

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 13, 2021

This Preliminary Official Statement and the Information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

This Preliminary Official Statement is subject to completion and amendment. Upon the sale of the Bonds, the Official Statement will be completed and delivered to the Underwriter.

IN THE OPINION OF ORRICK, HERRINGTON & SUTCLIFFE LLP, SPECIAL TAX COUNSEL, BASED UPON AN ANALYSIS OF EXISTING LAWS, REGULATIONS, RULINGS AND COURT DECISIONS, AND ASSUMING, AMONG OTHER MATTERS, THE ACCURACY OF CERTAIN REPRESENTATIONS AND COMPLIANCE WITH CERTAIN COVENANTS, INTEREST ON THE BONDS (HEREIN DEFINED) IS EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF SPECIAL TAX COUNSEL, INTEREST ON THE BONDS IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX. SPECIAL TAX COUNSEL EXPRESSES NO OPINION REGARDING ANY OTHER TAX CONSEQUENCES RELATED TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. SEE "TAX MATTERS" HEREIN.

The District will designate the Bonds as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS - Qualified Tax-Exempt Obligations."

NEW ISSUE – Book Entry Only

**RATING: S&P (AGM insured)..... "AA"
Moody's (AGM insured) "A2"
Moody's (Underlying)..... "A3"**

\$3,215,000*

**DENTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 4
(A Political Subdivision of the State of Texas, located within Denton County)
UNLIMITED TAX REFUNDING BONDS, SERIES 2021**

Interest accrues from: June 1, 2021

Due: September 1, as shown on inside cover page

The \$3,215,000* Denton County Municipal Utility District No. 4 Unlimited Tax Refunding Bonds, Series 2021 (the "Bonds") are obligations of Denton County Municipal Utility District No. 4 (the "District") and are not obligations of the State of Texas; Denton County, Texas; the City of Oak Point, Texas; or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas; Denton County, Texas; the City of Oak Point, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

The Bonds will be initially registered and delivered only to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by Zions Bancorporation, National Association, Houston, Texas, or any successor Paying Agent/Registrar (the "Paying Agent/Registrar") directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System." Principal of the Bonds is payable to the registered owner(s) of the Bonds (the "Bondholder(s)") at the principal payment office of the Paying Agent/Registrar upon surrender of the Bonds for payment at maturity. Interest on the Bonds accrues from June 1, 2021, and is payable on September 1, 2021, and each March 1 and September 1 thereafter to the person in whose name the Bonds are registered as of the 15th day of the calendar month next preceding each interest payment date (the "Record Date"). Unless otherwise agreed between the Paying Agent/Registrar and a Bondholder, such interest is payable by check mailed to such persons or by other means acceptable to such persons and the Paying Agent/Registrar. The Bonds are issuable in denominations of \$5,000 or any integral multiple thereof in fully registered form only. The Bonds are not subject to optional redemption prior to maturity.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**



The Bonds constitute the third series of unlimited tax refunding bonds issued by the District. Voters of the District have previously authorized \$44,925,000 principal amount of unlimited tax refunding bonds and \$29,950,000 principal amount of unlimited tax bonds for water and sewer purposes at an election held within the District on February 1, 2003. Following the issuance of the Bonds, \$44,770,000* principal amount of authorized unlimited tax refunding bonds and \$17,080,000 principal amount of authorized unlimited tax bonds for water and sewer purposes will remain authorized but unissued. See "THE BONDS – Authority for Issuance."

The Bonds, when issued, will be payable from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against all taxable property within the District.

The Bonds are subject to certain investment considerations described herein. Prior to making an investment decision, prospective purchasers of the Bonds are encouraged to read this entire Official Statement, including particularly the section titled "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District and accepted by the underwriter listed below (the "Underwriter"), subject among other things to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel, and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Special Tax Counsel. Certain legal matters will be passed upon for the Underwriter by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Underwriter's Counsel. The Bonds in definitive form are expected to be available for delivery in Houston, Texas, on or about June 17, 2021. See "LEGAL MATTERS."

RAYMOND JAMES

* Preliminary, subject to change.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS, AND CUSIPS

| <u>Due (September 1)</u> | <u>Principal Amount*</u> | <u>Interest Rate</u> | <u>Initial Reoffering Yield (a)</u> | <u>CUSIP Nos. (b)</u> | <u>Due (September 1)</u> | <u>Principal Amount*</u> | <u>Interest Rate</u> | <u>Initial Reoffering Yield (a)</u> | <u>CUSIP Nos. (b)</u> |
|------------------------------|------------------------------|--------------------------|---|---------------------------|------------------------------|------------------------------|--------------------------|---|---------------------------|
| 2023 | \$370,000 | —% | —% | | 2027 | \$445,000 | —% | —% | |
| 2024 | 390,000 | —% | —% | | 2028 | 465,000 | —% | —% | |
| 2025 | 405,000 | —% | —% | | 2029 | 490,000 | —% | —% | |
| 2026 | 425,000 | —% | —% | | 2030 | 225,000 | —% | —% | |

* Preliminary, subject to change.

- (a) The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Underwriter. The yields may be changed at any time at the discretion of the Underwriter. Accrued interest from June 1, 2021 to the date of delivery of the Bonds to the Underwriter is to be added to the price.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, resolutions, contracts, audits, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Robert W. Baird & Co. Incorporated, 1331 Lamar Street, Suite 1360, Houston, Texas 77010, financial advisor to the District.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this "Official Statement" nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District, or the other matters described herein since the date hereof. However, the District has agreed to keep this "Official Statement" current by amendment or sticker to reflect material changes in the affairs of the District, and to the extent that information actually comes to its attention, other matters described in the "Official Statement" until delivery of the Bonds to the Underwriter, and thereafter only as specified in "OFFICIAL STATEMENT - Updating the Official Statement."

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX B - Specimen Municipal Bond Insurance Policy."

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, United States Securities and Exchange Commission Rule 15c2-12.

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SALE AND DISTRIBUTION OF THE BONDS

Underwriting

Raymond James & Associates, Inc. (referred to herein as the "Underwriter") has agreed to purchase the Bonds from the District for \$_____ (being the par amount of the Bonds, plus a net original issue premium on the Bonds of \$_____, and less an underwriter's discount of \$_____), plus accrued interest on the Bonds to the date of delivery. The Underwriter's obligation is to purchase all of the Bonds, if any Bonds are purchased.

Prices and Marketability

The District has no control over the reoffering yields or prices of the Bonds or over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked prices of the Bonds may be greater than the difference between the bid and asked prices of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold, or traded in the secondary market.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On October 29, 2020, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On July 16, 2020, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Capitalization of AGM

At March 31, 2021:

- The policyholders' surplus of AGM was approximately \$2,805 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$959 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.

- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,121 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty UK Limited ("AGUK") and Assured Guaranty (Europe) SA ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Merger of MAC into AGM

On April 1, 2021, MAC was merged into AGM, with AGM as the surviving company. Prior to that merger transaction, MAC was an indirect subsidiary of AGM (which indirectly owned 60.7% of MAC) and AGM's affiliate, Assured Guaranty Corp., a Maryland-domiciled insurance company ("AGC") (which indirectly owned 39.3% of MAC). In connection with the merger transaction, AGM and AGC each reassumed the remaining outstanding par they ceded to MAC in 2013, and AGC sold its indirect share of MAC to AGM. All of MAC's direct insured par exposures have become insured obligations of AGM.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- i. the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (filed by AGL with the SEC on February 26, 2021); and
- ii. the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021 (filed by AGL with the SEC on May 7, 2021).

All information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "MUNICIPAL BOND INSURANCE".

RATINGS

The Bonds are expected to receive an insured rating of "AA" from S&P solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Bonds. An explanation of the ratings of S&P may only be obtained from S&P. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present, S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The ratings express only the view of S&P at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant.

The Bonds are expected to receive an insured rating of "A2" from Moody's solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Bonds. Moody's has also assigned an underlying credit rating of "A3" to the Bonds. An explanation of the ratings may be obtained from Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. Furthermore, a security rating is not a recommendation to buy, sell, or hold securities. There is no assurance that such ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by Moody's, if, in its judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned to the Bonds other than the insured rating of S&P, the insured rating of Moody's, or the underlying rating of Moody's.

OFFICIAL STATEMENT SUMMARY

The following information is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement.

THE BONDS

- The Issuer Denton County Municipal Utility District No. 4 (the “District”), a political subdivision of the State of Texas, is located in Denton County, Texas. See “THE DISTRICT.”
- The Issue \$3,215,000* Unlimited Tax Refunding Bonds, Series 2021 (the “Bonds”). Interest accrues from June 1, 2021, and the Bonds mature in serial installments on September 1, 2023 through September 1, 2030, inclusive, unless one or more maturities are designated as a term bond. Interest is payable September 1, 2021, and on each March 1 and September 1 thereafter until maturity. The Bonds are not subject to optional redemption prior to maturity. See “THE BONDS – General”.
- Source of Payment Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Denton County, the City of Oak Point, Texas, or any entity other than the District. See “THE BONDS – Source of Payment.”
- Use of Proceeds The proceeds of the Bonds, together with other lawfully available funds of the District, if any, will be used refund \$3,355,000* principal amount of the District’s Unlimited Tax Refunding Bonds, Series 2013 (the “Refunded Bonds”) and to pay other certain costs associated with the issuance of the Bonds. The refunding of the Refunded Bonds is expected to result in an annual and net present value savings in the District’s current annual debt service requirements. See “PLAN OF FINANCING.”
- Qualified Tax-Exempt Obligations The District will designate the Bonds as “qualified tax-exempt obligations” pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended (the “Code”), and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by the District during calendar year 2021 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS - Qualified Tax-Exempt Obligations.”
- Remaining Outstanding Bonds The District has previously issued the following: \$3,325,000 Unlimited Tax Bonds, Series 2005; \$3,590,000 Unlimited Tax Bonds, Series 2005A; \$2,950,000 Unlimited Tax Bonds, Series 2006; \$5,655,000 Unlimited Tax Refunding Bonds, Series 2013 (the “Series 2013 Refunding Bonds”); \$2,435,000 Unlimited Tax Refunding Bonds, Series 2014 (the “Series 2014 Refunding Bonds”); and \$3,005,000 Unlimited Tax Bonds, Series 2014 (the “Series 2014 Bonds”), \$9,060,000 principal amount of which are currently outstanding (the “Outstanding Bonds”). Excluding the Refunded Bonds, \$5,705,000* principal amount of bonds

* Preliminary; subject to change.

previously issued will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING.”

- Payment Record..... The District has never defaulted on the timely payment of principal and interest on its previously issued bonds.
- Future Debt..... The District anticipates the issuance of approximately \$2,360,000 in principal amount of bonds for water and sewer purposes in the third quarter of 2021.
- Municipal Bond Insurance The District has made an application to Assured Guaranty Municipal Corp. and Build America Mutual Assurance Company for a commitment for municipal bond insurance on the Bonds. The purchase of such insurance, if available, and payment of all associated costs, including the premium charged by the insurer, will be at the option and expense of the District.
- Ratings S&P (AGM insured) – “AA”. Moody’s (AGM insured) – “A2”. Moody’s (Underlying) – “A3”. See “RATINGS”.
- Legal Opinion Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel. See “LEGAL MATTERS.”
- Financial Advisor..... Robert W. Baird & Co., Incorporated, Houston, Texas.
- Special Tax Counsel..... Orrick, Herrington & Sutcliffe LLP, Houston, Texas.
- Verification Agent Robert Thomas CPA, LLC, Minneapolis, Minnesota.
- Paying Agent/Registrar Zions Bancorporation, National Association, Houston, Texas.
- Escrow Agent The Bank of New York Mellon Trust Company, Dallas, Texas.

INFECTIOUS DISEASE OUTLOOK (COVID-19)

Infectious Disease Outlook (COVID-19)..... The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. As described herein under “INVESTMENT CONSIDERATIONS– Infectious Disease Outbreak - COVID-19,” federal, state, and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Dallas-Fort Worth area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of

operations and maintenance expenses payable from ad valorem taxes.

While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

THE DISTRICT

- Description..... Denton County Municipal Utility District No. 4, a political subdivision of the State of Texas, is located in central Denton County, approximately 10 miles east of the City of Denton, Texas and 1 mile south of the intersection of U.S. Highway 380 and F.M. 720. The District is bordered by Denton County Municipal Utility District No. 5 on the south, Naylor Road (F.M. 424) on the west, the Town of Cross Roads on the north, and F.M. 720 on the east. All of the land within the District is within the exclusive extraterritorial jurisdiction (the "ETJ") of the City of Oak Point, Texas. See "THE DISTRICT - General, and - Description."
- Authority..... The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See "THE DISTRICT - General."
- Status of Development..... There are approximately 275.27 acres of land within the District. To date, approximately 239.17 acres (1,272 lots) within the District have been developed with water distribution, sanitary sewer, and storm drainage facilities as part of the single-family subdivision of Cross Oak Ranch. As of April 1, 2021, the District was comprised of 1,248 completed homes, 23 homes under construction and 1 vacant developed lot.
- The remaining acreage within the District is comprised of approximately 36.11 undevelopable acres. See "THE DISTRICT - Status of Development."
- The Developer and Homebuilder Bloomfield Homes, L.P., a Texas limited partnership ("Bloomfield Homes" or the "Developer") has constructed the water, sanitary sewer, and storm sewer facilities to serve Cross Oak Ranch, Phase 2, Tract 16 (45 lots) and pays the applicable connection fees for water and wastewater to Mustang Special Utility District ("MSUD") as homes are constructed. Bloomfield Homes is actively building homes in the District. New homes within the District are being offered for sale at prices ranging from \$310,000 to over \$400,000 and range in size from 1,840 to 3,754 square feet. See "THE DISTRICT - Status of Development" and "THE DEVELOPER - The Developer."

INVESTMENT CONSIDERATIONS

THE BONDS ARE SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS. PROSPECTIVE PURCHASERS SHOULD REVIEW THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING AN INVESTMENT DECISION, INCLUDING PARTICULARLY THE SECTION OF THE OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS."

**SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

| | |
|--|--------------------------|
| 2020 Assessed Valuation..... | \$251,473,309 (a) |
| (100% of taxable value as of January 1, 2020) | |
| See "TAX DATA" and "TAXING PROCEDURES." | |
| 2021 Preliminary Assessed Valuation..... | \$261,360,931 (b) |
| Direct Debt: | |
| Remaining Outstanding Bonds | \$ 5,705,000 * |
| The Bonds | <u>3,215,000</u> * |
| Total | \$ 8,920,000 * |
| Estimated Overlapping Debt..... | <u>\$ 16,927,932</u> (c) |
| Total Direct and Estimated Overlapping Debt | <u>\$ 25,847,932</u> (c) |
| Direct Debt Ratio: | |
| As a percentage of 2020 Assessed Valuation (\$251,473,309) | 3.55% |
| As a percentage of 2021 Preliminary Assessed Valuation (\$261,360,931) | 3.41% |
| Direct and Estimated Overlapping Debt Ratio: | |
| As a percentage of 2020 Assessed Valuation (\$251,473,309) | 10.28% |
| As a percentage of 2021 Preliminary Assessed Valuation (\$261,360,931) | 9.89% |
| Debt Service Fund Balance (as of April 13, 2021)..... | \$ 1,552,940 (d) |
| General Operating Fund Balance (as of April 13, 2021)..... | \$ 1,701,598 |
| 2020 Tax Rate | |
| Debt Service..... | \$0.34 |
| Maintenance & Operation | <u>0.21</u> |
| Total..... | <u>\$0.55</u> |
| Estimated Average Annual Debt Service Requirements (2021-2038)..... | \$ 642,615 (e)* |
| Estimated Maximum Annual Debt Service Requirements (2029)..... | \$ 853,950 (e)* |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Estimated Average Annual Debt Service Requirements on the Bonds and Remaining Outstanding Bonds (2021-2038) | |
| Based Upon 2020 Assessed Valuation (\$251,473,309)..... | \$0.27 (f)* |
| Based Upon 2021 Preliminary Assessed Valuation (\$261,360,931)..... | \$0.26 (f)* |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Estimated Maximum Annual Debt Service Requirements on the Bonds and Remaining Outstanding Bonds (2029) | |
| Based Upon 2020 Assessed Valuation (\$251,473,309)..... | \$0.36 (f)* |
| Based Upon 2021 Preliminary Assessed Valuation (\$261,360,931)..... | \$0.35 (f)* |
| Number of Single-Family Homes (including 23 homes under construction) as of April 1, 2021 | 1,271 |

* Preliminary, subject to change.

(a) As certified by Denton Central Appraisal District. See "TAXING PROCEDURES."

(b) Represents the preliminary determination of the taxable value of all taxable property within the District as of January 1, 2021, as provided by Denton Central Appraisal District. This value is subject to protest by owners of taxable property within the District. No taxes will be levied against this preliminary value. See "TAXING PROCEDURES."

(c) See "DISTRICT DEBT – Estimated Overlapping Debt Statement."

(d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.

(e) See "DISTRICT DEBT –Pro-Forma Debt Service Requirements."

(f) Assumes 95% collections.

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Denton County Municipal Utility District No. 4 (the "District") of its \$3,215,000* Unlimited Tax Refunding Bonds, Series 2021 (the "Bonds").

The Bonds are issued pursuant to (i) the bond order adopted by the Board of Directors of the District (the "Board") and a pricing certificate executed by an authorized official of the District in which final terms of the Bonds will be determined (collectively, the "Bond Order"), (ii) the Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, Texas Water Code, as amended, and Chapter 1207 of the Texas Government Code, as amended, and (iii) an election held within the District on February 1, 2003.

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

This Official Statement also includes information about the District and certain reports and other statistical data. The summaries and references to all documents, statutes, reports, and other instruments referred to herein do not purport to be complete, comprehensive, or definitive and each summary and reference is qualified in its entirety by reference to each such document, statute, report, or instrument.

THE BONDS

General

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order authorizing the issuance of the Bonds. A copy of the Bond Order may be obtained from the District upon request to Bond Counsel.

The Bonds will mature on September 1 of the years and in the principal amounts, and will bear interest from June 1, 2021, at the rates per annum, set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable September 1, 2021, and semiannually thereafter on each March 1 and September 1 until maturity. The Bonds are not subject to optional redemption prior to their stated maturities.

The Bonds will be issued only in fully registered form in any integral multiples of \$5,000 for any one maturity and will be initially registered and delivered only to The Depository Trust Company, New York, New York ("DTC") in its nominee name of Cede & Co., pursuant to the book-entry-only system described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by Zions Bancorporation, National Association, Houston, Texas (the "Paying Agent/Registrar"), the Paying Agent/Registrar to Cede & Co., as registered owner. DTC will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System."

In the event the Book-Entry-Only System is discontinued and physical bond certificates issued, interest on the Bonds shall be payable by check mailed by the Paying Agent/Registrar on or before each interest payment date, to the registered owners as shown on the bond register (the "Register") kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date to the address of such registered owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the registered owner at the risk and expense of such registered owner.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day without additional interest and with the same force and effect as if made on the specified date for such payment.

* Preliminary; subject to change.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the "Book-Entry-Only System" has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable but takes no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants (as hereinafter defined), (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners (as hereinafter defined), or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be required by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has rating of AA+ from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchase of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or

such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issue as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

The information in the section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the book-entry form, references in other sections of this Official Statement to Registered Owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to Registered Owners under the Bond Order will be given only to DTC.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar will keep the register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar will provide for the registration and transfer of Bonds in accordance with the Bond Order. While the Bonds are in the Book-Entry- Only System, Bonds will be registered in the name of Cede & Co. and will not be transferred. See "Book-Entry- Only System."

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, the District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and the Paying Agent/Registrar of security or indemnity which they determine to be sufficient to hold them harmless. The District may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

Authority for Issuance

The District's voters have authorized the issuance of \$44,925,000 principal amount of unlimited tax refunding bonds and \$29,950,000 principal amount of unlimited tax bonds for water and sewer purposes and could authorize additional amounts. Following the issuance of the Bonds, \$44,770,000* principal amount of unlimited tax refunding bonds and \$17,080,000 principal amount of unlimited tax bonds for water and sewer purposes will remain authorized but unissued.

The Bonds are issued pursuant to (i) the Bond Order, (ii) the Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, Texas Water Code, as amended, and Chapter 1207, Texas Government Code, as amended, and (iii) an election held within the District on February 1, 2003.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

Source of Payment

The Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax levied without legal limitation as to rate or amount against all taxable property located within the District. In the Bond Order, the District covenants to levy a sufficient tax to pay the principal of and interest on the Bonds, with full allowance being made for delinquencies and costs of collection. Collected taxes will be placed in the District's Debt Service Fund and used to pay principal of and interest on the Remaining Outstanding Bonds, the Bonds, and any additional bonds payable from taxes which may hereafter be issued by the District.

Annexation

Under Texas law, the District may be annexed in whole or in part, without the District's consent, subject to compliance with the requirements of Chapter 43, Texas Local Government Code, as amended. This may include the requirement that the City hold an election within the District to approve the annexation. If the District is annexed by the City of Oak Point, Texas (the "City"), the City will assume the District's assets, functions, and obligations (including the Bonds) and dissolve the District. No representation is made concerning the likelihood of annexation or the ability of the City to make debt service payments should annexation occur. The Bond Order provides for the termination of the pledge of taxes to the Bonds upon annexation and dissolution by the City.

Consolidation

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the assets of the districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation.

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest, and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of

* Preliminary; subject to change.

Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place or payment (paying agent) for obligations of the District payable from ad valorem taxes, amounts sufficient to provide for payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the Registered Owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes. In the Bond Order, the District has specifically reserved the right to call the Bonds for redemption after the defeasance thereof.

Issuance of Additional Debt

The District may issue additional bonds with the approval necessary to provide improvements and facilities consistent with the purposes for which the District was created. The District's voters have authorized the issuance of \$44,925,000 principal amount of unlimited tax refunding bonds and \$29,950,000 principal amount of unlimited tax bonds for water and sewer purposes and could authorize additional amounts. Following the issuance of the Bonds, \$44,770,000* principal amount of unlimited tax refunding bonds and \$17,080,000 principal amount of unlimited tax bonds for water and sewer purposes will remain authorized but unissued. According to the District's engineer, the remaining authorized but unissued bonds will be sufficient to finance the remaining water and sewer improvements within the District. The Bond Order imposes no limitation on the amount of additional parity bonds which may be issued by the District (if authorized by the District's voters and approved by the Board).

The District anticipates filing a bond application with the Texas Commission on Environmental Quality ("TCEQ") requesting approval to sell approximately \$2,095,000 principal amount of unlimited tax bonds for water and sewer purposes. The District expects the sale of such bonds to occur in the fourth quarter of 2021.

Additional Covenants

In the Bond Order, the District has additionally covenanted that it will (1) keep records and accounts and employ an independent certified public account of recognized integrity and ability to audit its affairs at the close of each fiscal year, such audit to be in accordance with applicable laws, rules and regulations, and open

* Preliminary; subject to change.

to inspection in the office of the District; and (2) secure the funds in the Debt Service Fund in the manner and to the fullest extent required by law for the security of District funds.

Amendments to the Bond Order

The District may, without the consent of or notice to any Registered Owners, amend the Bond Order in any manner not detrimental to the interests of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order, provided that, without the consent of the Registered Owners of all of the Bonds affected, and provided that it has not failed to make a timely payment of principal of or interest on the Bonds, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the redemption price thereof, or the rate of interest thereon, change the place or places at, or the coin or currency in which any Bond or the interest thereon is payable, or in any other way modify the terms or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) modify any of the provisions of the Bond Order relating to the amendment thereof, except to increase any percentage provided thereby or to provide that certain other provisions of the Bond Order cannot be modified or waived without the consent of the holder of each Bond affected thereby. In addition, a state, consistent with federal law, may, in the exercise of its police power, make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is quoted from Section 49.186 of the Texas Water Code, and is applicable to the District:

(a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all

counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic.

(b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any un-matured interest coupons attached to them.

The Public Funds Collateral Act (Chapter 2257, Texas Government Code) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

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PLAN OF FINANCING

Use and Distribution of Bond Proceeds

The proceeds of the Bonds, together with other lawfully available funds of the District, if any, will be used to refund \$3,355,000* principal amount of the District's Unlimited Tax Refunding Bonds, Series 2013 (the "Refunded Bonds") and to pay other certain costs associated with the issuance of the Bonds. The refunding of the Refunded Bonds is expected to result in an annual and net present value savings in the District's current annual debt service requirements.

The Refunded Bonds

The principal amounts and maturity dates of the Refunded Bonds are set forth as follows:

| The Refunded Bonds* | |
|---------------------|------------------|
| Principal Amount | Maturity Date |
| \$380,000 | 9/1/2023 |
| 400,000 | 9/1/2024 |
| 415,000 | 9/1/2025 |
| 440,000 | 9/1/2026 |
| 460,000 | 9/1/2027 |
| 485,000 | 9/1/2028 |
| 515,000 | 9/1/2029 |
| <u>260,000</u> | <u>9/1/2030</u> |
| \$3,355,000 | |

Redemption Date: September 1, 2021

Remaining Outstanding Bonds

The District has previously issued the following: \$3,325,000 Unlimited Tax Bonds, Series 2005; \$3,590,000 Unlimited Tax Bonds, Series 2005A; \$2,950,000 Unlimited Tax Bonds, Series 2006; \$5,655,000 Unlimited Tax Refunding Bonds, Series 2013 (the "Series 2013 Refunding Bonds"); \$2,435,000 Unlimited Tax Refunding Bonds, Series 2014 (the "Series 2014 Refunding Bonds"); and \$3,005,000 Unlimited Tax Bonds, Series 2014 (the "Series 2014 Bonds"), \$9,060,000 principal amount of which are currently outstanding (the "Outstanding Bonds"). Excluding the Refunded Bonds, \$5,705,000* principal amount of bonds previously issued will remain outstanding (the "Remaining Outstanding Bonds").

| | Original Principal Amount | Principal Currently Outstanding | Less: Refunded Bonds* | Remaining Outstanding Bonds* |
|-----------------------------|---------------------------------|---------------------------------------|-----------------------------|------------------------------------|
| Series 2013 Refunding Bonds | \$ 5,655,000 | \$ 4,060,000 | \$ 3,355,000 | \$ 705,000 |
| Series 2014 Refunding Bonds | 2,435,000 | 1,995,000 | -0- | 1,995,000 |
| Series 2014 Bonds | <u>3,005,000</u> | <u>3,005,000</u> | <u>-0-</u> | <u>3,005,000</u> |
| | <u>\$ 11,095,000</u> | <u>\$ 9,060,000</u> | <u>\$ 3,335,000</u> | <u>\$ 5,705,000</u> |

Escrow Agent

The Refunded Bonds, and the interest due thereon, are to be paid on their scheduled interest payment dates until final payment or their redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, Dallas, Texas, as escrow agent (the "Escrow Agent").

* Preliminary; subject to change.

The Bond Order provides that the District and the Escrow Agent will enter into an escrow agreement (the "Escrow Agreement") to be dated as of the date of the sale of the Bonds but effective on the date of delivery of the Bonds. The Bond Order further provides that from the proceeds of the sale of the Bonds, along with certain other lawfully available funds of the District, if any, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds or the Remaining Outstanding Bonds.

Payment of the Refunded Bonds

By the deposit of the cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the orders authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and such Refunded Bonds will be deemed under Texas law to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in the Escrow Fund.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied as follows:

| | |
|---|----|
| SOURCES OF FUNDS: | |
| Principal Amount of Bonds..... | \$ |
| Net Premium..... | |
| Transfer from Debt Service Fund..... | |
| Accrued Interest on Bonds..... | |
| Total Sources of Funds..... | \$ |
| USES OF FUNDS: | |
| Deposit to Escrow Fund | \$ |
| Deposit of Accrued Interest to Debt Service Fund..... | |
| Issuance Expenses and Underwriter's Discount | |
| Total Uses of Funds..... | \$ |

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DISTRICT DEBT

General

The following tables and calculations relate to the Bonds. The District and various other political subdivisions of government which overlap all or a portion of the District are empowered to incur debt to be raised by taxation against all or a portion of the property within the District.

| | |
|--|--------------------------|
| 2020 Assessed Valuation..... | \$251,473,309 (a) |
| (100% of taxable value as of January 1, 2020) | |
| See "TAX DATA" and "TAXING PROCEDURES." | |
| 2021 Preliminary Assessed Valuation..... | \$261,360,931 (b) |
| Direct Debt: | |
| Remaining Outstanding Bonds | \$ 5,705,000 * |
| The Bonds | <u>3,215,000 *</u> |
| Total | \$ 8,920,000 * |
| Estimated Overlapping Debt..... | <u>\$ 16,927,932 (c)</u> |
| Total Direct and Estimated Overlapping Debt | <u>\$ 25,847,932 (c)</u> |
| Direct Debt Ratio: | |
| As a percentage of 2020 Assessed Valuation (\$251,473,309) | 3.55% |
| As a percentage of 2021 Preliminary Assessed Valuation (\$261,360,931) | 3.41% |
| Direct and Estimated Overlapping Debt Ratio: | |
| As a percentage of 2020 Assessed Valuation (\$251,473,309) | 10.28% |
| As a percentage of 2021 Preliminary Assessed Valuation (\$261,360,931) | 9.89% |
| Debt Service Fund Balance (as of April 13, 2021)..... | \$ 1,552,940 (d) |
| General Operating Fund Balance (as of April 13, 2021)..... | \$ 1,701,598 |
| 2020 Tax Rate | |
| Debt Service..... | \$0.34 |
| Maintenance & Operation | <u>0.21</u> |
| Total..... | <u>\$0.55</u> |
| Estimated Average Annual Debt Service Requirements (2021-2038)..... | \$ 642,615 (e)* |
| Estimated Maximum Annual Debt Service Requirements (2029)..... | \$ 853,950 (e)* |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Estimated Average Annual Debt Service Requirements on the Bonds and Remaining Outstanding Bonds (2021-2038) | |
| Based Upon 2020 Assessed Valuation (\$251,473,309)..... | \$0.27 (f)* |
| Based Upon 2021 Preliminary Assessed Valuation (\$261,360,931)..... | \$0.26 (f)* |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Estimated Maximum Annual Debt Service Requirements on the Bonds and Remaining Outstanding Bonds (2029) | |
| Based Upon 2020 Assessed Valuation (\$251,473,309)..... | \$0.36 (f)* |
| Based Upon 2021 Preliminary Assessed Valuation (\$261,360,931)..... | \$0.35 (f)* |
| Number of Single-Family Homes (including 23 homes under construction) as of April 1, 2021 | 1,271 |

* Preliminary, subject to change.

(a) As certified by Denton Central Appraisal District. See "TAXING PROCEDURES."

(b) Represents the preliminary determination of the taxable value of all taxable property within the District as of January 1, 2021, as provided by Denton Central Appraisal District. This value is subject to protest by owners of taxable property within the District. No taxes will be levied against this preliminary value. See "TAXING PROCEDURES."

(c) See "DISTRICT DEBT - Estimated Overlapping Debt Statement."

(d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.

(e) See "DISTRICT DEBT -Pro-Forma Debt Service Requirements."

(f) Assumes 95% collections.

Estimated Overlapping Debt Statement

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District and the estimated percentages and amounts of such indebtedness attributable to property within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports prepared by the Municipal Advisory Council of Texas. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes.

| Taxing Jurisdiction | Outstanding Debt as of March 31, 2021 | Percent | Overlapping Amount |
|--------------------------------------|--|---------|-------------------------|
| Denton County | \$611,835,000 | 0.22% | \$ 1,329,899 |
| Denton ISD | 1,367,776,088 | 1.14 | <u>15,598,033</u> |
| Total Estimated Overlapping Debt | | | \$ 16,927,932 |
| The District | | | <u>\$ 8,920,000(a)*</u> |
| Total Direct & Estimated Overlapping | | | <u>\$ 25,847,932(a)</u> |

*Preliminary, subject to change.

(a) Includes the Bonds and excludes the Refunded Bonds.

Debt Ratios

| | 2020 Taxable Assessed Valuation | 2021 Preliminary Assessed Valuation |
|--|--|--|
| Direct Debt (a)* | 3.55 % | 3.41% |
| Direct and Estimated Overlapping Debt (a)* | 10.28 % | 9.89% |

*Preliminary, subject to change.

(a) Includes the Bonds and excludes the Refunded Bonds.

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Pro-Forma Debt Service Requirements

The following schedule sets forth the principal and interest requirements on the Outstanding Bonds, less the debt service on the Refunded Bonds, plus the estimated principal and interest requirements for the Bonds, assuming the Bonds are issued at various interest rates.

| Calendar Year | Outstanding Debt Service | Less: Refunded Debt Service* | Plus: The Bonds* | | Total Debt Service* |
|---------------|--------------------------|------------------------------|--------------------|------------------|---------------------|
| | | | Principal | Interest | |
| 2021 | \$646,376 | \$62,063 | \$-0- | \$24,113 | \$608,426 |
| 2022 | 818,257 | 124,125 | -0- | 96,450 | 790,582 |
| 2023 | 833,015 | 504,125 | 370,000 | 96,450 | 795,340 |
| 2024 | 841,877 | 512,725 | 390,000 | 85,350 | 804,502 |
| 2025 | 842,991 | 513,725 | 405,000 | 73,650 | 807,916 |
| 2026 | 858,432 | 524,200 | 425,000 | 61,500 | 820,732 |
| 2027 | 867,701 | 528,800 | 445,000 | 48,750 | 832,651 |
| 2028 | 873,675 | 535,400 | 465,000 | 35,400 | 838,675 |
| 2029 | 888,500 | 546,000 | 490,000 | 21,450 | 853,950 |
| 2030 | 616,830 | 270,400 | 225,000 | 6,750 | 578,180 |
| 2031 | 470,063 | -0- | -0- | -0- | 470,063 |
| 2032 | 474,050 | -0- | -0- | -0- | 474,050 |
| 2033 | 476,000 | -0- | -0- | -0- | 476,000 |
| 2034 | 476,000 | -0- | -0- | -0- | 476,000 |
| 2035 | 480,400 | -0- | -0- | -0- | 480,400 |
| 2036 | 484,000 | -0- | -0- | -0- | 484,000 |
| 2037 | 486,800 | -0- | -0- | -0- | 486,800 |
| 2038 | 488,800 | -0- | -0- | -0- | 488,800 |
| Total | <u>\$11,923,768</u> | <u>\$4,121,563</u> | <u>\$3,215,000</u> | <u>\$549,863</u> | <u>\$11,567,068</u> |

Estimated Average Annual Requirements - (2021-2038) \$642,615 *
 Estimated Maximum Annual Requirement - (2029) \$853,950 *

* Preliminary, subject to change. Interest estimated at market rates.

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TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Remaining Outstanding Bonds, the Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS – Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under "THE BONDS – Source of Payment." Under Texas law, the Board is also authorized to levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations if authorized by its voters. See "TAX DATA – Tax Rate Limitation."

Property Tax Code and County-wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized herein.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Denton Central Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within the County, including the District. Such appraisal values are subject to review and change by the Denton County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax roll and tax rate.

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. Property owned by a disabled veteran or a veteran who died while on active duty has been granted an exemption up to \$3,000 of assessed value. Partially exempt to between to between \$5,000 and \$12,000 of assessed value, depending upon the disability rating of the veteran, is property owned by a disabled veteran or their spouse or certain children. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Also exempt, if approved by the Board or through a process of petition and referendum by the District's voters, are residential homesteads of person sixty-five (65) years or older and of certain disabled persons to the extent of \$3,000 of appraised value or more. The Tax Assessor/Collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization at some or no cost to the veteran. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total

appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferrable to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2021 tax year, the District adopted a general homestead exemption of \$15,000. In addition, the District may by its own action exempt residential homesteads of persons 65 years of age or older and certain disabled persons, to the extent deemed advisable by the Board.

Freeport Goods and Goods-in-Transit Exemption: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit Exemption" may apply to certain tangible personal property that is acquired in or imported into Texas for assembling, storing, manufacturing or fabrication purposes which is destined to be forwarded to another location in Texas not later than 175 days after acquisition or importation, so long as the location where said goods are detained is not directly or indirectly owned by the owner of the goods. The District has taken action to allow taxation of goods-in-transit, and accordingly, the exemption is not available within the District. A taxpayer may not claim both a Freeport Goods Exemption and a Goods-in-Transit Exemption on the same property.

Exemptions and Tax Payment Installments after Disaster

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the taxpayer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

Agricultural, Open Space, Timberland, and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space, timberland designation, or the residential real property inventory designation must apply for the designation and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by one political subdivision while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for a period of three (3) years for agricultural use, timberland, open space land prior to the loss of designation.

Tax Abatement

The County may designate all or part of the area within the District as a reinvestment zone. Thereafter, the County and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the Appraisal District as least once every three years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the Appraisal District current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

District and Taxpayer Remedies

Under certain circumstances, taxpayers, and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition of review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Denton Central Appraisal District to compel compliance with the Property Tax Code.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda, which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based on valuation of property within the District as of the preceding January 1.

Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) to defray collection costs if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. Under certain circumstances, property owners located within a natural disaster area affected by a disaster may pay property taxes in four (4) equal installments following the disaster. Further, a person who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran is entitled by law to pay current taxes on his residential homestead in installments or to defer tax without penalty during the time he owns and occupies the property as his residential homestead.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies municipal utility districts differently based on the current operation and maintenance tax rate or on the percentage of projected build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified herein as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all land, improvements, and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts as described below.

Special Taxing Units

Special Taxing Units that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, subject to certain homestead exemptions, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the District in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the District in that year, subject to certain homestead exemptions.

Developed Districts

Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, subject to certain homestead exemptions, plus any unused increment rates, as calculated and described in Section 26.013 of the Property Tax Code, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.035 times the amount of operation and maintenance tax imposed by the district in the preceding year on a

residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions, plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor or President, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

Developing Districts

Districts that do not meet the classification of a Special Taxing Unit or a Developed District can be classified as Developing Districts. The qualified voters of these districts, upon the Developing District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If an election is called and passes, the total tax rate for Developing Districts is the current year's debt service and contract tax rate the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the District in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the District in that year, subject to certain homestead exemptions.

The District

The District has made a determination of its status as a Developed District for the 2020 tax year. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year in which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with the tax liens of other such taxing units. See "TAX DATA – Estimated Overlapping Taxes." A tax lien on real property takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two (2) years for residential and agricultural property and six (6) months for commercial property and all other types of property after the purchaser's deed at the foreclosure sale is filed in the county records. See "INVESTMENT CONSIDERATIONS – General" and "INVESTMENT CONSIDERATIONS – Tax Collections Limitations.

TAX DATA

General

Taxable property within the District is subject to the assessment, levy, and collection by the District of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds (and any future tax-supported bonds which may be issued from time to time as authorized). Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and generally become delinquent after January 31 of the following year. The Board covenants in the Bond Order to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements, and available funds. In addition, the District has the power and authority to assess, levy and collect ad valorem taxes, not to exceed \$0.95 per \$100 of assessed valuation, for operation and maintenance purposes. The Board levied a 2020 tax rate for debt service purposes of \$0.34 per \$100 of assessed valuation and \$0.21 per \$100 of assessed valuation for operation and maintenance purposes for a total tax rate of \$0.55 per \$100 assessed value.

Tax Rate Limitation

Debt Service: Unlimited (no legal limit as to rate or amount).
 Maintenance & Operations: \$0.95 per \$100 of Assessed Valuation.

Historical Tax Collections

The following table illustrates the collection history of the District for the 2015-2020 tax years:

| Tax Year | Assessed Valuation | Tax Rate/ \$100 (a) | Adjusted Levy | Current Year Collections | Tax Year Ending 9/30 | Collections as of 03/31/2021 |
|----------|--------------------|------------------------|---------------|--------------------------|----------------------|------------------------------|
| 2015 | \$167,189,653 | \$0.8500 | \$1,421,112 | 99.43% | 2016 | 99.90% |
| 2016 | 194,786,440 | 0.7500 | 1,460,898 | 99.80 | 2017 | 99.91 |
| 2017 | 213,293,487 | 0.6100 | 1,301,090 | 99.79 | 2018 | 99.92 |
| 2018 | 235,359,796 | 0.5500 | 1,294,479 | 99.84 | 2019 | 99.92 |
| 2019 | 245,055,917 | 0.5500 | 1,347,808 | 99.54 | 2020 | 99.73 |
| 2020 | 251,473,309 | 0.5500 | 1,383,103 | 98.79(b) | 2021 | 98.79 |

(a) Includes a tax for maintenance and operation purposes. See "- Tax Rate Distribution" below.

(b) Collections as of March 31, 2021.

Tax Rate Distribution

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Debt Service | \$0.3400 | \$0.1500 | \$0.3200 | \$0.3600 | \$0.3900 | \$0.4500 |
| Maintenance | <u>0.2100</u> | <u>0.4000</u> | <u>0.2300</u> | <u>0.2500</u> | <u>0.3600</u> | <u>0.4000</u> |
| | \$0.5500 | \$0.5500 | \$0.5500 | \$0.6100 | \$0.7500 | \$0.8500 |

Analysis of Tax Base

The following table illustrates the District's total taxable assessed value for the 2016-2020 tax years by type of property:

| Type of Property | 2020 Assessed Valuation | 2019 Assessed Valuation | 2018 Assessed Valuation | 2017 Assessed Valuation | 2016 Assessed Valuation |
|-------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Land | \$57,947,469 | \$56,142,838 | \$55,817,290 | \$55,625,193 | \$42,948,409 |
| Improvements | 217,229,087 | 219,258,576 | 201,909,523 | 178,774,510 | 166,089,569 |
| Personal Property | 1,291,441 | 1,588,438 | 1,913,997 | 1,812,765 | 1,462,226 |
| Exemption | <u>(24,994,688)</u> | <u>(31,933,935)</u> | <u>(24,281,014)</u> | <u>(22,918,981)</u> | <u>(15,713,764)</u> |
| Total | \$251,473,309 | \$245,055,917 | \$235,359,796 | \$213,293,487 | \$194,786,440 |

Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2020:

| Taxpayer | Type of Property | Assessed Valuation 2020 Tax Roll |
|---------------------------------------|---------------------|--|
| Bloomfield Homes LP (a) | Land & Improvements | \$1,897,702 |
| CoServ Electric Coop | Land & Improvements | 1,228,380 |
| MRP 6 LLC | Land & Improvements | 809,000 |
| Progress Residential Borrower 14 LLC | Land & Improvements | 759,136 |
| Homeowner | Land & Improvements | 621,134 |
| CSH Property One LLC | Land & Improvements | 612,277 |
| Homeowner | Land & Improvements | 557,935 |
| Homeowner | Land & Improvements | 479,008 |
| Homeowner | Land & Improvements | 469,857 |
| Homeowner | Land & Improvements | <u>460,406</u> |
| Total | | <u>\$7,599,935</u> |
| Percentage of 2020 Assessed Valuation | | <u>15.24%</u> |

(a) See "THE DEVELOPER – The Developer".

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Taxable Assessed Valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2020 Assessed Valuation (\$251,473,309) and the 2021 Preliminary Assessed Valuation (\$261,360,931). The foregoing further assumes collection of 95% of taxes levied and the sale of no additional bonds:

| | |
|--|------------|
| Average Annual Debt Service Requirements (2021-2038)..... | \$642,615* |
| Tax Rate of \$0.27 on the 2020 Assessed Valuation at 95% collection produces | \$645,029 |
| Tax Rate of \$0.26 on the 2021 Preliminary Assessed Valuation at 95% collection produces . | \$645,561 |
| Maximum Annual Debt Service Requirement (2029)..... | \$853,950* |
| Tax Rate of \$0.36 on the 2020 Assessed Valuation at 95% collection produces | \$860,039 |
| Tax Rate of \$0.35 on the 2021 Preliminary Assessed Valuation at 95% collection produces . | \$869,025 |

*Preliminary, subject to change.

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, when ad valorem taxes are levied by a taxing authority, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions (see "DISTRICT DEBT - Estimated Overlapping Debt Statement"), certain taxing jurisdictions, including the District, are authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is a compilation of all 2020 taxes levied by such jurisdictions on property within the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other charges by entities other than political subdivisions.

| Taxing Jurisdiction | 2020 Tax Rate/ \$100 of Taxable A.V. |
|------------------------------------|---|
| The District | \$0.550000 |
| Denton County | 0.224985 |
| Denton Independent School District | <u>1.407600</u> |
| Estimated Total Tax Rate | <u>\$2.182585</u> |

THE DISTRICT

General

The District is a limited-purpose political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The District was created by the TCEQ, on November 21, 2002, as Cross Roads Municipal Utility District No. 1. The District changed its name to Denton County Municipal Utility District No. 4 by an Order issued by the TCEQ on July 14, 2003. The District is vested with all the rights, privileges, authority, and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended, and Article III, Section 52 of the Texas Constitution. The District is empowered to purchase, construct, operate and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water, among other things. The District is also empowered to purchase, construct, acquire, own, operate or maintain paved roads and turnpikes that are used as arterial or feeder roads to serve the District. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. Currently the District contracts for solid waste collection service. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District does not operate and/or maintain a fire department. The District is subject to the continuing supervision of the TCEQ.

Description

The District, a political subdivision of the State of Texas, is located in central Denton County, approximately 10 miles east of the City of Denton, Texas and 1 mile south of the intersection of U.S. Highway 380 and F.M. 720. The District is bordered by Denton County Municipal Utility District No. 5 on the south, Naylor Road (F.M. 424) on the west, the Town of Cross Roads on the north, and F.M. 720 on the east. All of the land within the District is within the exclusive ETJ of the City of Oak Point, Texas.

Management of the District

The District is governed by a board, consisting of five directors, which has control and management supervision over all affairs of the District. All of the present members of the Board own property within the District. Directors are elected in even-numbered years for four-staggered terms. The present members and officers of the Board are listed below:

| <u>Name</u> | <u>Position</u> | <u>Term Expires May</u> |
|-----------------|---------------------|-------------------------|
| Brian J. Runey | President | 2022 |
| Howard L. Nycum | Vice President | 2022 |
| Ryan Betz | Secretary | 2024 |
| Pat Rodgers | Assistant Secretary | 2022 |
| Don W. Collins | Assistant Secretary | 2024 |

The District employs the following companies and individuals to operate its utilities and recreational facilities.

Tax Assessor/Collector: The District's Tax Assessor/Collector is the Denton County Tax Assessor/Collector.

Bookkeeper: The District contracts with L&S District Services, LLC for bookkeeping services.

Utility System Operator: The District's operator is Mustang Special Utility District ("MSUD").

Auditor: The District has contracted with the independent accounting firm of McGrath & Co., PLLC to audit its financial records for the fiscal year ended July 31, 2020, such audit is included as APPENDIX A. The District has engaged McGrath & Co., PLLC to prepare its audit for fiscal year ending July 31, 2021.

Engineer: The consulting engineer retained by the District in connection with the design and construction of the District's facilities is Peloton Land Solutions (the "Engineer").

Legal Counsel: The District employs Sanford Kuhl Hagan Kugle Parker Kahn LLP as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold, and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds. Sanford Kuhl Hagan Kugle Parker Kahn LLP also acts as general counsel for the District.

Financial Advisor: The District contracts with the firm of Robert W. Baird & Co., Incorporated as financial advisor to the District. Payment to the Financial Advisor by the District is contingent upon the issuance, sale, and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

Special Consultants Related to the Issuance of the Bonds

Verification Agent: Robert Thomas CPA, LLC has been engaged as "Verification Agent" in connection with the issuance of the Bonds.

Status of Development

Of the approximately 275.27 acres of land located within the District, approximately 239.17 acres have been developed with water distribution, sanitary sewer, and storm drainage facilities to serve the single-family residential subdivision of Cross Oak Ranch, Phase 2, Tracts 1A, 1B, 1C, 2, 3, 4, 5, 6, 7A, 7B and 16 (1,272 lots). As of April 1, 2021, the District was comprised of 1,248 completed homes, 23 homes under construction and 1 vacant developed lot. The remaining acreage within the District is comprised of approximately 36.11 undevelopable acres.

The table below summarizes the development within the District as of April 1, 2021 by section.

| <u>Section</u> | <u>Acreage</u> | <u>No. of Lots</u> | <u>Homes</u> | | <u>Vacant Lots</u> |
|--------------------------|----------------|------------------------|-----------------|-------------------------------|------------------------|
| | | | <u>Complete</u> | <u>Under Construction</u> | |
| Cross Oak Ranch, Phase 2 | | | | | |
| Tract 1A | 21.81 | 119 | 119 | -0- | -0- |
| Tract 1B | 14.40 | 69 | 69 | -0- | -0- |
| Tract 2 | 23.97 | 152 | 152 | -0- | -0- |
| Tract 3 | 29.70 | 164 | 164 | -0- | -0- |
| Tract 4 | 33.08 | 166 | 166 | -0- | -0- |
| Tract 5 | 26.09 | 127 | 127 | -0- | -0- |
| Tract 6 | 36.68 | 197 | 197 | -0- | -0- |
| Tract 1C | 10.66 | 72 | 72 | -0- | -0- |
| Tract 7A | 17.64 | 93 | 93 | -0- | -0- |
| Tract 7B | 12.87 | 68 | 68 | -0- | -0- |
| Tract 16 | <u>12.27</u> | <u>45</u> | <u>21</u> | <u>23</u> | <u>1</u> |
| Total | 239.17 | 1,272 | 1,248 | 23 | 1 |
| Undevelopable | 36.11 | | | | |
| Total District Acreage | 275.27 | | | | |

Bloomfield Homes (as defined below) is actively building homes in the District. New homes within the District are being offered for sale at prices ranging from approximately \$310,000 to over \$400,000 and range in size from approximately 1,840 to 3,754 square feet.

THE DEVELOPER

The Role of a Developer

In general, the activities of a developer in a municipal utility district, such as the District, include the following: acquiring the land within the district, designing the subdivision, the utilities and streets to be constructed in the subdivision, and any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities, and selling improved lots and commercial reserves to builders and other developers or other third parties. Pursuant to the rules of the TCEQ, a developer can be required to pay up to 30% of the cost of constructing certain water, wastewater, and drainage facilities in a municipal utility district. The relative success or failure of a developer to perform such activities in the development of property within a municipal utility district may have a profound effect on the security of the bonds issued by a district. A developer is generally under no obligation to a municipal utility district to develop the property that it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land that the developer owns within a municipal utility district.

The Developer

Bloomfield Homes, L.P., a Texas limited partnership ("Bloomfield Homes" or the "Developer") has constructed the water, sanitary sewer, and storm sewer facilities to serve Cross Oak Ranch, Phase 2, Tract 16 (45 lots) and pays the applicable connection fees for water and wastewater to MSUD as homes are constructed. See "THE DISTRICT – Status of Development." Bloomfield Homes is also the sole homebuilder within the District.

The Developer is not responsible for, liable for, and has not made any commitment for payment of the Bonds or other obligations of the District, and the inclusion of information concerning the Developer herein should not be construed as an implication to that effect. The Developer has no legal commitment to the District or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the Developer's financial condition is subject to change at any time.

THE SYSTEM

Regulation

According to the Engineer, the water distribution and wastewater collection lines constructed by the District (the "System") have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City, Mustang Special Utility District ("MSUD"), and Denton County. According to the District's Engineer, the design of all such facilities has been approved by all required governmental agencies and inspected by the TCEQ.

Operation of the District's waterworks and sewer treatment facilities is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions.

Description of the System

- Wastewater Treatment and Conveyance System -

On March 6, 2003, the District entered into the Upper Trinity Regional Water District Peninsula Water Reclamation System Mustang Special Utility District Participating Member Contract with the Upper Trinity Regional Water District ("UTRWD") and MSUD, pursuant to which the District participates in the cost of a regional wastewater treatment plant constructed, owned, and operated by UTRWD. Pursuant to such agreement, the District has paid for the cost of constructing 130,000 gallons per day ("gpd") of wastewater treatment capacity of a 565,000 gpd expansion of such wastewater treatment plant constructed by UTRWD. The other parties that have capacity in the wastewater treatment plant include MSUD and the City of Oak Point. In 2013, the District and MSUD entered into an amended agreement where the District would obtain additional capacity on a "per-lot" basis for the remainder of the development.

The District's capacity is sufficient to serve approximately 1,274 connections. The wastewater treatment plant is located on a 15-acre site dedicated by CORD and UTRWD has obtained a waste discharge permit which allows it to expand the plant to treat up to 2,000,000 gpd.

MSUD holds the Certificate of Convenience and Necessity for retail wastewater service over an area that includes all of the District. The District has entered into a Non-Standard Service Agreement, as amended, with MSUD pursuant to which the District installs the wastewater lines to serve the land within its boundaries and MSUD assumes ownership and operation of such facilities. MSUD receives all revenues from the providing of such retail service.

- Water Supply and Distribution -

The District has entered into a Non-Standard Service Agreement, as amended, with MSUD pursuant to which the District installs the water distribution lines necessary to serve its development and MSUD constructs or otherwise acquires the water supply facilities to serve customers located within the boundaries of the District. The District pays an "equity buy-in fee" in order to compensate MSUD for the offsite water distribution facilities, elevated storage tanks, water wells and other expenses incurred in obtaining its water supply. Upon completion of the water distribution system, MSUD assumes ownership and operation responsibilities of the water lines and receives all revenues from such retail service.

MSUD provides water service to an area of approximately 120 square miles in Northeast Denton County. MSUD provides water service to approximately 10,300 active connections.

MSUD's fresh supplies are obtained through both groundwater wells and surface water treatment. Currently, MSUD operates ten (10) groundwater wells capable of pumping approximately 2.3 million gallons per day. MSUD is also a Participating Member of the UTRWD and currently subscribes for 2.8 million gallons per day of treated surface water. Additionally, MSUD has ten (10) ground storage tanks with total capacity of 3 million gallons, and three (3) elevated storage tanks of 300,000, 1.0 million, and 2.25 million gallons of capacity, respectively. Treated surface water pumping is provided through the Temple Dane Pump Station located on FM 720 just south of US 380. This facility currently has the capability to pump 4,500 gallons per minute with additional pumping capability. MSUD offices are located at 7985 F.M. 2931, Aubrey, Texas 76227.

The developed portions of the District are served with storm sewers, two detention ponds and outfall drainage facilities. According to the Engineer, the Federal Emergency Management Agency Flood Hazard Boundary Map currently in effect which covers the land in the District reflects none of the developed acres in the District lie within the 100-year flood plain of any water course. Approximately 19 acres of the 36 acres of undeveloped land lie within the 100-year flood plain.

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations of the District and are not obligations of the State of Texas, Denton County, Texas, the City, or any political subdivision other than the District. The Bonds are secured by a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS – Sources of Payment." The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District or, in the even taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representation that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below.

Economic Factors Affecting Taxable Values and Tax Payment

The rate of development within the District is directly related to the vitality of the single-family housing in the Dallas and Denton metropolitan areas. New single-family residential construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of single-family residential construction would restrict the growth of property values in the District. Although the construction of 23 single-family homes is under way, the District cannot predict the pace or magnitude of any future development in the District. See "THE DISTRICT – Status of Development."

Developer's Obligations to the District: There is no commitment by or legal requirement of the Developer, or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any home builder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction on any land owner's right to sell its land. Therefore, the District can make no representation about the profitability of future development, if any, or the rate of future home construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and result in higher tax rates. See "THE DISTRICT – Status of Development," and "THE DEVELOPER."

Maximum Impact on District Tax Rate: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2020 Assessed Valuation of property within the District is \$251,473,309 and the 2021 Preliminary Assessed Valuation of property within the District is \$261,360,931 (see "DISTRICT DEBT"). After issuance of the Bonds, the estimated maximum annual debt service requirement will be \$853,950* (2029) and the estimated average annual debt service requirement will be \$642,615* (2021 through 2038, inclusive). Assuming no increase or decrease from the 2020 Assessed Valuation, a tax rate of \$0.36 per \$100 of assessed valuation at a 95% collection rate would be necessary to pay the estimated maximum annual debt service requirement of \$853,950* and a tax rate of \$0.27 per \$100 of assessed valuation at a 95% collection rate would be necessary to pay the estimated average annual debt service requirements of \$642,615.* Assuming no increase or decrease from the 2021 Preliminary Assessed Valuation, a tax rate of \$0.35 per \$100 of assessed valuation at a 95% collection rate would be necessary to

* Preliminary; subject to change.

pay the estimated maximum annual debt service requirement of \$853,950* and a tax rate of \$0.26 per \$100 of assessed valuation at a 95% collection rate would be necessary to pay the estimated average annual debt service requirements of \$642,615.* See “DISTRICT DEBT – Pro-Forma Debt Service Requirements”. The District levied a tax rate in 2020 of \$0.34 per \$100 of assessed valuation for debt service purposes and a tax rate of \$0.21 per \$100 of assessed valuation for operation and maintenance purposes.

Tax Collection Limitations

The District’s ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming, and expensive collection procedures, (b) a bankruptcy court’s stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers’ right to redeem property within six (6) months of foreclosure unless the property is his residence homestead or designated for agricultural use, in which case the taxpayer may redeem the property within two years of foreclosure). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. The District’s lien on taxable property within the District for taxes levied against such property can be foreclosed only in a judicial proceeding.

Bondholders’ Remedies

In the event of default in the payment of principal of or interest on the Bonds, the registered holders of the Bonds (“Bondholders”) have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not provide for remedies to protect and enforce the interests of the Bondholders. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government’s governmental immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. Even if such judgment against the District were obtained, it could not be enforced by direct levy and execution against the District’s property. Even if the Bondholders could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District’s property. Further, the Bondholders cannot themselves foreclose on property within the District or sell property of the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Bondholders would have to initiate and finance the legal process to enforce their remedies.

Bankruptcy Limitations to Registered Owners’ Rights

The enforceability of the rights and remedies of registered owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the U.S. Bankruptcy Code, 11 USC sections 901–946. The filing of such petition would automatically stay the enforcement of Registered Owners’ remedies, including mandamus and the foreclosure

* Preliminary; subject to change.

of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is generally authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or has negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under Texas law, a municipal utility district, such as the District, must obtain the approval of the TCEQ as a condition to seeking relief under the U.S. Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in determining the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be applicable, the concomitant delay and loss of remedies to the Registered Owners could potentially and adversely impair the value of the Registered Owners' claims.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the U.S. Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner by reducing or eliminating the amount of indebtedness, deferring, or rearranging the debt service schedule, reducing, or eliminating the interest rate, modifying, or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the registered owner's claim against a district. A district cannot be placed into bankruptcy involuntarily.

Future Debt

Following the issuance of the Bonds, the District will have \$44,770,000* principal amount of unlimited tax refunding bonds and \$17,080,000 principal amount of unlimited tax bonds for water and sewer purposes remaining authorized but unissued. The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations, other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for and the investment quality and value of the Bonds.

The District anticipates filing a bond application with the TCEQ requesting approval to sell approximately \$2,095,000 principal amount of unlimited tax bonds for water and sewer purposes. The District expects the sale of such bonds to occur in the fourth quarter of 2021.

Based on present engineering cost estimates and on development plans, in the opinion of the District's Engineer, the remaining \$17,080,000 principal amount of authorized but unissued bonds for water and sewer purposes will be sufficient to fully finance the remaining project costs within the District.

Competitive Nature of Dallas Residential Market

The housing industry in the Dallas, Texas, metropolitan area, where the District is located, is very competitive, and the District can give no assurance that the building programs which are planned by the Developer will be continued or completed. The respective competitive positions of the Developer and the homebuilder is affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

* Preliminary; subject to change.

Marketability of the Bonds

The District has no understanding with the initial underwriter of the Bonds listed on the cover page hereof (the "Underwriter") regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price for the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers, since such bonds are more generally bought, sold, or traded in the secondary market.

Infectious Disease Outbreak – COVID-19

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the Governor of Texas (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the "disaster declarations"). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Stock values and crude oil prices, in the U.S. and globally, have seen significant fluctuations attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston metropolitan area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

The District continues to monitor the spread of COVID-19 and the potential impact of the Pandemic on the District. While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations, financial condition, or ratings. See "RATINGS." The financial and operating data contained herein are the latest available but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "TAX MATTERS."

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

Proposed Legislation

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds.

Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability, or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives, or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives, or litigation.

Bond Insurance Risk Factors

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the bond insurer (the "Bond Insurer") at such time and in such amounts as would have been due absence such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See "MUNICIPAL BOND INSURANCE" and "RATINGS."

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the District or the Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "MUNICIPAL BOND INSURANCE" for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

LEGAL MATTERS

Legal Opinion

Delivery of the Bonds will be accompanied by the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of Texas payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District and based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds; the approving legal opinion of Bond Counsel, to a like effect, and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and interest on the Bonds is not subject to the federal alternative minimum tax.

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS" (except for information under the subheadings "Registered Owners' Remedies"), "PLAN OF FINANCING – Payment of the Refunded Bonds," "THE DISTRICT – General," "TAXING PROCEDURES," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" and Special Tax Counsel has reviewed the information appearing in this Official Statement under "TAX MATTERS" solely to determine whether such information, insofar as it relates to matters of law, is true and correct and whether such information is an accurate summary of matters of law and the provisions of the documents referred to therein. Bond Counsel and Special Tax Counsel have not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's or Special Tax Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold, and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, dated of the date of delivery of the Bonds, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, that to their knowledge, no litigation is pending or threatened affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

No Material Adverse Change

The obligations of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel ("Special Tax Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Special Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly

allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Special Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Tax Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Special Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events, or matters.

Although Special Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state, or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations, or litigation, as to which Special Tax Counsel is expected to express no opinion.

The opinion of Special Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Tax Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Tax Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the

interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Special Tax Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Special Tax Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

Qualified Tax-Exempt Obligations

The District will designate the Bonds as "qualified tax-exempt obligations" under Section 265(b)(3)(B) of the Code (and represent that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2021 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2021.

Pursuant to Section 265 of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank-qualified" investments. Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

VERIFICATION OF MATHEMATICAL CALCULATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisor on behalf of the District relating to (a) computation of the adequacy of the amounts and certain available funds (if any) to pay, when due, the principal or redemption price of and interest on the Refunded Bonds, and (b) the computation of the yields on the Bonds was verified by the Verification Agent. The computations were independently verified by the Verification Agent based upon certain assumptions and information supplied by the Financial Advisor on behalf of the District, and the District. The Verification Agent has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of future events.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for United States Securities and Exchange Commission (the "SEC") Rule 15c2-12(d)(2) exemption from SEC Rule 15c2-12(b)(5) of the Securities Exchange Act regarding the District's continuing disclosure obligations because the District has no more than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds. As required by the exemption, in the Bond Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") System.

Annual Reports

The District will provide certain financial information and operating data in "APPENDIX A." The District will update and provide this information within six (6) months after the end of each of its fiscal years. Any information so provided shall be prepared in accordance with generally accepted auditing standards or such other principals as the District may be required to employ from time to time pursuant to state law or regulation and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year within such six (6) month period and audited financial statements when the audit report becomes available. The District will update and provide this information within six months after the end of each fiscal year.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC"). The updated information will include audited financial statements if the District commissions an audit and it is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six-month period and audited financial statements when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is July 31. Accordingly, it must provide updated information by January 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds, if material; (7) modifications to rights of Beneficial Owners, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, or the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect bondholders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, any of which reflect financial difficulties. The term "financial obligation" when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities for which an official statement has been provided to the MSRB consistent with the Rule. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to

provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

The District has agreed to provide the foregoing notices to the MSRB. The District is required to file its continuing disclosure information using EMMA, which is the format currently prescribed by the MSRB and has been established by the MSRB to make such continuing disclosure information available to investors free of charge. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if by only (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any qualified professional unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and Beneficial Owners of the Bonds. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided. The District may also amend or repeal its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of such rule are invalid, and the District also may amend its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The District has complied in all material respects with its previous continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector, the Auditor, the Appraisal District, and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below. The summaries of the statutes, resolutions and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The District's audited financial statements for the year ended July 31, 2020, were prepared by McGrath & Co., PLLC, Certified Public Accountants, and have been included herein as "APPENDIX A." McGrath & Co., PLLC, Certified Public Accountant, has consented to the publication of such financial statements in this Preliminary Official Statement.

Experts

The information contained in this Official Statement relating to development and the status of development within the District generally and, in particular, the information in the section captioned "THE DEVELOPER – The Developer" has been provided by the Developer and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

The information contained in this Official Statement relating to engineering and to the description of the System generally and, in particular, the engineering information included in the sections captioned "THE DISTRICT" and "THE SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations, analysis of the tax base and percentages of tax collections contained in the sections captioned "TAX DATA" has been provided by the Appraisal District and the District's Tax Assessor/Collector and has been included herein in reliance upon the authority of such parties as experts in the field of tax assessing and collecting.

Certification as to Official Statement

The District, acting by and through the Board in its official capacity, in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

Updating the Official Statement

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

Official Statement "Deemed Final"

For purposes of compliance with Rule 15c2-12 promulgated by the Securities and Exchange Commission, this document, as the same may be supplemented or corrected by the District from time-to-time, may be treated as an Official Statement with respect to the Bonds described herein "deemed final" by the District as of the date hereof (or of any such supplement or correction).

The Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "Final Official Statement" of the District with respect to the Bonds, as that term is defined in Rule 15c2-12.

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of Denton County Municipal Utility District No. 4 as of the date specified on the first page hereof.

/s/ _____
Brian Runey
President, Board of Directors
Denton County Municipal Utility District No. 4

ATTEST:

/s/ _____
Ryan Betz
Secretary, Board of Directors
Denton County Municipal Utility District No. 4

APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

**DENTON COUNTY MUNICIPAL
UTILITY DISTRICT NO. 4**

DENTON COUNTY, TEXAS

FINANCIAL REPORT

July 31, 2020

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McGRATH & CO., PLLC

Certified Public Accountants
2500 Tanglewilde, Suite 340
Houston, Texas 77063

Independent Auditors' Report

Board of Directors
Denton County Municipal Utility District No. 4
Denton County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Denton County Municipal Utility District No. 4, as of and for the year ended July 31, 2020, 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 and fair presentation 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 basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of 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 principles 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 to provide a basis for our audit opinions.

***Board of Directors
Denton County Municipal Utility District No. 4
Denton County, Texas***

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Denton County Municipal Utility District No. 4, as of July 31, 2020, and the respective changes in financial position thereof for the year then ended in conformity 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 budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance 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 Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

McGrath & Co, PLLC

Houston, Texas
November 10, 2020

Management's Discussion and Analysis

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***Denton County Municipal Utility District No. 4
Management's Discussion and Analysis
July 31, 2020***

Using this Annual Report

Within this section of the financial report of Denton County Municipal Utility District No. 4 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended July 31, 2020. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

***Denton County Municipal Utility District No. 4
Management's Discussion and Analysis
July 31, 2020***

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at July 31, 2020, was \$3,984,359. A comparative summary of the District's overall financial position, as of July 31, 2020 and 2019, is as follows:

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Current and other assets | \$ 3,242,730 | \$ 3,422,161 |
| Capital assets | 11,204,920 | 11,061,883 |
| Total assets | <u>14,447,650</u> | <u>14,484,044</u> |
| Total deferred outflows of resources | 143,352 | 156,446 |
| Current liabilities | 657,027 | 697,033 |
| Long-term liabilities | 9,949,616 | 9,600,856 |
| Total liabilities | <u>10,606,643</u> | <u>10,297,889</u> |
| Net position | | |
| Net investment in capital assets | 4,031,929 | 4,137,415 |
| Restricted | 1,398,853 | 1,799,584 |
| Unrestricted | (1,446,423) | (1,594,398) |
| Total net position | <u>\$ 3,984,359</u> | <u>\$ 4,342,601</u> |

***Denton County Municipal Utility District No. 4
Management's Discussion and Analysis
July 31, 2020***

The total net position of the District decreased during the current fiscal year by \$358,242. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|-----------------------------|
| Revenues | | |
| Property taxes, penalties and interest | \$ 1,351,231 | \$ 1,297,252 |
| Other | 49,065 | 63,842 |
| Total revenues | <u>1,400,296</u> | <u>1,361,094</u> |
| Expenses | | |
| Operating and administrative | 725,305 | 649,245 |
| Interest and fees | 344,901 | 356,699 |
| Depreciation/amortization | 386,141 | 368,630 |
| Total expenses | <u>1,456,347</u> | <u>1,374,574</u> |
| Change in net position before other item | (56,051) | (13,480) |
| Other item | | |
| Transfers to other governments | <u>(302,191)</u> | <u> </u> |
| Change in net position | (358,242) | (13,480) |
| Net position, beginning of year | <u>4,342,601</u> | <u>4,356,081</u> |
| Net position, end of year | <u>\$ 3,984,359</u> | <u>\$ 4,342,601</u> |

Financial Analysis of the District's Funds

The District's combined fund balances, as of July 31, 2020, were \$3,154,092, which consists of \$1,623,476 in the General Fund and \$1,530,616 in the Debt Service Fund.

General Fund

A comparative summary of the General Fund's financial position as of July 31, 2020 and 2019 is as follows:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Total assets | <u>\$ 1,671,301</u> | <u>\$ 1,442,178</u> |
| Total liabilities | \$ 40,467 | \$ 100,470 |
| Total deferred inflows | 7,358 | 3,349 |
| Total fund balance | <u>1,623,476</u> | <u>1,338,359</u> |
| Total liabilities, deferred inflows and fund balance | <u>\$ 1,671,301</u> | <u>\$ 1,442,178</u> |

***Denton County Municipal Utility District No. 4
Management's Discussion and Analysis
July 31, 2020***

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

| | <u>2020</u> | <u>2019</u> |
|------------------------------------|-------------------|--------------------|
| Total revenues | \$ 1,000,414 | \$ 570,696 |
| Total expenditures | <u>(715,297)</u> | <u>(631,147)</u> |
| Revenues over/(under) expenditures | <u>\$ 285,117</u> | <u>\$ (60,451)</u> |

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, which is dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues increased from prior year because the District increased the maintenance and operations component of the levy and because assessed values increased from prior year.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of July 31, 2020 and 2019 is as follows:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Total assets | <u>\$ 1,540,413</u> | <u>\$ 1,946,147</u> |
| Total deferred inflows | \$ 9,797 | \$ 6,702 |
| Total fund balance | <u>1,530,616</u> | <u>1,939,445</u> |
| Total deferred inflows and fund balance | <u>\$ 1,540,413</u> | <u>\$ 1,946,147</u> |

A comparative summary of the Debt Service Fund's activities for the current and prior fiscal year is as follows:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------|---------------------|-------------------|
| Total revenues | \$ 392,778 | \$ 789,705 |
| Total expenditures | <u>(801,607)</u> | <u>(796,212)</u> |
| Revenues under expenditures | <u>\$ (408,829)</u> | <u>\$ (6,507)</u> |

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues. The difference between these financial resources and debt service requirements resulted in a decrease in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

*Denton County Municipal Utility District No. 4
Management's Discussion and Analysis
July 31, 2020*

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board amended the budget during the year to reflect changes in anticipated revenues.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$101,148 less than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developers for the financing of the construction of capital assets within the District. Developers will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Capital assets held by the District at July 31, 2020 and 2019 are summarized as follows:

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Capital assets being depreciated/amortized | | |
| Drainage facilities | \$ 1,653,114 | \$ 1,641,573 |
| Road facilities | 8,178,327 | 7,660,690 |
| Impact fees | 2,591,715 | 2,591,715 |
| Interest in regional facilities | 1,487,782 | 1,487,782 |
| | <u>13,910,938</u> | <u>13,381,760</u> |
| Less accumulated depreciation/amortization | | |
| Drainage facilities | (545,591) | (508,855) |
| Road facilities | (527,972) | (340,478) |
| Impact fees | (809,597) | (697,279) |
| Interest in regional facilities | (822,858) | (773,265) |
| | <u>(2,706,018)</u> | <u>(2,319,877)</u> |
| Capital assets, net | <u>\$ 11,204,920</u> | <u>\$ 11,061,883</u> |

Capital asset additions during the current year include drainage and paving to serve Cross Oak Ranch, Tract 16.

The District and the Mustang Special Utility District ("MSUD") have entered into an agreement which obligates the District to construct water and wastewater facilities to serve the District and, when completed, to convey title to the facilities to MSUD. For the year ended July 31, 2020 capital assets in the amount of \$302,191 has been recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 11.

***Denton County Municipal Utility District No. 4
Management's Discussion and Analysis
July 31, 2020***

Long-Term Debt and Related Liabilities

As of July 31, 2020, the District owes approximately \$831,369 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

At July 31, 2020 and 2019, the District had total bonded debt outstanding as shown below:

| Series | 2020 | 2019 |
|----------------|--------------|--------------|
| 2013 Refunding | \$ 4,395,000 | \$ 4,715,000 |
| 2014 Refunding | 2,135,000 | 2,265,000 |
| 2014 | 3,005,000 | 3,005,000 |
| | \$ 9,535,000 | \$ 9,985,000 |

At July 31, 2020, the District had \$17,080,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$44,770,000 for refunding purposes.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

| | 2020 Actual | 2021 Budget |
|------------------------------------|--------------|--------------|
| Total revenues | \$ 1,000,414 | \$ 526,211 |
| Total expenditures | (715,297) | (642,265) |
| Revenues over/(under) expenditures | 285,117 | (116,054) |
| Beginning fund balance | 1,338,359 | 1,623,476 |
| Ending fund balance | \$ 1,623,476 | \$ 1,507,422 |

Property Taxes

The District's property tax base increased approximately \$6,672,000 for the 2020 tax year from \$245,144,123 to \$251,815,689. This increase was primarily due to increased property values. For the 2020 tax year, the District has levied a maintenance tax rate of \$0.21 per \$100 of assessed value and a debt service tax rate of \$0.34 per \$100 of assessed value, for a total combined tax rate of \$0.55 per \$100. Tax rates for the 2019 tax year were \$0.40 per \$100 for maintenance and operations and \$0.15 per \$100 for debt service for a combined total of \$0.55 per \$100 of assessed value

Infectious Disease Outlook (COVID-19)

As further discussed in Note 13, the World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory virus currently affecting many parts of the world, including the United States and Texas. The pandemic has negatively affected the economic growth and financial markets worldwide and within Texas. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak could have an adverse effect on the District's operations and financial condition by negatively affecting property taxes and ad valorem tax revenues within the District.

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Basic Financial Statements

Denton County Municipal Utility District No. 4
Statement of Net Position and Governmental Funds Balance Sheet
July 31, 2020

| | General Fund | Debt Service Fund | Total | Adjustments | Statement of Net Position |
|---|---------------------|-------------------------|---------------------|---------------------|------------------------------|
| Assets | | | | | |
| Cash | \$ 704,661 | \$ 115,664 | \$ 820,325 | \$ - | \$ 820,325 |
| Investments | 925,000 | 1,405,000 | 2,330,000 | | 2,330,000 |
| Taxes receivable | 7,358 | 9,797 | 17,155 | | 17,155 |
| Prepaid items | 27,426 | | 27,426 | | 27,426 |
| Internal balances | 328 | (328) | | | |
| Accrued interest receivable | 1,128 | 10,280 | 11,408 | | 11,408 |
| Due from other governments | 5,400 | | 5,400 | | 5,400 |
| Prepaid bond insurance, net | | | | 31,016 | 31,016 |
| Capital assets, net | | | | 11,204,920 | 11,204,920 |
| Total Assets | <u>\$ 1,671,301</u> | <u>\$ 1,540,413</u> | <u>\$ 3,211,714</u> | <u>11,235,936</u> | <u>14,447,650</u> |
| Deferred Outflows of Resources | | | | | |
| Deferred difference on refunding | | | | 143,352 | 143,352 |
| Liabilities | | | | | |
| Accounts payable | \$ 40,467 | \$ - | \$ 40,467 | | 40,467 |
| Accrued interest payable | | | | 141,560 | 141,560 |
| Due to developer | | | | 831,369 | 831,369 |
| Long-term debt | | | | | |
| Due within one year | | | | 475,000 | 475,000 |
| Due after one year | | | | 9,118,247 | 9,118,247 |
| Total Liabilities | <u>40,467</u> | | <u>40,467</u> | <u>10,566,176</u> | <u>10,606,643</u> |
| Deferred Inflows of Resources | | | | | |
| Deferred property taxes | 7,358 | 9,797 | 17,155 | (17,155) | |
| Fund Balances/Net Position | | | | | |
| Fund Balances | | | | | |
| Nonspendable | 27,426 | | 27,426 | (27,426) | |
| Restricted | | 1,530,616 | 1,530,616 | (1,530,616) | |
| Unassigned | 1,596,050 | | 1,596,050 | (1,596,050) | |
| Total Fund Balances | <u>1,623,476</u> | <u>1,530,616</u> | <u>3,154,092</u> | <u>(3,154,092)</u> | |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 1,671,301</u> | <u>\$ 1,540,413</u> | <u>\$ 3,211,714</u> | | |
| Net Position | | | | | |
| Net investment in capital assets | | | | 4,031,929 | 4,031,929 |
| Restricted for debt service | | | | 1,398,853 | 1,398,853 |
| Unrestricted | | | | (1,446,423) | (1,446,423) |
| Total Net Position | | | | <u>\$ 3,984,359</u> | <u>\$ 3,984,359</u> |

See notes to basic financial statements.

*Denton County Municipal Utility District No. 4
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended July 31, 2020*

| | General Fund | Debt Service Fund | Total | Adjustments | Statement of Activities |
|--|---------------------|-------------------------|---------------------|-------------------|----------------------------|
| Revenues | | | | | |
| Property taxes | \$ 976,525 | \$ 365,960 | \$ 1,342,485 | \$ 4,847 | \$ 1,347,332 |
| Penalties and interest | | 1,642 | 1,642 | 2,257 | 3,899 |
| Miscellaneous | 200 | | 200 | | 200 |
| Investment earnings | 23,689 | 25,176 | 48,865 | | 48,865 |
| Total Revenues | <u>1,000,414</u> | <u>392,778</u> | <u>1,393,192</u> | <u>7,104</u> | <u>1,400,296</u> |
| Expenditures/Expenses | | | | | |
| Operating and administrative | | | | | |
| Professional fees | 149,568 | | 149,568 | | 149,568 |
| Contracted services | 163,801 | 9,522 | 173,323 | | 173,323 |
| Repairs and maintenance | 374,925 | | 374,925 | | 374,925 |
| Utilities | 8,712 | | 8,712 | | 8,712 |
| Administrative | 18,291 | 486 | 18,777 | | 18,777 |
| Debt service | | | | | |
| Principal | | 450,000 | 450,000 | (450,000) | |
| Interest and fees | | 341,599 | 341,599 | 3,302 | 344,901 |
| Depreciation/amortization | | | | 386,141 | 386,141 |
| Total Expenditures/Expenses | <u>715,297</u> | <u>801,607</u> | <u>1,516,904</u> | <u>(60,557)</u> | <u>1,456,347</u> |
| Revenues Over (Under) Expenditures/Expenses | 285,117 | (408,829) | (123,712) | 67,661 | (56,051) |
| Other Item | | | | | |
| Transfers to other governments | | | | (302,191) | (302,191) |
| Net Change in Fund Balances | 285,117 | (408,829) | (123,712) | 123,712 | |
| Change in Net Position | | | | (358,242) | (358,242) |
| Fund Balance/Net Position | | | | | |
| Beginning of the year | 1,338,359 | 1,939,445 | 3,277,804 | 1,064,797 | 4,342,601 |
| End of the year | <u>\$ 1,623,476</u> | <u>\$ 1,530,616</u> | <u>\$ 3,154,092</u> | <u>\$ 830,267</u> | <u>\$ 3,984,359</u> |

See notes to basic financial statements.

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Denton County Municipal Utility District No. 4
Notes to Basic Financial Statements
July 31, 2020

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Denton County Municipal Utility District No. 4 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality (TCEQ) dated November 21, 2002, as Cross Roads Municipal Utility District No. 1. The District’s name was changed to the Denton County Municipal Utility District No. 4 by an order of the TCEQ dated July 14, 2004. The District operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on December 4, 2002 and the first bonds were sold on March 1, 2005.

The District’s primary activities include construction of water, sewer and drainage facilities. As further discussed in Note 11, the District transfers its water and sewer facilities to the Mustang Special Utility District upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Denton County Municipal Utility District No. 4
Notes to Basic Financial Statements
July 31, 2020

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has two governmental funds, which are both considered major funds.

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District and all other financial transactions not reported in other funds. The principal sources of revenue is property taxes. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District’s general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes and interest earned on investments. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Prepaid Bond Insurance

Prepaid bond insurance reduces the District's borrowing costs and is, therefore, recorded as asset in the government-wide *Statement of Net Position* and amortized to interest expense over the life of the bonds.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At July 31, 2020 an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Denton County Municipal Utility District No. 4
Notes to Basic Financial Statements
July 31, 2020

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Depreciable capital assets, which primarily consist of drainage and road facilities and impact fees, are depreciated/amortized using the straight-line method as follows:

| Assets | Useful Life |
|---------------------------------|----------------------------|
| Drainage facilities | 45 years |
| Road facilities | 30-45 years |
| Impact fees | Remaining life of contract |
| Interest in regional facilities | 30 years |

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Deferred outflows of financial resources at the government-wide level are from refunding bond transactions in which the amount required to repay the old debt exceeded the net carrying amount of the old debt. This amount is being amortized to interest expense.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Denton County Municipal Utility District No. 4
Notes to Basic Financial Statements
July 31, 2020

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District's nonspendable fund balance consists of prepaid items.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District's restricted fund balance consist of unspent property taxes levied for debt service in the Debt Service Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned - all other spendable amounts in the General Fund.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developer; the value of capital assets transferred to the Mustang Special Utility District and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Denton County Municipal Utility District No. 4
Notes to Basic Financial Statements
July 31, 2020

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position*

| | | |
|---|--------------------|---------------------|
| Total fund balance, governmental funds | \$ 3,154,092 | |
| Prepaid bond insurance is recorded as an expenditure in the funds, but is recorded as a prepaid asset and amortized to expense in the government wide statements. | | 31,016 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. | | |
| Historical cost | \$ 13,910,938 | |
| Less accumulated amortization | <u>(2,706,018)</u> | |
| Change due to capital assets | | 11,204,920 |
| The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the <i>Statement of Net Position</i> and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource. | | 143,352 |
| Amounts due to the District's developer for prefunded construction are recorded as a liability in the <i>Statement of Net Position</i> . | | (831,369) |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of: | | |
| Bonds payable, net | (9,593,247) | |
| Interest payable on bonds | <u>(141,560)</u> | |
| Change due to long-term debt | | (9,734,807) |
| Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds. | | |
| Property taxes receivable | 12,531 | |
| Penalty and interest receivable | <u>4,624</u> | |
| Change due to property taxes | | 17,155 |
| Total net position - governmental activities | | <u>\$ 3,984,359</u> |

Denton County Municipal Utility District No. 4
Notes to Basic Financial Statements
July 31, 2020

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the *Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* to the *Statement of Activities*

Net change in fund balances - total governmental funds \$ (123,712)

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes and penalties and interest. 7,104

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.

| | | | |
|--------------------------|----|---------|---------|
| Principal payments | \$ | 450,000 | |
| Interest expense accrual | | (3,302) | |
| | | | 446,698 |

In the *Statement of Activities*, the cost of capital assets is charged to depreciation/amortization expense over the estimated useful life of the asset. (386,141)

The District conveys its water and sewer facilities to Mustang Special Utility District upon completion of construction. Since these improvements are funded by the developer, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments. (302,191)

| | | |
|---|----|-----------|
| Change in net position of governmental activities | \$ | (358,242) |
|---|----|-----------|

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District’s deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The District’s written investment policy establishes additional requirements for collateralization of deposits.

Denton County Municipal Utility District No. 4
Notes to Basic Financial Statements
July 31, 2020

Note 3 – Deposits and Investments (continued)

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers’ acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District’s investment program should be managed. This policy further restricts the types of investments in which the District may invest.

As of July 31, 2020, the District’s investments consist of the following:

| <u>Type</u> | <u>Fund</u> | <u>Carrying Value</u> |
|-------------------------|--------------|---------------------------|
| Certificates of deposit | General | \$ 925,000 |
| | Debt Service | 1,405,000 |
| | | <u>\$ 2,330,000</u> |

The District’s investments in certificates of deposit are reported at cost.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at July 31, 2020, consist of the following:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amounts</u> | <u>Purpose</u> |
|------------------------|---------------------|----------------|--|
| General Fund | Debt Service Fund | \$ 328 | Maintenance tax collections not remitted as of year end |

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

Denton County Municipal Utility District No. 4
Notes to Basic Financial Statements
July 31, 2020

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended July 31, 2020, is as follows:

| | Beginning Balances | Additions | Ending Balances |
|--|-----------------------|-------------------|----------------------|
| Capital assets being depreciated/amortized | | | |
| Drainage facilities | \$ 1,641,573 | \$ 11,541 | \$ 1,653,114 |
| Road facilities | 7,660,690 | 517,637 | 8,178,327 |
| Impact fees | 2,591,715 | | 2,591,715 |
| Interest in regional facilities | 1,487,782 | | 1,487,782 |
| | <u>13,381,760</u> | <u>529,178</u> | <u>13,910,938</u> |
| Less accumulated depreciation/amortization | | | |
| Drainage facilities | (508,855) | (36,736) | (545,591) |
| Road facilities | (340,478) | (187,494) | (527,972) |
| Impact fees | (697,279) | (112,318) | (809,597) |
| Interest in regional facilities | (773,265) | (49,593) | (822,858) |
| | <u>(2,319,877)</u> | <u>(386,141)</u> | <u>(2,706,018)</u> |
| Capital assets, net | <u>\$ 11,061,883</u> | <u>\$ 143,037</u> | <u>\$ 11,204,920</u> |

Depreciation/amortization expense for the current year was \$386,141.

Note 6 – Due to Developers

The District has entered into financing agreements with its developer for the financing of the construction of water, sewer, drainage, and road facilities. Under the agreement, the developers will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developer is reimbursed.

Changes in estimated amounts due to developers during the year are as follows:

| | |
|--------------------------------------|-------------------|
| Due to developers, beginning of year | \$ - |
| Developer funded construction | 831,369 |
| Due to developers, end of year | <u>\$ 831,369</u> |

Denton County Municipal Utility District No. 4
Notes to Basic Financial Statements
July 31, 2020

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

| | |
|-----------------------|---------------------|
| Bonds payable | \$ 9,535,000 |
| Unamortized discounts | (89,923) |
| Unamortized premium | 148,170 |
| | <u>\$ 9,593,247</u> |
| | |
| Due within one year | <u>\$ 475,000</u> |

The District’s bonds payable at July 31, 2020, consists of unlimited tax bonds as follows:

| Series | Amounts Outstanding | Original Issue | Interest Rates | Maturity Date, Serially, Beginning/ Ending | Interest Payment Dates | Call Dates |
|-------------------|------------------------|-------------------|-------------------|---|------------------------------|----------------------|
| 2013 Refunding | \$ 4,395,000 | \$ 5,655,000 | 2.00% - 4.00% | September 1, 2014 - 2030 | September 1, March 1 | September 1, 2021 |
| 2014 Refunding | 2,135,000 | 2,435,000 | 2.9613% | September 1, 2015 - 2031 | September 1, March 1 | September 1, 2022 |
| 2014 | 3,005,000 | 3,050,000 | 3.625% - 4.00% | September 1, 2031 - 2038 | September 1, March 1 | September 1, 2022 |
| | <u>\$ 9,535,000</u> | | | | | |

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

At July 31, 2020, the District had authorized but unissued bonds in the amount of \$17,080,000 for water, sewer and drainage facilities; and \$44,770,000 for refunding purposes.

The change in the District’s long-term debt during the year is as follows:

| | |
|----------------------------------|---------------------|
| Bonds payable, beginning of year | \$ 9,985,000 |
| Bonds retired | (450,000) |
| Bonds payable, end of year | <u>\$ 9,535,000</u> |

Denton County Municipal Utility District No. 4
Notes to Basic Financial Statements
July 31, 2020

Note 7 – Long-Term Debt (continued)

As of July 31, 2020, annual debt service requirements on bonds outstanding are as follows:

| Year | Principal | Interest | Totals |
|------|---------------------|---------------------|----------------------|
| 2021 | \$ 475,000 | \$ 329,014 | \$ 804,014 |
| 2022 | 485,000 | 315,505 | 800,505 |
| 2023 | 510,000 | 300,636 | 810,636 |
| 2024 | 540,000 | 284,946 | 824,946 |
| 2025 | 565,000 | 267,434 | 832,434 |
| 2026 | 585,000 | 248,211 | 833,211 |
| 2027 | 620,000 | 228,067 | 848,067 |
| 2028 | 650,000 | 205,688 | 855,688 |
| 2029 | 680,000 | 181,088 | 861,088 |
| 2030 | 720,000 | 155,165 | 875,165 |
| 2031 | 475,000 | 133,446 | 608,446 |
| 2032 | 345,000 | 119,556 | 464,556 |
| 2033 | 360,000 | 107,525 | 467,525 |
| 2034 | 375,000 | 93,500 | 468,500 |
| 2035 | 390,000 | 78,200 | 468,200 |
| 2036 | 410,000 | 62,200 | 472,200 |
| 2037 | 430,000 | 45,400 | 475,400 |
| 2038 | 450,000 | 27,800 | 477,800 |
| 2039 | 470,000 | 9,400 | 479,400 |
| | <u>\$ 9,535,000</u> | <u>\$ 3,192,781</u> | <u>\$ 12,727,781</u> |

Note 8 – Property Taxes

On February 1, 2003, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$0.95 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the Denton Central Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2020 fiscal year was financed through the 2019 tax levy, pursuant to which the District levied property taxes of \$0.55 per \$100 of assessed value, of which \$0.40 was allocated to maintenance and operations and \$0.15 was allocated to debt service. The resulting tax levy was \$1,348,293 on the adjusted taxable value of \$245,144,123.

Denton County Municipal Utility District No. 4
Notes to Basic Financial Statements
July 31, 2020

Note 8 – Property Taxes (continued)

Property taxes receivable, at July 31, 2020, consisted of the following:

| | |
|---------------------------------|------------------|
| Current year taxes receivable | \$ 6,414 |
| Prior years taxes receivable | 6,117 |
| | <u>12,531</u> |
| Penalty and interest receivable | 4,624 |
| Property taxes receivable | <u>\$ 17,155</u> |

Note 9 – Transfers to Other Governments

In accordance with an agreement between the District and the Mustang Special Utility District (“MSUD”), the District transfers all of its water and sewer facilities to MSUD (see Note 11). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. The estimated cost of each project is trued-up when the developer is subsequently reimbursed. For the year ended July 31, 2020, the District reported transfers to other governments in the amount of \$302,191 for projects completed and transferred to MSUD.

Note 10 – Regional Wastewater Treatment Plant

On March 6, 2003, the District entered into a Regional Wastewater Treatment Services Contract (the “Contract”) with Mustang Special Utility District (“MSUD”) and Upper Trinity Regional Water District (“UTRWD”) for the construction of a regional wastewater treatment plant and related facilities, pipelines and associated improvements to serve all districts in the peninsula area of Lewisville Lake. In 2013, the District and MSUD entered into an amended agreement where the District would obtain additional capacity on a “per-lot” basis for the remainder of the development. The District’s capacity will be sufficient to serve approximately 836 connections. As of July 31, 2020, the District has paid \$1,487,782 for capacity in the regional facilities, with no changes from the prior year.

The Contract is effective for 30 years or for such time as the bonds issued by UTRWD remain outstanding, whichever period is longer; provided, however, that the term may be extended for a period of time not to exceed 20 years.

Note 11 – Water Distribution and Wastewater Collection System

On July 11, 2003, as amended and restated March 12, 2013, the District entered into a Non-Standard Service Agreement (the “Agreement”) with the Mustang Special Utility District (“MSUD”). Under the terms of the Agreement, the District will develop, or cause to be developed, the water distribution and wastewater collection systems necessary to serve the District and will convey these systems to MSUD upon completion. MSUD will provide water and sewer services to customers within the District and will bill these services at its standard rates. All revenue derived from these charges belongs to MSUD.

Denton County Municipal Utility District No. 4
Notes to Basic Financial Statements
July 31, 2020

Note 12 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 13 – Infectious Disease Outlook (COVID-19)

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. Federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. On March 31, 2020, the Governor issued an executive order closing all non-essential businesses in the State. This order expired on April 30, 2020. Additionally, all the counties in the greater Houston area adopted various “Work Safe – Stay Home” orders. Such actions are focused on limiting instances where the public can congregate or interact with each other. These precautions resulted in the temporary closure of all non-essential businesses in the State.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting the economic growth and financial markets worldwide and within Texas. These negative impacts may reduce or negatively affect property taxes and ad valorem tax revenues within the District.

While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of the Pandemic could have an adverse effect on the District’s operations and financial condition.

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Required Supplementary Information

*Denton County Municipal Utility District No. 4
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended July 31, 2020*

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|-----------------------------------|--------------------|-----------------|--------------|------------------------------------|
| Revenues | | | | |
| Property taxes | \$ 591,200 | \$ 968,000 | \$ 976,525 | \$ 8,525 |
| Miscellaneous | | | 200 | 200 |
| Investment earnings | 13,500 | 13,500 | 23,689 | 10,189 |
| Total Revenues | 604,700 | 981,500 | 1,000,414 | 18,914 |
| Expenditures | | | | |
| Operating and administrative | | | | |
| Professional fees | 126,000 | 126,000 | 149,568 | (23,568) |
| Contracted services | 173,400 | 173,400 | 163,801 | 9,599 |
| Repairs and maintenance | 270,000 | 270,000 | 374,925 | (104,925) |
| Utilities | 8,700 | 8,700 | 8,712 | (12) |
| Administrative | 17,135 | 17,135 | 18,291 | (1,156) |
| Total Expenditures | 595,235 | 595,235 | 715,297 | (120,062) |
| Revenues Over Expenditures | 9,465 | 386,265 | 285,117 | (101,148) |
| Fund Balance | | | | |
| Beginning of the year | 1,338,359 | 1,338,359 | 1,338,359 | |
| End of the year | \$ 1,347,824 | \$ 1,724,624 | \$ 1,623,476 | \$ (101,148) |

Denton County Municipal Utility District No. 4
Notes to Required Supplementary Information
July 31, 2020

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year to reflect changes in anticipated revenues.

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Texas Supplementary Information

Denton County Municipal Utility District No. 4
TSI-1. Services and Rates
July 31, 2020

1. Services provided by the District During the Fiscal Year:

- Retail Water Wholesale Water Solid Waste / Garbage Drainage
 Retail Wastewater Wholesale Wastewater Flood Control Irrigation
 Parks / Recreation Fire Protection Roads Security
 Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)
 Other (Specify): Water and sewer services provided by Mustang Special Utility District

2. Retail Service Providers N/A

a. Retail Rates for a 5/8" meter (or equivalent):

| | Minimum Charge | Minimum Usage | Flat Rate (Y / N) | Rate per 1,000 Gallons Over Minimum Usage | Usage Levels |
|-------------|----------------|---------------|-------------------|---|----------------|
| Water: | _____ | _____ | _____ | _____ | _____ to _____ |
| Wastewater: | _____ | _____ | _____ | _____ | _____ to _____ |
| Surcharge: | _____ | _____ | _____ | _____ | _____ to _____ |

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water _____ Wastewater _____

b. Water and Wastewater Retail Connections:

| Meter Size | Total Connections | Active Connections | ESFC Factor | Active ESFCs |
|------------------|-------------------|--------------------|-------------|--------------|
| Unmetered | _____ | _____ | x 1.0 | _____ |
| less than 3/4" | _____ | _____ | x 1.0 | _____ |
| 1" | _____ | _____ | x 2.5 | _____ |
| 1.5" | _____ | _____ | x 5.0 | _____ |
| 2" | _____ | _____ | x 8.0 | _____ |
| 3" | _____ | _____ | x 15.0 | _____ |
| 4" | _____ | _____ | x 25.0 | _____ |
| 6" | _____ | _____ | x 50.0 | _____ |
| 8" | _____ | _____ | x 80.0 | _____ |
| 10" | _____ | _____ | x 115.0 | _____ |
| Total Water | _____ | _____ | | _____ |
| Total Wastewater | _____ | _____ | x 1.0 | _____ |

See accompanying auditor's report.

Denton County Municipal Utility District No. 4
TSI-2. General Fund Expenditures
For the Year Ended July 31, 2020

| | |
|-------------------------|-------------------|
| Professional fees | |
| Legal | \$ 56,116 |
| Audit | 12,000 |
| Engineering | 81,452 |
| | <u>149,568</u> |
| Contracted services | |
| Bookkeeping | 8,938 |
| Security services | 154,863 |
| | <u>163,801</u> |
| Repairs and maintenance | <u>374,925</u> |
| Utilities | <u>8,712</u> |
| Administrative | |
| Directors fees | 9,450 |
| Insurance | 4,980 |
| Other | 3,861 |
| | <u>18,291</u> |
| Total expenditures | <u>\$ 715,297</u> |

See accompanying auditors' report.

Denton County Municipal Utility District No. 4
TSI-3. Investments
July 31, 2020

| Fund | Interest Rate | Maturity Date | Balance at End of Year | Interest Receivable |
|------------------------|---------------|---------------|------------------------|---------------------|
| General | | | | |
| Certificate of deposit | 0.60% | 09/20/20 | \$ 300,000 | \$ 627 |
| Certificate of deposit | 0.55% | 10/20/20 | 300,000 | 465 |
| Certificate of deposit | 0.40% | 01/21/21 | 325,000 | 36 |
| | | | <u>925,000</u> | <u>1,128</u> |
| Debt Service Fund | | | | |
| Certificate of deposit | 1.50% | 08/20/20 | 245,000 | 1,621 |
| Certificate of deposit | 1.85% | 08/20/20 | 245,000 | 1,999 |
| Certificate of deposit | 1.65% | 08/20/20 | 245,000 | 1,783 |
| Certificate of deposit | 1.65% | 08/20/20 | 670,000 | 4,877 |
| | | | <u>1,405,000</u> | <u>10,280</u> |
| Total - All Funds | | | <u>\$ 2,330,000</u> | <u>\$ 11,408</u> |

See accompanying auditors' report.

Denton County Municipal Utility District No. 4
TSI-4. Taxes Levied and Receivable
July 31, 2020

| | Maintenance Taxes | Debt Service Taxes | Totals | |
|---|----------------------|-----------------------|----------------|----------------|
| Taxes Receivable, Beginning of Year | \$ 3,349 | \$ 4,335 | \$ 7,684 | |
| Adjustments | (401) | (559) | (960) | |
| Adjusted Receivable | 2,948 | 3,776 | 6,724 | |
| 2019 Original Tax Levy | 977,819 | 366,682 | 1,344,501 | |
| Adjustments | 2,758 | 1,034 | 3,792 | |
| Adjusted Tax Levy | 980,577 | 367,716 | 1,348,293 | |
| Total to be accounted for | 983,525 | 371,492 | 1,355,017 | |
| Tax collections | | | | |
| Current year | 975,912 | 365,967 | 1,341,879 | |
| Prior years | 255 | 352 | 607 | |
| Total Collections | 976,167 | 366,319 | 1,342,486 | |
| Taxes Receivable, End of Year | \$ 7,358 | \$ 5,173 | \$ 12,531 | |
| Taxes Receivable, By Years | | | | |
| 2019 | \$ 4,665 | \$ 1,749 | \$ 6,414 | |
| 2018 | 413 | 575 | 988 | |
| 2017 | 411 | 592 | 1,003 | |
| 2016 and prior | 1,869 | 2,257 | 4,126 | |
| Taxes Receivable, End of Year | \$ 7,358 | \$ 5,173 | \$ 12,531 | |
| | 2019 | 2018 | 2017 | 2016 |
| Property Valuations | | | | |
| Land | \$ 56,142,838 | \$ 55,817,290 | \$ 55,625,193 | \$ 42,948,409 |
| Improvements | 219,258,576 | 201,909,523 | 178,774,510 | 166,089,569 |
| Personal Property | 1,588,438 | 1,913,997 | 1,812,765 | 1,462,226 |
| Exemptions | (31,845,729) | (24,281,014) | (22,918,981) | (15,713,764) |
| Total Property Valuations | \$ 245,144,123 | \$ 235,359,796 | \$ 213,293,487 | \$ 194,786,440 |
| Tax Rates per \$100 Valuation | | | | |
| Maintenance tax rates | \$ 0.40 | \$ 0.23 | \$ 0.25 | \$ 0.36 |
| Debt service tax rates | 0.15 | 0.32 | 0.36 | 0.39 |
| Total Tax Rates per \$100 Valuation | \$ 0.55 | \$ 0.55 | \$ 0.61 | \$ 0.75 |
| Adjusted Tax Levy | \$ 1,348,293 | \$ 1,294,479 | \$ 1,301,090 | \$ 1,460,898 |
| Percentage of Taxes Collected to Taxes Levied ** | 99.52% | 99.92% | 99.92% | 99.91% |

* Maximum Maintenance Tax Rate Approved by Voters: \$0.95 on February 1, 2003

** Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

See accompanying auditors' report.

*Denton County Municipal Utility District No. 4
 TSI-5. Long-Term Debt Service Requirements
 Series 2013 Refunding--by Years
 July 31, 2020*

| <u>Due During Fiscal Years Ending</u> | <u>Principal Due September 1</u> | <u>Interest Due September 1, March 1</u> | <u>Total</u> |
|---|--------------------------------------|--|---------------------|
| 2021 | \$ 335,000 | \$ 149,463 | \$ 484,463 |
| 2022 | 345,000 | 140,100 | 485,100 |
| 2023 | 360,000 | 129,525 | 489,525 |
| 2024 | 380,000 | 118,425 | 498,425 |
| 2025 | 400,000 | 105,725 | 505,725 |
| 2026 | 415,000 | 91,462 | 506,462 |
| 2027 | 440,000 | 76,500 | 516,500 |
| 2028 | 460,000 | 59,600 | 519,600 |
| 2029 | 485,000 | 40,700 | 525,700 |
| 2030 | 515,000 | 20,700 | 535,700 |
| 2031 | 260,000 | 5,200 | 265,200 |
| | <u>\$ 4,395,000</u> | <u>\$ 937,400</u> | <u>\$ 5,332,400</u> |

See accompanying auditors' report.

Denton County Municipal Utility District No. 4
TSI-5. Long-Term Debt Service Requirements
Series 2014 Refunding--by Years
July 31, 2020

| <u>Due During Fiscal Years Ending</u> | <u>Principal Due September 1</u> | <u>Interest Due September 1, March 1</u> | <u>Total</u> |
|---|--------------------------------------|--|---------------------|
| 2021 | \$ 140,000 | \$ 61,151 | \$ 201,151 |
| 2022 | 140,000 | 57,005 | 197,005 |
| 2023 | 150,000 | 52,711 | 202,711 |
| 2024 | 160,000 | 48,121 | 208,121 |
| 2025 | 165,000 | 43,309 | 208,309 |
| 2026 | 170,000 | 38,349 | 208,349 |
| 2027 | 180,000 | 33,167 | 213,167 |
| 2028 | 190,000 | 27,688 | 217,688 |
| 2029 | 195,000 | 21,988 | 216,988 |
| 2030 | 205,000 | 16,065 | 221,065 |
| 2031 | 215,000 | 9,846 | 224,846 |
| 2032 | 225,000 | 3,331 | 228,331 |
| | <u>\$ 2,135,000</u> | <u>\$ 412,731</u> | <u>\$ 2,547,731</u> |

See accompanying auditors' report.

Denton County Municipal Utility District No. 4
TSI-5. Long-Term Debt Service Requirements
Series 2014--by Years
July 31, 2020

| <u>Due During Fiscal Years Ending</u> | <u>Principal Due September 1</u> | <u>Interest Due September 1, March 1</u> | <u>Total</u> |
|---|--------------------------------------|--|---------------------|
| 2021 | \$ - | \$ 118,400 | \$ 118,400 |
| 2022 | | 118,400 | 118,400 |
| 2023 | | 118,400 | 118,400 |
| 2024 | | 118,400 | 118,400 |
| 2025 | | 118,400 | 118,400 |
| 2026 | | 118,400 | 118,400 |
| 2027 | | 118,400 | 118,400 |
| 2028 | | 118,400 | 118,400 |
| 2029 | | 118,400 | 118,400 |
| 2030 | | 118,400 | 118,400 |
| 2031 | | 118,400 | 118,400 |
| 2032 | 120,000 | 116,225 | 236,225 |
| 2033 | 360,000 | 107,525 | 467,525 |
| 2034 | 375,000 | 93,500 | 468,500 |
| 2035 | 390,000 | 78,200 | 468,200 |
| 2036 | 410,000 | 62,200 | 472,200 |
| 2037 | 430,000 | 45,400 | 475,400 |
| 2038 | 450,000 | 27,800 | 477,800 |
| 2039 | 470,000 | 9,400 | 479,400 |
| | <u>\$ 3,005,000</u> | <u>\$ 1,842,650</u> | <u>\$ 4,847,650</u> |

See accompanying auditors' report.

Denton County Municipal Utility District No. 4
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
July 31, 2020

| Due During Fiscal Years Ending | Principal Due September 1 | Interest Due September 1, March 1 | Total |
|-----------------------------------|------------------------------|---|----------------------|
| 2021 | \$ 475,000 | \$ 329,014 | \$ 804,014 |
| 2022 | 485,000 | 315,505 | 800,505 |
| 2023 | 510,000 | 300,636 | 810,636 |
| 2024 | 540,000 | 284,946 | 824,946 |
| 2025 | 565,000 | 267,434 | 832,434 |
| 2026 | 585,000 | 248,211 | 833,211 |
| 2027 | 620,000 | 228,067 | 848,067 |
| 2028 | 650,000 | 205,688 | 855,688 |
| 2029 | 680,000 | 181,088 | 861,088 |
| 2030 | 720,000 | 155,165 | 875,165 |
| 2031 | 475,000 | 133,446 | 608,446 |
| 2032 | 345,000 | 119,556 | 464,556 |
| 2033 | 360,000 | 107,525 | 467,525 |
| 2034 | 375,000 | 93,500 | 468,500 |
| 2035 | 390,000 | 78,200 | 468,200 |
| 2036 | 410,000 | 62,200 | 472,200 |
| 2037 | 430,000 | 45,400 | 475,400 |
| 2038 | 450,000 | 27,800 | 477,800 |
| 2039 | 470,000 | 9,400 | 479,400 |
| | <u>\$ 9,535,000</u> | <u>\$ 3,192,781</u> | <u>\$ 12,727,781</u> |

See accompanying auditors' report.

Denton County Municipal Utility District No. 4
TSI-6. Change in Long-Term Bonded Debt
July 31, 2020

| | Bond Issue | | | Totals |
|----------------------------------|--|--------------------------|---------------------|---------------------|
| | Series 2013 Refunding | Series 2014 Refunding | Series 2014 | |
| Interest rate | 2.00% - 4.00% | 2.9613% | 3.625% - 4.00% | |
| Dates interest payable | 9/1; 3/1 | 9/1; 3/1 | 9/1; 3/1 | |
| Maturity dates | 9/1/14 - 9/1/30 | 9/1/15 - 9/1/31 | 9/1/31 - 9/1/38 | |
| Beginning bonds outstanding | \$ 4,715,000 | \$ 2,265,000 | \$ 3,005,000 | \$ 9,985,000 |
| Bonds retired | (320,000) | (130,000) | | (450,000) |
| Ending bonds outstanding | <u>\$ 4,395,000</u> | <u>\$ 2,135,000</u> | <u>\$ 3,005,000</u> | <u>\$ 9,535,000</u> |
| Interest paid during fiscal year | <u>\$ 157,650</u> | <u>\$ 65,149</u> | <u>\$ 118,400</u> | <u>\$ 341,199</u> |
| Paying agent's name and city | Bank of New York Mellon Trust Company, N.A., Dallas, Texas | | | |
| Series 2013 Refunding | Wells Fargo Bank, N.A., Minneapolis, Minnesota | | | |
| Series 2014 Refunding | Amegy Bank National Association, Houston, Texas | | | |
| Series 2014 | | | | |
| Bond Authority: | Water, Sewer and Drainage Bonds | Refunding Bonds | | |
| Amount Authorized by Voters | \$ 29,950,000 | \$ 44,925,000 | | |
| Amount Issued | (12,870,000) | (155,000) | | |
| Remaining To Be Issued | <u>\$ 17,080,000</u> | <u>\$ 44,770,000</u> | | |

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investment balances as of July 31, 2020: \$ 1,520,664

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 669,883

See accompanying auditors' report.

Denton County Municipal Utility District No. 4
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

| | Amounts | | | | |
|------------------------------------|-------------------|--------------------|-------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Revenues | | | | | |
| Property taxes | \$ 976,525 | \$ 541,144 | \$ 533,502 | \$ 703,228 | \$ 665,341 |
| Miscellaneous | 200 | | | | |
| Investment earnings | 23,689 | 29,552 | 14,315 | 2,909 | 1,557 |
| Total Revenues | <u>1,000,414</u> | <u>570,696</u> | <u>547,817</u> | <u>706,137</u> | <u>666,898</u> |
| Expenditures | | | | | |
| Operating and administrative | | | | | |
| Professional fees | 149,568 | 199,037 | 121,850 | 130,062 | 86,062 |
| Contracted services | 163,801 | 148,817 | 150,711 | 172,862 | 124,282 |
| Repairs and maintenance | 374,925 | 261,006 | 136,755 | 62,872 | 60,971 |
| Utilities | 8,712 | 8,825 | 8,504 | 8,385 | 10,433 |
| Administrative | 18,291 | 13,462 | 19,299 | 15,004 | 12,796 |
| Total Expenditures | <u>715,297</u> | <u>631,147</u> | <u>437,119</u> | <u>389,185</u> | <u>294,544</u> |
| Revenues Over (Under) Expenditures | <u>\$ 285,117</u> | <u>\$ (60,451)</u> | <u>\$ 110,698</u> | <u>\$ 316,952</u> | <u>\$ 372,354</u> |

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

| 2020 | 2019 | 2018 | 2017 | 2016 |
|------|-------|------|------|------|
| 98% | 95% | 97% | 100% | 100% |
| * | | | | |
| 2% | 5% | 3% | * | * |
| 100% | 100% | 100% | 100% | 100% |
| 15% | 35% | 22% | 18% | 13% |
| 16% | 26% | 28% | 24% | 19% |
| 37% | 46% | 25% | 9% | 9% |
| 1% | 2% | 2% | 1% | 2% |
| 2% | 2% | 4% | 2% | 2% |
| 71% | 111% | 81% | 54% | 45% |
| 29% | (11%) | 19% | 46% | 55% |

Denton County Municipal Utility District No. 4

TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund

For the Last Five Fiscal Years

| | Amounts | | | | |
|------------------------------------|---------------------|-------------------|-------------------|------------------|---------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Revenues | | | | | |
| Property taxes | \$ 365,960 | \$ 752,875 | \$ 767,154 | \$ 762,320 | \$ 748,601 |
| Penalties and interest | 1,642 | 2,617 | 2,674 | 3,813 | 4,143 |
| Investment earnings | 25,176 | 34,213 | 16,537 | 6,248 | 5,335 |
| Total Revenues | <u>392,778</u> | <u>789,705</u> | <u>786,365</u> | <u>772,381</u> | <u>758,079</u> |
| Expenditures | | | | | |
| Tax collection services | 10,008 | 18,088 | 9,628 | 12,968 | 16,262 |
| Debt service | | | | | |
| Principal | 450,000 | 425,000 | 310,000 | 300,000 | 375,000 |
| Interest and fees | 341,599 | 353,124 | 361,897 | 368,141 | 386,562 |
| Cash defeasance | | | | | 200,000 |
| Total Expenditures | <u>801,607</u> | <u>796,212</u> | <u>681,525</u> | <u>681,109</u> | <u>977,824</u> |
| Revenues Over (Under) Expenditures | <u>\$ (408,829)</u> | <u>\$ (6,507)</u> | <u>\$ 104,840</u> | <u>\$ 91,272</u> | <u>\$ (219,745)</u> |

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

| 2020 | 2019 | 2018 | 2017 | 2016 |
|--------|------|------|------|-------|
| 94%* | 96%* | 98% | 99% | 99% |
| 6% | 4% | 2% | 1% | 1% |
| 100% | 100% | 100% | 100% | 100% |
| 3% | 2% | 1% | 2% | 2% |
| 115% | 54% | 39% | 39% | 49% |
| 87% | 45% | 46% | 48% | 51% |
| | | | | 26% |
| 205% | 101% | 86% | 89% | 128% |
| (105%) | (1%) | 14% | 11% | (28%) |

Denton County Municipal Utility District No. 4
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended July 31, 2020

Complete District Mailing Address: 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056
District Business Telephone Number: (713) 850-9000
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): May 19, 2020
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

| Names: | Term of Office (Elected or Appointed) or Date Hired | Fees of Office Paid * | Expense Reimburse- ments | Title at Year End |
|--|--|-----------------------------|--------------------------------|--|
| Board Members: | | | | |
| Brian Runey | 5/18 - 5/22 | \$ 1,800 | \$ 363 | President |
| Howard Nycum | 5/18 - 5/22 | 1,800 | 233 | Vice President |
| Ryan Betz | 5/16 - 5/24 | 1,950 | 247 | Secretary |
| Pat Rodgers | 5/18 - 5/22 | 1,950 | 302 | Assistant Vice President/ Assistant Secretary |
| Don Collins | 5/16 - 5/24 | 1,950 | 241 | Assistant Secretary |
| Consultants: | | | | |
| | | Amounts Paid | | |
| Sanford Kuhl Hagan Kugle Parker Kahn, LLP | 2010 | \$ 56,812 | | Attorney |
| L&S District Services, LLC | 2002 | 9,720 | | Bookkeeper |
| Denton County Tax Collector | 2003 | 1,471 | | Tax Collector |
| Denton County Appraisal District | Legislation | 8,051 | | Property Valuation |
| Sawko & Burroughs | 2010 | | | Delinquent Tax Attorney |
| Peloton Land Solutions | 2016 | 81,447 | | Engineer |
| McGrath & Co., PLLC | 2015 | 12,000 | | Auditor |
| R.W. Baird & Co. | 2015 | | | Financial Advisor |

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.
See accompanying auditors' report.

APPENDIX B
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100