

MUSTANG SPECIAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
UTRWD NOTE - BY YEARS
YEAR ENDED SEPTEMBER 30, 2009

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
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	115,945	118,312	234,257
2016	123,098	111,159	234,257
2017	130,692	103,565	234,257
2018	138,755	95,502	234,257
2019	147,316	86,942	234,258
2020	156,404	77,853	234,257
2021	166,053	68,204	234,257
2022	176,297	57,960	234,257
2023	187,173	47,083	234,256
2024	198,721	35,536	234,257
2025	210,981	23,276	234,257
2026	223,998	10,260	234,258
Totals	<u>\$ 2,461,595</u>	<u>\$ 1,520,775</u>	<u>\$ 3,982,370</u>

MUSTANG SPECIAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
SERIES 2006 - BY YEARS
YEAR ENDED SEPTEMBER 30, 2009

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 200,000	\$ 165,658	\$ 365,658
2011	225,000	155,658	380,658
2012	245,000	144,408	389,408
2013	180,000	132,158	312,158
2014	180,000	124,733	304,733
2015	195,000	117,533	312,533
2016	195,000	109,733	304,733
2017	205,000	101,933	306,933
2018	210,000	93,733	303,733
2019	220,000	85,333	305,333
2020	230,000	76,533	306,533
2021	245,000	67,333	312,333
2022	250,000	57,288	307,288
2023	255,000	47,038	302,038
2024	270,000	36,200	306,200
2025	280,000	47,725	327,725
2026	295,000	12,685	307,685
Totals	<u>\$ 3,880,000</u>	<u>\$ 1,575,682</u>	<u>\$ 5,455,682</u>

MUSTANG SPECIAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
SERIES 2007 - BY YEAR
YEAR ENDED SEPTEMBER 30, 2009

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 1,160,000	\$ 46,748	\$ 1,206,748
Totals	<u>\$ 1,160,000</u>	<u>\$ 46,748</u>	<u>\$ 1,206,748</u>

MUSTANG SPECIAL UTILITY DISTRICT
SERIES 2008 - BY YEAR
YEAR ENDED SEPTEMBER 30, 2009

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ -	\$ 156,933	\$ 156,933
2011	85,000	156,933	241,933
2012	90,000	152,045	242,045
2013	90,000	146,870	236,870
2014	95,000	141,695	236,695
2015	100,000	136,233	236,233
2016	105,000	130,483	235,483
2017	110,000	124,445	234,445
2018	115,000	118,120	233,120
2019	120,000	111,508	231,508
2020	125,000	104,608	229,608
2021	130,000	97,420	227,420
2022	140,000	89,945	229,945
2023	145,000	81,895	226,895
2024	155,000	73,558	228,558
2025	160,000	64,645	224,645
2026	170,000	55,445	225,445
2027	180,000	45,670	225,670
2028	190,000	35,320	225,320
2029	200,000	24,395	224,395
2030	210,000	12,495	222,495
Totals	<u>\$ 2,715,000</u>	<u>\$ 2,060,661</u>	<u>\$ 4,775,661</u>

MUSTANG SPECIAL UTILITY DISTRICT
 SERIES 2009 - BY YEAR
 YEAR ENDED SEPTEMBER 30, 2009

<u>Year Ended</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2010	\$ -	\$ 66,083	\$ 66,083
2011	35,000	61,000	96,000
2012	35,000	59,250	94,250
2013	40,000	57,500	97,500
2014	40,000	55,500	95,500
2015	40,000	53,500	93,500
2016	45,000	51,500	96,500
2017	45,000	49,250	94,250
2018	50,000	47,000	97,000
2019	50,000	44,500	94,500
2020	55,000	42,000	97,000
2021	55,000	39,250	94,250
2022	60,000	36,500	96,500
2023	60,000	33,500	93,500
2024	65,000	30,500	95,500
2025	65,000	27,250	92,250
2026	70,000	24,000	94,000
2027	75,000	20,500	95,500
2028	80,000	16,750	96,750
2029	80,000	12,750	92,750
2030	85,000	8,750	93,750
2031	90,000	4,500	94,500
Totals	<u>\$ 1,220,000</u>	<u>\$ 841,333</u>	<u>\$ 2,061,333</u>

MUSTANG SPECIAL UTILITY DISTRICT
 CHANGES IN LONG-TERM BONDED DEBT
 YEAR ENDED SEPTEMBER 30, 2009

	Bond Issues			
	Series 2006	Series 2007	Series 2008	Series 2009
Interest Rate	4.00% - 5.00%	4.03%	5.75%	5.00%
Dates Interest Payable	3/1 - 9/1	3/1 - 9/1	3/1 - 9/1	9/30
Maturity Date	9/1/2026	9/1/2010	9/1/2030	9/30/2031
Beginning Bonds Outstanding	\$ 4,060,000	\$ 2,160,000	\$ -	\$ -
Bonds Sold During the Fiscal Year	-	-	2,715,000	1,220,000
Bonds Retired During the Fiscal Year	180,000	1,000,000	-	-
Ending Bonds Outstanding	<u>\$ 3,880,000</u>	<u>\$ 1,160,000</u>	<u>\$ 2,715,000</u>	<u>\$ 1,220,000</u>
Interest Paid During the Fiscal Year	<u>\$ 526,722</u>			

Paying Agent's Name and City First Southwest Company Dallas, TX

Bond Authority:	Tax Bonds	Refunding Bonds	Other Bonds
Original Amount Issued	\$ -	\$ -	\$ 10,510,000
Debt Service Fund cash and temporary investment balances as of September 30, 2009:			\$ 897,711
Average annual debt service payment (Principal and Interest) for remaining term of all debt:			\$ 539,057

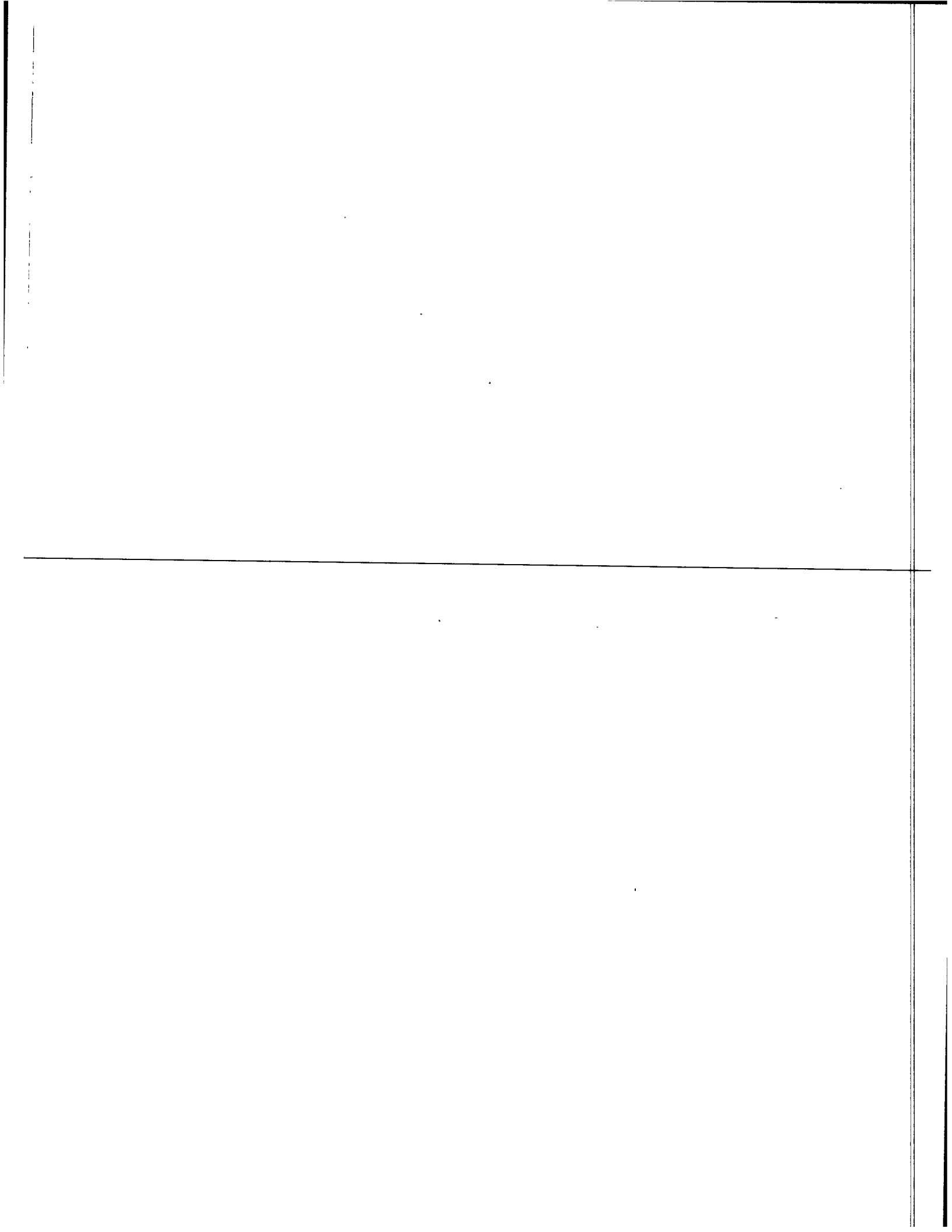
MUSTANG SPECIAL UTILITY DISTRICT
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
ALL PROPRIETARY FUND TYPES
FIVE PERIODS ENDED SEPTEMBER 30, 2009

	AMOUNTS					PERCENT OF FUND TOTAL REVENUE				
	2009	2008	2007	2006	2005	2009	2008	2007	2006	2005
OPERATING REVENUE										
Water/Wastewater Sales	\$ 3,018,990	\$ 2,932,828	\$ 3,402,385	\$ 3,263,187	\$ 2,284,017	68.10%	60.29%	65.21%	65.06%	50.57%
Customer Charges/Fees	1,029,752	1,856,900	1,773,406	1,421,706	1,839,999	23.23%	38.17%	33.99%	28.39%	40.74%
Miscellaneous Revenue	384,384	74,895	42,134	339,497	392,193	8.67%	1.54%	0.81%	6.59%	8.68%
TOTAL OPERATING REVENUE	\$ 4,433,126	\$ 4,864,623	\$ 5,217,925	\$ 5,015,390	\$ 4,516,209	100.00%	100.00%	100.00%	100.00%	100.00%
OPERATING EXPENSES										
Payroll and Benefits	\$ 1,101,397	\$ 887,647	\$ 960,658	\$ 972,930	\$ 640,736	24.84%	18.25%	18.41%	19.40%	14.19%
Water Distribution System	2,143,834	1,321,471	1,531,437	1,778,281	1,691,349	48.36%	27.16%	29.35%	35.46%	37.45%
Other Operating Costs	225,730	587,199	230,389	258,711	137,153	5.09%	12.07%	4.42%	5.16%	3.04%
Professional and Legal Fees	285,093	129,779	331,075	202,844	167,947	6.43%	2.67%	6.34%	4.04%	3.72%
Insurance	261,044	158,952	129,985	48,433	40,546	5.89%	3.23%	2.49%	0.97%	0.90%
Amortization	422,744	421,688	384,267	15,935	11,745	9.54%	8.67%	7.36%	0.32%	0.26%
Depreciation	943,517	907,613	952,251	840,996	894,256	21.28%	18.66%	18.25%	16.77%	19.14%
TOTAL OPERATING EXPENSES	\$ 5,383,359	\$ 4,412,348	\$ 4,520,062	\$ 4,118,130	\$ 3,553,732	121.43%	90.70%	86.63%	82.11%	78.69%
NET OPERATING INCOME (EXPENSES)	\$ (950,233)	\$ 452,274	\$ 697,863	\$ 897,260	\$ 962,477	-21.43%	9.30%	13.37%	17.89%	21.31%
NONOPERATING REVENUE (EXPENSES)										
Gain on Sale of Fixed Assets	\$ -	\$ -	\$ -	\$ 125,000	\$ 252,045	0.00%	0.00%	0.00%	2.49%	5.58%
Interest Income	48,221	154,360	318,969	225,866	85,365	1.09%	3.17%	6.11%	4.50%	1.89%
Interest Expense	(526,722)	(386,347)	(314,564)	(258,557)	(191,710)	-11.88%	-7.94%	-6.03%	-5.16%	-4.24%
NET NONOPERATING REVENUE (EXPENSES)	\$ (478,501)	\$ (231,987)	\$ 4,405	\$ 92,209	\$ 145,700	-10.79%	-4.77%	0.08%	1.84%	3.23%
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	\$ (1,428,734)	\$ 220,287	\$ 702,268	\$ 989,469	\$ 1,108,177	-32.23%	4.53%	13.45%	19.73%	24.54%
CAPITAL CONTRIBUTIONS										
Wastewater Capacity Fee Paid by Developers	\$ 61,875	\$ 139,450	\$ 3,934,388	\$ -	\$ -	1.40%	2.87%	75.40%	0.00%	0.00%
TOTAL CAPITAL CONTRIBUTIONS	\$ 61,875	\$ 139,450	\$ 3,934,388	\$ -	\$ -	1.40%	2.87%	75.40%	0.00%	0.00%
CHANGE IN NET ASSETS	\$ (1,366,859)	\$ 359,737	\$ 4,636,656	\$ 989,469	\$ 1,108,177	-30.83%	7.39%	88.86%	19.73%	24.54%

MUSTANG SPECIAL UTILITY DISTRICT
 BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
 YEAR ENDED SEPTEMBER 30, 2009

Complete District Mailing Address: 7985 FM 2931, Aubrey, Texas 76227
 District Business Telephone Number: 940-440-9561
 Submission Date of the most recent District Registration Form: 5/19/09
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200

	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid (FYE 9/30/09)	Expense Reimbursements (FYE 9/30/09)	Title at Year End
Board Members:				
Bill Hathaway	2007-2010 (Elec)	\$ -	\$ -	President
Mike Frazier	2007-2010 (Elec)	\$ -	\$ -	Vice-Pres.
Randy Wallace	2007-2010 (Elec)	\$ -	\$ -	Sec/Treas
Mike Breslin	2009-2010 (Elec)	\$ -	\$ -	Director
Steve Rebhan	2008-2011 (Elec)	\$ -	\$ -	Director
Shelby-Moore	2009-2012 (Elec)	\$ -	\$ -	Director
Dean Jameson	2009-2012 (Elec)	\$ -	\$ -	Director
Barbara Swadling	2008-2011 (Elec)	\$ -	\$ -	Director
James Burnham	2008-2011 (Elec)	\$ -	\$ -	Director
Key Administrative Personnel:				
Chris Boyd	02/21/07	\$ 132,525	\$ 1,334	General Manager
Patty Martinez	03/24/09	\$ 45,924	\$ 112	Director of Finance & Administration
Aldo Zamora	10/11/04	\$ 60,358	\$ -	Operations Manager
Laura Haynie	11/06/02	\$ 44,295	\$ -	Director of Development & Inspection
Consultants:				
Rapier & Willson		\$ 123,888	\$ -	Attorney
Rutherford, Taylor & Company, P.C.		\$ 19,130	\$ -	Auditor
HDR Engineering, Inc		\$ 172,118	\$ -	Engineer



10-05-07

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

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 (5th) 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 31st 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."

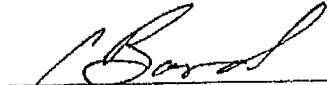
F. Paragraph 8 C of the Agreement is amended to read as follows:

"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.

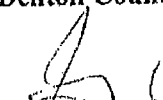
G. Paragraph 8.N. of the Agreement is amended to read as follows:

"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

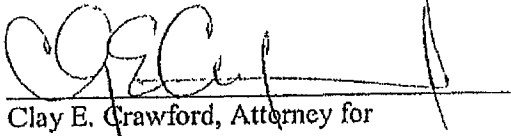
By: 
CHRIS BOYD, General Manager

Denton County Fresh Water Supply District No. 9

By: 
Greg Overstreet, President,
Board of Directors


APPROVED AS TO FORM:


John E. Rapler, 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 6/16/08
Upper Trinity Regional Water District

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

**MERGED, AMENDED, AND RESTATED
AGREEMENT RELATED TO WATER AND
SANITARY SEWER SERVICE**

This Merged, Amended, and Restated Agreement Related to Water and Sanitary Sewer Service ("Agreement"), dated as of June 20th, 2005, 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. Mustang is a member utility of the Upper Trinity Regional Water District ("UTRWD") and a wholesale customer of UTRWD.

C. 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"), as described by Exhibit A hereto.

D. Pursuant to an "Upper Trinity Regional Water District Regional Treated Water System Participating Customer Contract" and an "Upper Trinity Regional Water District Northeast Regional Water Reclamation System Participating Customer Contract," each dated August 29, 2001, as subsequently amended (collectively, "UTRWD Contracts"), the District has acquired and is currently paying for wholesale water and wastewater treatment service for the District Certificated Area, as well as an additional 73 acres. Further, pursuant to the UTRWD Contracts, the District and UTRWD have agreed that: the provision of retail water and wastewater service for the District will be coordinated with Mustang; the District may own its water distribution and wastewater collection system ("District System"); and the District shall respect the Mustang Certificated Area.

E. On or about June 10, 2002, the District entered into two agreements with Mustang Water Supply Corporation, predecessor to Mustang, as follows: "Agreement By and Between Mustang Water Supply Corporation and Denton County Fresh Water Supply District No. 9 Relating to Water Service" and "Agreement By and Between Mustang Water Supply

03/15/05

Corporation and Denton County Fresh Water Supply District No. 9 Relating to Sanitary Sewer Service" (collectively, "Original Agreements"), giving the District the right to serve 494.84 acres with retail water and wastewater service.

F. Subsequent to the UTRWD Agreements and the Original Agreements, the District added 209.92 acres of land into its boundaries, such tract being hereinafter referred to as the "Stallings Tract," and as shown on Exhibit A hereto. No portion of the Stallings Tract is located within the District Certificated Area. However, pursuant to the UTRWD Contracts and Original Agreements, the District may serve up to 73 acres within the Stallings Tract.

G. The current owner of the Stallings Tract is planning a residential development within such area. As of the date hereof there are no water or wastewater customers within, and neither Mustang nor the District is providing retail service to, the Stallings Tract. The District and Mustang have determined that it is in the best interests of all concerned that the District initially provides water and wastewater service and facilities to the Stallings Tract subject to the merger, amendment, and restatement of the Original Agreements as provided herein.

H. The purpose of this Agreement is to merge, amend, and restate the Original Agreements to:

~~(1) allow for the provision of wholesale water and wastewater service to the District Certificated Area and the Stallings Tract by UTRWD;~~

(2) allow for the initial provision of retail water and wastewater service and facilities within the District Certificated Area and the Stallings Tract by the District;

(3) allow for the District to sell its bonds to finance the acquisition and construction of water and sewer facilities to serve the Stallings Tract;

(4) allow for UTRWD to sell its bonds to reimburse the District for funds advanced and to be advanced to UTRWD under the UTRWD Contracts for construction of the Riverbend Plant (hereinafter defined) to serve the District Certificated Area and the Stallings Tract; and

(5) protect and preserve the Mustang system integrity and Mustang CCNs.

I. This Agreement 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. CONTRACT TERMS

A. The parties stipulate that the obligations, rights and benefits provided herein are mutual and supported by adequate consideration.

B. Mustang and the District shall submit in a timely manner a copy of this Agreement to the Texas Commission on Environmental Quality ("TCEQ") for approval pursuant to Section 13.248, Texas Water Code. Further, the District shall submit this Agreement to UTRWD for limited approval concerning protection of the tax-exempt status of UTRWD's bonds and expansion of the District's "service area", as such term is used in the UTRWD Contracts, to include all of the Stallings Tract.

C. Nothing in this Agreement shall abridge, reduce or diminish Mustang's CCNs in the area of dual certification between Mustang and the District or in the area of the Stallings Tract. Mustang and District shall remain responsible for satisfying their obligations arising under their respective CCNs as required by the Texas Water Code and the applicable rules of the TCEQ, and nothing contained herein shall be construed as a delegation by Mustang of such obligations subject to the District's indemnify contained in Section 8.C. herein. However, pursuant to Section 13.248, Texas Water Code, as between Mustang and the District, the District shall be designated as the primary and preferred water and wastewater service purveyor in the area of dual certification and in the area of the Stallings Tract until the conveyance and lease transactions provided in Section 3 herein. In order to avoid the otherwise unnecessary construction and operation of capital-intensive water and wastewater utility service facilities during the term of this Agreement, service applicants shall be encouraged to apply for water and wastewater utility service from the District. If the District is unable to timely and cost effectively fulfill the applicant's service needs, Mustang shall extend its service to that applicant under the terms and conditions of Mustang's tariff then in effect. Notwithstanding this Agreement, Mustang and the District acknowledge that the service applicant shall have the right to choose its preferred service provider so long as the service area remains dually certificated to both utilities. This right of election of water and wastewater utility service provider shall terminate when, and if, the District CCNs are surrendered or transferred to Mustang in a future application to the TCEQ or its successor agency(ies).

D. The District System, including that portion serving the Stallings Tract, shall be designed in accordance with the standards of the TCEQ and other authorities with jurisdiction. The District shall submit all plans and specifications for construction of any part of the District System to Mustang for its review. Mustang will have thirty (30) days to deliver written comments to the District relating to such plans and specifications. The District will in good faith make a diligent effort to accommodate Mustang's comments. In the event that Mustang fails to deliver comments within thirty (30) days, then Mustang will have waived its right to comment on the District's plans and specifications.

E. The District agrees that, if it seeks dissolution by agreement and transfer to another entity, to the extent allowed by law, such agreement shall be an interlocal agreement between the District, Mustang, UTRWD and the municipality.

F. During the term of this Agreement, Mustang agrees to perform the services more particularly described in the attached Exhibit B, which may be amended as needed from time to time by the parties (the "Exhibit B Services"). Mustang's obligations pursuant to this section are subject to the District's timely performance of District's obligations pursuant to Section 4 of this Agreement.

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.

H. For services provided by Mustang for installations, maintenance or repair of the District System not listed on the Exhibit B Services, the District will pay for such services within thirty (30) days from the date of the invoice. The charges for services not listed on the Exhibit B Services are limited to Mustang's actual and direct expenses which shall be the prevailing prices for materials and labor in the North-Texas area. In addition, Mustang may add fifteen percent (15%) overhead charge to its actual and direct expenses for the services identified in this paragraph. Any invoices not paid within thirty days of the date of such invoice will earn interest at the rate of 15% per annum.

I. Contemporaneously with the execution of this Agreement, the District has entered into an agreement with Mustang and the owner of that 411.17 acre tract of land located at the northwest corner of the intersection of Liberty Road and Brewer Road, Denton County, Texas, hereinafter referred to as the "Marriott Tract," that provides for the construction of a one million gallon (1 MG) elevated water storage tank within the Stallings Tract and a water line. The parties hereto agree to provide for the construction of certain water transmission facilities as described on Exhibit C hereto. Sharing of the ownership of the capacity in such facilities, and the cost of the design, construction and maintenance thereof are provided in such exhibit. The terms and provisions of Exhibit C are incorporated herein for all purposes.

3. CONVEYANCE AND LEASE

A. On October 1, 2011 (the "Transfer Date"), the District shall convey to Mustang all of its right, title, and interest to all 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 "Sewer Facilities") that have been acquired by the District with the proceeds of outstanding bonds. Such conveyance will be made 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 Sewer 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 Sewer Facilities, title thereto shall be conveyed to Mustang as set forth in this subparagraph 3.A.

B. On the Transfer Date, the District shall lease to Mustang all of its right, title, and interest to all water distribution and storage facilities, including all necessary land, easements, and rights of way, that comprise the District System and that serve the District Certificated Area and the Stallings Tract (the "Water Facilities"). The lease 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 120 days' written notice to District. The lease document shall be in a commercially reasonable form acceptable to the attorneys for Mustang. The parties agree that at such time as, (i) the District has sold its bonds and acquired all of the Water Facilities and, (ii) in the opinion of bond counsel to the District, state law permits the sale and conveyance of the Water Facilities by the District, the provisions of this Section 3.B. shall be amended accordingly to provide for the sale of such facilities.

C. As additional consideration for the conveyance and lease set forth above, beginning October 1, 2011, Mustang agrees to pay to District 5% of the gross water and sanitary sewer revenues consisting of fees related to the base fee and volumetric charges for water and sewer service (the "Gross Revenues") received by Mustang from customers within District Certificated Area and the Stallings Tract. Gross Revenues shall not include any taxes, connection or other fees not related to the base fee and volumetric charges for water and sewer service provided. With respect to that portion of the Gross Revenues consisting of sanitary sewer revenues (the "Sewer Payments"), such payments shall be made on a quarterly basis beginning on February 1, 2012, and on the first day of each May, August, November, and February thereafter, in perpetuity.

With respect to that portion of the Gross Revenues consisting of water revenues, such payments shall be made contemporaneously with the Sewer Payments during the term of the lease. As further consideration for the lease of the Water Facilities, 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.

D. Nine (9) months before the Transfer Date, the District and Mustang shall file a Sale, Transfer and Merger Application (the "STM Application") with the TCEQ to provide for the transfer of the District CCNs to Mustang. The cost of the preparation and processing of the STM Application shall be shared equally by the parties. The parties agree to cooperate to achieve TCEQ approval of the STM Application and effecting of the transfer of the District CCNs to Mustang.

E. Three (3) months before the Transfer Date, the District and Mustang shall submit to UTRWD for its review and approval proposed agreements providing for the assignment of the UTRWD Contracts from the District to Mustang (the "Assignments"). The cost of the preparation and processing of the Assignments shall be shared equally by the parties. The parties agree to cooperate to achieve UTRWD approval of the Assignments and effecting of the assignment of the UTRWD Contracts to Mustang.

F. Mustang acknowledges and agrees that pursuant to the UTRWD Contracts, the District has advanced, or caused to be advanced on its behalf, certain amounts to UTRWD in connection with the design, permitting, and construction of the 1.5 million gallon per day phase 1 and 2 of the Riverbend Wastewater Treatment Plant (the "Riverbend Plant"). Further, as of the date hereof, such amount has not been reimbursed to the District by UTRWD and is hereinafter referred to as "UTRWD Reimbursement". Mustang further acknowledges and agrees that pursuant to the UTRWD Contracts, the District has the right to advance additional amounts to UTRWD in connection with the construction of additional improvements to the Riverbend Plant necessary to serve the District Certificated Area and the Stallings Tract. It is hereby expressly understood and agreed by the parties that in the event that there are any amounts of the UTRWD Reimbursement that remain unpaid and due to District as of the Transfer Date, the District shall retain all rights to such reimbursement and such right shall not be affected by the conveyance and lease contemplated herein.

G. Mustang acknowledges and agrees that pursuant to the Agreement for Reimbursement of Costs and Construction and/or Purchase of Utility Facilities (the "Developer Contract"), dated February 21, 2001, between the District and Valerian Properties Associates, L.P. (the "Developer"), the Developer has advanced funds 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 Developer by the District. Such unreimbursed amounts are hereinafter referred to as "Developer Reimbursement". Mustang further acknowledges and agrees that pursuant to the Developer Contract, the Developer has 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. It is hereby expressly understood and agreed by the parties that in the event that any amounts remain due to the Developer by the District for Developer Reimbursement under the Developer Contract 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 Contract to proceed to issue bonds, notes or other forms of indebtedness to reimburse the Developer therefor.

H. Pursuant to the UTRWD Contracts, the District has subscribed for 1.8 million gallons per day ("MGD") peak flow of water capacity and .36 MGD wastewater capacity. The District represents that such existing subscriptions will not be adequate to serve all of the projected users within the District Certificated Area and the Stallings Tract. Therefore, it is expressly understood and agreed that it shall be the obligation of the District to amend the UTRWD Contract to increase its subscriptions at times and in amounts to insure continuous and adequate service to the users within its boundaries. Mustang shall have no responsibility for any costs associated with the District increasing its subscriptions under the UTRWD Contracts prior to October 1, 2011. In addition, in the event the District increases its subscriptions, and it elects to finance the UTRWD equity fee, such fee shall be paid in full by the District prior to October 1, 2011. To the extent that there are any amounts of the UTRWD Reimbursement that remain unpaid and due to District as of the Transfer Date, Mustang agrees that it will establish service rates for wastewater service provided to customers within the District Certificated Area and the Stallings Tract sufficient to amortize UTRWD bonds sold to pay such reimbursement.

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 the Transfer 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 April 1, 2011, 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. Mustang will give the District notice of its current rates and any subsequent rate adjustment adopted by Mustang. Pursuant to Section 3A of this Agreement, the District will convey the Sewer Facilities to Mustang "as is." The District will also lease or convey the Water Facilities to Mustang on the same basis. 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 Water Facilities and Sewer Facilities as mutually agreed upon by the District and Mustang.

4. CONSIDERATION

A. The District and Mustang heretofore agreed upon a budget for the costs of Mustang's Exhibit B Services for the sixty (60) month period beginning August 1, 2002. A copy of the O & M Budget is attached as Exhibit D hereto. Mustang acknowledges receipt from the District of the amount of \$143,658.21 as payment of the O & M Budget for Exhibit B Services relating to the District's water system through July 31, 2007. Unless otherwise mutually agreed, the District shall have no financial obligation with respect to the payment of any costs for Exhibit B Services relating to District's water system through July 31, 2007.

Mustang further acknowledges receipt from the District of the amounts of \$30,782.15, \$15,213.40, and \$48,003.49 as payment of the O & M Budget for Exhibit B Services relating to the District's wastewater system through July 31, 2005. The parties further acknowledge and agree that the District shall remain obligated to make the following payments: August 1, 2005 - \$29,699.75; and August 1, 2006 - \$32,972.88. Unless otherwise mutually agreed, the District shall have no financial obligation with respect to the payment of any costs for Exhibit B Services relating to the District's wastewater system through July 31, 2005.

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 payment of those expenditures and line items as reflected on Exhibit B hereto. Funds received from the District pursuant to Section 4.A. above shall be deposited into such account, and may be commingled with funds received from the other participating districts.

ii. Mustang shall place all funds in the FWSD Fund in time or demand deposits or invest such money as authorized by law applicable to the District at the time of deposit. Obligations purchased as an investment of money in the FWSD Fund shall be deemed to be part of such fund. Amounts received from the investment of any money in the FWSD Fund that constitute a return of capital invested shall be retained therein, and be deemed part of such fund. ~~Amounts received from the investment of money in the FWSD Fund that constitute a return on~~ capital invested shall be distributed to Mustang on a monthly basis.

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. Mustang shall place funds in the FWSD Fund in time or demand deposits in amounts not to exceed \$100,000, or in direct obligations of the State of Texas or United States of America.

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.

vi. Mustang shall be entitled to draw upon the FWSD Fund in the amounts and at the times as shown on the O&M Budget. However, in the event that Mustang desires to draw \$30,000 or more for a capital item, then Mustang will file a written draw request with the District's engineer (the "District's Engineer") for approval. On behalf of the District, the District's Engineer shall respond within ten (10) days from the date of receipt of such request, and approval shall not be unreasonably withheld. In the event that the District's Engineer fails to

deliver a response to Mustang's request within ten (10) days, then District will have waived the right to approve such request.

vii. In the event that there are funds in excess of budgeted expenses remaining at the end of any O&M Budget year during the term hereof, including investment earnings, such funds shall remain in the FWSD Fund and be allocated to the next succeeding years' O&M Budget expenses.

C. On or about June 1, 2006, Mustang and the District will initiate discussions relating to the compensation that the District will pay Mustang for performance of the Exhibit B Services. The parties will take into consideration the District's rate of development and the actual costs incurred by Mustang to perform the Exhibit B Services since August 1, 2002. 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. As consideration of Mustang's duties under Section 2.G.(i) of this Agreement, the District will pay Mustang \$2.00 per month per meter. As consideration of Mustang's duties under Section 2.G.(ii) of the Agreement, the District will pay Mustang \$0.50, per month per customer. The parties further agree that Mustang's charges for meter installations shall be increased from \$438.86 to \$538.86 per meter.

~~E. The annual payments specified in this Section 4 may be adjusted for each year following the Effective Date as follows:~~

(i) For purposes hereof the following definitions apply:

(a) "Consumer Price Index" means the Consumer Price Index for All Urban Customers for Dallas-Fort Worth, Texas: All Items (1982-84 = 100) published by the Bureau of Labor Statistics, United States Department of Labor.

(b) "Base CPI" means the average of the four most recent Consumer Price Indices publicly reported prior to the Effective Date of term of the Agreement.

(c) "Escalation Period" means any period of one (1) year commencing on the Effective Date of the term of the Agreement or any anniversary of such date.

(d) "Comparison Month" means the last month within any Escalation Period for which a Consumer Price Index has been publicly reported.

(ii) In the event the Consumer Price Index for the Comparison Month in any Escalation Period exceeds the Base CPI, the monthly periodic payment for the subsequent Escalation Period shall be adjusted so that it shall be equal to the product of (a) the Consumer Price Index for the Comparison Month in such Escalation Period multiplied by (b) the Minimum Monthly periodic payment (prior to any adjustment) divided by (c) the Base CPI. If the monthly periodic payment is increased under the provisions hereof and subsequently the Consumer Price

Index for a Comparison Month is less than the Consumer Price Index for the Comparison Month in the immediately preceding Escalation Period, then the monthly periodic payment for the next succeeding Escalation Period shall be decreased, with the amount of such decreased monthly periodic payment calculated as above; provided, however, that in no event shall the monthly periodic payment be less than monthly periodic payment stated in Section 4 of this Agreement.

(iii) In the event that (i) the Consumer Price Index ceases to use the 1982-84=100 as the basis of calculation, or (ii) a substantial change is made in the number of items used in determining the Consumer Price Index or (iii) Mustang and the District agree the Consumer Price Index does not accurately reflect, in relationship to the Base CPI, the purchasing power of the dollar or (iv) the Consumer Price Index shall be discontinued for any reason, the Bureau of Labor Statistics shall be requested to furnish a new index comparable to the Consumer Price Index together with information that will make possible the conversion to the new index in computing the adjusted monthly periodic payment hereunder. If for any reason the Bureau of Labor Statistics does not furnish such an index and such information, the parties hereto shall thereafter accept and use such other index or comparable statistics on the cost of living for the City of Dallas as shall be computed and published by an agency of the United States or by a responsible financial periodical of recognized authority then to be selected by Mustang and the District.

5. CCN MATTERS

Pursuant to the provisions of Section 3 of this Agreement, the District will transfer the District CCNs to Mustang. The District will not voluntarily transfer the District 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.

6. NOTICE OF DEFAULT

If either party believes that the other party has defaulted under one or more provisions of this Agreement, then the non-defaulting party shall give the other party written notice of such default and allow such party ten (10) days to cure a monetary default and thirty (30) days to cure a non-monetary default.

7. DISPUTE RESOLUTION

If a dispute arises between the parties relating to this Agreement, the parties agree to use the following procedure prior to either party pursuing other available remedies:

A. A meeting shall be held promptly between the parties, attended by individuals with decision-making authority regarding the dispute, to attempt in good faith to negotiate a resolution of the dispute.

B. If within thirty (30) days after such meeting, the parties have not succeeded in negotiating a resolution of the dispute, they will jointly appoint a mutually acceptable neutral person not affiliated with either of the parties as a mediator. The fees of the mediator shall be shared equally by both parties.

C. In consultation with the mediator, the parties will select or devise an alternative dispute resolution procedure ("ADR") by which they will attempt to resolve the dispute, and time and place for the ADR to be held, with the mediator making the decision as to the procedure, and/or place and time (but unless circumstances require otherwise, not later than sixty (60) days after selection of the mediator) if the parties have been unable to agree on any of such matters within twenty (20) days after initial consultation with the mediator.

D. The parties agree to participate in good faith in the ADR to its conclusion as designated by the mediator. If the parties are not successful in resolving the dispute through the ADR, then the parties may agree to submit the matter to binding arbitration or a private adjudicator, or either party may then seek an adjudicated resolution through the appropriate court.

8. GENERAL PROVISIONS

A. The District grants Mustang reasonable ingress and egress inside the District's Certificated Area and the Stallings Tract to operate, repair, maintain and inspect the District System in order to insure continuous and adequate water and wastewater collection service.

B. To the extent allowed by law, Mustang and the District agree to each be legally responsible for their own negligent acts and indemnify each other from same.

C. 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 Certificated Area; 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 Certificated Area; or (2) comply with the terms of the Mustang CCNs.

D. Mustang shall maintain general liability insurance in amount of at least one million dollars and statutory workers compensation insurance. Mustang will annually provide the District with an ACCORD certificate of insurance.

E. The prevailing party in any dispute or legal proceedings enforcing this Agreement shall be entitled to recover its attorney's fees, witness fees, litigation expenses and costs, as same are reasonable and necessary, to be paid by the non-prevailing party.

F. The District shall give Mustang notice ninety (90) days prior to the date that the District proposes to issue debt or renew and extend existing debt relating to the District System. The notice shall contain at least the amount of the debt issue, the purpose for which the proceeds of the debt issue will be used and the collateral to be pledged as security for the debt issue. For the purpose of this section "debt" shall mean any bond, note or other instrument used by the District to borrow money from a third party that must be repaid over time.

G. At such time as a water and wastewater customer of the District becomes a customer of Mustang pursuant to Section 3 hereof, Mustang agrees that there will be no charges to such customer other than the usual and customary charges for monthly water and wastewater service as provided in Mustang's Rate Order.

H. This Agreement and any amendment to this Agreement shall be subject to the review and approval by the UTRWD prior to execution thereof. However, the UTRWD review and approval shall not be unreasonably withheld and shall only be withheld if the amendment adversely affects the tax-exempt bond status of the UTRWD bonds in the opinion of the bond counsel for the outstanding bonds.

I. As required by the respective contracts with UTRWD, the District and Mustang, each covenant and agree that "...it will not use or permit the use of the System in any manner that would cause the interest on any of the UTRWD bonds to be or become subject to federal income taxation under the Code or any amendments thereto in effect on the date of issue of such Bonds."

J. Notwithstanding any provision, UTRWD is not a party to this Agreement, except as it relates to tax-exempt status of the bonds issued by UTRWD.

K. Time is of the essence in the performance of this Agreement.

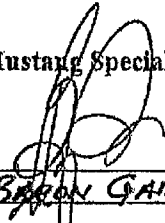
L. The Effective Date of this Agreement is the latter of the dates that the TCEQ and UTRWD approve this Agreement.

M. This Agreement is subject to all applicable Federal and State laws, and any applicable permits, rules, orders, and regulations of any local, state or federal governmental authority having jurisdiction. In addition, the parties hereto specifically agree that in case any one or more of the provisions of the Agreement should be, or should be held to be, for any reason, invalid or unconstitutional, under the laws or the constitutions of the State or the United States of America, or in contravention of any such laws or constitutions, such invalidity, unconstitutionality or contravention shall not effect any other provisions of the Agreement.


N. The term of this Agreement shall be for forty (40) years from the Effective Date hereof. Notwithstanding the foregoing, this Agreement shall terminate earlier upon the occurrence of all of the following: (1) conveyance of the Sewer Facilities to Mustang; (2) lease of the Water Facilities to Mustang; (3) issuance of an order by TCEQ approving the STM Application; (4) UTRWD approval of the Assignments finally executed by the District, Mustang,

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

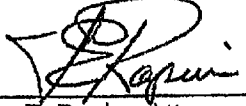
Mustang Special Utility District

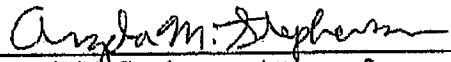
By: 
BARON GAINES, General Manager

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


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

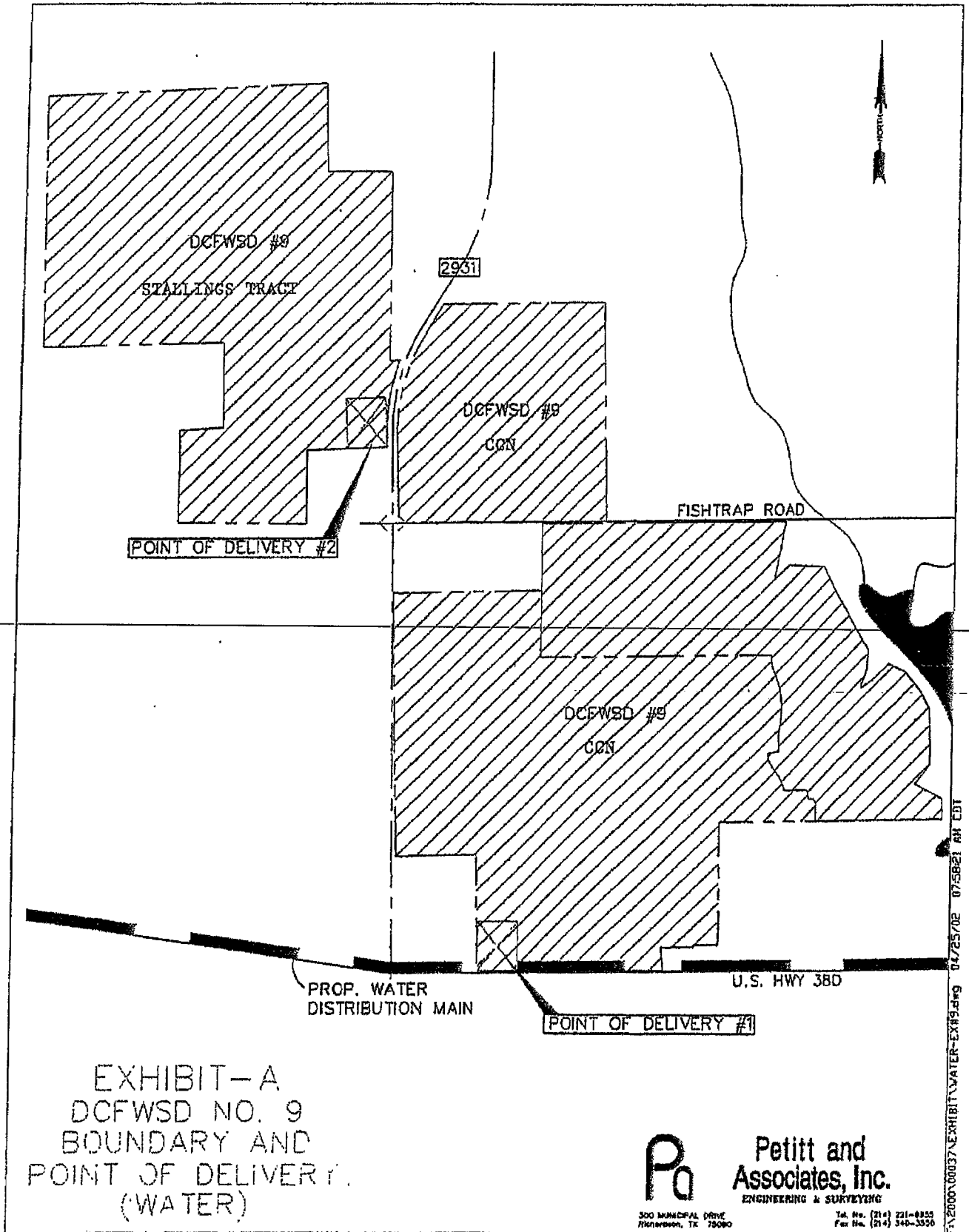


EXHIBIT-A
 DCFWSD NO. 9
 BOUNDARY AND
 POINT OF DELIVERY
 (WATER)



Petitt and Associates, Inc.
 ENGINEERING & SURVEYING

300 MUNICIPAL DRIVE
 HENRIEVILLE, TX 75080

Tel. No. (214) 221-8855
 Fax No. (214) 348-3550

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

F:\2000\00037-EXHIBIT-WATER-EX#9.dwg 04/25/02 07:58:21 AM CDT

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" – Page 2 of 3

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

EXHIBIT "B"

SCHEDULE OF SERVICES – SANITARY SEWER

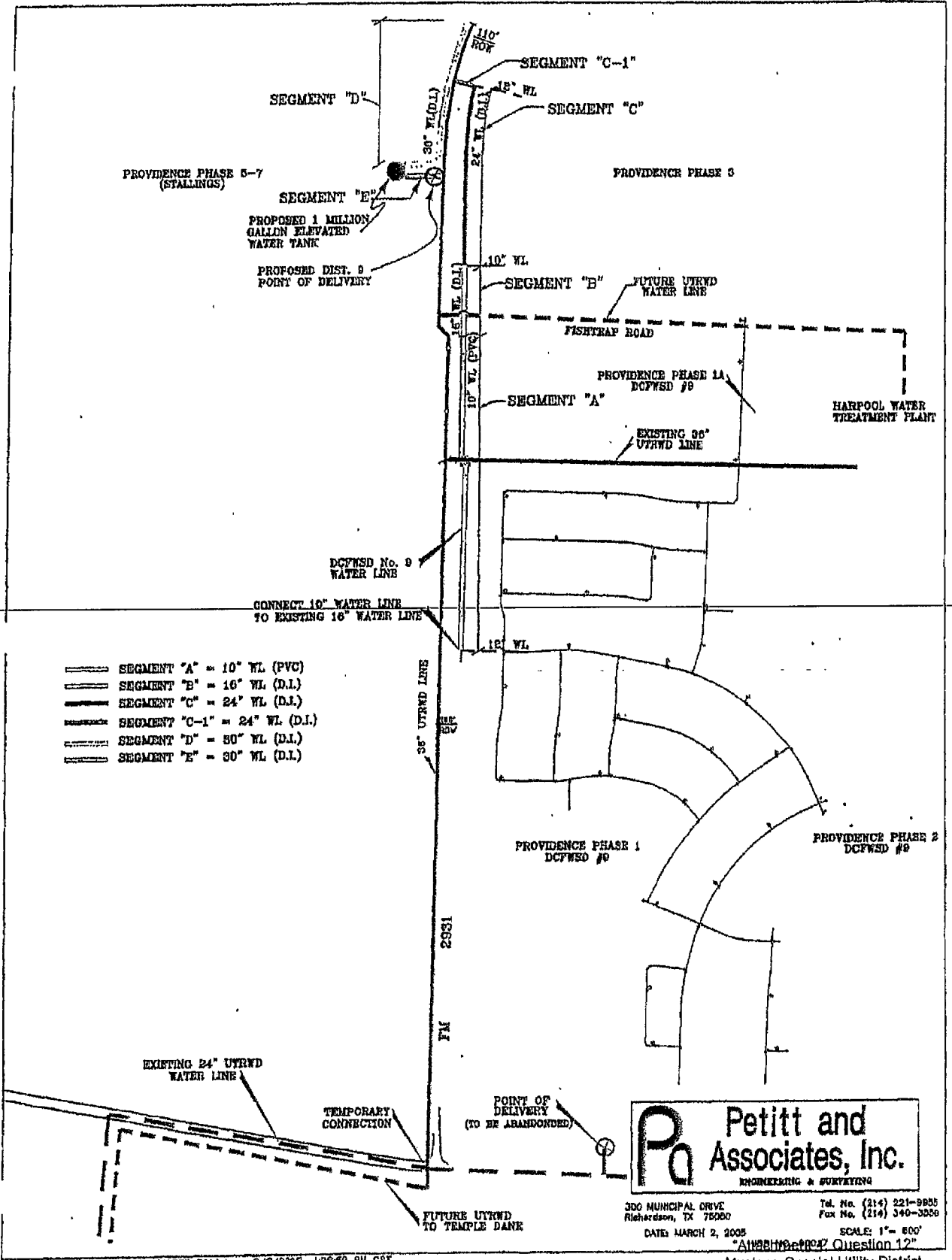
1. Facility operations inspection frequency; as required by the TCEQ.
2. Preventative maintenance, lubrication of pumps and motors, touch-up painting, as required.
3. Complete any monthly samples and record TD analysis.
4. Exercise all lift pumps, motors, and record status of all electrical components.
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.)



Petitt and Associates, Inc.
ENGINEERING & SURVEYING

300 MUNICIPAL DRIVE
Richardson, TX 75080
Tel. No. (214) 221-8855
Fax No. (214) 340-3550

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

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	1480	\$ 20.00	1,628	\$ 80,660.00
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
3	B	16-inch DI Water Line	LF	282	\$ 64.00	337	\$ 18,209.34
4	B	16-inch Water Line by Bore	LF	65	\$ 281.00	65	\$ 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					\$ 4,770.64
		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
8	C	24-inch x 16-inch reducer	EA	*	\$ 500.00	1	\$ 800.00
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
10	C-1	24-inch Water Line by Bore	LF	100	\$ 426.00	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
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					\$ 182,890.00
		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

**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
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
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
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
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
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

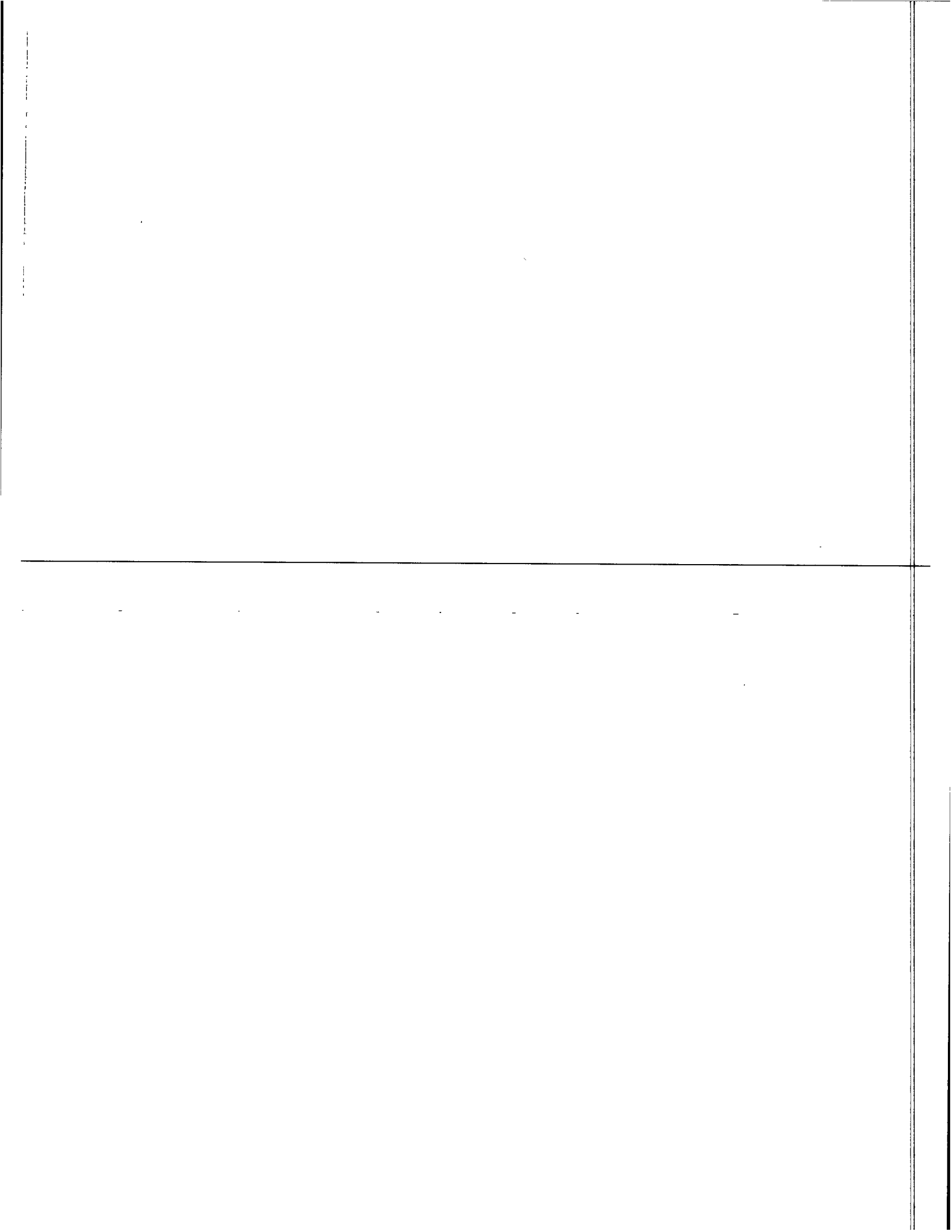
* estimated unit prices

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

EXHIBIT "D"

		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	40,800				
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	6,000				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			66,000	57,750	60,638
EMPLOYEE INSURANCE	S/W	6,280	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	3,716
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	264,925	289,234	322,269
Overhead	S/W	40,810	22,132	39,739	43,385	48,340
TOTAL WATER		156,780	84,841	162,332	218,060	165,845



March 17, 2009

Mustang Special Utility District Board of Directors,

Denton County Fresh Water District #9 (District #9) currently provides water, sanitary sewer, drainage, road, and park services and facilities to approximately 1,584 homes. District #9 is currently contracting with Mustang for operation and maintenance and billing and collecting services with regard to the #9 utility system that serves those homes. District #9 has annual budgeted expenses of approximately \$2,776,465, and many of those are fixed MONTHLY contractual obligations for essential services to its residents such as Upper Trinity Regional Water District wholesale water and sewer (\$102,500), Aubrey Fire Department (\$14,511), and Denton County Sheriff Department (\$13,542). District #9 funds these obligations primarily out of its utility system revenues, which equal approximately \$140,000 per month.

Pursuant to the District #9 service contract with Mustang, Mustang is required to collect and remit to District #9 "at least once per month" the collection of water and sewer service revenues for services provided by #9 to its customers.

The last payment of the #9 water and sewer collections was received in early February. This payment was for the #9 December customer receipts. **MUSTANG HAS NOT REMITTED COLLECTIONS FOR THE MONTHS OF JANUARY OR FEBRUARY 2009.** Our financial consultant has advised us that she has requested, on numerous occasions, timely payment from Mustang. However, that has not happened.

This has impacted the #9 cash flow, and #9 has had to reduce its contingency reserve fund balance and, if Mustang does not catch up on its payments, #9 may be forced to "break" its O&M CDs to meet its ongoing financial obligations.

Furthermore, should this situation continue, #9 may be forced to contact those entities with whom it has fixed contractual payment obligations to request forbearance pending a successful resolution of this situation. This would impact #9's current good credit standing, and may impact its current bond rating and ability to contract for services and issue debt on a going forward basis.

Just as importantly, if this situation is not remedied soon, it could cause an interruption in the basic and essential public services provided by District #9 to its residents. Further, as the contracts with Denton County Sheriff and Aubrey Fire Department are "joint venture" type agreements with 5 other water districts allocated along the 380 corridor, District #9's failure to meet its obligations under those contracts could also cause interruption of services to the residents of those other districts.

In light of the serious nature of this problem, we have been forced to seek the advice of our financial and legal consultants as to how we might best protect #9 and its residents from these continuing financial problems.

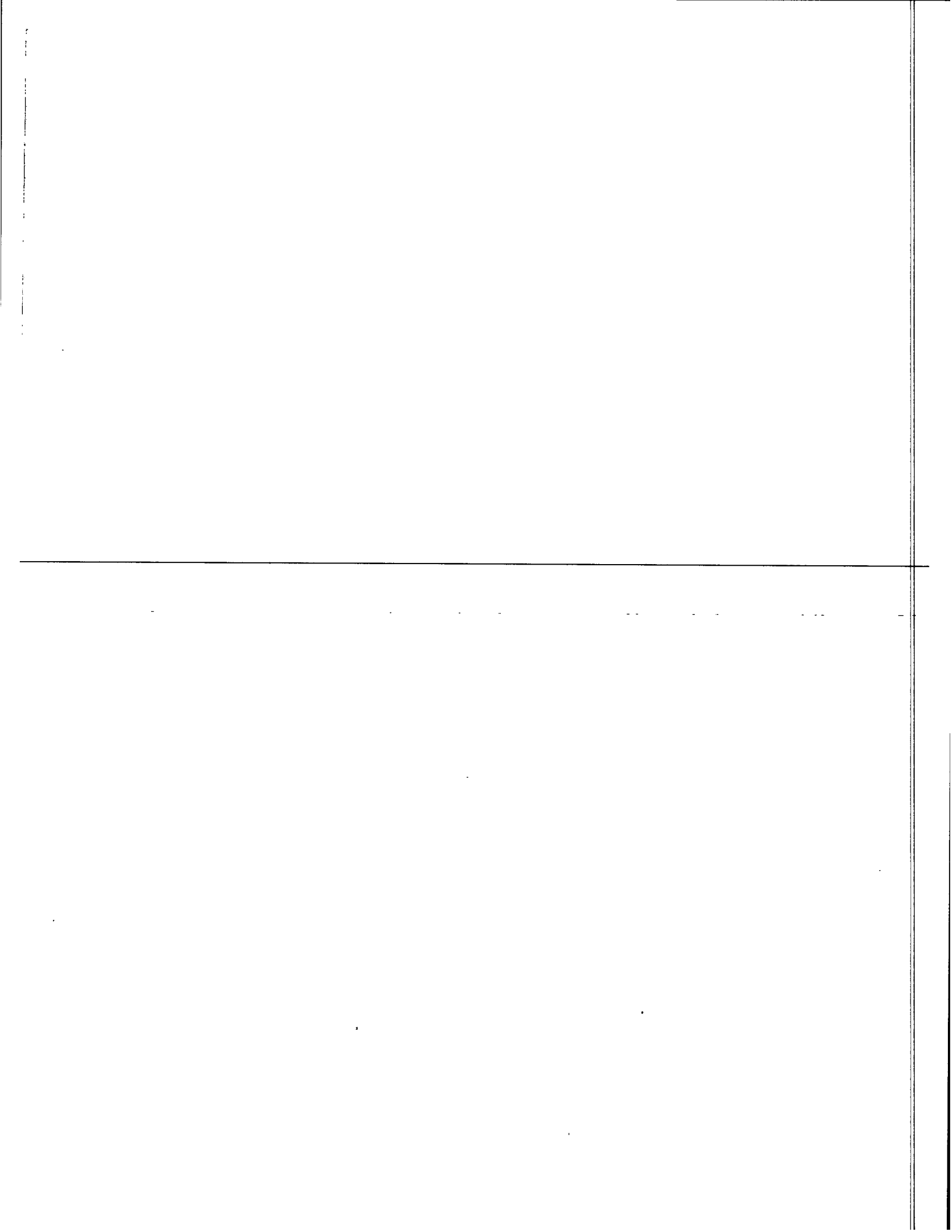
I AM HERE TODAY TO MAKE SURE THAT YOUR COMMITTEE AND BOARD ARE AWARE OF THIS SITUATION AND THE PERIL THAT IT PRESENTS TO DISTRICT #9 AND PERHAPS THE OTHER 380 DISTRICTS, AND ASK FOR YOUR HELP IN THE IMMEDIATE RESOLUTION OF THIS ISSUE.

Regards,

Clint Shipp

Director Denton County Fresh Water Supply District #9





INSIDE ARTS
 Student art takes the spotlight
 Page 4D

INSIDE BUSINESS
 Small business shouldn't tax preparer
 Page 1D

Denton Record-Chronicle

Visit dentonfc.com for late-breaking updates, multimedia
 Vol. 105, No. 225 / 44 pages, 4 sections Sunday, March 15, 2009

Error affects subdivisions

Mustang asking for more than \$329,000 after billing oversight

By BJ Lewis
 Staff Writer

A billing oversight by Mustang Special Utility District bookkeepers has led to a large bill for the fresh water supply districts that serve the Providence Village, Paloma Creek and Savannah communities.

Mustang general manager Chris Boyd described the oversight as a small clerical error.

The error amounts to more than \$329,000 for the three subdivisions. Fresh Water Supply District No. 9, which is part of Providence, was billed a little more than \$119,000, said John Mitchell, president of the district.

The bills date as far back as last

April, he said.

While the water supply district provides the water for residents of District No. 9, Mustang operates and maintains the pipes the water flows through.

"Mustang provides that through a contract to that district as well as others along U.S. Highway 380," Boyd said.

Developers create fresh water supply districts, giving those districts the authority to tax residents to provide infrastructure.

Mitchell said the district boards act as the city councils for those subdivisions, handling fire, water and

"We did accrue those charges, but the biggest thing is how does a governing body misplace \$300,000 worth of billing?"

— John Mitchell, president of Fresh Water Supply District No. 9

trash issues — things a city council typically handles.

By agreement between the two entities, Mustang provides water to District No. 9, and that district provides water to the residents.

The billing process is fairly complicated, Boyd said.

"Mustang invoices them on a monthly basis," he said. "Over time, Mustang made some accounting errors and we actually underbilled them."

Mitchell was bothered by the improper billing and expressed that

See ERROR on 9A

Ponder



Ponder players UIL Class 2A basketball Center in Austin

TODAY IN DENTON

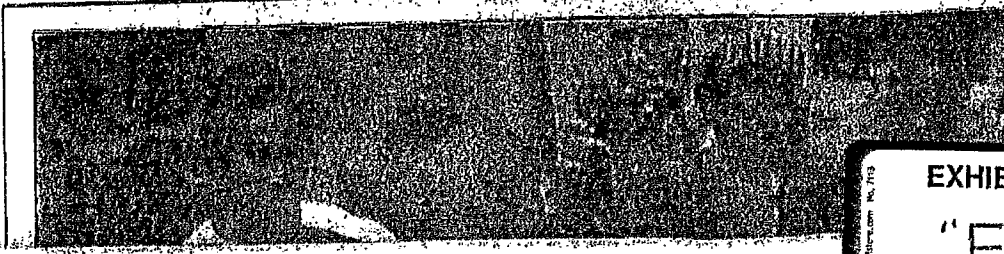


EXHIBIT
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