credit to the 2008 Reserve Fund amounts required to maintain the balance in the 2008 Reserve Fund in an amount equal to \$ 242,045, which is the lesser of (1) 10 percent of the stated principal amount of the bonds, (2) 1.25 percent of the average annual debt service requirements on the bonds, or (3) maximum annual debt service requirements on the bonds. At September 30, 2010, the following is reported:

Amount Required	\$ 242,045
Amount Available	<u>265,811</u>
Excess (Deficiency)	<u>\$ 23,766</u>

Section 10 – Interest & Sinking Covenants - Series 2009

The District is required to deposit and credit to the Interest and Sinking Fund prior to each principal, interest payment or redemption date from the available pledged revenues an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and the principal of the prior lien obligations then coming due and payable. At September 30, 2010, the following is reported

Amount Required	\$ -0-
Amount Available	<u>6,983</u>
Excess (Deficiency)	<u>\$ 6,983</u>

Section 11 – Reserve Covenants - Series 2009

The District shall deposit and credit to the 2009 Reserve Fund amounts required to maintain the balance in the 2010 Reserve Fund in an amount equal to \$ 100,395, which is the lesser of (1) 10 percent of the stated principal amount of the bonds, (2) 1.25 percent of the average annual debt service requirements on the bonds, or (3) maximum annual debt service requirements on the bonds. At September 30, 2010, the following is reported:

Amount Required	\$ 100,395
Amount Available	<u>100,804</u>
Excess (Deficiency)	<u>\$ 409</u>

MUSTANG SPECIAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2010

F. Customer Deposits

The District requires each new customer to pay \$100, which is held as a refundable deposit to secure payment of the customer's water bill. At September 30, 2010, the District's obligation totaled \$ 402,442.

G. Litigation

The District does not appear to be involved in any litigation as of September 30, 2010.

H. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the District purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

I. Freshwater Supply District Agreements – Water and Sanitary Sewer Service

The District has entered into service agreements with the following freshwater supply districts:

Denton County Freshwater Supply District No. 8A

Denton County Freshwater Supply District No. 8B

Denton County Freshwater Supply District No. 9

Denton County Freshwater Supply District No. 10

Denton County Freshwater Supply District No. 11A

Denton County Freshwater Supply District No. 11B

Each freshwater district maintains a separate contract with the District, so specific terms vary per respective contract. Under the terms of these agreements, the District agrees to read each water meter of each retail customer of the freshwater districts one time every month and render a statement to each retail customer for the amount due the freshwater district for water service, sewer service, and solid waste collection, including initial deposits. In addition, the District will collect the amount due for water and wastewater service and remit to the freshwater districts the funds collected at least once per month.

The freshwater districts also agreed to pay the District for installation, maintenance or repair of the water delivery system and for items not specifically covered in the agreement. The charges are limited to the District's actual and direct expenses, plus an additional fifteen percent (15%) overhead charge, allocated to client districts on a pro-rata basis based on the number of active equivalent single family connections contained in each freshwater district. Additionally, freshwater districts will pay to Mustang thirty percent (30%) of any disconnection, re-connection fees or return check fee charged by the District related to disconnections or re-connections necessitated by a District customer's failure to timely pay for water and/or wastewater services.

At various dates in the future, beginning October 1, 2011, contract provisions call for the freshwater districts to convey to the District all right, title and interest to all water distribution and storage facilities and sanitary sewer collection facilities, including land, easements and rights of way that comprise the freshwater district system and serve the freshwater district certified area that have been acquired by the freshwater districts with the proceeds of its outstanding bonds. Any portion not acquired with proceeds of outstanding bonds shall be leased to the District in accordance with contract provisions.

MUSTANG SPECIAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2010

J. Joint Agreements

The District has entered into equity agreements with the Upper Trinity Regional Water District (UTRWD) to provide the District with water resources into the future. Additionally, agreements have been executed for construction of additional water treatment and distribution services. There is also an agreement for shared costs of a wastewater treatment facility presently in use. The District's agreements require monthly service contract payments to the UTRWD. Amounts paid to the UTRWD for wastewater capacity are capitalized, and appear on the Statement of Net Assets as "Equity Buy-in Fees, Net". During the year, the District received from Developers \$ 5,000 as a capital contribution toward these wastewater capacity fees and \$ 170,994 of receivables were written off due to a development that was not completed.

K. Forbearance of Receivables

On September 30, 2010 the District entered into a forbearance agreement with Valencia on the Lake Water Control and Improvement District ("Valencia"). The agreement called for extending the due date of multiple payments that Valencia was to pay the District for the purchase of CCN in 2005. Valencia will make four payments totaling \$ 168,924 plus interest, with the final payment being on March 31, 2012. The District does not believe any amount beyond what is set forth in the forbearance agreement will be collected and, therefore, have expensed the remaining \$ 61,970 as bad debt.

L. Prior Period Adjustments

The \$ 118,378 decrease in beginning net assets represents amounts due to Upper Trinity Regional Water District at the end of the previous fiscal year. This amount was paid in the current year, but should have been expensed in the prior year and reflected in the financial statements as a liability at year end.

OTHER SUPPLEMENTARY INFORMATION

MUSTANG SPECIAL UTILITY DISTRICT  
ENTERPRISE FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Water/Wastewater Sales	\$ 3,838,478	\$ 3,279,000	\$ 3,338,626	\$ 59,626
Customer Charges/Fees	1,164,460	1,081,000	1,134,975	53,975
Miscellaneous Income	10,000	900	23,101	22,201
Interest Income	19,000	18,450	26,714	8,264
<b>Total Revenues</b>	<b>\$ 5,031,938</b>	<b>\$ 4,379,350</b>	<b>\$ 4,523,416</b>	<b>\$ 144,066</b>
<b>EXPENSES</b>				
Payroll	\$ 856,503	\$ 769,129	\$ 756,843	\$ 12,286
Water Distribution System	2,844,017	2,589,043	2,260,955	328,088
Other Operating Costs	267,250	233,700	214,036	19,664
Professional and Legal Fees	292,750	142,562	109,688	32,874
Insurance	161,269	152,210	150,700	1,510
Amortization	-	-	425,420	(425,420)
Depreciation	-	-	1,115,651	(1,115,651)
Interest	536,979	536,151	585,126	(48,975)
Bad Debt - Sale of CCN	-	-	61,970	(61,970)
<b>Total Expenses</b>	<b>\$ 4,958,768</b>	<b>\$ 4,422,795</b>	<b>\$ 5,680,389</b>	<b>\$ (1,257,594)</b>
<b>Change in Net Assets</b>				
<b>Before Capital Contributions</b>	<b>\$ 73,170</b>	<b>\$ (43,445)</b>	<b>\$ (1,156,973)</b>	<b>\$ (1,113,528)</b>
<b>CAPITAL CONTRIBUTIONS</b>				
Wastewater Capacity Fee Refunded to Developers	\$ -	\$ -	\$ (165,994)	\$ (165,994)
<b>Total Capital Contributions</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (165,994)</b>	<b>\$ (165,994)</b>
<b>Change in Net Assets</b>	<b>\$ 73,170</b>	<b>\$ (43,445)</b>	<b>\$ (1,322,967)</b>	<b>\$ (1,279,522)</b>
Net Assets - Beginning (October 1)	22,229,403	22,229,403	22,229,403	-
Prior Period Adjustments	-	-	(118,378)	(118,378)
Net Assets - Beginning Adjusted (October 1)	22,229,403	22,229,403	22,111,025	(118,378)
<b>Net Assets - Ending (September 30)</b>	<b>\$ 22,302,573</b>	<b>\$ 22,185,958</b>	<b>\$ 20,788,058</b>	<b>\$ (1,397,900)</b>

TEXAS SUPPLEMENTARY INFORMATION (TSI)

MUSTANG SPECIAL UTILITY DISTRICT  
SUPPLEMENTARY SCHEDULES INCLUDED WITHIN THIS REPORT  
YEAR ENDED SEPTEMBER 30, 2010

<u>Exhibit ID</u>	<u>Exhibit Title</u>	<u>Page #</u>
	Independent Auditor's Report on Supplementary Schedules	35
TSI-1	Services and Rates	36
TSI-2	Enterprise Fund Expenditures	38
TSI-3	Temporary Investments	39
TSI-5	Long-Term Debt Service Requirements by Years	40
TSI-6	Changes in Long-Term Bonded Debt	44
TSI-7	Comparative Schedule of Revenues and Expenses Enterprise Fund - Five Years	45
TSI-8	Board Members, Key Personnel and Consultants	46

The following schedules are not applicable to this District.

H. Analysis of Taxes Levied and Receivable



INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY SCHEDULES

---

Board of Directors  
Mustang Special Utility District  
7985 FM 2931  
Aubrey, TX 76227

Members of the Board:

In our opinion, the accompanying information is stated accurately in all material respects in relation to the basic financial statements, taken as a whole, of the Mustang Special Utility District for the year ended September 30, 2010, which are covered by our opinion presented in the first section of this report.

The accompanying information is supplementary to the basic financial statements and is not essential for a fair presentation of financial position, results of operations or cash flows.

Our audit, which was made for the purpose of forming opinions on the basic financial statements taken as a whole, included such tests of the accounting records, from which the supplementary information was compiled, and such other auditing procedures as we considered necessary in the circumstances.

February 8, 2011  
Greenville, Texas

MUSTANG SPECIAL UTILITY DISTRICT  
SERVICES AND RATES  
YEAR ENDED SEPTEMBER 30, 2010

1. Services provided by the District:

<input checked="" type="checkbox"/>	Retail Water	<input checked="" type="checkbox"/>	Wholesale Water	<input type="checkbox"/>	Drainage
<input checked="" type="checkbox"/>	Retail Wastewater	<input type="checkbox"/>	Wholesale Wastewater	<input type="checkbox"/>	Irrigation
<input type="checkbox"/>	Parks/Recreation	<input type="checkbox"/>	Fire Protection	<input type="checkbox"/>	Security
<input type="checkbox"/>	Solid Waste/Garbage	<input type="checkbox"/>	Flood Control	<input type="checkbox"/>	Roads
<input checked="" type="checkbox"/>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<input type="checkbox"/>	Other (specify): _____				

2. Retail Rates Based on 5/8" Meter:

Most prevalent type of meter (if not a 5/8"): \_\_\_\_\_

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	\$ 25.00	-0-	N	\$ 2.43	-0- to 1,000
				\$ 2.66	1,000 to 3,000
				\$ 3.30	3,000 to 6,000
				\$ 3.64	6,000 to 9,000
				\$ 3.99	9,000 to 12,000
				\$ 4.34	12,000 to 15,000
				\$ 4.91	15,000 to 20,000
				\$ 5.49	20,000 to 25,000
				\$ 9.41	25,000 to unlimited
WASTEWATER:	\$ 32.00	-0-	Y	\$	-0- to 8,000
	\$ 36.00	-0-	Y	\$	8,001 to unlimited

District employs winter averaging for wastewater usage?  Yes  No

Total charges per 10,000 gallons usage: Water \$ 57.56 Wastewater \$ 36.00