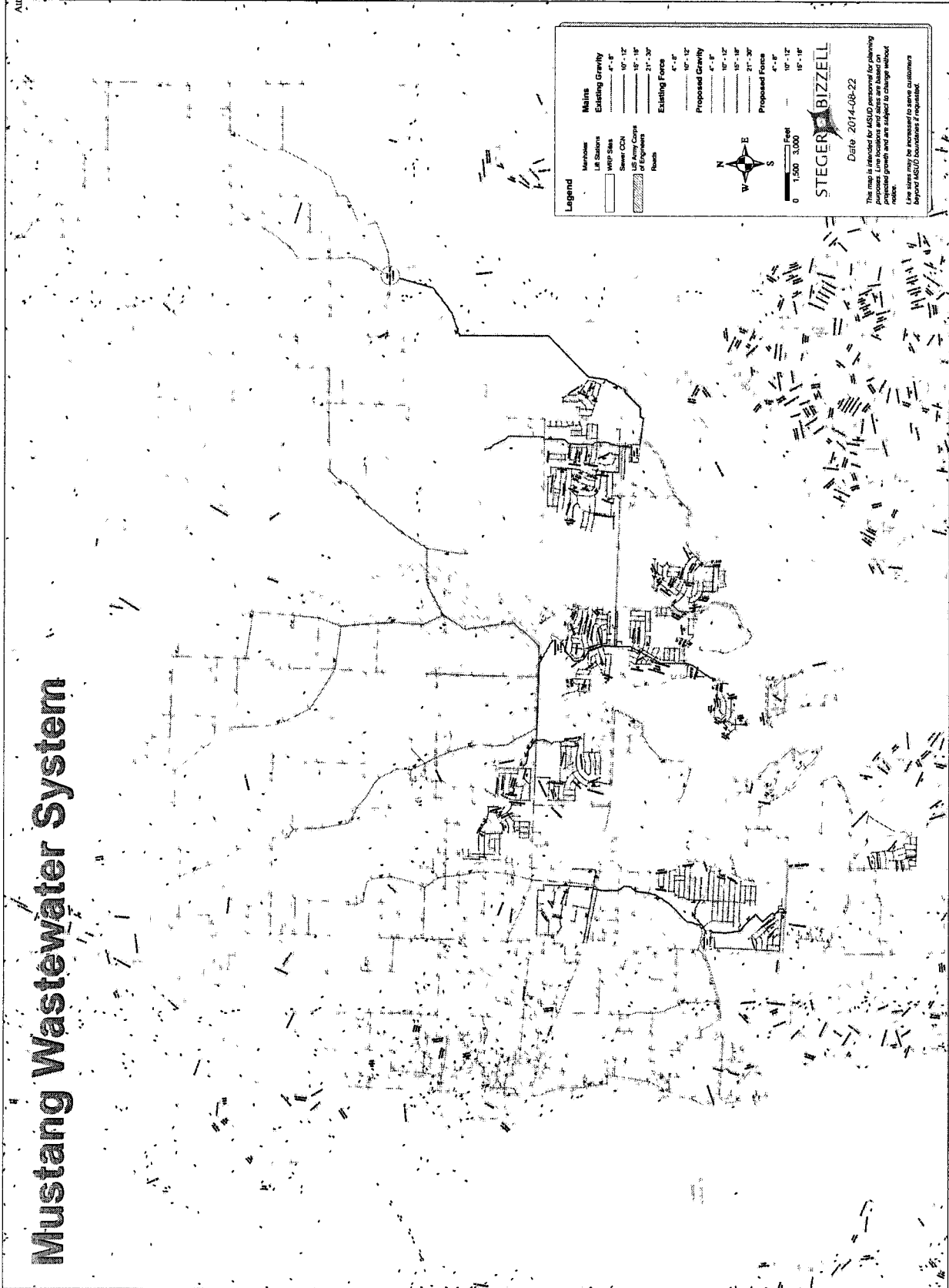


Mustang Wastewater System



Legend

Mains

Existing Gravity
4" - 8"
10" - 12"
15" - 18"
21" - 30"

Proposed Gravity

4" - 8"
10" - 12"
15" - 18"
21" - 30"

Proposed Force

4" - 8"
10" - 12"
15" - 18"

Manholes

LL Stations
WSP Sigs
Sewer Cdn
LL Army Corps
Structure
Roads

Scale

0 1,500 3,000 Feet

North Arrow

STEGER BIZZELL

Date: 2014-08-22

The map is prepared for ASUD personnel for planning purposes. The map is not intended for construction. Proposed growth and are subject to change without notice.

Line sizes may be increased to serve customers beyond ASUD boundaries if requested.

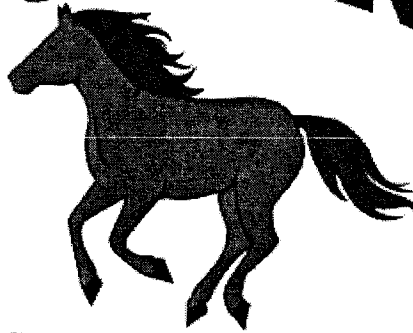
MUSTANG SPECIAL UTILITY DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 2014

MUSTANG



SPECIAL UTILITY DISTRICT



ANNUAL FILING AFFIDAVIT

STATE OF TEXAS COUNTY OF Denton

I, _____ of the
(Name of Duly Authorized District Representative)

Mustang Special Utility District
(Name of District)

hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of the Directors of the District on the ____ day of _____ its annual audit report for the fiscal year or period ended _____ and those copies of the annual audit report have been filed in the district office, located at:

7985 FM 2931, Aubrey, TX 76227
(Address of District)

The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of the annual filing requirements of Texas Water Code Section 49.194.

Date: _____ By: _____
(Signature of District Representative)

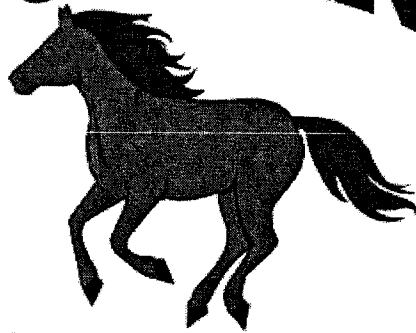
(Typed Name & Title of above District Representative)

Sworn to and Subscribed to before me by this ____ day of _____
(SEAL)

(Signature of Notary)

My Commission Expires On: _____
Notary Public in the State of Texas.

MUSTANG



SPECIAL UTILITY DISTRICT

**MUSTANG SPECIAL UTILITY DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2014**

TABLE OF CONTENTS

	<u>Page</u>	
I. INTRODUCTORY SECTION		
Letter of Transmittal.....	i	
Board of Directors.....	iv	
Organizational Chart.....	v	
Certificate of Achievement for Excellence in Financial Reporting.....	vi	
II. FINANCIAL SECTION		
Independent Auditor's Report.....	3	
A. Management Discussion and Analysis	7-13	
B. Basic Financial Statements		
Statement of Net Position.....	17	
Statement of Revenues, Expenses, and Changes in Net Position.....	18	
Statement of Cash Flows.....	19	
Statement of Agency Assets and Liabilities - Fiduciary Funds.....	20	
Notes to the Financial Statements	21 - 32	
C. Required Supplementary Information		
Schedule of Funding Progress.....	35	
D. Supplementary Information		
Budgetary Comparison Schedule.....	39	
Statement of Changes in Assets and Liabilities - Fiduciary Fund.....	40	
III. STATISTICAL SECTION (Unaudited)		<u>Table</u>
Statistical Section - Contents.....	43	
Net Position By Component.....	45	1
Changes in Net Position.....	46	2
Income by Source.....	47	3
Average Revenue Rates.....	48	4
Principal Revenue Payers.....	49	5
Total Indebtedness Per Customer.....	50	6
Revenue Bond Coverage.....	51	7
Number of Customers by Service.....	52	8
Demographic and Economic Statistics.....	53	9
Full-time Equivalent Employees by Function.....	54	10
Capital Assets by Function.....	55	11

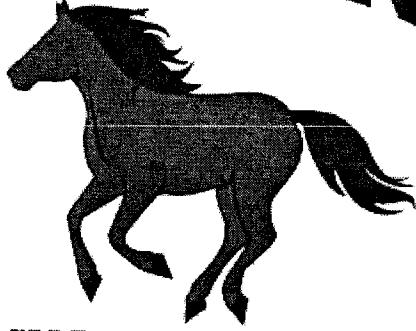
**MUSTANG SPECIAL UTILITY DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2014**

TABLE OF CONTENTS

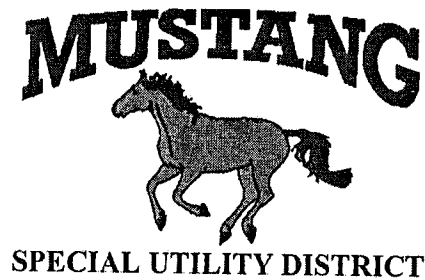
	<u>Page</u>
IV. SUPPLEMENTAL SCHEDULES REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY (Unaudited)	
Supplemental Schedules - Contents.....	58
Service and Rates.....	59-60
Enterprise Fund Expenditures.....	61
Temporary Investments.....	62
Long-Term Debt Service Requirements.....	63-67
Change in Long-Term Bonded Debt.....	68
Comparative Schedule of Revenues & Expenses.....	69
Board Members, Key Personnel, and Consultants.....	70

INTRODUCTORY SECTION

MUSTANG



SPECIAL UTILITY DISTRICT



February 23, 2015

To the Board of Directors
Mustang Special Utility District
Aubrey, Texas

Dear Board of Directors:

The Comprehensive Annual Financial Report ("CAFR") of the Mustang Special Utility District ("District"), for the year ended September 30, 2014, is submitted herewith.

Management assumes full responsibility for the completeness and reliability of the information contained in the report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Conway Company CPAs, P.C. have issued an unqualified ("clean") opinion on the District's financial statements for the year ended September 30, 2014. The independent auditor's report is located in the beginning of the financial section of the CAFR.

This letter of transmittal is designed to complement Management's Discussion and Analysis ("MD&A") and should be read in conjunction with it. The District's MD&A can be found immediately following the independent auditors' report and provides a narrative introduction, overview and analysis of the basic financial statements.

GENERAL INFORMATION – MUSTANG SPECIAL UTILITY DISTRICT

The Mustang Special Utility District is located in Denton County which is located in the North Central region of Texas.

The Board of Directors is comprised of a President, Vice-President, Secretary, and six Directors and is responsible for enacting rates, resolutions, and regulations governing the District, as well as appointing the members of various statutory and advisory boards. The General Manager is the administrator of the District and is responsible for the enforcement of the board's decisions and supervision of each department of the District.

ECONOMIC CONDITIONS AND OUTLOOK

North Central Texas remains above the national average in economic health. The District expects annual growth to remain above 3%, which translates to 150 to 200 new connections per year. The District also expects to continue adding commercial customers along the U.S. Highway 380 corridor in conjunction with residential development.

MAJOR INITIATIVES

The District continues to work with Texas Department of Transportation on relocation of large water and wastewater distribution lines in advance of the Farm-to-Market 720 widening project.

The District's CIP Plan for FY15 includes the drilling of two wells and the construction of their treatment facilities, as well as several smaller projects that will enhance the pipe system of the District.

FINANCIAL INFORMATION

Accounting Procedures and Budgetary Controls

The District's accounting records for the water utility and other proprietary activities are maintained on the accrual basis.

The budgetary process begins each year with the preparation of both current and proposed year revenue estimates by the District's financial management staff, and expenditure estimates by each District's department. Budgets are reviewed and approved by the Board.

As part of each year's budget development process, departments are required to update expenditure estimates for the current fiscal year. These estimates are reviewed by the Board, Finance Director, and the General Manager concurrent with review of the proposed budget. This re-estimated budget may require a supplemental appropriation and, if so, such supplemental appropriation is approved by ordinance adopted by the Board of Directors prior to the end of the current fiscal year.

OTHER INFORMATION

Independent Audit

The Mustang Special Utility District has engaged the firm of Conway Company CPAs, P.C. to perform the annual audit and their opinion has been included in this report. It should be noted that the auditors included all funds in their audit, performed their audit in accordance with generally accepted auditing standards, and stated that, in their opinion, the statements herein present fairly, in all material respects, the financial position of the District at September 30, 2014, and the changes in financial position and cash flows of its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Acknowledgements

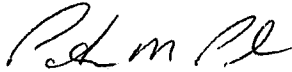
Many persons are responsible for the preparation of this report, and for the maintenance of records upon which it is based. Appreciation is expressed to the District employees throughout the organization, especially those employees who were instrumental in the successful completion of this report.

Our appreciation is also extended to the Board Members of the Mustang Special Utility District for providing the resources necessary to maintain the integrity of the District's financial affairs.

Respectfully submitted,



CHRIS BOYD
GENERAL MANAGER

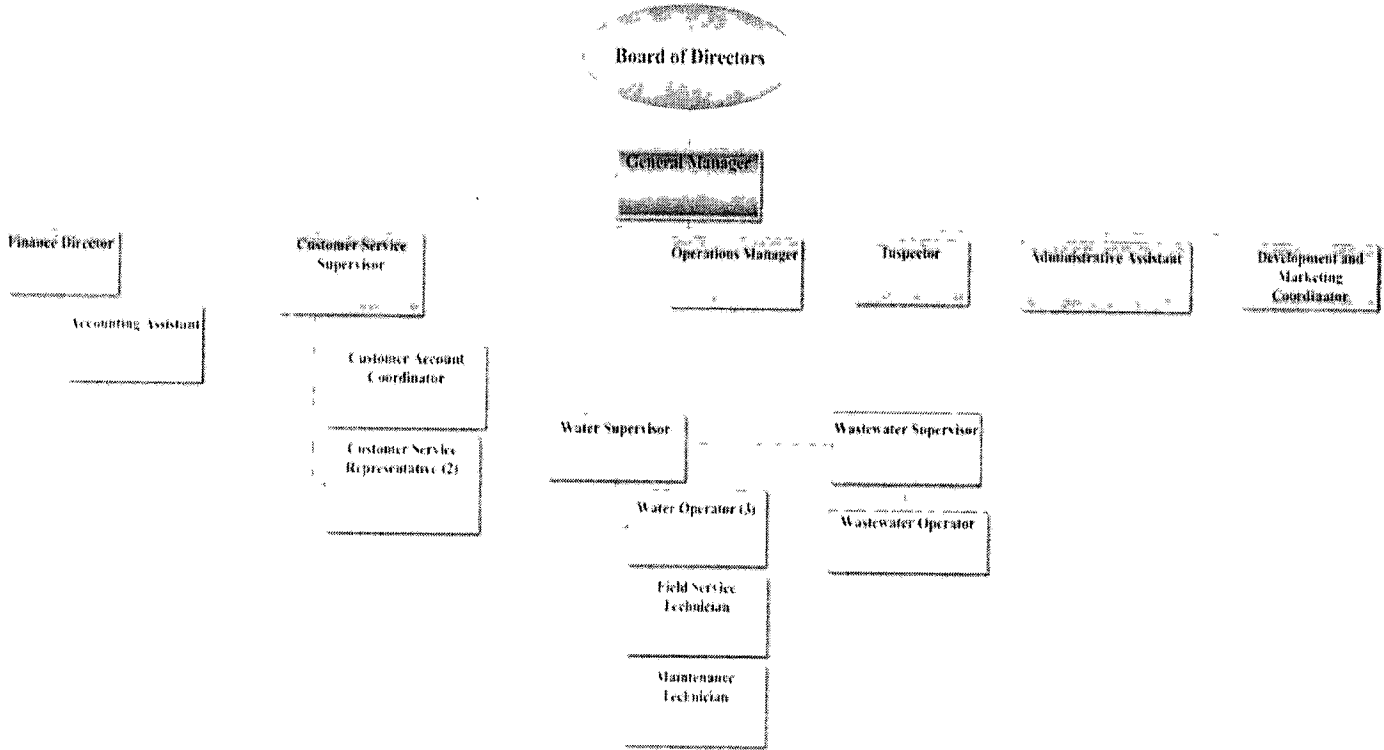


PATTY PARKS
FINANCE DIRECTOR

**MUSTANG SPECIAL UTILITY DISTRICT
BOARD OF DIRECTORS
AS OF SEPTEMBER 30, 2014**

Bill Hathaway	President
Mike Frazier	Vice- President
James Burnham	Secretary
Dean Jameson	Director
Donna Sims	Director
Wade Veeder	Director
Pete Carrothers	Director
Marc Hodak	Director
empty position	Director

Mustang Special Utility District
2013-2014 Organizational Chart
19 FTE





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Mustang Special Utility District
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

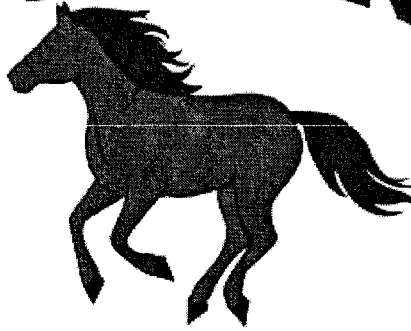
September 30, 2013

A handwritten signature in black ink, appearing to read "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CEO

FINANCIAL SECTION

MUSTANG



SPECIAL UTILITY DISTRICT



Michael Conway, CPA
Neil Conway, CPA

Toll Free (800) 594-7951
Metro (903) 450-1200

CONWAY COMPANY CPAs PC
ACCOUNTANTS & ADVISORS

www.conwaycpas.com

PO Box 8234
Greenville, Texas 75404-8234

Attachment C

Member
American Institute of CPAs
Texas Society of CPAs

February 6, 2015

Independent Auditor's Report

To the Board of Directors
Mustang Special Utility District

We have audited the accompanying financial statements of the business-type activities of the Mustang Special Utility District ("District"), as of and for the year ended September 30, 2014 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this include the design, implementation, and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

1021 Park Street
Commerce, Texas 75428
Office (903) 886-2123
Fax (903) 886-6580

8910 Wesley Street
Greenville, Texas 75402
Office (903) 455-9898
Fax (903) 454-3181

603 South Goliad Street
Rockwall, Texas 75087
Office (972) 771-1166
Fax (972) 771-1022

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Mustang Special Utility District as of September 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 11 and the TCDRS – Schedule of Funding Progress on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operations, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Internal Control

In accordance with Government Auditing Standards, we have also issued our report dated February 6, 2015 on our consideration of Mustang Special Utility District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 assessing the results of our audit.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, budgetary comparison schedule, statistical section and supplemental schedules required by the Texas Commission on Environmental Quality are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory, statistical section and supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Respectfully submitted,
CONWAY COMPANY CPAs, P.C.

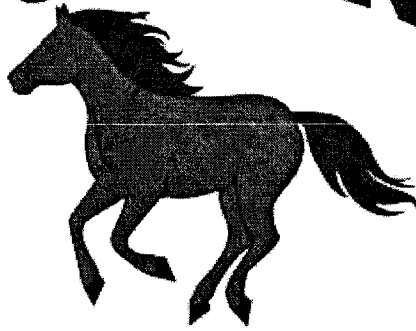
Conway Company CPAs, P.C.

1021 Park Street
Commerce, Texas 75428
Office (903) 886-2123
Fax (903) 886-6580

8910 Wesley Street
Greenville, Texas 75402
Office (903) 455-9898
Fax (903) 454-3181

603 South Goliad Street
Rockwall, Texas 75087
Office (972) 771-1065
Fax (972) 771-1033

MUSTANG



SPECIAL UTILITY DISTRICT

MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2014

Within this section of the Mustang Special Utility District's ("District") annual financial report, management provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2014. Financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following the section.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the fiscal year by \$24,557,231 (net position). The portion of net position that can be used to meet the District's on-going obligations to customers and creditors, unrestricted net position, is \$12,116,272. The District's net position also reflects the fact that \$844,616 is restricted for debt service, limiting how it may be used.
- The District's total net position increased by \$1,926,152. The majority of this increase is attributable to an increase in program revenues.
- Net investment in capital assets totaled \$11,596,343. This amount includes land, buildings, equipment, vehicles and infrastructure less related accumulated depreciation, less outstanding debt used to purchase the capital assets.
- The District's total long-term debt increased by \$1,065,677, or 12%, during the current fiscal year primarily due to the issuance of Series 2014 Revenue bonds in the amount of \$1,505,000.

Overview of the Financial Statements

Financial statements – The financial statements are designed to provide readers with an overview of the District's finances, in a manner similar to a typical, private-sector business.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Net position is displayed in three categories: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. Over time, increases or decreases in net position can serve as a useful indicator of the long-term trend of the District's financial position.

The Statement of Revenues, Expenses, and Changes in Net Position shows activity and changes during the fiscal year. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow. Thus, revenues and expenses are reported for some items that will not affect cash flow until future fiscal periods (e.g. earned, but unused, vacation leave, and accounts receivable for services).

The *Statement of Cash Flows* presents information showing the District's cash activities, cash receipts and cash disbursements. The Statement of Cash Flows is presented in three broad categories: (1) cash flows from operating activities, (2) cash flows from capital and related financing activities, and (3) cash flows from investing activities. The Statement of Cash Flows is a useful tool in understanding the District's cash position and the reasons behind that position.

Notes to the Financial Statements - The accompanying notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the basic fund financial statements. The notes to the financial statements begin immediately following the basic financial statements. The notes to the financial statements start on page 21 of this report.

Required Supplementary Information - In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the District's progress in funding its obligation to provide pension benefits to its employees. This information is on page 35 of this report.

Other Information - The budgetary comparison schedule and the Fiduciary Fund Statement of Changes in Assets and Liabilities can be found on pages 39 and 40 respectively.

New GASB pronouncements

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," was implemented by the District as required by GASB during the fiscal year ending September 30, 2014. This statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources.

GASB Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62", was implemented by the District as required by GASB during the fiscal year ending September 30, 2014. This statement improves financial reporting by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. This statement amends Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by modifying the specific guidance on accounting and operating leases. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees" requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement was implemented as required by GASB for periods beginning after June 15, 2013. The implementation of this statement did not result in any changes to the financial statements.

The GASB issued the following statements which will be effective in future years as described below:

GASB Statement No. 67, "Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25", will be implemented as required by GASB during the fiscal year ending September 30, 2015. The objective of this statement is to improve financial reporting by state and local government pension plans. The District is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27". This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trust or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trust or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The District is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

**MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2014**

New GASB pronouncements (continued)

GASB Statement No. 69, "Government Combinations and Disposals of Government Operations", establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement will be implemented as required by GASB for period beginning after December 15, 2013. The implementation of this statement will not result in any changes to the financial statements.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date" (an amendment to GASB Statement No. 68) requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The District is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

Mustang Special Utility District's Net Position
(see note below)

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 7,937,403	\$ 5,644,759
Capital assets	27,295,449	26,619,580
Total assets	<u>35,232,852</u>	<u>32,264,339</u>
Long-term liabilities	9,868,483	8,692,017
Current liabilities	807,138	941,243
Total liabilities	<u>10,675,621</u>	<u>9,633,260</u>
Net investment in capital assets	11,596,343	12,794,662
Restricted	844,616	731,648
Unrestricted	12,116,272	9,104,769
Total net position	<u>\$ 24,557,231</u>	<u>\$ 22,631,079</u>

Net position may serve over time as one useful indicator of the District's financial condition. The net position of the District exceeded liabilities by \$24,557,231 as of September 30, 2014. The District's net position increased by \$1,926,152 for the fiscal year ended September 30, 2014. This net increase primarily reflects developer contributions of infrastructure received during the current year. The largest portion of total net position, 47%, reflects the District's investment in capital assets (e.g. land, buildings, infrastructure, vehicles, machinery and equipment) less any related debt still outstanding that was issued to acquire those items. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the District's net position, \$844,616 or 3%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$12,116,272 is unrestricted as of September 30, 2014.

Note: The Freshwater Districts have been reclassified in the current year as Fiduciary Funds. The fiscal year 2013 has been restated for comparative purposes. See note M to the financial statements.

**MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2014**

Mustang Special Utility District's Changes in Net Position
(see note below)

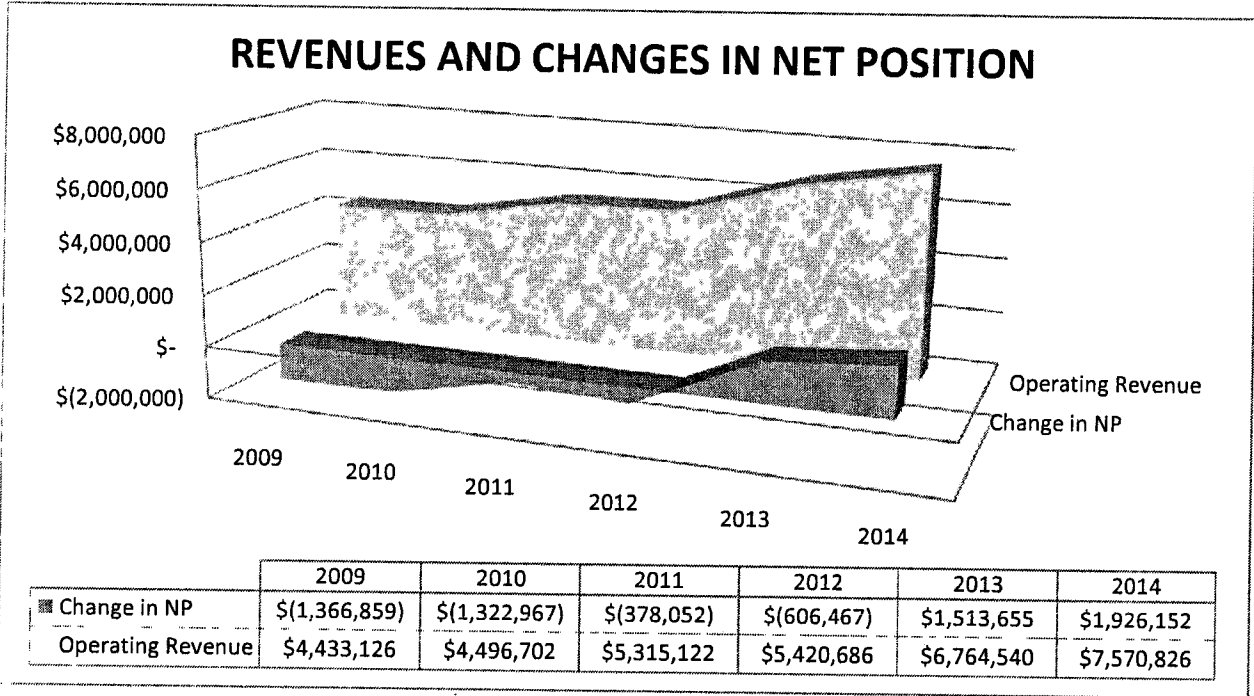
	Business-type Activities		Total Percentage Change Favorable/ (Unfavorable)
	2014	2013	
REVENUES			
Program Revenues:			
Charges for sales and services:			
Water/wastewater sales	\$ 4,233,713	\$ 4,206,554	0.65%
Customer charges/fees	2,030,519	1,224,635	65.81%
Operating contracts	1,284,628	1,314,930	-2.30%
General Revenues:			
Miscellaneous revenue	21,966	23,814	-7.76%
Investment income	5,990	6,661	-10.07%
Total revenues	<u>7,576,816</u>	<u>6,776,594</u>	<u>11.81%</u>
EXPENSES			
Operating expenses	6,182,525	5,890,531	-4.96%
Interest expense	414,551	429,309	3.44%
Bond issuance costs	62,163	-	-100.00%
Total expenses	<u>6,659,239</u>	<u>6,319,840</u>	<u>-5.37%</u>
Change in net position before contributions	917,577	456,754	-100.89%
Capital contributions	<u>1,008,575</u>	<u>1,056,901</u>	<u>-4.57%</u>
Change in net position	1,926,152	1,513,655	-27.25%
Net position - beginning of year	<u>22,631,079</u>	<u>21,117,424</u>	
Net position - end of year	<u>\$ 24,557,231</u>	<u>\$ 22,631,079</u>	<u>8.51%</u>

The District as a whole is primarily reliant on charges for services. Activities were 99% supported by charges for services and 1% of revenues were derived from other sources.

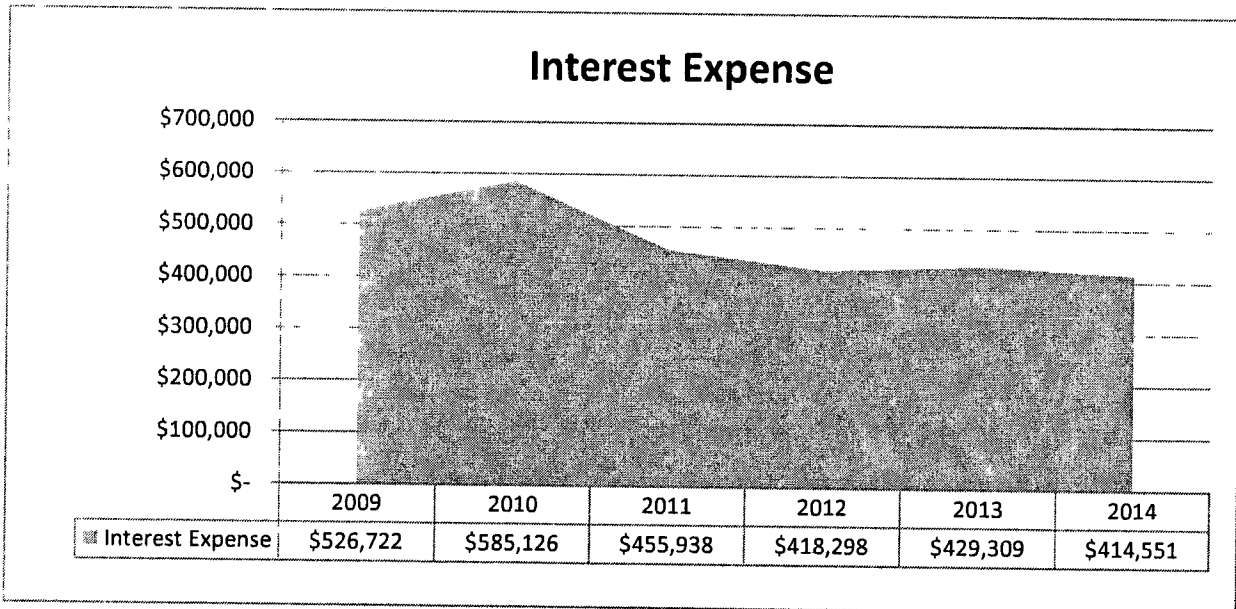
Note: The Freshwater Districts have been reclassified in the current year as Fiduciary Funds. The fiscal year 2013 has been restated for comparative purposes. See note M to the financial statements.

**MUSTANG SPECIAL UTILITY DISTRICT
 MANAGEMENT DISCUSSION AND ANALYSIS (continued)
 CHART OF REVENUES AND CHANGE IN NET POSITION
 FOR THE YEARS ENDED SEPTEMBER 30, 2009 - 2014**

REVENUES AND CHANGES IN NET POSITION



CHANGE IN INTEREST EXPENSE



**MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2014**

Capital Assets

The District's investment in capital assets as of September 30, 2014 totals \$21,322,880, net of accumulated depreciation. This investment in capital assets includes land, buildings, water distribution systems, furniture and fixtures and vehicles. More detailed information about the District's capital assets is presented in Note E to the financial statements. The total net decrease in capital assets for the current fiscal year was (\$143,082) or (.67%), from the prior fiscal year.

During 2014, the GIS Database project was completed. Developer contributions of infrastructure were also received in the amount of \$1,008,575. There were no major disposals.

**Mustang Special Utility District
Capital Assets
(Net of Accumulated Depreciation)**

	Business-type Activities		Total Percentage Change Increase/ (Decrease)
	2014	2013	
Land and improvements	\$ 469,255	\$ 469,255	-
Construction in progress	8,472	195,384	-95.66%
Water distribution system	19,614,828	19,679,489	-0.33%
Buildings and improvements	898,237	952,674	-5.71%
Furniture and equipment	246,088	66,964	267.49%
Vehicles	86,000	102,196	-15.85%
Total	<u>\$ 21,322,880</u>	<u>\$ 21,465,962</u>	<u>-0.67%</u>

Long-Term Obligations

As of September 30, 2014, the District had long-term notes and bonded debt outstanding of \$9,736,977. During the fiscal year, total debt increased by \$1,065,677 or 12%, due to the issuance of Series 2014 Revenue Bonds.

**Mustang Special Utility District
Long-Term Obligations**

	Business-type Activities		Total Percentage Change Increase/ (Decrease)
	2014	2013	
Bonds payable	\$ 7,820,405	\$ 6,632,944	17.90%
Note payable	1,916,572	2,038,356	-5.97%
Total	<u>\$ 9,736,977</u>	<u>\$ 8,671,300</u>	<u>12.29%</u>

More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.

**MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2014**

Economic Factors and Next Year's Budgets and Rates

As the economy has improved in North Texas, development has increased. Increased development has led to a significant increase in developer fee revenue in the past year. As developer fees are always non-recurring, and fluctuate easily, they are not used in budgeting to offset operating expenses. Due to the increased development, the District has experienced significant growth in FY14. The development and growth is expected to continue, but the budget revenue is based on a modest expectation of growth. Water sales are largely dependent on the climate. Too dry or too wet can both lead to reduced revenues. It is always challenging to budget for revenue from water usage. The fact that the District's Upper Trinity Water District subscription expense continues to increase yearly is a significant factor in budgeting, as it is by far the largest expense for the District. Water rates and wastewater rates have been increased for FY15. This is necessary to cover the increases in the costs of providing water and wastewater service. The major revenue sources are comprised of water and wastewater sales, customer charges and fees, and contract payments from the Fresh Water Districts for providing service to their customers.

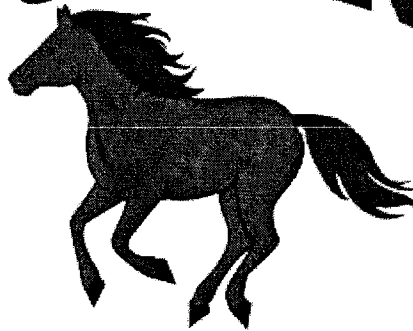
The objectives for FY 2015 include the following:

- Integrate GIS (Geographic Information System) with all operations
- Implement an IVR (Interactive Voice Response) system
- Significant system upgrades, including the drilling of two wells

Requests for Information

This 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 found in this report or requests for additional financial information should be addressed to Chris Boyd, General Manager, 7985 FM 2931, Aubrey, TX 76227.

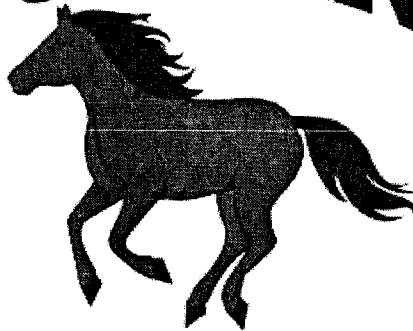
MUSTANG



SPECIAL UTILITY DISTRICT

BASIC FINANCIAL STATEMENTS

MUSTANG



SPECIAL UTILITY DISTRICT

**MUSTANG SPECIAL UTILITY DISTRICT
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	<u>Proprietary Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 5,419,244
Receivables, net of allowance for uncollectibles	597,377
Inventory	129,727
Prepays	993
Restricted cash and cash equivalents	1,790,062
Total current assets	<u>7,937,403</u>
Non-current assets:	
Equity buy-in fees, net of accumulated amortization	5,894,984
SUD conversion costs, net of accumulated amortization	77,585
Capital assets:	
Non-depreciable capital assets	477,727
Depreciable capital assets, net	20,845,153
Total capital assets, net of accumulated depreciation	<u>21,322,880</u>
Total non-current assets	<u>27,295,449</u>
Total Assets	<u><u>35,232,852</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	160,031
Accrued payroll	58,480
Current portion of compensated absences	1,104
Current portion of note payable	126,784
Payable from restricted assets:	
Accrued interest payable	39,527
Customer deposits	549,100
Current portion of bonds payable	335,000
Total current liabilities	<u>1,270,026</u>
Noncurrent liabilities:	
Escrow payable from restricted assets	110,790
Compensated absences	19,612
Note payable	1,789,788
Bonds payable, net of premium	7,485,405
Total noncurrent liabilities	<u>9,405,595</u>
Total Liabilities	<u>10,675,621</u>
NET POSITION	
Net investment in capital assets	11,596,343
Restricted for:	
Loan servicing	844,616
Unrestricted	12,116,272
Total Net Position	<u><u>\$ 24,557,231</u></u>

The accompanying notes to the basic financial statements are an integral part of this financial statement.

**MUSTANG SPECIAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Proprietary Fund</u>
OPERATING REVENUES	
Charges for sales and services:	
Water/wastewater sales	\$ 4,233,713
Customer charges/fees	2,030,519
Operating contracts	1,284,628
Miscellaneous income	21,966
Total operating revenues	<u>7,570,826</u>
OPERATING EXPENSES	
Operation and Maintenance:	
Personnel costs and benefits	1,011,663
Water distribution system	2,539,509
Other operating costs	337,385
Professional and legal fees	293,274
Insurance	203,675
Depreciation and amortization	1,797,019
Total operating expenses	<u>6,182,525</u>
Operating income (loss)	<u>1,388,301</u>
NON-OPERATING REVENUES (EXPENSES)	
Investment income	5,990
Interest expense	(414,551)
Bond issuance costs	(62,163)
Total non-operating revenues (expenses)	<u>(470,724)</u>
Net income (loss) before contributions	917,577
CAPITAL CONTRIBUTIONS	
Developer contributions	1,008,575
Total capital contributions	<u>1,008,575</u>
Change in net position	1,926,152
Net position - beginning of year	22,631,079
Net position - end of year	<u>\$ 24,557,231</u>

The accompanying notes to the basic financial statements are an integral part of this financial statement.

**MUSTANG SPECIAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 7,750,696
Cash received from other sources	21,966
Cash paid to employees	(993,340)
Cash paid to suppliers	(3,525,775)
Net cash provided by (used for) operating activities	<u>3,253,547</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(1,213,397)
Bond issuance costs	(62,163)
Interest paid on note and bonds payable	(414,551)
Principal paid on note payable	(121,784)
Principal paid on bonds payable	(317,539)
Proceeds from issuance of revenue bonds	1,505,000
Equity buy-in fees	(1,259,491)
Developer contributions	1,008,575
Net cash provided by (used for) capital and related financing activities	<u>(875,350)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	5,990
Net cash provided by investing activities	<u>5,990</u>
Net increase (decrease) in cash and cash equivalents	2,384,187
Cash and cash equivalents at beginning of year	5,673,594
Reclassification of fiduciary funds (note M)	(848,475)
Cash and cash equivalents at end of year	<u>\$ 7,209,306</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 1,388,301
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,797,019
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Receivables	146,668
Prepaid items	4,907
Inventory	(60,033)
Increase (decrease) in liabilities:	
Accounts payable	910,207
Accrued expenses	18,322
Escrow payable	(2,982)
Customer deposits	55,168
Due to other districts	(1,004,030)
Total adjustments	<u>1,865,246</u>
Net cash provided (used) by operating activities	<u>\$ 3,253,547</u>

The notes to the financial statements are an integral part of this financial statement.

**MUSTANG SPECIAL UTILITY DISTRICT
STATEMENT OF AGENCY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Freshwater District Providence</u>	<u>Freshwater Districts Paloma Creek</u>	<u>Freshwater District Savannah</u>	<u>Total Fiduciary Funds</u>
ASSETS				
Cash and cash equivalents - restricted	\$ 271,295	\$ 485,205	\$ 219,954	\$ 976,454
Accounts Receivable	273,669	360,097	209,773	843,539
Total assets	<u>544,964</u>	<u>845,302</u>	<u>429,727</u>	<u>1,819,993</u>
LIABILITIES				
Accounts Payable	544,964	845,302	429,727	1,819,993
Total liabilities	<u>\$ 544,964</u>	<u>\$ 845,302</u>	<u>\$ 429,727</u>	<u>\$ 1,819,993</u>

The notes to the financial statements are an integral part of this financial statement.

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 Chapters 49 and 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 Mustang Special Utility District have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as established by the Governmental Accounting Standards Board ("GASB"). The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes are organized to provide concise explanation, including required disclosures of budgetary matters, assets, liabilities, fund equity, revenues, expenditures/expenses and other information considered important to gaining a clear picture of the District's financial activities for the fiscal year ending September 30, 2014.

1. Reporting Entity

The Board of Directors, a nine-member body elected by qualified voters of the District, is the level of governance responsible for all activities of the Mustang Special Utility District. The District has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by Government Accounting Standards Board in its Statement No. 14, "The Financial Reporting Entity", as amended by GASB 39. According to the topic "Determining Whether Certain Organizations are Component Units" under GASB 14, component units are organizations for which the District is financially accountable and all other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. As of September 30, 2014, Mustang Special Utility District does not have any component units.

In addition, GASB Statement No. 61 considers an organization that does not meet the financial accountability criteria may be included as a component unit if management's professional judgment determines it to be necessary and misleading if omitted. This evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities. Management has not identified any additional organization that fit this criteria.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

2. Basis of Presentation, Basis of Accounting

a. 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 types utilized by the District are described below:

The *Proprietary Fund* is used to account for the operations of supplying water and wastewater services, which is a self-supporting activity rendering services on a user-charge basis.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water proprietary fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

Agency funds account for amounts held on behalf of others by the District as a trustee, or fiduciary. All of the District's fiduciary activities are reported in a separate Statement of Agency Assets and Liabilities. The activities of these funds are excluded from the District's financial statements because the District cannot use them to finance its operations. The District is responsible for ensuring that the assets reported are used for their intended purpose. The following is a description of the fiduciary fund of the District:

MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Attachment C

A. Summary of Significant Accounting Policies

2. Basis of Presentation, Basis of Accounting
a. Basis of Presentation (continued)

The three Freshwater District funds are used to account for assets held by the District in an agency capacity for the Freshwater Districts. These fiduciary funds record only assets and liabilities and therefore have no measurement focus.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

- b. Basis of Accounting

Proprietary Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Proprietary fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board.

Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

The proprietary funds are financed and operated in a manner similar to private business enterprise. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The District presents their financial statement utilizing only the business-type fund. The District uses the accrual basis of accounting to prepare its financial statements. Revenues are recognized in the accounting period in which they are earned and expenditures are recognized when incurred to generate those revenues. The District's only operating activity is the sale of water and wastewater services to its residential and commercial customers who are all in a limited geographical region. The statements, exhibits, and supporting schedules contained in the report were prepared on the accrual basis of accounting except for the statement of cash flows which is a cash basis statement.

3. Financial Statement Amounts

- a. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

- b. Receivables, Inventory and Deferred Charges

Trade receivables are shown net of an allowance for uncollectibles.

Inventory is valued at cost using the average method. Inventory consists of expendable supplies held for consumption.

Deferred charges are comprised of the balances of unamortized equity buy-in fees and SUD conversion costs. The District's policy is to amortize these costs over the term of the related agreement.

- c. Restricted Assets

Certain resources set aside for the repayment of proprietary fund revenue bonds are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

Accrued interest payable, current bonds payable and customer deposits are considered to be payable from restricted assets.

- d. Prepaid Expenses, Materials and Supplies

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

**MUSTANG SPECIAL UTILITY DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts (continued)

e. Budget

Prior to the start of the fiscal year, the governing board of the District adopts an operating budget for the upcoming fiscal year. The adopted budget and any subsequent amendments are approved by the Board as prepared by the General Manager of the District.

f. Capital Assets

Capital assets, which include land, buildings, infrastructure, machinery, vehicles, equipment, and improvements, purchased or acquired, are reported at cost. The District defines capital assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed. During the current fiscal year no interest was capitalized.

Management elected not to retroactively report infrastructure assets within the scope of GASB 34.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Vehicles	5 years
Office Furniture and Equipment	5-10 years
Machinery and Equipment	3-10 years
Water Distribution System	5-40 years
Buildings	20-40 years

g. Organizational Costs

The District, in accordance with requirements of the Texas Water Commission, capitalizes and charges to organizational costs for the creation period, all cost incurred in the creation of the District allowed by the Statute. The cost is being amortized over 20 years by the straight-line method, and is shown net of accumulated amortization.

h. Equity Buy-in Fees

The District has entered into equity agreements with Upper Trinity Regional Water District ("UTRWD") to provide the District with the right to purchase services in the future. The District capitalizes the fees associated with these agreements and amortizes the costs over the life of the agreement by the straight-line method. Capitalized costs are shown as net of accumulated amortization.

i. Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Regular full-time employees can accrue vacation as follows: 40 hours during the first year of service, 80 hours during 2-5 years of service, and 120 hours after 5 or more years of service. Only 40 hours will carry over to the next year. Vacation is paid out if two weeks notice is given. Sick leave vests after 10 years of service and up to 300 hours can be carried over into the following year. It is accrued as a liability and the expense is recorded when incurred.

MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Attachment C

A. Summary of Significant Accounting Policies
3. Financial Statement Amounts (continued)

j. Long-Term Obligations

Long-term debt consisting of loans and bonds to be repaid from revenues of the system are included in these accounts. In all proprietary fund financial statements, outstanding debt is reported as a liability. Bond premiums and discounts are deferred and are amortized over the life of the bonds on a straight-line basis. Management has compared this method to the effective interest method and found the difference between the two methods to be immaterial. Effective with the implementation of GASB Statement No. 62, bond issuance costs are expensed as incurred. Bond premiums and discounts are netted against bonds payable.

k. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, less accumulated depreciation, less the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, plus any unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. Unrestricted net position for the District represents the net position available for future operations or distributions.

l. Comparative Data

Comparative total data for the current year to budget have been presented in the supplementary section of the financial statements in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

m. Retirement Plan

The District is a member of the Texas County and 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 ending September 30, 2014 totaled \$23,966.

n. Use of Estimates

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

o. Operating Revenues

Certain revenues such as charges for services are included in operating revenues.

p. Operating Expenses

Certain indirect costs such as administrative costs are included in the operating expense reported for individual functional activities

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation

Expenditures exceeded appropriations in the area of professional and legal fees in the proprietary fund by (\$19,699). In addition, since the District prepares the annual budget on a modified accrual basis, the District does not budget for depreciation or amortization expense. Total depreciation and amortization expense for fiscal year 2014 totaled \$1,797,019.

Action Taken

The expenses over budget were funded by greater than anticipated water and wastewater sales revenue.

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None reported	Not applicable

C. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Statutes of the Texas Water Code. For safekeeping and trust with the District's agent bank, the depository bank deposits approved pledged securities in an amount sufficient to protect the District's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC"). The District was in compliance with these statutes for all of fiscal year 2014.

Cash Deposits

At September 30, 2014, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$7,209,306 and the bank balance was \$7,257,484.

Restricted Cash	2014
Debt Service, including interest and sinking funds required	\$ 1,081,581
Capital Projects	19,799
Developer Escrow Funds	110,790
Customer Deposits	577,892
	<u>\$ 1,790,062</u>

Investments

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

Currently all of the District's investments are with LOGIC Investments and TexStar.

LOGIC is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. LOGIC is a local government investment cooperative created under the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The fund is rated AAA by Standard & Poor's.

MUSTANG SPECIAL UTILITY DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

C. Deposits and Investments
Investments (continued)

The District also invests in TexSTAR. TexSTAR is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. TexSTAR is a local government investment cooperative created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund is rated AAAm by Standard and Poor's.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The District's adopted Investment Policy sets a maximum weighted average maturity of the investment portfolio to 270 days.

As of September 30, 2014, the District had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity - days</u>
LOGIC	\$ 4,014,160	59
TexStar	204,858	51
	<u>\$ 4,219,018</u>	

As of September 30, 2014 the District did not invest in any securities which are highly sensitive to interest rate fluctuations.

Concentration of Credit Risk

The District recognizes over-concentration of assets by market sector or maturity as a risk to the portfolio. The District's Investment Policy establishes diversification as a major objective of the investment program and sets diversification limits for all authorized investment types. At year end, the District was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

To control custody and safekeeping risk, State law and the District's adopted Investment Policy require collateral for all time and demand deposits be held by an independent party approved by the District and held in the District's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Depository agreements are executed under the terms of the U.S. Financial Institutions Resource and Recovery Enforcement Act ("FIRREA"). At year end, the District was not exposed to this type of risk.

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.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Attachment C

D. Receivables

Receivables as of year end for the District's proprietary fund are as follows:

Receivables:	<u>2014</u>
Fees & Services - Mustang	\$ 767,873
Allowance for uncollectibles	(170,496)
Net Receivables	<u>\$ 597,377</u>

E. Capital Assets

Capital asset activity for the period ended September 30, 2014 is as follows:

	Beginning Balances	Transfers	Additions	Retirements	Ending Balances
Business-type Activities					
Capital assets, not being depreciated					
Land	\$ 469,255	\$ -	\$ -	\$ -	\$ 469,255
Construction in progress	195,383	(186,911)	-	-	8,472
Total capital assets, not being depreciated	<u>664,638</u>	<u>(186,911)</u>	<u>-</u>	<u>-</u>	<u>477,727</u>
Capital assets, being depreciated					
Water Distribution System	29,185,160	-	1,170,024	-	30,355,184
Buildings and Improvements	1,360,968	-	-	(1,498)	1,359,470
Furniture and Equipment	758,768	186,911	21,897	-	967,576
Vehicles	334,063	-	22,972	-	357,035
Total assets being depreciated	<u>31,638,959</u>	<u>186,911</u>	<u>1,214,893</u>	<u>(1,498)</u>	<u>33,039,265</u>
Less accumulated depreciation for:					
Water Distribution System	(9,505,671)	-	(1,234,685)	-	(10,740,356)
Buildings and Improvements	(408,292)	-	(54,439)	1,498	(461,233)
Furniture and Equipment	(691,804)	-	(29,684)	-	(721,488)
Vehicles	(231,867)	-	(39,168)	-	(271,035)
Total accumulated depreciation	<u>(10,837,634)</u>	<u>-</u>	<u>(1,357,976)</u>	<u>1,498</u>	<u>(12,194,112)</u>
Total capital assets, being depreciated, net	<u>20,801,325</u>	<u>186,911</u>	<u>(143,083)</u>	<u>-</u>	<u>20,845,153</u>
Business-type activities capital assets, net	<u>\$ 21,465,963</u>	<u>\$ -</u>	<u>\$ (143,083)</u>	<u>\$ -</u>	<u>\$ 21,322,880</u>

F. Amortization

Organizational costs and Equity buy-in fees as of year end for the District, including the accumulated amortization, are shown below. The District amortizes its organizational costs and Equity buy-in fees on a straight-line basis over 10 to 30 years.

	2014			
	Fees	Total Prior Years Amortization	Current Year Amortization Expense	Balance
SUD Conversion Costs	\$ 129,316	\$ (47,420)	\$ (4,311)	\$ 77,585
Equity Buy-in Fees	9,142,117	(2,812,401)	(434,732)	5,894,984
Totals	<u>\$ 9,271,433</u>	<u>\$ (2,859,821)</u>	<u>\$ (439,043)</u>	<u>\$ 5,972,569</u>

MUSTANG SPECIAL UTILITY DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

Attachment C

G. Long-Term Obligations

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2014 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Business-type Activities					
Bonds payable:					
General obligation bonds	\$ 6,590,000	\$ 1,505,000	\$ (315,000)	\$ 7,780,000	\$ 335,000
Plus deferred amounts:					
Bond premium	42,944	-	(2,539)	40,405	2,539
Total bonds payable	6,632,944	1,505,000	(317,539)	7,820,405	337,539
Note payable	2,038,356	-	(121,784)	1,916,572	126,784
Compensated absences	20,716	20,466	(20,466)	20,716	1,104
Business-type activity					
Long-term liabilities	\$ 8,692,016	\$ 1,525,466	\$ (459,789)	\$ 9,757,693	\$ 465,427

Revenue Bonds	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30,		Amounts Outstanding September 30, 2014	Due Within One Year	
			2013	Issued Retired			
Series 2006	4.00%	\$ 4,415,000	\$ 3,030,000	\$ -	\$ (180,000)	\$ 2,850,000	\$ 195,000
Series 2008	5.75%	2,715,000	2,450,000	-	(95,000)	2,355,000	100,000
Series 2009	3.00%	1,220,000	1,110,000	-	(40,000)	1,070,000	40,000
Series 2014	6.00%	1,505,000	-	1,505,000	-	1,505,000	-
Subtotal		9,855,000	6,590,000	1,505,000	(315,000)	7,780,000	335,000
Add deferred amounts:							
For bond issuance premium		55,005	42,944	-	(2,539)	40,405	2,539
Total bonds payable		9,910,005	6,632,944	1,505,000	(317,539)	7,820,405	337,539

Bonded debt service requirements are as follows:

Year Ended September 30	Total Requirements		
	Principal	Interest	Total
2015	\$ 335,000	\$ 374,529	\$ 709,529
2016	345,000	358,579	703,579
2017	360,000	342,041	702,041
2018	425,000	324,816	749,816
2019	440,000	303,804	743,804
2020-2024	2,515,000	1,182,872	3,697,872
2025-2029	2,175,000	572,354	2,747,354
2030-2034	795,000	155,670	950,670
2035-2038	390,000	40,000	430,000
Totals	\$ 7,780,000	\$ 3,654,665	\$ 11,434,665

A brief discussion of each bond issuance follows:

\$4,415,000 Series 2006 Revenue Bonds issued for the purpose to (i) refund \$700,000 of the District's Waterworks System Refunding and Improvement Bonds; (ii) for capital improvements relating to the construction of a 1,000,000 gallon elevated storage tank; (iii) for capital improvements relating to the acquisition of sewage treatment capacity; and (iv) to pay the costs associated with the issuance of the Bonds.

\$2,715,000 Series 2008 Revenue Bonds issued for the purpose of funding capital improvements to the System, including the drilling of a new water well, water pumping stations and ground water storage facilities, to fund a debt service reserve fund and for payment of costs incurred in connection with the issuance of the Bonds.

\$1,220,000 Series 2009 Revenue Bonds issued for the purpose of funding capital improvements to the System, including the drilling of new water wells, and the construction of water pumping stations and ground water storage facilities, and for payment of costs incurred in connection with the issuance of the Bonds.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

G. Long-Term Obligations (continued)

\$1,505,000 Series 2014 Revenue Bonds issued for the purpose of funding capital improvements to the System, including the acquisition of sewage treatment capacity in a regional wastewater treatment plant, to fund a debt service reserve for the Bonds, to fund capitalized interest for the Bonds and for payment of costs incurred in connection with the issuance of the Bonds.

Note Payable

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

Note Payable	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2013	Issued	Retired	Amounts Outstanding September 30, 2014	Due Within One Year
UTRW District note payable	2.29%	\$ 2,202,850	\$ 2,038,356	\$ -	\$ (121,784)	\$ 1,916,572	\$ 126,784

Note payable debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2015	\$ 126,784	\$ 86,668	\$ 213,452
2016	131,988	81,463	213,451
2017	137,407	76,044	213,451
2018	143,048	70,403	213,451
2019	148,920	64,531	213,451
2020-2024	841,483	225,774	1,067,257
2025-2026	386,942	39,961	426,903
Totals	\$ 1,916,572	\$ 644,844	\$ 2,561,416

H. Customer Deposits

The District requires each new customer to deposit \$100 for water service and \$50 for sewer service, which is held as a refundable deposit to secure payment of the customer's water and sewer bill. At September 30, 2014, the District's related obligation totaled \$549,100.

I. Pension Plan

1. Plan Description

The District provides retirement benefits for all of its employees (excluding temporary) through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 655 non-traditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Each employer has a defined benefit plan that functions similarly to a cash balance plan. The assets of the plans are pooled for investment purposes, but each employer's plan assets may be used only for the payment of benefits to the members of that employer's plan. In accordance with Texas law, it is intended that the pension plan be constructed and administered in a manner that the retirement system will be considered qualified under Section 401(a) of the Internal Revenue Code. All employees (except temporary staff) of a participating employer must be enrolled in the plan.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Attachment C

I. Pension Plan (continued)

2. Funding Policy

As of December 31, 2013, the most recent actuarial valuation date, the plan was 109.3% funded. The actuarial accrued liability for benefits was \$409,685, and the actuarial value of assets was \$447,793, resulting in an unfunded (or overfunded) actuarial accrued liability (UAAL) or (OAAL) of (\$38,108). The covered payroll (annual payroll of active employees covered by the plan) was \$792,350, and the ratio of the UAAL or (OAAL) to the covered payroll was (4.8%).

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

3. Annual Pension Cost

The required contribution was determined as part of the December 31, 2013 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2013 included (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.9 percent. Both (a) and (b) are included in the inflation component of 3 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013 was 30 years.

Mustang Special Utility District Schedule of Actuarial Liabilities and Funding Progress						
Actuarial valuation date	12/31/11		12/31/12		12/31/13	
	Entry Age		Entry Age		Entry Age	
Actuarial cost method	Level %		Level %		Level %	
Amortization method	20 years-closed		30 years-open		30 years-open	
Amortization period	10-yr smoothed		10-yr smoothed		5-yr smoothed	
Asset valuation method	value		value		value	
Actuarial value of assets	\$	320,120	\$	383,809	\$	447,793
Actuarial accrued liability		336,701		384,281		409,685
Percentage funded		95.1%		99.9%		109.3%
Unfunded (over-funded) actuarial accrued liability (UAAL)		16,581		472		(38,108)
Annual covered payroll		711,000		717,536		792,350
UAAL as a percentage of covered payroll		2.3%		0.1%		-4.8%
Net pension obligation (NPO) at the beginning of the period		-		-		-
Annual pension cost:						
Annual required contribution (ARC)	Plus	22,708	22,896	23,966		
Contributions made	Less	(22,708)	(22,896)	(23,966)		
NPO at the end of the period		\$ -	\$ -	\$ -		
Actuarial assumptions:						
Investment rate of return		8.00%	8.00%	8.00%		
Inflation rate		3.50%	3.50%	3.00%		
Projected salary increase		5.40%	5.40%	4.90%		

The District fully funded its required contributions for each of the last three fiscal years. Pension contributions were \$22,708, \$22,896, and \$23,966 for fiscal years ending September 30, 2012, 2013 and 2014, respectively.

J. Health Care Coverage

During the year ended September 30, 2014, the employees of the District were covered by a health insurance plan. The District contributed \$829 for health and \$31 for dental per month per employee for the year ended September 30, 2014. Health coverage was through Blue Cross Blue Shield of Texas, and dental coverage was through Assurant Employee Benefits. The Plan is authorized by article 3.51-2, Texas Insurance Code and documented by contractual agreement.

K. Pending Claims and Litigation

The District is party to various minor claims and litigation, which have arisen in the ordinary course of business. In addition, the District has been a party to legal proceedings since October 1, 2011 wherein the Town of Providence Village, Texas has filed legal actions against the Water Control Improvement District and Mustang Special Utility District to void a contract entered into prior to the formation of the Town. In the opinion of counsel and the Board's opinion, the District has adequate legal defenses and/or insurance coverage with respect to this action and does not believe it will materially alter the District's financial position. There have been no material loss contingencies of the District and no potential loss is anticipated in relation to the proceedings.

L. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are managed through the purchase of commercial insurance policies. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not yet reported.

No significant reductions in insurance coverage have occurred. No settlements have exceeded coverage in the past three years.

The District estimates that the amount of actual or potential claims against it as of September 30, 2014 will not materially affect the financial condition of the District. Therefore, the accompanying financial statements do not contain a provision for any such claims.

M. 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
- Denton County Freshwater Supply District No. 11C

Each freshwater district maintains a separate contract with the District; therefore, 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 the client districts on a pro-rata basis based on the number of active equivalent single family connections contained in each freshwater district. Additionally, freshwater districts will pay to the District thirty percent (30%) of any disconnection, re-connection or return check fees charged by the District related to disconnections or re-connections necessitated by a District customer's failure to timely pay for water and/or wastewater services.

At various dates, 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.

The freshwater district funds were reclassified as fiduciary funds beginning in fiscal year 2014. This reclassification serves to segregate the fiduciary cash, accounts receivable and accounts payable attributable to the freshwater districts the District performs accounting services for, with no impact on the net position of the District.

MUSTANG SPECIAL UTILITY DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

N. Commitments and Contingencies

The District has no active projects as of September 30, 2014. Commitments for these projects in progress are composed of the following:

	Spent to Date	Remaining Commitment	
New Hope Road Water Line	\$ 8,472	\$ -	*
	<u>\$ 8,472</u>	<u>\$ -</u>	

*This project has been delayed indefinitely and there are no contractual agreements on it.

O. Operating Lease Obligations

The District leases a copier to provide for the printing, scanning and faxing needs of the daily operations. The lease expense for fiscal 2014 was \$5,835. The minimum future lease cost is \$5,829 for fiscal 2015. The lease expires in fiscal 2015.

P. Joint Agreements

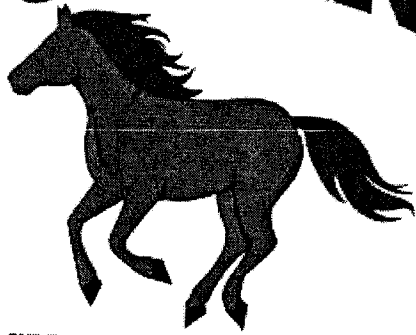
The District has entered into equity agreements with the Upper Trinity Regional Water District ("UTRWD") to provide the District with water resources into the future. Amounts paid to the UTRWD for treated water and wastewater capacity are capitalized and appear on the Statement of Net Position as "Equity Buy-in Fees, Net". Additionally, agreements have been executed for the construction of additional water treatment and distribution services. There are agreements in place for shared costs of facilities presently in use which require monthly service contract payments to UTRWD.

Q. Subsequent Events

The District has evaluated all events or transactions that occurred after September 30, 2014 up through February 6, 2015, the date the financial statements were available to be issued. During that time, management is not aware of any events requiring financial statement disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

MUSTANG



SPECIAL UTILITY DISTRICT

**MUSTANG SPECIAL UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**TCDRS - SCHEDULE OF FUNDING PROGRESS
LAST SIX FISCAL YEARS (UNAUDITED)**

Fiscal Year	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) -Unit Credit	(3) Unfunded (Overfunded) Actuarial Liability UAAL (OAAL) (2)-(1)	(4) Funded Percent (1)/(2)	(5) Covered Payroll	(6) UAAL as Percent of Covered Payroll (3)/(5)
2009	12/31/2008	\$ 132,785	\$ 132,785	\$ -	100.0%	\$ 22,568	0.0%
2010	12/31/2009	192,771	208,100	15,329	92.6%	692,524	2.21%
2011	12/31/2010	254,901	259,981	5,080	98.0%	647,944	0.78%
2012	12/31/2011	320,120	336,701	16,581	95.1%	711,000	2.33%
2013	12/31/2012	383,809	384,281	472	99.9%	717,536	0.07%
2014	12/31/2013	447,793	409,685	(38,108)	109.3%	792,350	-4.81%