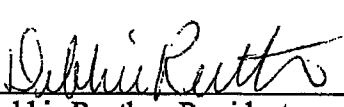


and UTRWD; (5) District receipt of the UTRWD Reimbursement; and (6) Developer receipt of the District Reimbursement.

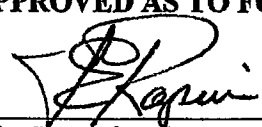
Mustang Special Utility District

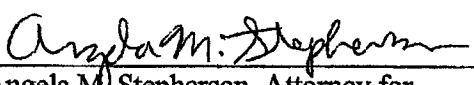
By: 
BARON GAINES, General Manager

Denton County Fresh Water Supply District No. 9


By: 
Debbie Reuther, President,
Board of Directors

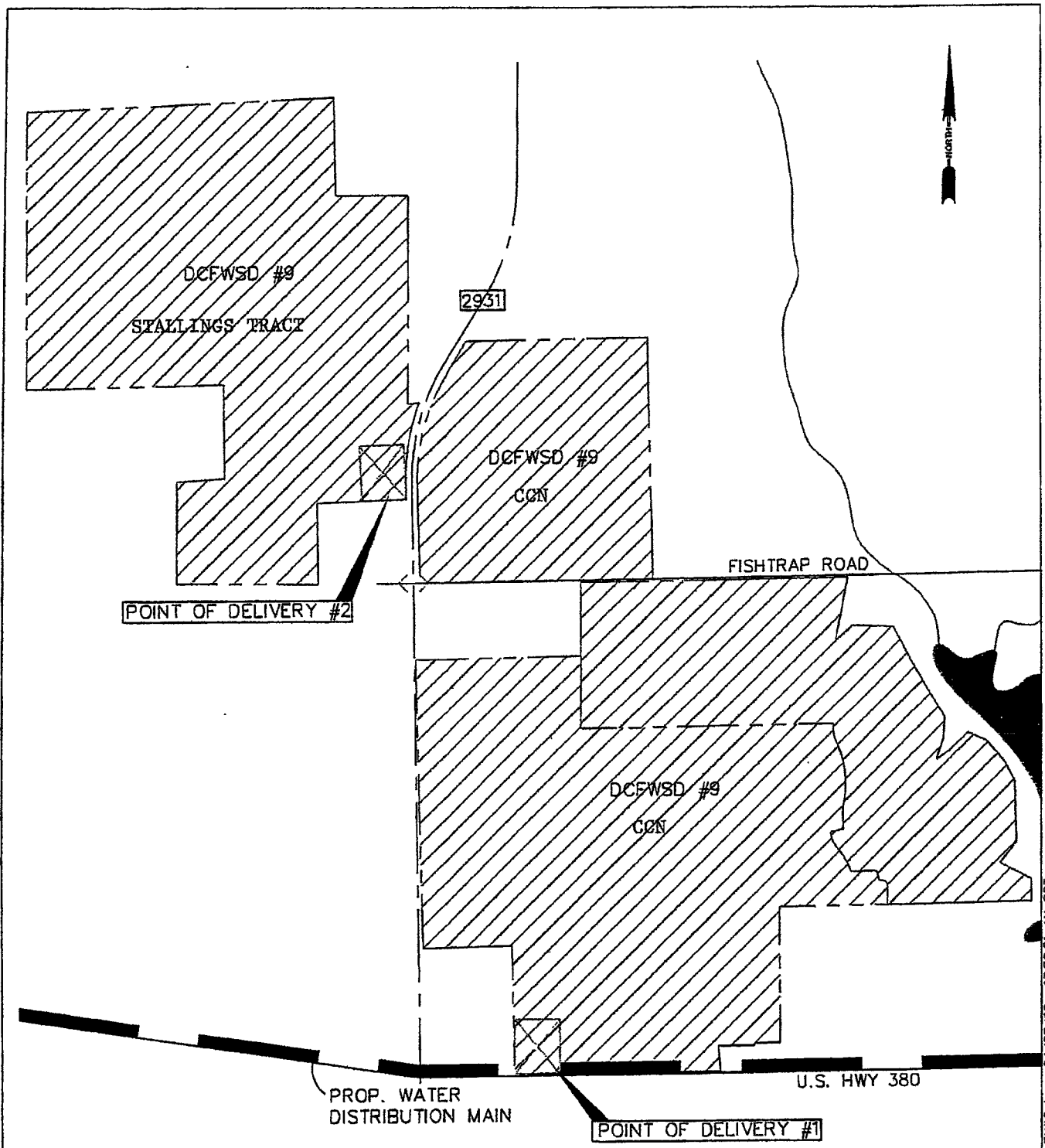
APPROVED AS TO FORM:


John E. Rapier, Attorney for
Mustang Special Utility District


Angela M. Stepherson, Attorney for
Denton County Fresh Water
Supply District No. 9

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

 6/20/05
Thomas E. Taylor, Executive Director
Upper Trinity Regional Water District



F:\2000\00037\EXHIBIT WATER-EX19.dwg 04/25/02 07:58:21 AM CDT

EXHIBIT-A
 DCFWSD NO. 9
 BOUNDARY AND
 POINT OF DELIVERY
 (WATER)

Pa **Petitt and Associates, Inc.**
 ENGINEERING & SURVEYING
 300 MUNICIPAL DRIVE
 Richardson, TX 75080
 Tel. No. (214) 221-9855
 Fax No. (214) 340-3320

"Attachment 4, Question 12"
 Mustang Special Utility District
 7885 FM 2931
 Aubrey, Texas 76227

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 free 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.

EXHIBIT "B"

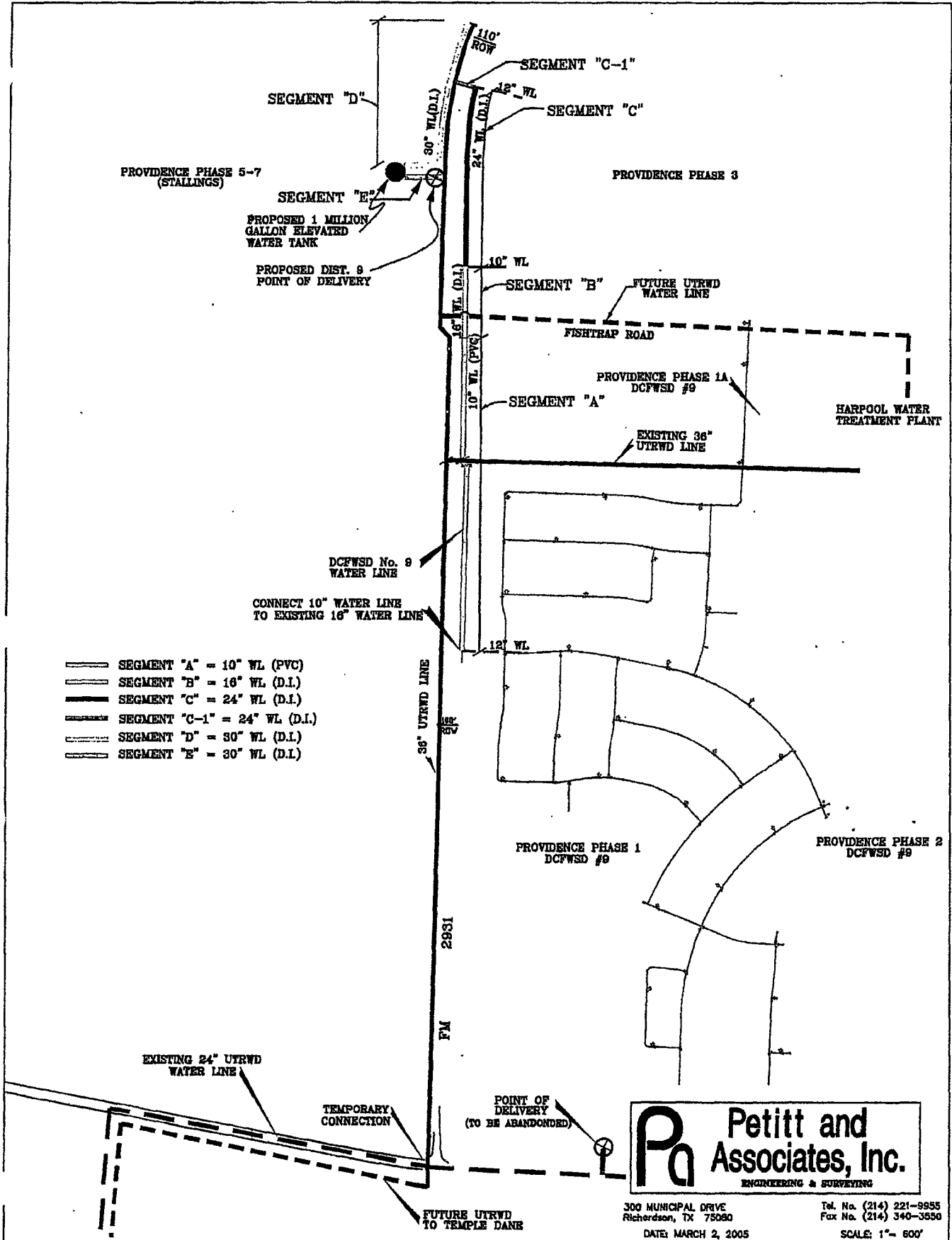
SCHEDULE OF SERVICES – SANITARY SEWER

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

EXHIBIT "C"

**DESCRIPTION OF WATER TRANSMISSION FACILITIES
AND
ALLOCATION OF OWNERSHIP OF CAPACITY AND COSTS**

EXHIBIT C



- SEGMENT "A" = 10" WL (PVC)
- SEGMENT "B" = 16" WL (D.I.)
- SEGMENT "C" = 24" WL (D.I.)
- SEGMENT "C-1" = 24" WL (D.I.)
- SEGMENT "D" = 30" WL (D.I.)
- SEGMENT "E" = 30" WL (D.I.)

P **Petitt and Associates, Inc.**
ENGINEERING & SURVEYING

300 MUNICIPAL DRIVE Richardson, TX 75080 Tel. No. (214) 221-8955 Fax No. (214) 340-3550

DATE: MARCH 2, 2005 SCALE: 1" = 600'

"Attachment 12" Question 12"
Mustang Special Utility District
7885 FM 2931
Aubrey, Texas 76227

Exhibit C

Mustang SUD and DCFWSD No. 9 Water and Wastewater Cost Sharing Concept

The table below is a preliminary concept to document the cost sharing for infrastructure improvements related to the contract amendment between FWSD No. 9 and Mustang SUD. The idea is to incorporate the following table in the contract amendment and update the table as each pipe segment is bid, constructed, and placed into service.

The cost of each pipe segment will include inspection, engineering, soil testing, and survey using the following percentages. As shown below, up to 12.5% will be added to the actual pipe bid cost to develop the pipe segment cost.

6% Engineering
 2% Inspection
 2.5% Survey
 2% Soil Lab
 12.5% Total Pipe Cost Markup to Develop Pipe Segment Cost

PIPE SEGMENT	PIPE LENGTH	PIPE DIA	SEGMENT COST	Percent Capacity		Cost	
				FWSD	MSUD	FWSD	MSUD
A	1,528	10	\$36,860.00	100	0	\$36,860.00	\$0.00
B	392	16	\$42,934.88	33	67	\$14,168.51	\$28,766.37
C	862	24	\$81,045.00	25	75	\$20,261.25	\$60,783.75
C-1	100	24	\$47,812.50	50	50	\$23,906.25	\$23,906.25
D	1,048	30	\$183,251.25	27	73	\$49,477.84	\$133,773.41
E	220	30	\$36,900.00	33	67	\$12,177.00	\$24,723.00
TOTAL			\$428,803.63			\$156,850.85	\$271,952.78

- Pipe Segments will be in the base bid of DCFWSD No. 9 projects. The pipe segments shall be subtotaled separate from other work not related to the pipe segment. Copies of the bid tabulations will be given to Mustang SUD for review.
- Pettit & Associates will prepare 8.5 x 11 figures with standard and oversize lines with segment numbers.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT No. 9
OFF SITE WATER ALONG FM 2931**

No.	Segment	Description	Bid			Actual	
			Unit	Quantity	Unit Cost	Quantity	Cost
1	A	10-inch PVC Water Line	LF	1490	\$ 20.00	1,528	\$ 30,560.00
2	A	10-inch gate valve and box	EA	2	\$ 1,240.00	2	\$ 2,480.00
		Total Construction Cost					\$ 33,040.00
		Engineering/Inspection/testing					\$ 3,820.00
		Total Segment A Cost					\$ 36,860.00
Segment B							
3	B	16-inch DI Water Line	LF	282	\$ 54.00	337	\$ 18,209.34
4	B	16-inch Water Line by Bore	LF	55	\$ 281.00	55	\$ 15,455.00
5	B	16-inch Butterfly Gate Valve & Box	EA	1	\$ 4,500.00	1	\$ 4,500.00
		Total Construction Cost					\$ 38,164.34
		Engineering/Inspection/testing					\$ 4,770.54
		Total Segment B Cost					\$ 42,934.88
Segment C							
6	C	24-inch Water Line	LF	20	\$ 70.00	862	\$ 60,340.00
7	C	24-inch Butterfly Gate Valve & Box	EA	*	\$ 6,200.00	1	\$ 6,200.00
8	C	24-inch x 16-inch reducer	EA	*	\$ 500.00	1	\$ 500.00
9	C	24-inch x 24-inch Tee	EA	2	\$ 5,000.00	1	\$ 5,000.00
		Total Construction Cost					\$ 72,040.00
		Engineering/Inspection/testing					\$ 9,005.00
		Total Segment C Cost					\$ 81,045.00
Segment C-1							
10	C-1	24-inch Water Line by Bore	LF	100	\$ 425.00	100	\$ 42,500.00
		Total Construction Cost					\$ 42,500.00
		Engineering/Inspection/testing					\$ 5,312.50
		Total Segment C-1 Cost					\$ 47,812.50
Segment D							
11	D	30-inch Water Line	LF	*	\$ 115.00	1,048	\$ 120,520.00
12	D	30-inch Butterfly Gate Valve & Box	EA	*	\$ 11,885.00	2	\$ 23,770.00
13	D	30-inch x 24-inch Cross	EA	*	\$ 7,500.00	1	\$ 7,500.00
14	D	30-inch x 30-inch Cross	EA	*	\$ 9,500.00	1	\$ 9,500.00
15	D	30-inch Plug	EA	*	\$ 800.00	2	\$ 1,600.00
		Total Construction Cost					\$ 162,890.00
		Engineering/Inspection/testing					\$ 20,361.25
		Total Segment D Cost					\$ 183,251.25
Segment E							
16	E	30-inch Water Line	LF	0	\$ 115.00	220	\$ 25,300.00
17	E	30-inch Butterfly Gate Valve & Box	EA	0	\$ 7,500.00	1	\$ 7,500.00
		Total Construction Cost					\$ 32,800.00
		Engineering/Inspection/testing					\$ 4,100.00
		Total Segment E Cost					\$ 36,900.00

* estimated unit prices

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT No. 9
OFF SITE WATER ALONG FM 2931**

No.	Segment	Description	Bid			Actual	
			Unit	Quantity	Unit Cost	Quantity	Cost
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		Engineering/Inspection/testing					\$ 3,820.00
		Total Segment A Cost					\$ 36,860.00
3	B	16-inch DI Water Line	LF	282	\$ 54.00	337	\$ 18,209.34
4	B	16-inch Water Line by Bore	LF	55	\$ 281.00	55	\$ 15,455.00
5	B	16-inch Butterfly Gate Valve & Box	EA	1	\$ 4,500.00	1	\$ 4,500.00
		Total Construction Cost					\$ 38,164.34
		Engineering/Inspection/testing					\$ 4,770.54
		Total Segment B Cost					\$ 42,934.88
6	C	24-inch Water Line	LF	20	\$ 70.00	862	\$ 60,340.00
7	C	24-inch Butterfly Gate Valve & Box	EA	*	\$ 6,200.00	1	\$ 6,200.00
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9	C	24-inch x 24-inch Tee	EA	2	\$ 5,000.00	1	\$ 5,000.00
		Total Construction Cost					\$ 72,040.00
		Engineering/Inspection/testing					\$ 9,005.00
		Total Segment C Cost					\$ 81,045.00
10	C-1	24-inch Water Line by Bore	LF	100	\$ 425.00	100	\$ 42,500.00
		Total Construction Cost					\$ 42,500.00
		Engineering/Inspection/testing					\$ 5,312.50
		Total Segment C-1 Cost					\$ 47,812.50
11	D	30-inch Water Line	LF	*	\$ 115.00	1,048	\$ 120,520.00
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15	D	30-inch Plug	EA	*	\$ 800.00	2	\$ 1,600.00
		Total Construction Cost					\$ 162,890.00
		Engineering/Inspection/testing					\$ 20,361.25
		Total Segment D Cost					\$ 183,251.25
16	E	30-inch Water Line	LF	0	\$ 115.00	220	\$ 25,300.00
17	E	30-inch Butterfly Gate Valve & Box	EA	0	\$ 7,500.00	1	\$ 7,500.00
		Total Construction Cost					\$ 32,800.00
		Engineering/Inspection/testing					\$ 4,100.00
		Total Segment E Cost					\$ 36,900.00

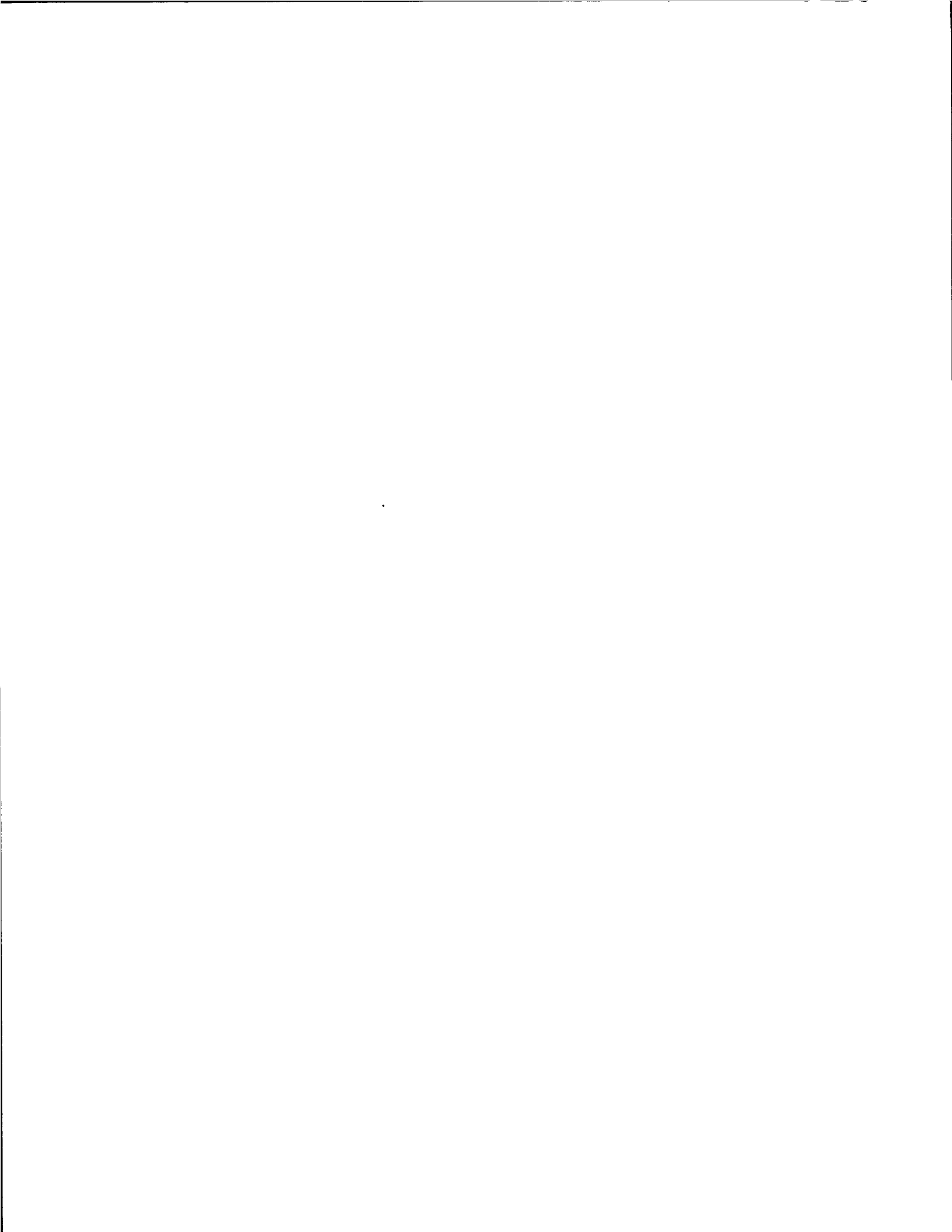
* estimated unit prices

EXHIBIT "D"
O&M BUDGET
(WATER ONLY)

EXHIBIT "D"

Product		2002	2003	2004	2005	2006
CHLORINE TEST KITS (1EA)	W	296				296
METER READING EQUIP #1 (Mini Mobil)	W	-			45,000	
MTR READING VEH #1	W					
SUB-TOTAL PROD COST		296	-	-	45,000	296
Overhead	W	44	-	-	6,750	44
TOTAL		340	-	-	51,750	340
3/4 TON UT TRK 4X4 #1 (1EA)	S/W					
3/4 TON 4X4 4 DOOR #1 (1EA)	S/W	40,000				
3/4 TON 4X4 4 DOOR #1 (1EA)				40,000		
Vehicle Upkeep	S/W		3,000	3,000	6,000	6,000
Gasoline		2,000	2,000	4,000	4,000	4,000
TRAFFIC CONES (60EA)	S/W	664				664
BARRICADES (12EA)	S/W	5,849				5,849
BARRICADES (12EA)	S/W					
TRAFFIC SIGNS (8EA)	S/W	2,400				2,400
TRAFFIC SIGNS (8EA)	S/W					
NIGHT LIGHTS (2EA)	S/W	842				842
MISC. HAND TOOLS	S/W	5,000				5,000
ELECT TESTING EQUIP (2EA)	S/W	236				236
COMPUTERS (Hardware / Software)	S/W	30,000				
SOFTWARE SETUP	S/W	55,000				
EMPLOYEES (1ea) - OFFICE	S/W	55,000	57,750	60,638	63,669	66,853
EMPLOYEES (1ea) - OFFICE					40,000	42,000
EMPLOYEE (FIELD) (1EA)	S/W	55,000	57,750	60,638	63,669	66,853
EMPLOYEE (FIELD) (1EA)	S/W					
EMPLOYEE (FIELD) (1EA)	S/W			55,000	57,750	60,638
EMPLOYEE INSURANCE	S/W	5,280	6,336	9,288	11,146	13,375
EMPLOYEE INS - OFC	S/W				2,580	3,096
EMPLOYEE INSURANCE - FIELD	S/W			2,580	3,096	3,715
COMMUNICATIONS	S/W	1,000	1,000	2,000	2,000	2,000
UNIFORMS	S/W	600	600	600	1,200	1,200
WORKERS COMP INS	S/W	1,754	2,105	3,403	4,083	4,900
WORKERS COMP INS	S/W					
RETIREMENT, TAX, & SOC SEC	S/W	8,561	14,125	19,817	21,799	23,979

RETIREMENT, TAX, & SOC SEC	S/W				4,280	4,708
RETIREMENT, TAX, & SOC SEC						
VEHICLE INS	S/W					
SEWER JET TRUCK	S/W	1,141	1,141	1,141	1,141	1,141
3/4 TON TRUCK	S/W					
3/4 TON TRUCK	S/W	1,078	1,078	1,078	1,078	1,078
3/4 TON TRUCK	S/W			1,078	1,078	1,078
METER READING VEH	S/W					
GENERAL LIABILITY INS.	S/W					
BONDING \$1M	S/W	165	165	165	165	165
POLLUTION INS. \$1M	S/W	500	500	500	500	500
SUB TOTAL EXPENSES		272,070	147,549	284,925	289,234	322,269
Overhead	S/W	40,810	22,132	39,739	43,385	48,340
TOTAL WATER		156,780	84,841	152,332	218,060	185,645



MUSTANG SPECIAL UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2009

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, 2009**

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibits</u>
INTRODUCTORY SECTION		
Annual Filing Affidavit.....	3	
FINANCIAL SECTION		
<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>	6	
Schedule of Findings and Questioned Costs.....	7	
Status of Prior Audit Findings	8	
Corrective Action Plan.....	9	
Management's Discussion and Analysis (Required Supplementary Information).....	10	
<u>Basic Financial Statements:</u>		
Statement of Fund Net Assets – Proprietary Funds	16	
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	18	
Statement of Cash Flows – Proprietary Funds.....	19	
Notes to the Financial Statements.....	20	
<u>Other Supplementary Information:</u>		
Budgetary Comparison Schedule – Enterprise Fund	31	
TEXAS SUPPLEMENTARY INFORMATION (TSI)		
Supplementary Schedules Included Within This Report.....	33	
Independent Auditor's Report on Supplementary Schedules	34	
Services and Rates	35	TSI-1
Enterprise Fund Expenditures.....	37	TSI-2
Temporary Investments	38	TSI-3
Long-Term Debt Service Requirements by Years	39	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, 2009

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

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, 2009, 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 opinions 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 opinions.

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, 2009, 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 January 8, 2010, 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.

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

Our audit was made for the purpose of forming opinions on the basic financial statements that collectively comprise the District's basic financial statements. The supplementary schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Mustang Special Utility District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 8, 2010
Greenville, Texas

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, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 8, 2010. 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.

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 combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the District's basic financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose as 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 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.

January 8, 2010
Greenville, Texas

MUSTANG SPECIAL UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2009

**Schedule
Reference
Number**

Findings

NONE

MUSTANG SPECIAL UTILITY DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED SEPTEMBER 30, 2009

**Schedule
Reference
Number**

Prior Findings

NONE

MUSTANG SPECIAL UTILITY DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED SEPTEMBER 30, 2009

**Schedule
Reference
Number**

Prior Findings

NONE

MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2009

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, 2009. 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 \$ 22,229,403 at September 30, 2009.
- The District issued "Mustang Special Utility District Revenue bonds, Series 2008," totaling \$ 2,715,000 and "Mustang Special Utility District Revenue Bonds, Series 2009," totaling \$ 1,220,000 to fund capital improvements to the District's distribution system.
- During the year, the District's expenses were \$ 1,366,859 more than the \$ 4,543,222 generated from charges for services and other revenues for business-type activities.

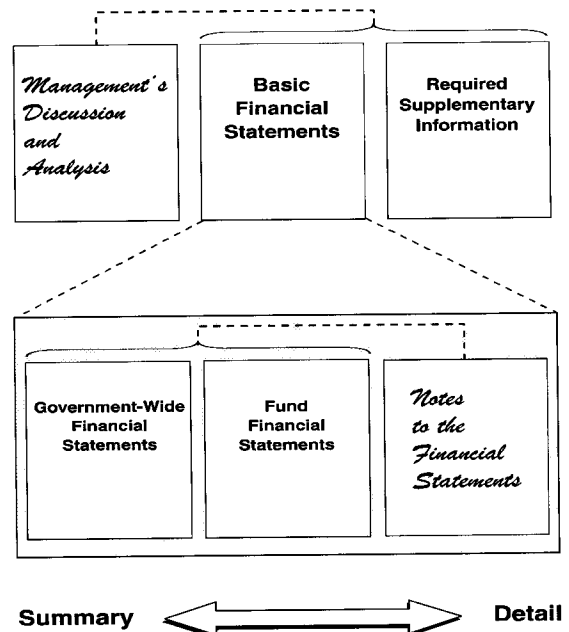
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information.

- 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, 2009**

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>	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<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"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
<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, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net assets were \$ 22,229,403 at September 30, 2009.

Mustang Special Utility District's Net Assets			Table A-1
	Business - Type Activities		Total Percentage Change 2008-2009
	2009	2008	
Assets:			
Cash and Investments	\$ 683,745	\$ 744,092	-8.11%
Other Assets	1,175,223	1,935,004	-39.27%
Restricted Assets	5,041,077	2,905,855	73.48%
Non-current Assets	28,349,618	28,045,971	1.08%
Total Assets	\$ 35,249,663	\$ 33,630,922	4.81%
Liabilities:			
Current Liabilities	\$ 2,491,507	\$ 1,759,312	41.62%
Long-term Liabilities	10,528,753	8,275,348	27.23%
Total Liabilities	\$ 13,020,260	\$ 10,034,660	29.75%
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 9,858,403	\$ 12,672,811	-22.21%
Designated for Construction	-	225,500	-100.00%
Restricted	-	163,942	-100.00%
Unrestricted	12,371,000	10,534,009	17.44%
Total Net Assets	\$ 22,229,403	\$ 23,596,262	-5.79%

Business-Type Activities

Changes in Mustang Special Utility District's Net Assets			Table A-2
	Business - Type Activities		Total Percentage Change 2008-2009
	2009	2008	
Program Revenues:			
Charges for Services	\$ 4,433,126	\$ 4,864,623	-8.87%
General Revenues:			
Interest Income	48,221	154,360	-68.76%
Total Revenues	\$ 4,481,347	\$ 5,018,983	-10.71%
Expenses:			
Interest Expense	\$ 526,722	\$ 386,347	36.33%
Water Utilities	5,383,359	4,412,349	22.01%
Total Expenses	\$ 5,910,081	\$ 4,798,696	23.16%
Increase in Net Assets before Capital Contributions	\$ (1,428,734)	\$ 220,287	-748.58%
Capital Contributions:			
Wastewater Capacity Fee Paid by Developers	\$ 61,875	\$ 139,450	100.00%
Total Capital Contributions	\$ 61,875	\$ 139,450	100.00%
Increase (Decrease) in Net Assets	\$ (1,366,859)	\$ 359,737	-479.96%

MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2009, the District had invested \$ 27,498,272 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 2008-2009
	2009	2008	
Land and Improvements	\$ 469,255	\$ 469,255	0.00%
Construction in Progress	-	3,739,020	-100.00%
Buildings and Improvements	1,360,966	1,360,966	0.00%
Water Distribution System	24,589,752	19,315,879	27.30%
Furniture and Fixtures	760,261	382,702	98.66%
Vehicles	318,038	318,038	0.00%
Totals at Historical Cost	\$ 27,498,272	\$ 25,585,860	7.47%
Total Accumulated Depreciation	(6,150,174)	(5,206,658)	18.12%
Net Capital Assets	<u>\$ 21,348,098</u>	<u>\$ 20,379,202</u>	4.75%

Long Term Debt

At year-end, the District had \$ 11,489,695 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 2008-2009
	2009	2008	
Bonds Payable	\$ 8,975,000	\$ 6,220,000	44.29%
Loans Payable	2,461,595	1,863,950	32.06%
Other Debt Payable	53,100	-	100.00%
Total Debt Payable	<u>\$ 11,489,695</u>	<u>\$ 8,083,950</u>	42.13%

MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2009

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 recent economic environment has seen a downturn. This downturn has affected the development of housing communities surrounding the District which was one of the contributing factors to the District's rapid growth in recent years. While the District continues to expand, we do not expect to see expansion as rapid as seen in past years during 2010.

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 an increase in 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, 2009

	Business-Type Activities
ASSETS	
Current Assets:	
Cash and Investments	\$ 683,745
Accounts Receivable, Net	1,050,060
Other Assets	989
Prepaid Expenses, Supplies and Materials	124,174
Total Current Assets	\$ 1,858,968
Restricted Assets:	
Cash and Investments	\$ 5,041,077
Total Restricted Assets	\$ 5,041,077
Non-Current Assets:	
Equity Buy-in Fees, Net	\$ 6,702,209
SUD Conversion Costs, Net	99,137
Bond Issuance Costs, Net	200,174
Capital Assets:	
Land and Improvements	469,255
Buildings and Improvements, Net	1,170,430
Water Distribution System, Net	19,546,627
Vehicles, Net	23,484
Furniture and Equipment, Net	138,302
Total Non-Current Assets	\$ 28,349,618
Total Assets	\$ 35,249,663

The accompanying notes are an integral part of this statement.

MUSTANG SPECIAL UTILITY DISTRICT
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
SEPTEMBER 30, 2009

	Business-Type Activities
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 103,261
Other Payables	23,660
Due to Other Districts Payable from Restricted Assets	806,197
Accrued Interest Payable	112,437
Bonds Payable	1,360,000
Loans Payable	85,952
Total Current Liabilities	\$ 2,491,507
Non-Current Liabilities:	
Bonds Payable	\$ 7,615,000
Loans Payable	2,375,643
Other Debt Payable	53,100
Escrow Payable	118,884
Customer Deposits	366,126
Total Non-Current Liabilities	\$ 10,528,753
Total Liabilities	\$ 13,020,260
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 9,858,403
Unrestricted	12,371,000
Total Net Assets	\$ 22,229,403

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, 2009

		Enterprise Fund
		Water Utilities
OPERATING REVENUES		
Water/Wastewater Sales	\$	3,018,990
Customer Charges/Fees		1,029,752
Miscellaneous		384,384
Total Operating Revenues	\$	4,433,126
OPERATING EXPENSES		
Payroll and Benefits	\$	1,101,397
Water Distribution System		2,143,834
Other Operating Costs		225,730
Professional and Legal Fees		285,093
Insurance		261,044
Amortization		422,744
Depreciation		943,517
Total Operating Expenses	\$	5,383,359
Operating Income (Expenses)	\$	(950,233)
NON-OPERATING REVENUE (EXPENSES)		
Interest Income	\$	48,221
Interest Expense		(526,722)
Total Non-Operating Revenue (Expenses)	\$	(478,501)
Change in Net Assets Before Capital Contributions	\$	(1,428,734)
CAPITAL CONTRIBUTIONS		
Wastewater Capacity Fee Paid by Developers	\$	61,875
Total Capital Contributions	\$	61,875
Change in Net Assets	\$	(1,366,859)
Total Net Assets - Beginning (October 1)		23,596,262
Total Net Assets - Ending (September 30)	\$	22,229,403

The accompanying notes are an integral part of this statement.

MUSTANG SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2009

		Enterprise Fund	
			Water Utilities
Cash Flows from Operating Activities:			
Cash Received from Customers	\$	4,433,126	
Cash Payments for Goods and Services		(2,695,589)	
Cash Payments to Employees		(1,101,397)	
Net Cash Provided by (Used for) Operating Activities	\$	<u>636,140</u>	
Cash Flows from Capital and Other Related Financing Activities:			
Acquisition and Construction of Capital Assets	\$	(1,534,853)	
Equity Buy-in Fees / Bond Issuance Costs Capitalized		(136,959)	
Escrow for Land Easements Received		10,225	
Proceeds Received on Bond and Notes		4,613,603	
Premium Proceeds related to Bond Issuance		55,004	
Principal Paid on Bonds and Notes		(1,260,958)	
Interest Paid on Bonds and Notes		(459,808)	
Wastewater Capacity Fee Received from Developers		61,875	
Net Cash Provided by (Used for) Capital and Other Related Financing Activities	\$	<u>1,348,129</u>	
Cash Flows from Noncapital Financing Activities:			
Increase (Decrease) in Customer Deposits	\$	<u>42,385</u>	
Net Cash Provided by (Used for) Noncapital Financing Activities	\$	<u>42,385</u>	
Cash Flows from Investing Activities:			
Interest Income	\$	<u>48,221</u>	
Net Cash Provided by (Used for) Investing Activities	\$	<u>48,221</u>	
Net Increase (Decrease) in Cash and Investments	\$	2,074,875	
Cash and Investments - Beginning (October 1)		<u>3,649,947</u>	
Cash and Investments - Ending (September 30)	\$	<u>5,724,822</u>	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$	(950,233)	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation		943,517	
Amortization		422,744	
Change in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable		775,636	
(Increase) Decrease in Prepaid Expenses, Supplies and Materials		(15,855)	
Increase (Decrease) in Accounts Payable		(320,302)	
Increase (Decrease) in Other Payables		(262,180)	
Increase (Decrease) in Due to Other Districts		55,635	
Increase (Decrease) in Bulk Water Deposits Payable		(12,822)	
Net Cash Provided by (Used for) Operating Activities	\$	<u>636,140</u>	

The accompanying notes are an integral part of this statement.

MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2009

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, 2009

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, 2009, was \$ 422,744. The amount recorded as assets (net of amortization) in the basic financial statements at September 30, 2009, totaled \$ 6,702,209.

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 \$ 60,921.

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, 2009

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	3,739,020	856,250	4,595,270	-
Water Distribution System	19,315,879	5,273,873	-	24,589,752
Furniture and Equipment	760,261	-	-	760,261
Vehicles	318,038	-	-	318,038
Totals at Historical Cost	\$ 25,963,419	\$ 6,130,123	\$ 4,595,270	\$ 27,498,272
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 136,097	\$ 54,439	\$ -	\$ 190,536
Water Distribution System	4,243,345	799,780	-	5,043,125
Furniture and Equipment	571,303	50,656	-	621,959
Vehicles	255,912	38,642	-	294,554
Total Accumulated Depreciation	\$ 5,206,657	\$ 943,517	\$ -	\$ 6,150,174
Net Capital Assets	\$ 20,756,762	\$ 5,186,606	\$ 4,595,270	\$ 21,348,098

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, 2009, the District had the following accounts restricted for these purposes:

Cash - Northstar System Growth	\$ 819,321
Cash - Northstar Debt Service	434,440
Cash - Northstar Construction	1,039,418
Cash - Northstar I & S	31,517
Cash - Northstar Developer's Escrow	104,762
Cash - Northstar 07 Revenue Not I & S	34,510
Cash - Logic	361,725
Cash - TexSTAR Debt Service	5,578
Cash - TexSTAR Construction	6,400
Cash - TexSTAR I & S	5,148
Cash - TexSTAR Developer's Escrow	5,122
Cash - TexSTAR 09 Escrow	1,094,803
Cash - TexSTAR 08 Rev Bond Construction	65
Cash - DCFWSD #9 Providence	256,149
Cash - DCFWSD #8A Paloma Creek	28,840
Cash - DCFWSD #8B Paloma Creek	118,692
Cash - DCFWSD #11A Paloma Creek	109,711
Cash - DCFWSD #10 Savannah	191,197
Cash - DCFWSD #11B Paloma Creek	7,226
Cash - Northstar 08 Debt Reserve	265,160
Cash - Northstar 08 I & S	8,504
Cash - Northstar 09 I & S	12,372
Cash - Northstar 09 Debt Reserve	100,417
Total	\$ 5,041,077

MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2009

C. Restricted Assets (Continued)

Northstar System Growth - This account, held at Northstar Bank, represents monies designated for future expansion and system repair and maintenance.

Northstar Debt Service - 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.

Northstar Construction - This account, held at Northstar Bank, represents bond proceeds held for future construction.

Northstar I & S - This account, held at Northstar Bank, represents amounts set aside for the next principal and interest payment on bonded debt.

Northstar Developer's Escrow - This account, held at Northstar Bank, represents amounts held by the District for utility easements on construction projects.

Northstar 07 Revenue Note I & S - This account, held at Northstar Bank, represents amounts set aside for the next principal and interest payment on bonded debt.

Logic - This account, held at Logic, represents refundable customer deposits.

TexSTAR - 2007 Debt Service - This account, held at TexSTAR, represents the amount required by the bond covenant to be held in reserve until bond is paid in full.

TexSTAR - 2007 Construction - This account, held at TexSTAR, represents bond proceeds held for future construction.

TexSTAR - 2007 I & S - This account, held at TexSTAR, represents amounts set aside for the next principal and interest payment on Series 2006 Bonded debt.

TexSTAR - Developer's Escrow Account - This account, held at TexSTAR, represents amounts held by the District for utility easements on construction projects.

TexSTAR 08 Rev Bond Construction - This account held at TexSTAR, represents bond proceeds held for future construction.

DCFWS #9 - Providence - This account, held at Northstar Bank, represents the payments collected from Providence customers to be remitted to the Freshwater Supply District.

DCFWS #8A - Paloma Lakeview - This account, held at Northstar Bank, represents the payments collected from Paloma Lakeview customers to be remitted to the Freshwater Supply District.

DCFWS # 8B - Paloma North - This account, held at Northstar Bank, represents the payments collected from Paloma North customers to be remitted to the Freshwater Supply District.

DCFWS # 11A - Paloma South - This account, held at Northstar Bank, represents the payments collected from Paloma South customers to be remitted to the Freshwater Supply District.

DCFWS #11B - Paloma Creek - This account, held at Northstar Bank, represents the payment collected from Paloma Creek #11B customers to be remitted to the Freshwater Supply District.

DCFWS - Savannah - This account, held at Northstar Bank, represents the payments collected from Savannah customers to be remitted to the Freshwater Supply District.

Northstar 08 Debt Reserve - 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.

Northstar 08 I & S - This account, held at Northstar Bank, represents amounts set aside for the next principal and interest payment on bonded debt.

Northstar 09 Debt Reserve - 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.

Northstar 09 I & S - 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 appear to be 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, 2009, all District cash deposits were covered by FDIC insurance or by pledged collateral held by the District. 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.

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.

MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2009

D. Deposits, Securities and Investments (Continued)

District investments include deposits in external investment pools, such as LOGIC and TexSTAR. All LOGIC and TexSTAR 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 Texas Short Term Asset Reserve (TexSTAR) is managed by First Southwest Companies. An advisory board of qualified investment members manages the investment decisions.

The following table categorizes the District's investment at September 30, 2009, using these three levels of custodial credit risk.

	<u>Credit Rating</u>	<u>Fair Value</u>
LOGIC	AAAm	\$ 361,725
TexStar	AAAm	1,122,457
Total		<u>\$ 1,484,182</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 \$ 6,500,000.
- c. Largest cash, savings and time deposit combined account balances amounted to \$ 5,155,131 and occurred during the month of June 2009.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$ 750,000.

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.
- 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.

MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2009

D. Deposits, Securities and Investments (Continued)

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, 2009.

	Beginning Balances	Additions	Deletions	Ending Balances	Current Portion
Bonds Payable	\$ 6,220,000	\$ 3,935,000	\$ 1,180,000	\$ 8,975,000	\$ 1,360,000
Loans Payable	1,863,950	678,603	80,958	2,461,595	85,952
Other Debt Payable	-	55,004	1,904	53,100	-
Total Debt Payable	\$ 8,083,950	\$ 4,668,607	\$ 1,262,862	\$ 11,489,695	\$ 1,445,952

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 09/30/09
Upper Trinity Regional Water District % of Water Lines and Pump Station	4/19/2000	\$ 2,202,850	6.0%	\$ 2,461,595

Maturities of loan balances are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2010	\$ 85,952	\$ 148,305	\$ 234,257
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 - 2019	655,807	515,479	1,171,286
2020 - 2024	884,649	286,636	1,171,285
2025 - 2029	434,977	33,537	468,514
Totals	\$ 2,461,595	\$ 1,520,775	\$ 3,982,370

MUSTANG SPECIAL UTILITY DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED SEPTEMBER 30, 2009

E. Long - Term Obligations (Continued)

On December 1, 2008, the District issued "Mustang Special Utility District Revenue Bonds, Series 2008," totaling \$ 2,715,000. The proceeds from these bonds will be used to fund capital improvements to the District's water distribution system, including the drilling of several new water wells, the construction of water pump stations and ground water storage facilities. These bonds incur annual principal payments with semi-annual interest payments. The bonds incur an average interest rate of 5.75% over the life of the bonds. The bonds will fully mature in 2030.

On August 15, 2009, the District issued "Mustang Special Utility District Revenue Bonds, Series 2009," totaling \$ 1,220,000. The proceeds from these bonds will be used to fund capital improvements to the District's water distribution system, including an elevated water storage tank and a connection line. These bonds incur annual principal payments with semi-annual interest payments. The bonds incur an average interest cost of 5.00% over the life of the bonds. The bonds will fully mature in 2031.

Payee / Purpose	Interest Rate	Original Amount	Outstanding Balances
Mustang SUD, Series 2006	4.00% - 5.00%	\$ 4,415,000	\$ 3,880,000
Mustang SUD, Series 2007	4.03%	2,160,000	1,160,000
Mustang SUD, Series 2008	5.75%	2,715,000	2,715,000
Mustang SUD, Series 2009	5.00%	1,220,000	<u>1,220,000</u>
Totals			<u>\$ 8,975,000</u>

Maturities of revenue bonds are as follows:

Year Ended September 30	Total		
	Principal	Interest	Requirements
2010	\$ 1,360,000	\$ 435,421	\$ 1,795,421
2011	345,000	373,590	718,590
2012	370,000	355,703	725,703
2013	310,000	336,528	646,528
2014	315,000	321,928	636,928
2015 - 2019	1,805,000	1,374,800	3,179,800
2020 - 2024	2,240,000	913,565	3,153,565
2025 - 2029	1,845,000	364,135	2,209,135
2030 - 2034	385,000	25,745	410,745
Totals	<u>\$ 8,975,000</u>	<u>\$ 4,501,415</u>	<u>\$ 13,476,415</u>

The District is required to maintain certain deposits to satisfy the provisions of the debt authorization. The required deposits are outlined in Section 12 and 13 of the debt authorization. The following describes these sections and the requirements:

Section 10 – Interest & 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 Lein Obligations then coming due and payable. At September 30, 2009, the following is reported:

Amount Required	\$ -0-
Amount Available	<u>36,665</u>
Excess (Deficiency)	<u>\$ 36,665</u>

MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2009

E. Long - Term Obligations (Continued)

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, 2009, the following is reported:

Amount Required	\$ 389,408
Amount Available	<u>440,019</u>
Excess (Deficiency)	<u>\$ 50,611</u>

Section 10 – Interest & Sinking Covenants - Series 2007

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 lein obligations then coming due and payable. At September 30, 2009, the following is reported

Amount Required	\$ -0-
Amount Available	<u>34,510</u>
Excess (Deficiency)	<u>\$ 34,510</u>

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 lein obligations then coming due and payable. At September 30, 2009, the following is reported

Amount Required	\$ -0-
Amount Available	<u>8,504</u>
Excess (Deficiency)	<u>\$ 8,504</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, 2009, the following is reported:

Amount Required	\$ 242,045
Amount Available	<u>265,160</u>
Excess (Deficiency)	<u>\$ 23,115</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 lein obligations then coming due and payable. At September 30, 2009, the following is reported

Amount Required	\$ -0-
Amount Available	<u>12,372</u>
Excess (Deficiency)	<u>\$ 12,372</u>

MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2009

E. Long - Term Obligations (Continued)

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 2009 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, 2009, the following is reported:

Amount Required	\$	100,395
Amount Available		<u>100,417</u>
Excess (Deficiency)	\$	<u><u>22</u></u>

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, 2009, the District's obligation totaled \$ 366,126.

G. Litigation

The District does not appear to be involved in any litigation as of September 30, 2009.

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 2009, 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 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.

MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2009

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

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.

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 \$ 61,875 as a capital contribution toward these wastewater capacity fees.

OTHER SUPPLEMENTARY INFORMATION

MUSTANG SPECIAL UTILITY DISTRICT
ENTERPRISE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for Services	\$ 4,929,680	\$ 8,814,683	\$ 4,433,126	\$ (4,381,557)
Interest Income	100,000	43,000	48,221	5,221
Total Revenues	\$ 5,029,680	\$ 8,857,683	\$ 4,481,347	\$ (4,376,336)
EXPENSES				
Payroll	\$ 1,000,190	\$ 848,978	\$ 1,101,397	\$ (252,419)
Water Distribution System	2,141,324	2,136,824	2,143,834	(7,010)
Other Operating Costs	1,497,166	1,871,542	225,730	1,645,812
Professional and Legal Fees	224,000	279,330	285,093	(5,763)
Insurance	167,000	156,041	261,044	(105,003)
Amortization	-	-	422,744	(422,744)
Depreciation	-	-	943,517	(943,517)
Interest	-	411,226	526,722	(115,496)
Total Expenses	\$ 5,029,680	\$ 5,703,941	\$ 5,910,081	\$ (206,140)
Change in Net Assets				
Before Capital Contributions	\$ -	\$ 3,153,742	\$ (1,428,734)	\$ (4,582,476)
CAPITAL CONTRIBUTIONS				
Wastewater Capacity Fee Paid by Developers	\$ -	\$ -	\$ 61,875	\$ 61,875
Total Capital Contributions	\$ -	\$ -	\$ 61,875	\$ 61,875
Change in Net Assets	\$ -	\$ 3,153,742	\$ (1,366,859)	\$ (4,520,601)
Net Assets - Beginning (October 1)	23,596,262	23,596,262	23,596,262	-
Net Assets - Ending (September 30)	\$ 23,596,262	\$ 26,750,004	\$ 22,229,403	\$ (4,520,601)

TEXAS SUPPLEMENTARY INFORMATION (TSI)

MUSTANG SPECIAL UTILITY DISTRICT
SUPPLEMENTARY SCHEDULES INCLUDED WITHIN THIS REPORT
YEAR ENDED SEPTEMBER 30, 2009

Exhibit ID	Exhibit Title	Page #
	Independent Auditor's Report on Supplementary Schedules	34
TSI-1	Services and Rates	35
TSI-2	Enterprise Fund Expenditures	37
TSI-3	Temporary Investments	38
TSI-5	Long-Term Debt Service Requirements by Years	39
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, 2009, 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.

January 8, 2010
Greenville, Texas

MUSTANG SPECIAL UTILITY DISTRICT
SERVICES AND RATES
YEAR ENDED SEPTEMBER 30, 2009

1. Services provided by the District:

<u>X</u>	Retail Water	<u>X</u>	Wholesale Water	___	Drainage
<u>X</u>	Retail Wastewater	___	Wholesale Wastewater	___	Irrigation
___	Parks/Recreation	___	Fire Protection	___	Security
___	Solid Waste/Garbage	___	Flood Control	___	Roads
<u>X</u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
___	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:	\$ <u>25.00</u>	<u>-0-</u>	<u>N</u>	\$ <u>2.43</u>	<u>-0-</u> to <u>1,000</u>
				\$ <u>2.66</u>	<u>1,000</u> to <u>3,000</u>
				\$ <u>3.30</u>	<u>3,000</u> to <u>6,000</u>
				\$ <u>3.64</u>	<u>6,000</u> to <u>9,000</u>
				\$ <u>3.99</u>	<u>9,000</u> to <u>12,000</u>
				\$ <u>4.34</u>	<u>12,000</u> to <u>15,000</u>
				\$ <u>4.91</u>	<u>15,000</u> to <u>20,000</u>
				\$ <u>5.49</u>	<u>20,000</u> to <u>25,000</u>
				\$ <u>9.41</u>	<u>25,000</u> to <u>unlimited</u>
WASTEWATER:	\$ <u>30.00</u>	<u>-0-</u>	<u>Y</u>	\$ _____	<u>-0-</u> to <u>8,000</u>
	\$ <u>33.75</u>	<u>-0-</u>	<u>Y</u>	\$ _____	<u>8,001</u> to <u>unlimited</u>

District employs winter averaging for wastewater usage? ___ Yes X No

Total charges per 10,000 gallons usage: Water \$ 32.56 Wastewater \$ 33.75

MUSTANG SPECIAL UTILITY DISTRICT
SERVICES AND RATES
YEAR ENDED SEPTEMBER 30, 2009

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	<u>23</u>	<u>0</u>	x 1.0	<u> </u>
≤ 3/4"	<u>3,392</u>	<u>3,285</u>	x 1.0	<u>3,285</u>
1"	<u>58</u>	<u>55</u>	x 2.5	<u>137.5</u>
1 1/2"	<u>2</u>	<u>2</u>	x 5.0	<u>10</u>
2"	<u>32</u>	<u>27</u>	x 8.0	<u>216</u>
3"	<u>2</u>	<u>1</u>	x 15.0	<u>15</u>
4"	<u>1</u>	<u>2</u>	x 25.0	<u>50</u>
Total Water	<u>3,510</u>	<u>3,395</u>	<u> </u>	<u> </u>
Total Wastewater	<u>1,017</u>	<u>875</u>	x 1.0	<u>875</u>

3. Total water consumption (rounded to the nearest 1,000) during the fiscal year:

Gallons pumped into system:	<u>448,029,261</u>
Gallons billed to customers:	<u>385,480,608</u>
Water Accountability (Water Loss):	<u>14.01%</u>

4. Standby Fees: District does not levy standby fees.

5. Location of District:

County(ies) in which district is located. Denton

Is the District located entirely in one county? Yes X No

Is the District located within a city? Entirely _____ Partly X Not at all _____

City(ies) in which district is located. Krugerville, Aubrey, Cross Roads, Pilot Point, Oak Point

Is the District located within a city's extra territorial jurisdiction (ETJ)?
Entirely _____ Partly X Not at all _____

ETJ's in which district is located. Krugerville, Aubrey, Cross Roads, Pilot Point, Oak Point, Little Elm, Frisco, Prosper

Is the general membership of the Board appointed by an office outside the district?
Yes _____ No X

If Yes, by whom? n/a