

MUSTANG SPECIAL UTILITY DISTRICT

of Denton County, Texas

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 2017

General Manager
Chris Boyd

Financial Services Manager
Patty Parks



**MUSTANG SPECIAL UTILITY DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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**MUSTANG SPECIAL UTILITY DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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MUSTANG SPECIAL UTILITY DISTRICT
ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }

COUNTY OF _____ }

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

MUSTANG SPECIAL UTILITY DISTRICT
(Name of District)

hereby swear, 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 _____, 2018, its annual audit report for the fiscal year ended *September 30, 2017* and that copies of the annual audit report have been filed in the district office, located at:

7985 FM 2931, AUBREY, TX 76227

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)

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



INTRODUCTORY SECTION





May 11, 2018

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, 2017, 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 unmodified ("clean") opinion on the District's financial statements for the year ended September 30, 2017. 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 continues to remain above the national average in economic health. Several national companies have recently built their headquarters in North Central Texas. The District has been experiencing annual growth of more than 10% and is expected to maintain the same pace in the near future. This translates to 700 – 1,000 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 is working to increase groundwater resources with the drilling of an additional well, the completion of several more wells, and the addition of several ground/elevated storage tanks.

The District is working to increase wastewater capacity by building a wastewater treatment plant on the northeast side 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 adopted 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 Financial Services Manager, the General Manager, and the Board of Directors 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, 2017, 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 people 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 of the Financial Services Department 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,

A handwritten signature in black ink, appearing to read "C Boyd", written in a cursive style.

CHRIS BOYD
GENERAL MANAGER

A handwritten signature in black ink, appearing to read "P Parks", written in a cursive style.

PATTY PARKS
FINANCIAL SERVICES MANAGER

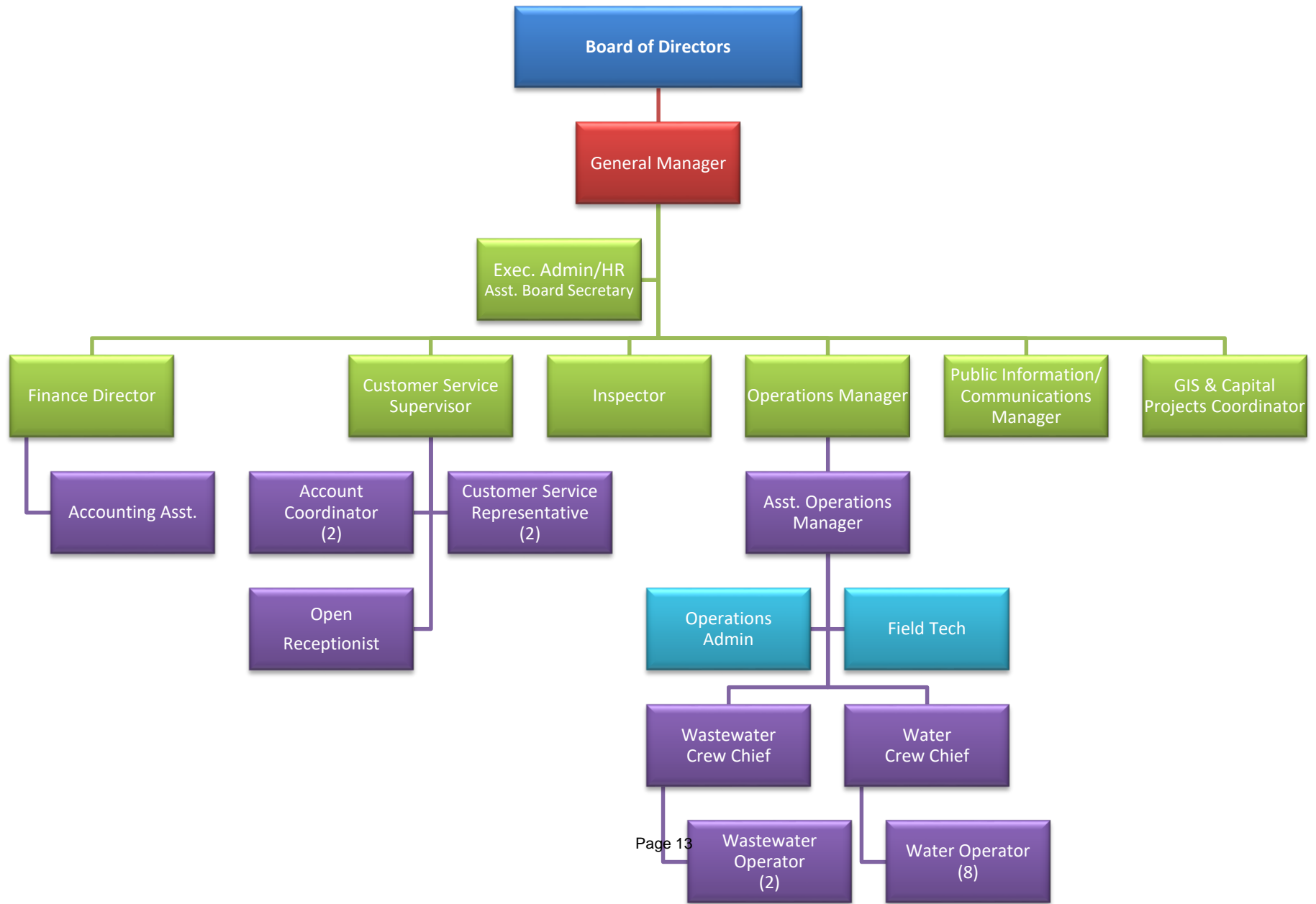
**MUSTANG SPECIAL UTILITY DISTRICT
BOARD OF DIRECTORS
AS OF SEPTEMBER 30, 2017**

Dean Jameson	President
Marc Hodak	Vice President
Kim Lehere	Secretary
Michael Walker	Director
Donna Sims	Director
Wade Veeder	Director
Mike Frazier	Director
Matt Gauntt	Director
Ken Mitchell	Director

Mustang Special Utility District

2016 – 2017 Organizational Chart

29 Full-Time Employees





FINANCIAL SECTION





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

Member
American Institute of CPAs
Texas Society of CPAs

May 11, 2018

Independent Auditor's Report

To the Board of Directors
Mustang Special Utility District

Report on the Financial Statements

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, 2017 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 includes 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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) 771-1022

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate remaining fund information of Mustang Special Utility District as of September 30, 2017 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 and the TCDRS – Schedule of Funding Progress and Schedule of Changes in Net Pension Liability and Related Ratios 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.

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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Comptroller General of the United States; and the audit requirements of Title 2 US. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

The Budgetary Comparison Schedule, the Combining Statement of Agency Assets and Liabilities-Fiduciary Funds, the Combining Statement of Changes in Assets and Liabilities-Fiduciary Funds, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were 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, the Combining Statements of Agency Assets and Liabilities-Fiduciary Funds, the Combining Statement of Changes in Assets and Liabilities-Fiduciary Funds, and the Schedule of Expenditures of Federal Awards are 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 11, 2018 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Mustang Special Utility District's internal control over financial reporting and compliance.

Respectfully submitted,
CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.



MUSTANG SPECIAL UTILITY DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2017

Within this section of the Mustang Special Utility District's ("District") annual comprehensive financial report, management provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2017. 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 \$48,690,893 (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 \$27,781,053, or 57%, of total net position. Restricted net position of \$759,940, or 2% of total net position, is restricted for debt service.
- The District's total net position increased by \$9,752,930. The majority of this increase is attributable to capital contributions.
- Net investment in capital assets totaled \$20,149,900, or 41% of total net position. This amount includes land, buildings, equipment, vehicles and infrastructure less related accumulated depreciation, less outstanding debt used to purchase the capital assets.

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 (4) 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.

**MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017**

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 financial statements. The notes to the financial statements begin immediately following the basic financial statements.

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.

Other Information - The Budgetary Comparison Schedule, the Combining Statement of Agency Assets and Liabilities-Fiduciary Fund, and Combining Statement of Changes in Assets and Liabilities-Fiduciary Funds are also included within the Supplemental Schedules of this report.

New GASB pronouncements

GASB Statement No. 72, "Fair Value Measurement and Application" addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes and, also, provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of this Statement does not result in any changes to the District's financial statements.

GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68". The implementation of this statement is included in the Required Supplementary Information as provided by TCDRS. The implementation of this Statement does not result in any changes to the District's financial statements.

GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" is to address the hierarchy of generally accepted accounting principles (GAAP). This statement reduces the GAAP hierarchy to two categories of authoritative GAAP. This statement supersedes Statement No. 55 and amends Statement No. 62. The implementation of this Statement does not result in any changes to the District's financial statements.

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

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions", that replaces Statement No. 45 and amends Statement No. 57 and 74 will be implemented in fiscal year September 30, 2018.

MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

	Net Position	
	2017	2016
Current and other assets	\$ 30,261,406	\$ 30,779,210
Noncurrent assets	2,781,000	3,746,000
Capital assets	43,828,691	29,976,051
Total assets	<u>76,871,097</u>	<u>64,501,261</u>
Deferred outflows of resources-pension	<u>285,319</u>	<u>160,387</u>
Long-term liabilities	24,008,320	24,016,727
Current liabilities	4,452,544	1,701,520
Total liabilities	<u>28,460,864</u>	<u>25,718,247</u>
Deferred inflows of resources-pension	<u>4,659</u>	<u>5,438</u>
Net investment in capital assets	20,149,900	6,560,934
Restricted	759,940	759,940
Unrestricted	27,781,053	31,617,089
Total net position	<u>\$ 48,690,893</u>	<u>\$ 38,937,963</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 \$48,690,893 as of September 30, 2017. The District's net position increased by \$9,752,930 for the fiscal year ended September 30, 2017. The majority of this increase is attributable to capital contributions.

Net investment in capital assets:

The largest portion of total net position, \$20,149,900, or 41%, 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.

Restricted net position:

The restricted net position of, \$759,940, or 2%, of total net position represents resources that are subject to external restrictions on their use, or by enabling legislation. The District's restricted net position is 100% for debt obligations.

Unrestricted net position:

Unrestricted net position of, \$27,781,053 or 57%, of total net position represents resources that are available to the District to fund programs for its customers and payments to its creditors.

MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

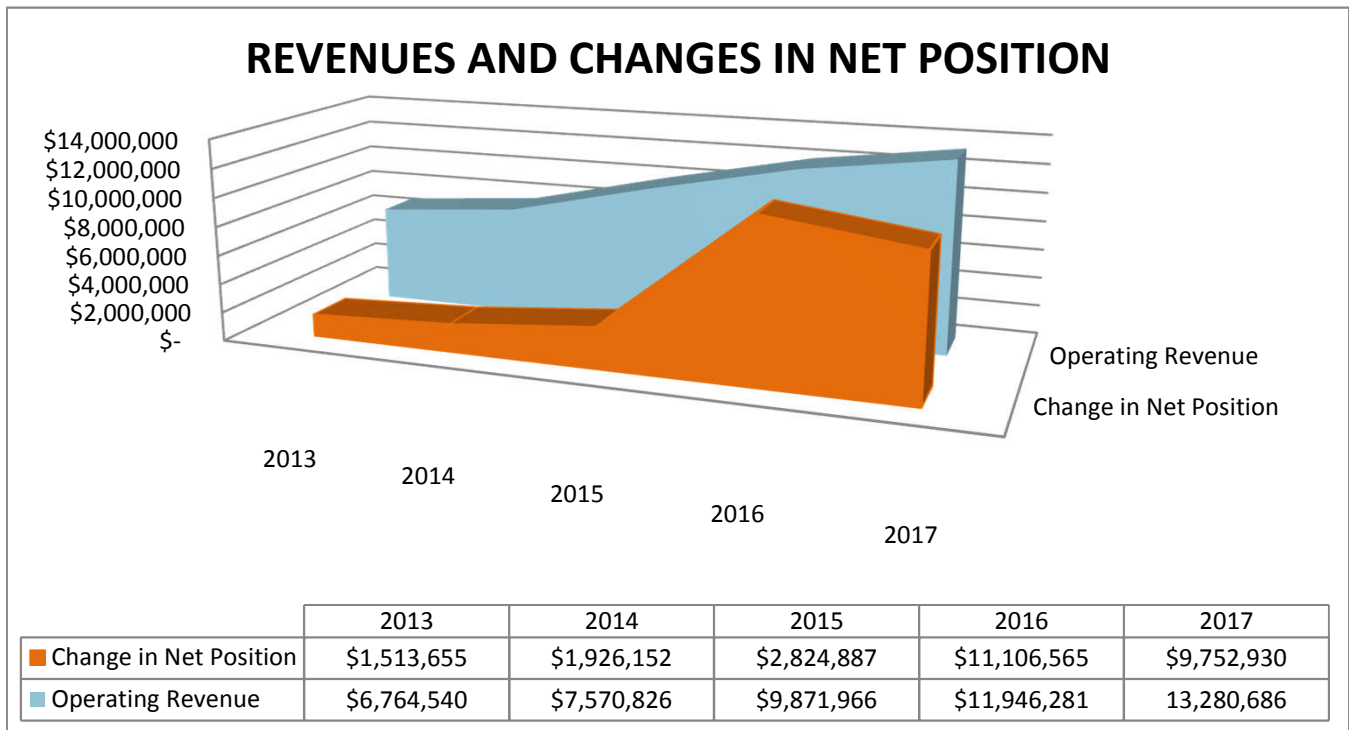
Changes in Net Position

	Business-type Activities		Total Percentage Change Favorable/ (Unfavorable)
	2017	2016	
REVENUES			
Program Revenues:			
Charges for sales and services:			
Water/wastewater sales	\$ 7,522,097	\$ 6,438,808	16.82%
Customer charges/fees	3,528,666	3,955,411	-10.79%
Operating contracts	2,166,540	1,535,456	41.10%
General Revenues:			
Miscellaneous revenue	63,383	16,606	281.69%
Investment income	118,408	59,298	99.68%
Gain on disposal of capital assets	94,558	425,618	-77.78%
Transfer of CCN	375,000	1,668,838	100.00%
Total revenues	13,868,652	14,100,035	-1.64%
EXPENSES			
Operating expenses	10,838,433	10,250,904	-5.73%
Interest expense	670,453	556,143	-20.55%
Total expenses	11,604,402	10,807,047	-7.38%
Change in net position before contributions	2,264,250	3,292,988	-31.24%
Capital contributions	7,488,680	7,813,577	-4.16%
Change in net position	9,752,930	11,106,565	-12.19%
Net position - beginning of year	38,937,963	27,831,398	-39.91%
Net position - end of year	\$ 48,690,893	\$ 38,937,963	25.05%

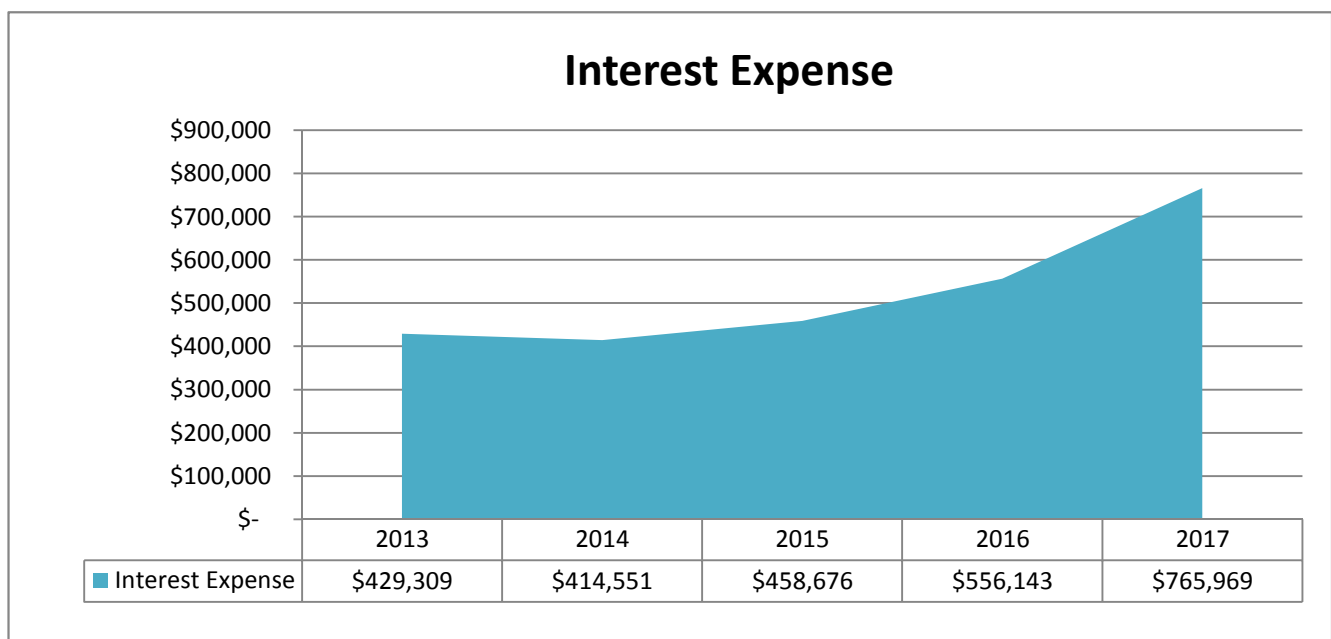
The District as a whole is primarily reliant on charges for services. Activities were 95% supported by charges for services and 5% of revenues were derived from other sources.

**MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
CHART OF REVENUES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2013 - 2017**

REVENUES AND CHANGES IN NET POSITION



CHANGE IN INTEREST EXPENSE



MUSTANG SPECIAL UTILITY DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

Capital Assets

The District's investment in capital assets as of September 30, 2017 totals \$43,828,691, 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 increase in capital assets for the current fiscal year was \$13,852,640 or 46%, from the prior fiscal year.

Major capital asset events during the current fiscal year included the following:

- Shahan Lakeview infrastructure improvements
- Wildridge infrastructure improvements
- Union Park infrastructure improvements
- Woodridge Estates infrastructure improvements
- Woodlands infrastructure improvements
- Winn Ridge infrastructure improvements
- Acquisition of Oak Point Water CCN
- Sandbrock 24" water line
- Acquisition of land for Sanbrock WWTP

Capital Assets
as of September 30, 2017
(Net of Accumulated Depreciation)

	Business-type Activities		Total Percentage Change Increase/ (Decrease)
	2017	2016	
Land and improvements	\$ 1,488,076	\$ 486,546	-
Construction in progress	6,577,711	3,003,841	118.98%
Water distribution system	33,942,590	24,657,072	37.66%
Buildings and improvements	904,138	915,359	-1.23%
Furniture and equipment	720,059	755,761	-4.72%
Vehicles	196,117	157,472	24.54%
Total	<u>\$ 43,828,691</u>	<u>\$ 29,976,051</u>	<u>46.21%</u>

More detailed information about the District's capital assets is presented in Note E to the financial statements.

Long-Term Obligations

As of September 30, 2017, the District has a total long-term debt outstanding of \$23,564,393. During, the fiscal year, total debt decreased by \$211,407.

Outstanding Debt
as of September 30, 2017

	Business-type Activities		Total Percentage Change Increase/ (Decrease)
	2017	2016	
Bonds payable	\$ 20,289,000	\$ 21,218,000	-4.38%
Note payable	3,275,393	2,557,800	28.06%
Total	<u>\$ 23,564,393</u>	<u>\$ 23,775,800</u>	<u>-0.89%</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, 2017**

Economic Factors and Next Year's Budgets and Rates

North Central Texas continues to be above the national average in terms of economic health. The District has been seeing annual growth of more than 10%, and is expecting the pace to continue another year. However, because developer fees from growth are non-recurring and unpredictable, they are not considered when developing the operating budget.

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 major revenue sources are comprised of water and wastewater sales, customer charges and fees, and contract payments from the client districts providing service to their customers.

The objectives for FY 2017 include the following:

- Streamline procedures.
- Improve Human Resources function.
- Improve internal branding.
- Integrate city communications into our customer outreach.

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.



BASIC FINANCIAL STATEMENTS



**MUSTANG SPECIAL UTILITY DISTRICT
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

	Proprietary Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 6,684,972
Receivables, net of allowance for uncollectibles	2,620,397
Inventory	239,657
Prepays	3,844
Restricted cash and cash equivalents	5,265,468
Total current assets	14,814,338
Non-current assets:	
Organizational costs, net of accumulated amortization	64,652
Present service capacity, net of accumulated amortization	15,382,416
Bond receivables	2,781,000
Capital assets:	
Non-depreciable capital assets	8,065,788
Depreciable capital assets, net	35,762,903
Total capital assets, net of accumulated depreciation	43,828,691
Total non-current assets	62,056,759
Total Assets	76,871,097
DEFERRED OUTFLOW OF RESOURCES	
Deferred outflow of resources-pension	285,319
LIABILITIES	
Current liabilities:	
Accounts payable	3,597,528
Current portion of note payable	243,048
Payable from restricted assets:	
Accrued interest payable	126,433
Customer deposits	728,583
Current portion of bonds payable	614,000
Total current liabilities	5,309,592
Noncurrent liabilities:	
Escrow payable from restricted assets	112,518
Net pension liability	196,294
Compensated absences	20,716
Note payable	3,032,345
Bonds payable, net of premium	19,789,399
Total noncurrent liabilities	23,151,272
Total Liabilities	28,460,864
DEFERRED INFLOW OF RESOURCES	
Deferred inflow of resources-pension	4,659
NET POSITION	
Net investment in capital assets	20,149,900
Restricted for:	
Loan servicing	759,940
District operations	-
Unrestricted	27,781,053
Total Net Position	\$ 48,690,893

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, 2017**

	Proprietary Fund
OPERATING REVENUES	
Charges for sales and services:	
Water/wastewater sales	\$ 7,522,097
Customer charges/fees	3,528,666
Operating contracts	2,166,540
Miscellaneous income	63,383
Total operating revenues	13,280,686
OPERATING EXPENSES	
Operation and Maintenance:	
Personnel costs and benefits	1,614,456
Water distribution system	4,845,654
Other operating costs	495,296
Professional and legal fees	447,757
Insurance	368,134
Depreciation and amortization	3,067,136
Total operating expenses	10,838,433
Operating income (loss)	2,442,253
NON-OPERATING REVENUES (EXPENSES)	
Investment income	118,408
Gain on sale of assets	94,558
Interest expense	(765,969)
Transfer of CCN	375,000
Total non-operating revenues (expenses)	(178,003)
Net income (loss) before contributions	2,264,250
CAPITAL CONTRIBUTIONS	
Developer contributions	7,488,680
Total capital contributions	7,488,680
Change in net position	9,752,930
Net position - beginning of year	38,937,963
Net position - end of year	\$ 48,690,893

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, 2017**

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 11,765,648
Cash received from other sources	1,028,383
Cash paid to employees	(1,809,453)
Cash paid to suppliers	(3,273,447)
Net cash provided by (used for) operating activities	<u>7,711,131</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(16,292,619)
Gain on sale of assets	94,558
Interest paid on note and bonds payable	(765,969)
Proceeds from bond	14,142,000
Principal paid on bonds payable	(14,274,335)
Present service capacity	(1,182,499)
Developer contributions	7,488,680
Transfer of CNN	375,000
Net cash provided by (used for) capital and related financing activities	<u>(10,415,184)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	118,408
Net cash provided by investing activities	<u>118,408</u>
Net increase (decrease) in cash and cash equivalents	(2,585,645)
Cash and cash equivalents at beginning of year	14,536,086
Cash and cash equivalents at end of year	<u><u>\$ 11,950,441</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 2,442,253
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	3,067,136
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Receivables	(1,534,856)
Prepaid items	(2,194)
Bond receivables	965,000
Inventory	24,550
Increase (decrease) in liabilities:	
Accounts payable	2,733,436
Accrued expenses	(192,045)
Escrow payable	1,169
Customer deposits	83,201
Accrued interest payable	126,433
Pension liability	(2,952)
Total adjustments	<u>5,268,878</u>
Net cash provided (used) by operating activities	<u><u>\$ 7,711,131</u></u>

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

**MUSTANG SPECIAL UTILITY DISTRICT
STATEMENT OF AGENCY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
SEPTEMBER 30, 2017**

	Freshwater Districts Paloma Creek	Freshwater District Savannah	Total Fiduciary Funds
ASSETS			
Cash and cash equivalents - restricted	\$ 547,565	\$ 288,325	\$ 835,890
Accounts Receivable	434,251	185,804	620,055
Total assets	<u>981,816</u>	<u>474,129</u>	<u>1,455,945</u>
LIABILITIES			
Accounts Payable	981,816	474,129	1,455,945
Total liabilities	<u>\$ 981,816</u>	<u>\$ 474,129</u>	<u>\$ 1,455,945</u>

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

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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 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 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 these notes. The remainder of the notes are organized to provide concise explanation, including required disclosures of 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, 2017.

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, 2017, 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 fits this criteria.

2. Basis of Presentation

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.

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 fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2. Basis of Presentation (continued)

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 funds of the District:

The three client district funds are used to account for assets held by the District in an agency capacity for the client 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.

3. Measurement Focus, 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 GASB.

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 statements 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 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.

4. 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 organizational costs.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (continued)

c. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets represent cash and cash equivalents set aside for repayment of deposits to utility customers and various bond covenants.

d. Prepaid Expenses, Payables

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

The District believes that sufficient detail of payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation.

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 capitalized and amortizes the organizational costs associated with the creation of the Mustang Special Utility District in May 2002. These costs are being amortized over 30 years using the straight-line method. See Note F for detail of the amortization.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (continued)

h. Present Service Capacity of a Resource

The District is a member of Upper Trinity Regional Water District ("UTRWD") and is eligible to contract with UTRWD for water and wastewater services. Several contracts have been made with UTRWD, each of which specify the amount of capacity available for the District for use. This cost of capacity is paid for up-front and the capacity is available for thirty 30 years. The costs associated with the capacity of the system are capitalized and amortized over the life of the agreement using the straight-line method. Capitalized costs are shown 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, 120 hours during 5-10 years of service, 160 hours after 10 years of service. Only 40 hours will carry over to the next year. Vacation is paid out if two weeks of 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.

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 the 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. GASB Statement No. 62 requires bond issuance costs are expensed as incurred. Bond premiums and discounts are netted against bonds payable.

k. Pensions

The District recognizes a net pension liability/(asset), which represents the District's proportionate share of the excess of the total pension liability or (asset) over the fiduciary net position of the pension reflected in the actuarial report provided by the Texas Counties and Districts Retirement System ("TCDRS"). The net pension liability or (asset) is measured as of December 31, 2016. Changes in the net pension liability or (asset) are recorded as pension expense or as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) will be amortized over the weighted average remaining service life of all participants and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability or (asset) and deferred inflows/outflows of resources relating to pension expense, information about the fiduciary net position of the District's pension plan with TCDRS and additions to and/or deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by TCDRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and will be amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed five-year period of recognition.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (continued)

l. 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.

m. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statements element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. The District has one item that is reportable in the proprietary fund Statement of Net Position: Outflows from changes in net pension liability.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until then. The District has one item that is reportable in the proprietary fund Statement of Net Position: Inflows from changes in net pension liability.

n. Net Position of Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's practice to consider restricted net position to have been depleted before unrestricted net position is applied.

o. 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.

p. Use of Estimates

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

q. Program Revenues

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

r. Program Expenses

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

s. Inventory

The basis for stating inventory is at cost.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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:

<u>Fund Name</u>	<u>Deficit Amount</u>
Not applicable	Not applicable

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>
Not applicable	Not applicable

C. CASH 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 2017.

Cash Deposits

At September 30, 2017, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$11,950,440 and the bank balance was \$12,394,438.

Restricted Cash	2017
Debt Service, including interest and sinking funds required	\$ 2,437,686
Capital Projects	2,009,151
Developer Escrow Funds	112,486
Repairs & Replacements	10,064
Customer Deposits	696,081
	<u>\$ 5,265,468</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 their policies.

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.

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 AAA 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.

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.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

C. CASH AND INVESTMENTS

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 fiscal end, the District was not exposed to foreign currency risk.

Fair Value of Investments

The District is required to disclose the fair value of its investments within the fair value hierarchy established by GASB 72. In the fair value hierarchy there are three levels: 1) inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date, 2) inputs (other than quoted prices included within level one) that are observable for an asset or liability, either directly or indirectly, 3) unobservable inputs for an asset or liability.

Federal Securities classified as level two of the fair value hierarchy are valued using an evaluation model maintained by surveying the dealer community, obtaining relevant trade dates and spreads, and incorporating information into the evaluation process. U.S. Treasury Notes classified as level two of the fair value hierarchy are valued using an evaluation mode with continuous feeds from live data sources including active market makers and inter-dealer brokers.

The District invests in LOGIC and TexStar investment pools which maintain a stable net asset value (NAV) of \$1 per share using the fair value method. The District has no unfunded commitments to these pools and may redeem investments at any time. As of September 30, 2017 the District's investments all were classified as level two according to the GASB 72, except for the pools which are exempt from the level of fair value disclosure because they are valued either at NAV or amortized cost.

**SUMMARY OF INVESTMENTS AND CASH EQUIVALENTS, RELATED WEIGHTED AVG.
MATURITY AND FAIR VALUE MEASUREMENTS**

<u>Item</u>	<u>Certificate</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End</u>
<u>Proprietary Fund Type</u>				
<u>Enterprise Fund</u>				
LOGIC Accounts:				
Customer Deposit Fund	n/a	1.2827%	n/a	\$ 696,081
System Growth Fund	n/a	1.2827%	n/a	2,812,650
Developers Escrow Account	n/a	1.2827%	n/a	112,486
2009 Debt Reserve	n/a	1.2827%	n/a	103,057
2014 Debt Reserve	n/a	1.2827%	n/a	114,774
2016 Repairs & Replacement	n/a	1.2827%	n/a	10,064
2016 Debt Reserve	n/a	1.2827%	n/a	11,739
2016A Debt Reserve	n/a	1.2827%	n/a	4,552
2017 Debt Reserves	n/a	1.2827%	n/a	408,076
Independent Bank-NOW Account:				
Operating Account	n/a	1.2615%	n/a	3,332,410
System Growth Account	n/a	1.2615%	n/a	394,333
Series 2009 Revenue Bonds Interest & Sinking	n/a	1.2615%	n/a	2,625
Series 2014 Revenue Bond Interest & Sinking	n/a	1.2615%	n/a	2,632
Series 2016 Revenue Bond Interest & Sinking	n/a	1.2615%	n/a	1,119,012
Series 2016A Revenue Bonds Interest & Sinking	n/a	1.2615%	n/a	243,196
Payments	n/a	1.2615%	n/a	143,325
Capital Projects	n/a	1.2615%	n/a	854
2017 Construction	n/a	1.2615%	n/a	10,135
TexStar Accounts:				
Series 2009 Revenue Bonds Interest & Sinking	n/a	1.0384%	n/a	20,404
Series 2014 Revenue Bond Interest & Sinking	n/a	1.0384%	n/a	15,295
Series 2016 Revenue Bond Interest & Sinking	n/a	1.0384%	n/a	58,784
Series 2016A Revenue Bond Interest & Sinking	n/a	1.0384%	n/a	53,082
2017 Debt Reserves	n/a	1.0384%	n/a	148,256
2017 Construction	n/a	1.0384%	n/a	1,999,016
UTRWD Interest & Sinking	n/a	1.0384%	n/a	132,202
 Total				 <u>\$ 11,949,040</u>

MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

D. RECEIVABLES

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

Receivables:	2017
Fees & Services - Mustang	\$ 2,628,041
Allowance for uncollectibles	(7,644)
Net Receivables	<u>\$ 2,620,397</u>

E. CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2017 is as follows:

	Beginning Balances	Prior Period Adjustment	Transfer	Additions	Retirements	Ending Balances
Business-type Activities						
Capital assets, not being depreciated						
Land	\$ 486,546	\$ -	\$ -	\$ 1,001,530	\$ -	\$ 1,488,076
Construction in progress	3,003,841	-	(4,147,780)	7,748,242	(26,593)	6,577,710
Total capital assets, not being depreciated	<u>3,490,387</u>	<u>-</u>	<u>(4,147,780)</u>	<u>8,749,772</u>	<u>(26,593)</u>	<u>8,065,786</u>
Capital assets, being depreciated						
Water Distribution System	38,179,370	-	4,120,518	7,363,624	-	49,663,512
Buildings and Improvements	1,490,720	-	-	50,425	-	1,541,145
Equipment	1,412,311	-	27,262	18,150	-	1,457,723
Vehicles	499,467	-	-	137,241	-	636,708
Total assets being depreciated	<u>41,581,868</u>	<u>-</u>	<u>4,147,780</u>	<u>7,569,440</u>	<u>-</u>	<u>53,299,088</u>
Less accumulated depreciation for:						
Water Distribution System	(13,522,297)	-	-	(2,198,623)	-	(15,720,920)
Buildings and Improvements	(575,361)	-	-	(61,646)	-	(637,007)
Equipment	(656,550)	-	-	(81,114)	-	(737,664)
Vehicles	(341,996)	-	-	(98,596)	-	(440,592)
Total accumulated depreciation	<u>(15,096,204)</u>	<u>-</u>	<u>-</u>	<u>(2,439,979)</u>	<u>-</u>	<u>(17,536,183)</u>
Total capital assets, being depreciated, net	<u>26,485,664</u>	<u>-</u>	<u>4,147,780</u>	<u>5,129,461</u>	<u>-</u>	<u>35,762,905</u>
Business-type activities capital assets, net	<u>\$ 29,976,051</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,879,233</u>	<u>\$ (26,593)</u>	<u>\$ 43,828,691</u>

MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

F. AMORTIZATION

Organizational costs and present service capacity costs, including the accumulated amortization, are shown below.

Amortization is on a straight-line basis over 30 years for organizational costs and present service capacity.

	Beginning Balance	Total Prior Years Amortization	Current Year Additions	Current Year Amortization Expense	Ending Balance
Organizational Costs	\$ 129,316	\$ (60,362)	\$ -	\$ (4,302)	\$ 64,652
Present Service Capacity	20,144,365	(5,321,603)	1,182,500	(622,846)	15,382,416
	<u>\$ 20,273,681</u>	<u>\$ (5,381,965)</u>	<u>\$ 1,182,500</u>	<u>\$ (627,148)</u>	<u>\$ 15,447,068</u>

G. LONG-TERM DEBT OBLIGATIONS

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2017 is as follows:

Business-type Activities	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 21,218,000	\$ 4,055,000	\$ (4,984,000)	\$ 20,289,000	\$ 614,000
Plus deferred amounts:					
Bond premium	35,327	81,896	(2,824)	114,399	-
Total bonds payable	21,253,327	4,136,896	(4,986,824)	20,403,399	614,000
Notes payable	2,557,800	955,000	(237,407)	3,275,393	243,048
Compensated absences	20,716	11,627	(11,627)	20,716	-
Business-type activity					
Long-term liabilities	<u>\$ 23,831,843</u>	<u>\$ 5,103,523</u>	<u>\$ (5,235,858)</u>	<u>\$ 23,699,508</u>	<u>\$ 857,048</u>

Revenue Bonds	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2016	Issued	Retired	Amounts Outstanding September 30, 2017	Due Within One Year
Series 2006	4.00%	\$ 4,415,000	\$ 2,460,000	\$ -	\$ (2,460,000)	\$ -	\$ -
Series 2008	5.75%	2,715,000	2,150,000	-	(2,150,000)	-	-
Series 2009	5.30%	1,220,000	985,000	-	(45,000)	940,000	50,000
Series 2014	6.00%	1,505,000	1,505,000	-	-	1,505,000	50,000
Series 2016	2.88%	2,442,000	2,418,000	-	(29,000)	2,389,000	30,000
Series 2016A	2.88%	11,700,000	11,700,000	-	-	11,700,000	174,000
Series 2017	3.00%	4,055,000	-	4,055,000	(300,000)	3,755,000	310,000
Subtotal		28,052,000	21,218,000	4,055,000	(4,984,000)	20,289,000	614,000
Add deferred amounts:							
Bond Premium/Discount		136,901	35,327	81,896	(2,824)	114,399	-
Total bonds payable		<u>\$ 28,188,901</u>	<u>\$ 21,253,327</u>	<u>\$ 4,136,896</u>	<u>\$ (4,986,824)</u>	<u>\$ 20,403,399</u>	<u>\$ 614,000</u>

Bonded debt service requirements are as follows:

	Year Ended September 30	Principal	Interest	Total Requirements
	2018	440,000	640,997	\$ 1,080,997
	2019	625,000	620,049	1,245,049
	2020	641,000	599,136	1,240,136
	2021	668,000	574,406	1,242,406
	2022-2025	2,862,000	2,038,749	4,900,749
	2026-2030	3,088,000	1,986,991	5,074,991
	2031-2035	2,064,000	1,543,274	3,607,274
	2036-2056	9,901,000	2,990,668	12,891,668
Totals		<u>\$ 20,289,000</u>	<u>\$ 10,994,270</u>	<u>\$ 31,283,270</u>

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.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

G. LONG-TERM DEBT OBLIGATIONS (continued)

\$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.

\$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.

\$2,442,000 Series 2016 Revenue Bonds issued for the purpose of funding capital improvements to the System, specifically the drilling of a new water well for an additional potable water supply and such infrastructure related thereto as necessary to incorporate the new into the existing water supply system of the Issuer, and for payment of cost incurred in connection with issuance of the Bonds. These revenue bonds have been authorized, guaranteed, and are held by the United States Department of Agriculture.

\$11,700,000 Series 2016A Revenue Bonds issued for the purpose of funding improvements to the System, specifically the acquisition of sewage treatment capacity in a regional wastewater treatment plant, and for payment of costs incurred in connection with the issuance of the Bonds. These revenue bonds have been authorized, guaranteed, and are held by the United States Department of Agriculture.

\$4,055,000 Series 2017 Revenue Bonds issued for the purpose of refunding a portion of the District's outstanding revenue bonds for debt service savings, finance properties, facilities, plants, improvements, equipment, interest in land needed for water and wastewater infrastructure serving new subdivisions, the drilling of a water well, and to purchase a surety bond to fund the 2017 Revenue Fund.

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.

In FY15, the District executed a utility acquisition agreement with the Town of Little Elm, Texas for the utility system located in the former Town of Lincoln Park, Texas. The agreement requires yearly principal payments over the next ten years, beginning in FY16.

In FY17, the District purchased property from the Horizon/Deer Creek Development Corporation by executing a \$955,000 note payable maturing in 10 years with a 5% interest rate at accrue per annum.

Note Payable	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2016	Issued	Retired	Amounts Outstanding September 30, 2017	Due Within One Year
UTRW District	2.29%	\$ 2,202,850	\$ 1,657,800	\$ -	\$ (137,407)	\$ 1,520,393	\$ 143,048
Little Elm	0%	1,000,000	900,000	-	(100,000)	800,000	100,000
Sandbrook	5%	955,000	-	955,000	-	955,000	-
TOTAL		\$ 4,157,850	\$ 2,557,800	\$ 955,000	\$ (237,407)	\$ 3,275,393	\$ 243,048

Note payable debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2018	243,048	70,403	313,451
2019	248,920	64,531	313,451
2020	255,034	58,417	313,451
2021	261,399	52,053	313,451
2022-2026	2,266,992	755,859	3,022,851
Totals	\$ 3,275,393	\$ 1,001,264	\$ 4,276,655

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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, 2017, the District's related obligation totaled \$728,583.

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 677 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.

All full- and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership. The plan provides retirement, disability and survivor benefits. TCDRS is a savings-based plan. For the District's plans, 7% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 200%) and is then converted to an annuity. There are no automatic COLAs. Each year, the district may elect an ad hoc COLA for its retirees (if any). There are two COLA types, each limited by actual inflation. Benefit terms are established under the TCDRS Act. They may be amended as of Jan. 1 each year, but must remain in conformity with the Act.

The District's contribution rate is calculated annually on an actuarial basis, although the employer may elect to contribute at a higher rate. The District contribution rate is based on the TCDRS funding policy adopted by the TCDRS Board of Trustees and must conform with the TCDRS Act. The employee contribution rates are set by the district and are currently 7%.

As of the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	18
Active employees	<u>28</u>
	<u>46</u>

The District's net pension liability ("NPL") was measured as of December 31, 2016, and the total pension liability ("TPL") used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The TPL in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Real rate of return	5.0%
Inflation	3.5%
Long-term investment return	8.0%

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

I. PENSION PLAN

2.

Employer-specific economic assumptions:

Growth in membership	0.0%
Payroll growth	0.0%

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2016 information for a 7-10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon: the most recent analysis was performed in 2013. See Milliman's TCDRS investigation of Experience report for the period January 1, 2009 - December 31, 2012 for more details.

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected Minus Inflation)
US Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities - Developed	10.00%	4.70%
International Equities - Emerging	7.00%	5.70%
Investment Grade Bonds	3.00%	60.00%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships (MLPs)	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	20.00%	3.85%

Discount rate

The discount rate used to measure the TPL was 8.10%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the TPL.

Changes in Net Pension Liability/(Asset):

	Increases (Decreases)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a) - (b)
Balances as of December 31, 2015	\$ 782,629	\$ 709,093	\$ 73,536
Changes for the year:			
Service cost	109,691		109,691
Interest on total pension liability	70,554		70,554
Effect on plan changes	80,477		80,477
Effect of economic/demographic gains or losses	60,456		60,456
Effect of assumptions changes or inputs	-		-
Refund of contributions	(9,835)	(9,835)	-
Benefit payments	-	-	-
Administrative expenses		(537)	537
Member contributions		60,252	(60,252)
Net investment income		53,108	(53,108)
Employer contributions		75,195	(75,195)
Other	-	10,402	(10,402)
Balances as of December 31, 2016	<u>\$ 1,093,972</u>	<u>\$ 897,678</u>	<u>\$ 196,294</u>

MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

I. PENSION PLAN

2.

Net Pension Liability (continued)

Sensitivity analysis

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.10%) or 1% point higher (9.10%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Total pension liability	\$ 1,280,125	\$ 1,093,972	\$ 940,727
Fiduciary net position	897,638	897,638	897,638
Net pension liability / (asset)	<u>\$ 382,487</u>	<u>\$ 196,334</u>	<u>\$ 43,089</u>

3.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

Pension Expense / (Income)

	January 1, 2016 to December 31, 2016
Service Cost	\$ 109,691
Interest on total pension liability	70,554
Effect on plan changes	80,477
Administrative expenses	537
Member contributions	(60,252)
Expected investment return net of investment expenses	(62,815)
Recognition of deferred inflows/outflows or resources	
Recognition of economic/demographic gains or losses	23,451
Recognition of assumption changes or inputs	1,021
Recognition of investment gains or losses	17,434
Other	(10,402)
Pension expense / (income)	<u>\$ 169,696</u>

As of December 31, 2016, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 4,661	\$ 129,776
Changes of assumptions	-	6,128
Net difference between projected and actual earnings	-	51,962
Contributions made subsequent to measurement date	N/A	97,453

Deferred outflows of resources of \$97,453 related to pensions resulting from contributions subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended December 31:

2017	\$ 41,906
2018	41,906
2019	39,626
2020	26,414
2021	24,472
** Thereafter	8,881

** Additional future deferred inflows and outflows of resources may impact these numbers.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

J. HEALTH CARE COVERAGE

During the year ended September 30, 2017, the employees of the District were covered by a health insurance plan. The District contributed an average of \$904 for health and \$31 for dental per month per employee for the year ended September 30, 2017. Health coverage was through Blue Cross Blue Shield of Texas and dental coverage was through Principal Financial Group. The Plan is authorized by article 3.51-2, Texas Insurance Code and documented by contractual agreement.

K. PENDING CLAIMS AND LITIGATION

The District was not involved in any pending or threatened litigation according to their attorneys and legal representation as of September 30, 2017.

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, 2017 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. CLIENT DISTRICT AGREEMENTS - WATER AND SANITARY SEWER SERVICE

The District has service agreements with the following client districts:

Denton County Freshwater Supply District No. 8A
Denton County Freshwater Supply District No. 8B
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 client 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 client districts one time every month and render a statement to each retail customer for the amount due the client district for water service, wastewater service, solid waste collection, and fire protection, including initial deposits. In addition, the District will collect the amount due for water and wastewater service and remit to the client districts the funds collected at least once per month.

The client districts also 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 client district. Additionally, client 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 client district customer's failure to timely pay for water and/or wastewater services.

Beginning June 1, 2017, contract provisions call for the client districts to convey to the District all rights, 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 client district system and serve the client district certified area that have been acquired by the client districts with the proceeds of its outstanding bonds. Any portion not acquired with proceeds of outstanding bonds shall be leased to the District in accordance with contract provisions.

**MUSTANG SPECIAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

N. COMMITMENTS AND CONTINGENCIES

The District has the following active projects as of September 30, 2017. Commitments for these projects in progress are composed of the following:

	Spent to Date	Remaining Commitment
New Hope Road Water Line	\$ 8,472	
Crossroads well	742,285	
Hathaway Elevated Storage Tank	158,513	
Light Ranch well	1,492,964	59,000
CCN: Winn Ridge Water & Wastewater	1,991,889	
CCN: Sutton Fields Water & Wastewater	1,151,000	
FM 428 Pump Station	108,909	
FM 428 Ground Storage Tank	48,095	
Brewer Rd WW Inceptor	875,583	1,192,527
	<u>\$ 6,577,710</u>	<u>\$ 1,251,527</u>

O. OPERATING LEASE OPERATIONS

The District leases a copier to provide for the printing, scanning and faxing needs of the daily operations. The lease expense for fiscal 2017 was \$4,749. The future minimum lease payments for this lease is as follows:

Year Ending September 30	Total
2018	4,794
2019	4,794
2020	2,397
Total	<u>\$ 11,985</u>

P. RELATED PARTY TRANSACTIONS

The District's internet provider offers free internet service to directors and employees as part of the contract to lease tower space for their repeaters. Due to the fact that the free service must be line of sight, there are currently only six employees/directors who use this provider. The annual cost for this is minimal and management has determined that this does not pose any conflict of interest for either party.

Q. SUBSEQUENT EVENTS

The District has evaluated all events or transactions that occurred after September 30, 2017 up through May 11, 2018, the date the financial statements were available to be issued. During that time, management is not aware of any events requiring financial statement disclosure other than those mentioned above.



REQUIRED SUPPLEMENTARY INFORMATION

**MUSTANG SPECIAL UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS**

	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Total Pension Liability			
Service Cost	\$ 109,696	\$ 89,543	\$ 57,029
Interest on total pension liability	70,554	55,071	34,762
Effect of plan changes	80,477	11,568	34,742
Effect of assumption changes or inputs	-	8,170	-
Effect of economic/demographic (gains) or losses	60,452	(6,215)	124,732
Benefit payments/refunds of contributions	(9,835)	(3,570)	(14,462)
Net change in total pension liability	<u>311,344</u>	<u>154,567</u>	<u>236,803</u>
Total pension liability, beginning	<u>782,629</u>	<u>628,062</u>	<u>391,258</u>
Total pension liability, ending	<u>\$ 1,093,973</u>	<u>\$ 782,629</u>	<u>\$ 628,061</u>
Fiduciary Net Position			
Employer contributions	\$ 75,195	\$ 43,002	\$ 79,412
Member contributions	60,252	53,088	44,875
Investment income net of investment expenses	53,108	(11,040)	32,743
Benefit payments/refunds of contributions	(9,835)	(3,570)	(14,462)
Administrative expenses	(537)	(487)	(432)
Other	10,402	(58)	(31)
Net change in fiduciary net position	<u>188,585</u>	<u>80,935</u>	<u>142,105</u>
Fiduciary net position, beginning	<u>709,094</u>	<u>628,159</u>	<u>486,054</u>
Fiduciary net position, ending	<u>\$ 897,679</u>	<u>\$ 709,094</u>	<u>\$ 628,159</u>
Net pension liability/(asset)	<u>\$ 196,294</u>	<u>\$ 73,535</u>	<u>\$ (97)</u>
Fiduciary net position as a % of total pension liability	82.06%	90.60%	100.02%
Pensionable covered payroll	\$ 1,205,045	\$ 1,061,765	\$ 897,495
Net pension liability as a % of covered payroll	16.29%	6.93%	-0.01%

See accompanying notes to these financial statements for more detail.

Note: Year will continue to be added until there are 10 years for comparison

**MUSTANG SPECIAL UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2006	\$ 5,994	\$ 5,994	\$ -	\$ 179,998	3.3%
2007	25,848	25,848	-	776,203	3.3%
2008	24,152	24,152	-	736,353	3.3%
2009	22,092	22,092	-	692,524	3.2%
2010	19,679	19,697	-	647,944	3.0%
2011	21,386	21,386	-	711,000	3.0%
2012	20,522	20,522	-	717,536	2.9%
2013	23,850	23,850	-	792,350	3.0%
2014	24,412	79,412	(55,000)	897,495	8.8%
2015	43,001	43,001	-	1,061,765	4.0%
2016	75,195	75,195	-	1,205,045	6.2%

Notes to Schedule of Contributions

Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported. The following are the key assumptions and methods used in this GASB analysis:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	13.8 years (based on contribution rate calculated in 12/31/2016 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.00%
Salary Increases	Varies by age and service. 4.9% average over career including inflation
Investment Rate of Return	8.00%, net of investment expenses, included inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule	Effective with the 2017 calendar year, employer contributions reflect the current employer contribution rate increased to 7%.



SUPPLEMENTAL SCHEDULES



**MUSTANG SPECIAL UTILITY DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for sales and services:				
Water/wastewater sales	\$ 7,495,000	\$ 7,495,000	\$ 7,522,097	\$ 27,097
Customer charges/fees	4,152,000	4,152,000	3,528,666	(623,334)
Operating Contracts	1,541,500	1,541,500	2,166,540	625,040
Other revenues	10,000	10,000	63,383	53,383
Total operating revenues	13,198,500	13,198,500	13,280,686	82,186
OPERATING EXPENSES				
Operation and Maintenance:				
Personnel costs and benefits	2,475,970	2,475,970	1,614,456	861,514
Water distribution system	4,052,560	4,052,560	4,845,654	(793,094)
Other operating costs	953,000	953,000	495,296	457,704
Professional and legal fees	160,000	160,000	447,757	(287,757)
Insurance	381,785	381,785	368,134	13,651
Depreciation and amortization			3,067,136	(3,067,136)
Total operating expenses	8,023,315	8,023,315	10,838,433	(2,815,118)
Operating income (loss)	5,175,185	5,175,185	2,442,253	(2,732,932)
NON-OPERATING REVENUES (EXPENSES):				
Investment income	42,000	42,000	118,408	76,408
Gain (loss) on sale of assets	-	-	94,558	94,558
Interest expense	-	-	(670,453)	(670,453)
Transfer of CCN	-	-	375,000	375,000
Bond Issuance Costs	-	-	(95,516)	(95,516)
Total non-operating revenues (expenses)	42,000	42,000	(178,003)	(220,003)
Net income (loss) before contributions	5,217,185	5,217,185	2,264,250	(2,952,935)
CAPITAL CONTRIBUTIONS				
Developer contributions	-	-	7,488,680	7,488,680
Total capital contributions	-	-	7,488,680	7,488,680
Change in net position	5,217,185	5,217,185	9,752,930	4,535,745
Net position - beginning of year	38,937,963	38,937,963	38,937,963	
Net position - end of year	\$ 43,916,868	\$ 43,915,148	\$ 48,690,893	

Note: The District prepares the annual budget on a basis (modified accrual basis) which differs from generally accepted accounting principles (GAAP basis).

MUSTANG SPECIAL UTILITY DISTRICT
COMBINING STATEMENT OF AGENCY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
SEPTEMBER 30, 2017

	Client Districts Paloma Creek	Client District Savannah	Total Fiduciary Funds
ASSETS			
Cash and cash equivalents - restricted	\$ 547,565	\$ 288,325	\$ 835,890
Accounts Receivable	434,251	185,804	620,055
Total assets	<u>981,816</u>	<u>474,129</u>	<u>1,455,945</u>
LIABILITIES			
Accounts Payable	981,816	474,129	1,455,945
Total liabilities	<u>\$ 981,816</u>	<u>\$ 474,129</u>	<u>\$ 1,455,945</u>

**MUSTANG SPECIAL UTILITY DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Balance September 30, 2016	Additions	Deductions	Balance September 30, 2017
Client Districts				
ASSETS				
Cash and cash equivalents - restricted:				
Paloma Creek	\$ 506,087	\$ 5,742,681	\$ 5,701,203	\$ 547,565
Savannah	280,212	2,987,934	2,979,821	288,325
Accounts Receivable:				
Paloma Creek	429,145	11,707,278	11,702,172	434,251
Savannah	182,238	6,069,842	6,066,276	185,804
Total assets	<u>1,397,682</u>	<u>26,507,735</u>	<u>26,449,472</u>	<u>1,455,945</u>
LIABILITIES				
Accounts Payable:				
Paloma Creek	935,232	6,434,801	6,388,217	981,816
Savannah	462,450	3,388,649	3,376,970	474,129
Total liabilities	<u>\$ 1,397,682</u>	<u>\$ 9,823,450</u>	<u>\$ 9,765,187</u>	<u>\$ 1,455,945</u>



STATISTICAL SECTION (UNAUDITED)

This part of the Mustang Special Utility District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information says about the District's overall financial health. This information has not been audited by the independent auditor.

Contents

Tables

Financial Trends

These tables contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

1,2

Revenue Capacity

These tables present information to help the reader assess the District's most significant revenue sources, charges for services.

3,4,5

Debt Capacity

These tables present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

6,7

Economic and Demographic Information

These tables offer economic and demographic indicators to help the reader understand the environment within which the District's financial activities take place.

8,9

Operating Information

These tables contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

10,11

Source: Unless otherwise noted, the information in these tables are derived from the Comprehensive Annual Financial Reports for the relevant year.



MUSTANG SPECIAL UTILITY DISTRICT
NET POSITION BY COMPONENT (UNAUDITED)
LAST NINE FISCAL YEARS
(Accrual basis of accounting)

Table 1

	FISCAL YEAR			
	2009	2010	2011	2012
Business-type activities:				
Net investment in capital assets	\$ 9,858,403	\$ 10,656,424	\$ 11,048,665	\$ 12,278,776
Restricted	-	-	424,472	1,172,171
Unrestricted	12,371,000	10,131,634	8,988,200	7,666,480
Total business-type activities net position	<u>\$ 22,229,403</u>	<u>\$ 20,788,058</u>	<u>\$ 20,461,337</u>	<u>\$ 21,117,427</u>

	FISCAL YEAR			
	2013	2014	2015	2016
Business-type activities:				
Net investment in capital assets	\$ 12,794,662	\$ 11,596,343	\$ 11,760,356	\$ 6,560,934
Restricted	731,648	844,616	844,616	759,940
Unrestricted	9,104,769	12,116,272	15,226,426	31,617,089
Total business-type activities net position	<u>\$ 22,631,079</u>	<u>\$ 24,557,231</u>	<u>\$ 27,831,398</u>	<u>\$ 38,937,963</u>

	FISCAL YEAR
	2017
Business-type activities:	
Net investment in capital assets	\$ 20,149,900
Restricted	759,940
Unrestricted	27,781,053
Total business-type activities net position	<u>\$ 48,690,893</u>

Notes: Years will continue to be added until 10 years of comparison is listed, information prior to 2009 is not available.

MUSTANG SPECIAL UTILITY DISTRICT
CHANGES IN NET POSITION
LAST NINE FISCAL YEARS
(Accrual basis of accounting)

Table 2

	FISCAL YEAR								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
OPERATING REVENUES									
Charges for sales and services:									
Water/Wastewater Sales	\$ 3,018,990	\$ 3,338,626	\$ 3,898,605	\$ 3,993,442	\$ 4,206,554	\$ 4,233,713	\$ 5,052,082	\$ 6,438,808	\$ 7,522,097
Customer Charges/Fees	1,029,752	1,134,975	1,350,541	1,398,781	1,224,635	2,030,519	3,019,145	3,955,411	3,528,666
Operating contracts					1,314,930	1,284,628	1,642,664	1,535,456	2,166,540
Miscellaneous	384,384	23,101	65,976	28,463	23,814	21,966	158,075	16,606	63,383
Total Operating Revenues	4,433,126	4,496,702	5,315,122	5,420,686	6,769,933	7,570,826	9,871,966	11,946,281	13,280,686
OPERATING EXPENSES									
Personnel Costs and Benefits	1,101,397	756,843	812,689	890,137	949,557	1,011,663	1,259,770	1,355,214	1,614,456
Water Distribution System	2,143,834	2,260,955	2,219,316	2,394,649	2,563,783	2,539,509	3,020,253	4,064,515	4,845,654
Other Operating Costs	225,730	214,036	348,478	295,052	314,873	337,385	359,429	440,374	495,296
Professional and Legal Fees	285,093	109,688	176,207	242,445	203,318	293,274	442,132	431,786	447,757
Insurance	261,044	150,700	179,694	170,611	189,881	203,675	319,454	363,093	368,134
Depreciation & Amortization	1,366,261	1,541,071	1,538,059	1,638,405	1,669,119	1,797,019	2,320,919	3,595,922	3,067,136
Total Operating Expenses	5,383,359	5,033,293	5,274,443	5,631,299	5,890,531	6,182,525	7,721,957	10,250,904	10,838,433
Operating Income (Loss)	(950,233)	(536,591)	40,679	(210,613)	879,402	1,388,301	2,150,009	1,695,377	2,442,253
NON-OPERATING REVENUES (EXPENSES):									
Investment Income	48,221	26,714	22,772	13,405	6,661	5,990	8,437	59,298	118,408
Sale of Fixed Assets	-	-	9,435	4,039	-	-	26,787	425,618	94,558
Bad Debt Expense	-	(61,970)	-	-	-	-	-	-	-
Interest Expense	(526,722)	(585,126)	(455,938)	(418,298)	(429,309)	(414,551)	(458,676)	(556,143)	(765,969)
Bond Issuance costs	-	-	-	-	-	(62,163)	-	-	-
Transfer of CCN								1,668,838	375,000
Total Non-Operating Revenues (Expenses)	(478,501)	(620,382)	(423,731)	(400,854)	(422,648)	(470,724)	(423,452)	1,597,611	(178,003)
Change in Net Position Before Capital Contributions	(1,428,734)	(1,156,973)	(383,052)	(611,467)	456,754	917,577	1,726,557	3,292,988	2,264,250
CAPITAL CONTRIBUTIONS									
Developer Contributions	61,875	(165,994)	5,000	5,000	1,056,901	1,008,575	1,098,330	7,813,577	7,488,680
Total Capital Contributions	61,875	(165,994)	5,000	5,000	1,056,901	1,008,575	1,098,330	7,813,577	7,488,680
Change in Net Position	(1,366,859)	(1,322,967)	(378,052)	(606,467)	1,513,655	1,926,152	2,824,887	11,106,565	9,752,930
Net position - Beginning of year	23,596,263	22,229,404	20,788,059	20,461,338	21,117,423	22,631,078	24,557,230	27,831,398	38,937,963
Prior Period Adjustments	-	(118,378)	51,331	1,262,553	-	-	449,281	-	-
Net Position - Adjusted Beginning of year	23,596,263	22,111,026	20,839,390	21,723,891	21,117,423	22,631,078	25,006,511	27,831,398	38,937,963
Net Position - End of year	\$ 22,229,404	\$ 20,788,059	\$ 20,461,338	\$ 21,117,424	\$ 22,631,078	\$ 24,557,230	\$ 27,831,398	\$ 38,937,963	\$ 48,690,893

Notes: Years will continue to be added until 10 years of comparison is listed, information prior to 2009 is not available.

**MUSTANG SPECIAL UTILITY DISTRICT
INCOME BY SOURCE
LAST NINE FISCAL YEARS**

Table 3

Fiscal Year Ended Sept. 30	Water	Wastewater	Other*	Total
2009	\$ 2,657,663	\$ 361,327	\$ 1,462,357	\$ 4,481,347
2010	2,911,039	427,587	1,184,790	4,523,416
2011	3,427,513	491,182	1,428,634	5,347,329
2012	3,412,657	534,110	1,491,363	5,438,130
2013	3,582,488	624,066	2,570,040	6,776,594
2014	3,448,768	784,945	3,343,103	7,576,816
2015	4,005,251	1,046,831	4,819,884	9,871,966
2016	4,734,811	1,703,997	7,661,227	14,100,035
2017	5,492,481	2,029,616	6,346,555	13,868,652

*Other income includes interest income and miscellaneous income for the years.

Notes: Years will continue to be added until 10 years of comparison is listed, information prior to 2009 is not available.

**MUSTANG SPECIAL UTILITY DISTRICT
AVERAGE REVENUE RATES
LAST NINE FISCAL YEARS**

Table 4

Fiscal Year	Water Rate/ Thousand Gallons	Wastewater Monthly Revenue/Customer
2009	\$ 3.99	\$ 33.75
2010	3.99	39.50
2011	3.99	39.50
2012	3.99	39.50
2013	3.21	39.50
2014	3.21	39.50
2015	3.36	43.50
2016	3.44	52.20
2017	3.44	54.80

Notes: Years will continue to be added until 10 years of comparison is listed, information prior to 2009 not available.

Average water rate based on 10,000 gallons used on a standard meter; does not include base rate per month.

Average wastewater revenue based on 10,000 gallons, standard meter.

Source: Mustang Special Utility District

**MUSTANG SPECIAL UTILITY DISTRICT
PRINCIPAL REVENUE PAYERS
SEPTEMBER 30, 2017**

Table 5

Customer	Water Revenue Received	Percentage of Total Water Revenue
Western Rim Property Services	\$ 159,867	2.91%
Wildridge Community Assoc.	83,235	1.52%
Cross Oak Ranch HOA	50,961	0.93%
Denton ISD - Navo	50,034	0.91%
Holt Texas, LTD	47,209	0.86%
Denton ISD - Braswell	35,430	0.65%
Walmart - 380	25,433	0.46%
DFP Properties I	21,716	0.40%
3B&L Investments	21,258	0.39%
Pegasus Investments, LLC	14,149	0.26%
Total attributable to ten largest payers:	<u>\$ 509,292</u>	<u>9.27%</u>
 Total Water Revenue	 <u>\$ 5,492,481</u>	 <u>100.00%</u>

Source: Mustang Special Utility District

**MUSTANG SPECIAL UTILITY DISTRICT
TOTAL INDEBTEDNESS PER CUSTOMER
LAST NINE FISCAL YEARS**

Table 6

Fiscal Year	Bonds Payable	Note Payable	Total Indebtedness	Total Customers	Debt Per Customer
2009	\$ 8,975,000	\$ 2,461,595	\$ 11,436,595	3,395	\$ 3,369
2010	7,615,000	2,375,643	9,990,643	3,648	2,739
2011	7,318,023	2,267,706	9,537,706	3,728	2,558
2012	6,945,484	2,155,338	9,100,822	3,900	2,334
2013	6,632,944	2,038,356	8,671,300	4,246	2,042
2014	7,820,405	1,916,572	9,736,977	4,652	2,093
2015	7,482,886	2,789,788	10,272,674	5,233	1,963
2016	21,253,327	2,557,800	23,811,127	5,993	3,973
2017	20,403,399	3,275,393	23,678,792	6,645	3,563

Note: Years will continue to be added until 10 years of comparison is listed, information prior to 2009 not available.

Source: Mustang Special Utility District

**MUSTANG SPECIAL UTILITY DISTRICT
REVENUE BOND COVERAGE
LAST NINE FISCAL YEARS**

Table 7

Fiscal Year	Total Revenues (1)	Total Expenses (2)	Net Revenues Available for Debt Service	Bond Debt Service Requirements (3)	Coverage
2009	\$ 4,481,347	\$ 4,017,128	\$ 464,219	\$ 472,357	0.98
2010	4,523,416	3,492,222	1,031,194	588,020	1.75
2011	5,347,329	3,736,384	1,610,945	720,236	2.24
2012	5,438,130	3,992,894	1,445,236	727,698	1.99
2013	6,776,594	4,221,412	2,555,182	649,223	3.94
2014	7,576,817	4,385,506	3,191,311	667,534	4.78
2015	9,907,190	5,401,038	4,506,152	709,528	6.35
2016	14,100,035	6,654,788	7,445,247	759,333	9.80
2017	13,868,652	7,771,297	6,097,355	971,233	6.28

(1) Includes interest income, non-operating revenues and service fees

(2) Excludes depreciation, amortization and non-operating expenses

(3) Includes principal and interest of revenue bonds

Note: Years will continue to be added until 10 years of comparison is listed, information prior to 2009 not available.

**MUSTANG SPECIAL UTILITY DISTRICT
NUMBER OF CUSTOMERS BY SERVICE
LAST NINE FISCAL YEARS**

Table 8

Fiscal Year	Water	Wastewater
2009	3,395	875
2010	3,648	1,109
2011	3,728	1,181
2012	3,900	1,219
2013	4,246	1,564
2014	4,652	1,949
2015	5,233	2,500
2016	5,993	2,859
2017	6,645	3,475

Note: Years will continue to be added until 10 years of comparison is listed, information prior to 2009 is not available.

Source: Mustang Special Utility District

**MUSTANG SPECIAL UTILITY DISTRICT
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
(unaudited)**

Table 9

Fiscal Year	Estimated Population Denton County	Personal Income Denton County (in Thousands)	Per Capita Income Denton County	Median Age Denton County	Unemployment Rate Denton County
2008	614,650	26,718,853	43,470	n/a	4.4%
2009	628,300	25,990,700	41,367	33.0	7.7%
2010	637,750	26,986,773	42,316	n/a	7.1%
2011	662,614	29,402,032	44,373	32.3	7.8%
2012	683,010	31,691,622	46,400	33.3	5.6%
2013	694,050	32,993,380	47,537	n/a	5.5%
2014	713,200	32,352,984	45,363	33.7	4.5%
2015	734,940	26,873,081	36,565	34.0	3.1%
2016	758,370	24,571,188	32,400	36.7	3.7%
2017	n/a	n/a	n/a	n/a	3.1%

n/a Not available

Sources:

Denton County, TX - Comprehensive Annual Financial Reports
Texas Workforce Commission - TRACER/LAUS - September data

Notes: Education information is not included, since the District area includes areas of multiple independent school districts.

The Personal Income, Per Capita Income, and unemployment rates have been restated, based on currently available data.

**MUSTANG SPECIAL UTILITY DISTRICT
FULL-TIME EQUIVALENT EMPLOYEES BY
FUNCTION/PROGRAM
LAST NINE FISCAL YEARS**

Table 10

Fiscal Year	Administrative	Water	Wastewater	Total
2009	8.5	9	-	17.5
2010	8	8	-	16
2011	7	8	1	16
2012	7	7	2	16
2013	8	8	2	18
2014	9	8	2	19
2015	9	10	2	21
2016	10	14	2	26
2017	12	15	3	30

Note: Years will continue to be added until 10 years of comparison is listed, information prior to 2009 is not available.

Source: Mustang Special Utility District

**MUSTANG SPECIAL UTILITY DISTRICT
CAPITAL ASSETS BY FUNCTION
LAST NINE FISCAL YEARS**

Table 11

Function	FISCAL YEAR				
	2009	2010	2011	2012	2013
Water/Wastewater					
Land	\$ 469,255	\$ 469,255	\$ 469,255	\$ 469,255	\$ 469,255
Waterwells & Distribution System	24,589,752	18,948,454	18,958,203	19,787,935	19,874,873
Buildings and Structures	1,360,966	1,115,991	1,061,552	1,007,113	952,674
Vehicles & Equipment	700,740	113,368	145,384	115,293	169,160
Total Water/Wastewater	27,120,713	20,647,068	20,634,394	21,379,596	21,465,962

Function	FISCAL YEAR			
	2014	2015	2016	2017
Water/Wastewater				
Land	\$ 469,255	\$ 486,546	\$ 486,546	\$ 1,488,076
Waterwells & Distribution System	19,623,300	19,805,430	27,660,913	40,520,301
Buildings and Structures	898,237	843,690	915,359	904,138
Vehicles & Equipment	332,088	897,364	913,233	916,176
Total Water/Wastewater	21,322,880	22,033,030	29,976,051	43,828,691

Notes: 1) Years will continue to be added until 10 years of comparison is listed, information prior to 2009 is not available
2) Balances presented are net of accumulated depreciation.



SUPPLEMENTAL SCHEDULES REQUIRED BY THE
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
(UNAUDITED)



**SUPPLEMENTAL SCHEDULES REQUIRED BY THE TEXAS
COMMISSION ON ENVIRONMENTAL QUALITY
(UNAUDITED)**

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**MUSTANG SPECIAL UTILITY DISTRICT
TSI-1 SERVICES AND RATES
FOR FISCAL YEAR ENDING SEPTEMBER 30, 2017**

1. Services Provided by the District:

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

2. Retail Rates Based on 5/8" Meter: ☐ Retail Rates Not Applicable

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels
WATER	\$ 26.75	-	N	\$ 2.65	-0- to 3,000 gallons
				\$ 3.65	3,001 to 9,000 gallons
				\$ 4.55	9,001 to 15,000 gallons
				\$ 5.55	15,001 to 25,000 gallons
				\$ 8.50	25,001 to unlimited
WASTEWATER	\$ 49.15	-	Y	\$	0 to 8,000
				\$ 54.80	8,001 to unlimited

District employs winter averaging for wastewater usage? ☐ Yes ☒ No

Total charges per 10,000 gallons usage (including surcharges):

WATER	<u>\$ 61.15</u>	WASTEWATER	<u>\$ 54.80</u>
-------	-----------------	------------	-----------------

Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	-	-	x 1.0	-
< 3/4"	6,425	6,407	x 1.0	6,407
1"	127	124	x 2.5	310
1 1/2"	19	19	x 5.0	95
2"	73	72	x 8.0	576
3"	4	4	x 15.0	60
4"	10	10	x 25.0	250
6"	4	4	x 50.0	200
8"	5	5	x 80.0	400
Water Total	<u>6,667</u>	<u>6,645</u>		<u>8,298</u>
Wastewater	3,475	3,475	x 1.0	3,475

Source: Mustang Special Utility District

**MUSTANG SPECIAL UTILITY DISTRICT
TSI-1 SERVICE AND RATES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

3. Total water consumption during the fiscal year:

Gallons pumped into system:	830,131,251
Gallons billed to customers:	682,520,826
Water Accountability Ratio:	82.22%

4. District does not levy standby fees.

5. Location of District:

County(ies) in which District is located. Denton

Is the District located entirely within one county? ☒ Yes ☐ No

Is the District located within a city? ☐ Entirely ☒ Partly ☐ Not at all

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

Is the district located within a city's extraterritorial jurisdiction (ETJ)?
☐ Entirely ☒ Partly ☐ Not at all

ETJ's in which District is located. Krugerville, Aubrey, Cross Roads, Pilot Point, Oak Point, Little Elm, Celina

Is the general membership of the Board appointed by an office outside the District?

If Yes, by whom? N/A ☐ Yes ☒ No

Source: Mustang Special Utility District

Mustang Special Utility District
TSI-2 Enterprise Fund Expenditures*
Fiscal Year Ending September 30, 2017

Personnel Expenditures (including benefits)	<u>\$ 1,946,728 **</u>
Professional Fees:	
Auditing	<u>22,000</u>
Legal	<u>97,298</u>
Engineering	<u>246,532</u>
Financial Advisor/Other Advisor	<u>73,926</u>
Purchased Services for Resale:	
Bulk Water and Wastewater Service Purchases	<u>3,099,359</u>
Contracted Services:	
Other Contracted Services	<u>21,338</u>
Utilities	<u>344,593</u>
Repairs and Maintenance	<u>362,326</u>
Administrative Expenditures:	
Office Supplies	<u>35,003</u>
Insurance	<u>35,972</u>
Other Administrative Expenditures	<u>936,842</u>
Capital Outlay:	
Capitalized Assets	<u>4,866,666 ***</u>
Other Expenditures	<u>1,446,663 ****</u>
Total Expenditures	<u><u>\$ 13,535,246</u></u>

*Amounts are unaudited and do not include amortization and depreciation.

**Number of persons employed by the District:

Full Time	30
Part Time	0

***Total expenditures using GAAP accounting do not include these amounts.

****Other Expenditures includes debt payments, as there is not a separate Debt Service Fund.

Source: Mustang Special Utility District

**MUSTANG SPECIAL UTILITY DISTRICT
TSI-3 SCHEDULE OF TEMPORARY INVESTMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

Item	Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
<u>Proprietary Fund Type</u>				
<u>Enterprise Fund</u>				
LOGIC Accounts:				
Customer Deposit Fund	n/a	1.2827%	n/a	\$ 696,081
System Growth Fund	n/a	1.2827%	n/a	2,812,650
Developers Escrow Account	n/a	1.2827%	n/a	112,486
2009 Debt Reserve	n/a	1.2827%	n/a	103,057
2014 Debt Reserve	n/a	1.2827%	n/a	114,774
2016 Repairs & Replacement	n/a	1.2827%	n/a	10,064
2016 Debt Reserve	n/a	1.2827%	n/a	11,739
2016A Debt Reserve	n/a	1.2827%	n/a	4,552
2017 Debt Reserves	n/a	1.2827%		408,076
Independent Bank-NOW Account:			n/a	
Operating Account	n/a	1.2615%	n/a	3,332,410
System Growth Account	n/a	1.2615%	n/a	394,333
Capital Projects Fund	n/a	1.2615%	n/a	854
Series 2009 Revenue Bonds Interest & Sinking	n/a	1.2615%	n/a	2,625
Series 2014 Revenue Bond Interest & Sinking	n/a	1.2615%	n/a	2,632
Series 2016 Revenue Bond Interest & Sinking	n/a	1.2615%	n/a	1,119,012
Series 2016A Revenue Bonds Interest & Sinking	n/a	1.2615%	n/a	243,196
Payments	n/a	1.2615%	n/a	143,325
2017 Construction	n/a	1.2615%	n/a	10,135
TexStar Accounts:			n/a	
Series 2009 Revenue Bonds Interest & Sinking	n/a	1.0384%		20,404
Series 2014 Revenue Bond Interest & Sinking	n/a	1.0384%	n/a	15,295
Series 2016 Revenue Bond Interest & Sinking	n/a	1.0384%	n/a	58,784
Series 2016A Revenue Bond Interest & Sinking	n/a	1.0384%	n/a	53,082
2017 Debt Reserves	n/a	1.0384%	n/a	148,256
2017 Construction	n/a	1.0384%	n/a	1,999,016
UTRWD Interest & Sinking	n/a	1.0384%	n/a	132,202
Total				<u>\$ 11,949,040</u>

Source: Mustang Special Utility District

Note: Northstar accounts are interest bearing accounts with the bank and are covered by collateral.



MUSTANG SPECIAL UTILITY DISTRICT

TSI-4. Taxes Levied and Receivable

September 30, 2017

(Unaudited)

(Does not apply to the District)

**MUSTANG SPECIAL UTILITY DISTRICT
TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS
SERIES 2009 - BY YEARS
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	50,000	49,995	99,995
2019	50,000	46,995	96,995
2020	55,000	44,495	99,495
2021	55,000	41,745	96,745
2022	60,000	38,995	98,995
2023	60,000	35,995	95,995
2024	65,000	32,935	97,935
2025	65,000	29,555	94,555
2026	70,000	26,110	96,110
2027	75,000	22,400	97,400
2028	80,000	18,425	98,425
2029	80,000	14,025	94,025
2030	85,000	9,625	94,625
2031	90,000	4,950	94,950
Total	<u>\$ 940,000</u>	<u>\$ 416,245</u>	<u>\$ 1,356,245</u>

Source: Mustang Special Utility District

**MUSTANG SPECIAL UTILITY DISTRICT
TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS
SERIES 2014 - BY YEARS
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	50,000	62,968	112,968
2019	50,000	59,968	109,968
2020	50,000	56,968	106,968
2021	55,000	53,968	108,968
2022	55,000	50,668	105,668
2023	55,000	49,018	104,018
2024	60,000	46,268	106,268
2025	60,000	44,348	104,348
2026	65,000	42,308	107,308
2027	65,000	39,968	104,968
2028	70,000	37,530	107,530
2029	70,000	34,800	104,800
2030	75,000	32,000	107,000
2031	80,000	29,000	109,000
2032	80,000	25,800	105,800
2033	85,000	22,600	107,600
2034	90,000	19,200	109,200
2035	90,000	15,600	105,600
2036	95,000	12,000	107,000
2037	100,000	8,200	108,200
2038	105,000	4,200	109,200
Total	<u>\$ 1,505,000</u>	<u>\$ 747,380</u>	<u>\$ 2,252,380</u>

Source: Mustang Special Utility District

**MUSTANG SPECIAL UTILITY DISTRICT
TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS
SERIES 2016 - BY YEARS
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	30,000	68,684	98,684
2019	31,000	67,821	98,821
2020	32,000	66,930	98,930
2021	34,000	66,010	100,010
2022	35,000	65,033	100,033
2023	36,000	64,026	100,026
2024	37,000	62,991	99,991
2025	39,000	61,928	100,928
2026	40,000	60,806	100,806
2027	42,000	59,656	101,656
2028	43,000	58,449	101,449
2029	45,000	57,213	102,213
2030	46,000	55,919	101,919
2031	48,000	54,596	102,596
2032	50,000	53,216	103,216
2033	51,000	51,779	102,779
2034	53,000	50,313	103,313
2035	55,000	48,789	103,789
2036	57,000	47,208	104,208
2037	59,000	45,569	104,569
2038	62,000	43,873	105,873
2039	64,000	42,090	106,090
2040	66,000	40,250	106,250
2041	68,000	38,353	106,353
2042	71,000	36,398	107,398
2043	74,000	34,356	108,356
2044	76,000	32,229	108,229
2045	79,000	30,044	109,044
2046	82,000	27,773	109,773
2047	85,000	25,415	110,415
2048	88,000	22,971	110,971
2049	91,000	20,441	111,441
2050	94,000	17,825	111,825
2051	98,000	15,123	113,123
2052	101,000	12,305	113,305
2053	105,000	9,401	114,401
2054	109,000	6,383	115,383
2055	113,000	3,249	116,249
Total	<u>\$ 2,389,000</u>	<u>\$ 1,625,415</u>	<u>\$ 4,014,415</u>

Source: Mustang Special Utility District

**MUSTANG SPECIAL UTILITY DISTRICT
TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS
SERIES 2016A - BY YEARS
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	174,000	321,750	312,043
2019	179,000	316,965	480,983
2020	184,000	312,043	480,785
2021	189,000	306,983	480,423
2022	195,000	301,785	479,923
2023	200,000	296,423	480,258
2024	206,000	290,923	479,428
2025	212,000	285,258	479,433
2026	218,000	279,428	479,273
2027	224,000	273,433	478,920
2028	231,000	267,273	478,403
2029	237,000	260,920	478,693
2030	244,000	254,403	477,790
2031	251,000	247,693	477,695
2032	258,000	240,790	477,380
2033	266,000	233,695	476,873
2034	273,000	226,380	477,145
2035	281,000	218,873	476,198
2036	289,000	211,145	476,003
2037	298,000	203,198	475,588
2038	306,000	195,003	475,925
2039	315,000	186,588	475,015
2040	324,000	177,925	474,830
2041	334,000	169,015	474,398
2042	343,000	159,830	474,690
2043	353,000	150,398	473,708
2044	363,000	140,690	473,423
2045	374,000	130,708	472,863
2046	384,000	120,423	473,000
2047	395,000	109,863	471,808
2048	407,000	99,000	471,313
2049	418,000	87,808	471,488
2050	430,000	76,313	470,305
2051	443,000	64,488	469,793
2052	455,000	52,305	469,895
2053	469,000	39,793	284,640
2054	482,000	26,895	469,000
2055	496,000	13,624	482,000
Total	<u>\$ 11,700,000</u>	<u>\$ 7,350,030</u>	<u>\$ 17,731,331</u>

Source: Mustang Special Utility District

**MUSTANG SPECIAL UTILITY DISTRICT
TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS
SERIES 2017 - BY YEARS
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2018	310,000	137,600	447,600
2019	320,000	128,300	448,300
2020	325,000	118,700	443,700
2021	340,000	105,700	445,700
2022	350,000	92,100	442,100
2023	365,000	78,100	443,100
2024	365,000	63,500	428,500
2025	365,000	48,900	413,900
2026	385,000	34,300	419,300
2027	150,000	18,900	168,900
2028	155,000	14,400	169,400
2029	160,000	9,750	169,750
2030	165,000	4,950	169,950
Total	<u>\$ 3,755,000</u>	<u>\$ 855,200</u>	<u>\$ 4,610,200</u>

Source: Mustang Special Utility District

MUSTANG SPECIAL UTILITY DISTRICT
TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS
ALL SERIES - BY YEARS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2018	614,000	640,997	1,254,997
2019	630,000	620,049	1,250,049
2020	646,000	599,136	1,245,136
2021	673,000	574,406	1,247,406
2022	695,000	548,581	1,243,581
2023	716,000	523,562	1,239,562
2024	733,000	496,617	1,229,617
2025	741,000	469,989	1,210,989
2026	778,000	442,952	1,220,952
2027	556,000	414,357	970,357
2028	579,000	396,077	975,077
2029	592,000	376,708	968,708
2030	615,000	356,897	971,897
2031	469,000	336,239	805,239
2032	388,000	319,806	707,806
2033	402,000	308,074	710,074
2034	416,000	295,893	711,893
2035	426,000	283,262	709,262
2036	441,000	270,353	711,353
2037	457,000	256,967	713,967
2038	473,000	243,076	716,076
2039	379,000	228,678	607,678
2040	390,000	218,175	608,175
2041	402,000	207,368	609,368
2042	414,000	196,228	610,228
2043	427,000	184,754	611,754
2044	439,000	172,919	611,919
2045	453,000	160,752	613,752
2046	466,000	148,196	614,196
2047	480,000	135,278	615,278
2048	495,000	121,971	616,971
2049	509,000	108,249	617,249
2050	524,000	94,138	618,138
2051	541,000	79,611	620,611
2052	556,000	64,610	620,610
2053	574,000	49,194	623,194
2054	591,000	33,278	624,278
2055	609,000	16,873	625,873
Total	<u>\$ 20,289,000</u>	<u>\$ 10,994,270</u>	<u>\$ 31,283,270</u>

Source: Mustang Special Utility District

**MUSTANG SPECIAL UTILITY DISTRICT
TSI-6 CHANGES IN LONG-TERM BONDED DEBT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

Bond Issues

	Series 2006	Series 2008	Series 2009	Series 2014	Series 2016	Series 2016A	Series 2017	Total
Interest Rate	4.0% - 5.0%	5.75% - 5.95%	3.0% - 6.0%	3.0% - 6.0%	2.88%	2.88%	3.00%	
Date Interest Payable	3/1 ; 9/1	3/1 ; 9/1	3/1 ; 9/1	3/1 ; 9/1	3/1 ; 9/1	3/1 ; 9/1	3/1 ; 9/1	
Maturity Dates	2026	2030	2031	2038	2055	2055	2030	
Bonds Outstanding at Beginning of Current Year	\$ 2,460,000	\$ 2,150,000	\$ 985,000	\$ 1,505,000	\$ 2,418,000	\$ 11,700,000	\$ -	\$ 21,218,000
Bonds Sold During Current Year	-	-	-	-	-	-	4,055,000	4,055,000
Retirements: Principal	(2,460,000)	(2,150,000)	(45,000)	-	(29,000)	-	(300,000)	(4,984,000)
Bonds Outstanding at End of Current Year	\$ -	\$ -	\$ 940,000	\$ 1,505,000	\$ 2,389,000	\$ 11,700,000	\$ 3,755,000	\$ 20,289,000
Interest Paid During the Fiscal Year	\$ 50,966	\$ 62,223	\$ 52,695	\$ 62,968	\$ 21,134	\$ 279,241	\$ 68,006	\$ 597,233

Paying Agent's Name and City

Series 2009	Bank of Texas NA, Dallas, TX
Series 2014	Bank of Texas NA, Dallas, TX
Series 2016	United States Department of Agriculture, McKinney, TX
Series 2016A	United States Department of Agriculture, McKinney, TX
Series 2017	Bank of Texas NA, Dallas, TX

	Refunding Bonds	Revenue Bonds
Bond Authority:		
Amount Authorized	\$ -	\$ 14,142,000
Amount Issued	\$ -	\$ 11,361,000

Bonded debt service cash and temporary investments balances as of September 30, 2017: \$301,079

Average annual debt service payment (principal and interest) for remaining term of all bonded debt is \$973,531.

Source: Mustang Special Utility District

MUSTANG SPECIAL UTILITY DISTRICT
TSI-7 COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
FIVE YEARS ENDED SEPTEMBER 30

	Amounts					Percent of Fund Total Revenue				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
OPERATING REVENUES										
Water/wastewater sales	\$ 7,522,097	\$ 6,438,808	\$ 5,193,037	\$ 4,233,713	\$ 4,206,554	56.64%	53.90%	52.60%	55.92%	62.19%
Customer charges/fees	3,528,666	3,955,411	3,019,145	2,030,519	1,224,635	26.57%	33.11%	30.58%	26.82%	18.10%
Operating contracts	2,166,540	1,535,456	1,642,664	1,284,628	1,314,930	16.31%	12.85%	16.64%	16.97%	19.44%
Miscellaneous revenue	63,383	16,606	17,120	21,966	18,421	0.48%	0.14%	0.17%	0.29%	0.27%
Total operating revenues	13,280,686	11,946,281	9,871,966	7,570,826	6,764,540	100.00%	82.64%	63.37%	56.62%	0.00%
OPERATING EXPENSES										
Personnel costs and benefits	1,614,456	1,355,214	1,259,770	1,011,663	949,557	12.16%	11.34%	12.76%	13.36%	14.04%
Water distribution system	4,845,654	4,064,515	3,020,253	2,539,509	2,563,783	36.49%	34.02%	30.59%	33.54%	37.90%
Other operating costs	495,296	440,374	359,429	337,385	314,873	3.73%	3.69%	3.64%	4.46%	4.65%
Professional and legal fees	447,757	431,786	442,132	293,274	203,318	3.37%	3.61%	4.48%	3.87%	3.01%
Insurance	368,134	363,093	319,454	203,675	189,881	2.77%	3.04%	3.24%	2.69%	2.81%
Amortization	627,157	1,329,016	668,915	439,043	411,932	4.72%	11.12%	6.78%	5.80%	6.09%
Depreciation	2,439,979	2,266,906	1,652,004	1,357,976	1,257,187	18.37%	18.98%	16.73%	17.94%	18.58%
Total operating expenses	10,838,433	10,250,904	7,721,957	6,182,525	5,890,531	81.61%	85.81%	78.22%	81.66%	87.08%
Operating income (loss)	\$ 2,442,253	\$ 1,695,377	\$ 2,150,009	\$ 1,388,301	\$ 874,009	18.39%	14.19%	21.78%	18.34%	12.92%
NON-OPERATING REVENUES (EXPENSES)										
Investment income	118,408	59,298	8,437	5,990	12,054	0.89%	0.50%	0.09%	0.08%	0.18%
Gain (loss) on sale of assets	94,558	425,618	26,787	-	-	0.71%	3.56%	0.27%	0.00%	0.00%
Interest expense	(765,969)	(556,143)	(458,676)	(414,551)	(429,309)	-5.77%	-4.66%	-4.65%	-5.48%	-6.35%
Transfer of CCN	375,000	1,668,838	-	-	-	2.82%	13.97%	0.00%	0.00%	0.00%
Bond issuance costs	-	-	-	(62,163)	-	0.00%	0.00%	0.00%	-0.82%	0.00%
Total non-operating revenue (expense)	(178,003)	1,597,611	(423,452)	(470,724)	(417,255)	-1.34%	13.37%	-4.29%	-6.22%	-6.17%
Net income (loss) before contributions	\$ 2,264,250	\$ 3,292,988	\$ 1,726,557	\$ 917,577	\$ 456,754	17.05%	27.56%	17.49%	12.12%	6.75%
CAPITAL CONTRIBUTIONS										
Wastewater subscription - developer	-	-	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Developer contributions	7,488,680	7,813,577	1,098,330	1,008,575	1,056,901	56.39%	65.41%	11.13%	13.32%	15.62%
Total capital contributions	7,488,680	7,813,577	1,098,330	1,008,575	1,056,901	56.39%	65.41%	11.13%	13.32%	15.62%
Change in net position	\$ 9,752,930	\$ 11,106,565	\$ 2,824,887	\$ 1,926,152	\$ 1,513,655	73.44%	92.97%	28.62%	25.44%	22.38%

Source: CAFR's Changes in Net Position

Mustang Special Utility District
TSI-8 Board Members, Key Personnel, and Consultants
Fiscal Year Ending September 30, 2017

Complete District Mailing Address: 7985 FM 2931, Aubrey, TX 76227
District Business Telephone Number 940-440-9561
Submission date of the most recent District Registration Form June 2017
(TWC Sections 36.054 and 49.054):
Limit on Fees of Office that a Director may receive during a fiscal year: No Limit
(Set by Board Resolution - TWC Section 49.060)

Names:	Term of Office	Date Hired	Fees of Office Paid	Expense Reimbursements	Title at Year End
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Board Members:

Dean Jameson	Elected	2015-2018	-	-	President
Marc Hodak	Elected	2017-2020	-	-	Vice President
Kim Lehere	Elected	2017-2020	-	-	Secretary
Donna Sims	Elected	2015-2018	-	-	Director
Wade Veeder	Elected	2015-2018	-	-	Director
Mike Frazier	Elected	2016-2019	-	-	Director
Michael Walker	Elected	2016-2019	-	-	Director
Matt Gaunt	Elected	2016-2019	-	-	Director
Ken Mitchell	Elected	2017-2020	-	-	Director

Key Administrative Personnel:

Chris Boyd	2/21/2007	-	165	General Manager
Patty Parks	6/8/2012	-	71	Financial Services Manager
Aldo Zamora	10/11/2004	-	-	Operations Manager
Beth Kazel	1/16/2003	-	-	Customer Service Manager

Consultants:

Steger Bizell	2009	1,618,557	-	Engineer
Conway Company CPAs, PC	2011	22,000	-	Auditor
Robert Harris	2014	60,600	-	Attorney
Jackson Walker LLP	2015	37,050	-	Attorney
Cooksey Communications	2016	15,288	-	Public Relations
The Hopkins Group	2017	13,182	-	Human Resources

Source: Mustang Special Utility District



Michael Conway, CPA
Neil Conway, CPA

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Metro (903) 450-1200

CONWAY COMPANY CPAs PC

ACCOUNTANTS & ADVISORS

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Greenville, Texas 75404-8234

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American Institute of CPAs
Texas Society of CPAs

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Mustang Special Utilities District ("District") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 11, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,

CONWAY COMPANY CPAs, P.C.



Greenville, Texas

May 11, 2018

SINGLE AUDIT

MUSTANG SPECIAL UTILITY DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended September 30, 2017

Federal Grantor Pass Through Grantor Program Title	CFDA Number	Grant Number	Program Expenditures
FEDERAL GRANTS			
<u>U.S. Department of Agriculture</u>			
Water and Waste Disposal Systems for Rural Communities-Loans *	10.76	0331012588	965,000
Total U.S. Department of Agriculture			965,000
Total Federal Grant Awards			965,000
Grand Total of Federal Grant Awards			\$ 965,000

* Denotes Major Program

MUSTANG SPECIAL UTILITIES DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2017

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award activity of the Mustang Special Utility District (SUD) under programs of the federal government for the year ended 09/30/2017. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended and does not present the financial position, changes in net assets, or cash flows of the District.

Per Uniform Guidance expenditures reflected in the SEFA equals the value of new loans made during the fiscal year ending 09/30/17 instead of when the actual costs were incurred. The District makes periodic submissions to the U. S. Department of Agriculture (USDA) of capital expenses as they are incurred. The USDA approves the submissions and they advise how many bonds they will issue with each submission based on the approved costs and then disburse the funds in form of loans to the District. Although the District will submit expenses for a certain amount based on invoices the USDA disburses funds for a different amount based on the amount of bonds they issue. The bonds are only deliverable in increments of \$1,000. Moreover, included in the loan proceeds for the year is the interest accrued during construction payment. Per the letter of conditions USDA disburses to the District funds for the interest accrued during construction. Please see reconciliation of invoices submitted for expenses incurred vs. amount of funds received by the District.

Reconciliation:

Allowable Capital Expenditures submitted to USDA:	\$	850,462
Received after 9/30/2017		(68,000)
Additional funds disbursed to the District for principal and interest during construction:		182,538
		-
Total Loan Proceeds received for capitalized expenditures during fiscal year ending 09/30/17 as noted in the SEFA:	\$	965,000

B. Summary of Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. The program expenditures reported on the Schedule includes the value of new loans made during the audit period in accordance with Title 2 U.S. Code of Federal Regulations part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Fiscal year ending 09/30/16 is the first year of the federal award, therefore there is no beginning of the audit period balance of loans from previous years for which the Federal Government imposes continuing compliance requirements.

The SUD has elected not to use the 10 percent de minimis indirect cost as allowed under the Uniform Guidance

C. Federal Loan Programs

The federal loan programs listed subsequently is administered directly by the U.S. Department of Agriculture and balances and transactions relating to the programs are included in the Mustang SUD basic financial statements. The District is guaranteed to receive the entire \$14,142,000 in loans from the USDA, therefore a loan receivable was recorded in the financial statements.

The balance of the loans receivable from the USDA is as follows:

CFDA Number	Program Name	Proceeds Received as of 10/01/2016 Including Interest	Proceeds Received as of 09/30/2017 Including Interest	Receivable from USDA as of 9/30/2017	Total Amount guaranteed by USDA
10.760	U.S. Department of Agriculture - Water and Waste Disposal Systems for Rural Communities Loans	\$10,396,000	\$ 11,361,000	\$ 2,781,000	\$ 14,142,000

The balance of debt administered by the USDA and owed by Mustang SUD is as follows:

CFDA Number	Program Name	Loan Balance as of 10/1/2016	Principal paid	Loan Balance as of 9/30/2017
10.760	U.S. Department of Agriculture - Water and Waste Disposal Systems for Rural Communities Loans	\$ 14,118,000	\$ 29,000	\$ 14,089,000



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Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors of
Mustang Special Utility District.

Report on Compliance for Each Major Federal Program

We have audited Mustang Special Utility District ("Mustang SUD") compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Mustang SUD's major federal programs for the year ended September 30, 2017. Mustang SUD's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs and corrective action plan.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Mustang SUD's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mustang SUD's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Mustang SUD's compliance.

Opinion on Each Major Federal Program

In our opinion, the Mustang Special Utility District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended September 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which is described in the accompanying schedule of findings and questioned cost as items 2017-001. Our opinion on each major federal program is not modified with respect to this matter.

Mustang SUD's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned cost. Mustang SUD's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Mustang SUD is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mustang SUD's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mustang SUD's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose as described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned cost as items 2017-001 that we consider to be significant deficiencies.

Mustang SUD's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and costs. Mustang SUD's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.

Greenville, Texas

May 11, 2018

**MUSTANG SPECIAL UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
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Internal control over financial reporting:

Material weaknesses identified?	No
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Deficiencies identified that are not considered to be material weaknesses?	No
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Noncompliance material to the financial statements noted?	No
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Federal Awards

Internal control over major programs:

Material weaknesses identified	No
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Deficiencies identified that are not considered to be material weaknesses	Yes
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Type of auditor's report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) reported in this Schedule?	Yes
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Major Federal Programs:

U.S.D.A. CFDA 10.760 Water and Waste Disposal Systems for Rural Communities
Grant #0331012588

Dollar threshold used to distinguish between type A and type B federal programs:	\$750,000
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Auditee qualified as low risk auditee?	No
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**MUSTANG SPECIAL UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Section II - Findings and Questioned Costs Related to Financial Statements

None

**MUSTANG SPECIAL UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Section III - Findings and Questioned Costs Related to Federal Awards

Finding: 2017-001

Program Title: Water and Waste Disposal Systems for Rural Communities

CFDA: 10.760

Contract Grant Number: 0331012588

Federal Award Years: 2017

Federal Agency: United States Department of Agriculture

Type of Finding: Significant deficiency and Non-compliance

Criteria: 2 CFR Part 200 – Uniform Administrative Requirements, cost principles, and audit requirements for federal awards as highlighted in July 2017 Compliance Requirements. The grant contract requires that when entities are funded on a reimbursement basis, program costs must be paid for by the entity funds before reimbursement is requested from the Federal Government.

Conditions/Context: During our testing we noted the date of the reimbursement request was before the date of the check to the vendor for a specific expenditure designated on the reimbursement request.

Cause: Mustang SUD did not have an internal control in place to prevent a reimbursement request prior to the expenditure.

Effect: Some expenditures were paid outside of the parameters of the contract.

Questioned Costs: None Reported

Repeat Finding from Prior Year (s): No

Recommendation: We recommend adding an internal control which requires only existing expenditures be allowed in the reimbursement process.

Views of responsible officials: Mustang SUD will add an internal control which will require only already spent items to be included in the reimbursement requests.



Corrective Action Plan
Federal Grants
Year-Ended September 30, 2017

Finding #2017-001: During our testing we noted that Mustang SUD had some expenditures that did not precede the reimbursement request.

Type of Finding: Significant deficiency and Non-compliance

Responsible Person

Patricia Parks – Financial Services Manager

Implementation Date

May 11, 2018

Views of responsible officials and planned corrective action

Mustang SUD will add an internal control which will prevent expenditures requested for reimbursement from being outside the contract and loan grant requirements.

**MUSTANG SPECIAL UTILITY DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Finding 2016-001

CFDA 10.760 Water and Waste Disposal Systems for Rural Communities

Award Number - 0331012588

Award Year – 2016

Federal Agency – United States Department of Agriculture

Type of Finding: Significant deficiency

Criteria: It is management's responsibility to provide for the preparation of the statements, footnotes, and schedules, and the responsibility of the auditor to determine the fairness of presentation of those statements and schedules which includes the preparation of SEFA

Conditions/Context: Conway Company CPAs, P.C. was requested to prepare the audited financial statements and the SEFA.

Cause: The Center did not have staff possessing knowledge necessary to prepare financial statements and the SEFA to be audited.

Effect: The possibility exists that a material misstatement to the financial statements could exist that could have been prevented or detected by management.

Questioned Costs: None Reported

Repeat Finding from Prior Year (s): No

Recommendation: Mustang SUD should train existing employees to create a Schedule of Expenditures of Federal Awards.

Status:
Complete