

OFFICIAL STATEMENT DATED DECEMBER 18, 2025

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND IS NOT INCLUDED IN THE ALTERNATIVE MINIMUM TAXABLE INCOME OF INDIVIDUALS; HOWEVER, SUCH INTEREST IS TAKEN INTO ACCOUNT IN DETERMINING THE ANNUAL ADJUSTED FINANCIAL STATEMENT INCOME OF APPLICABLE CORPORATIONS FOR THE PURPOSE OF DETERMINING THE ALTERNATIVE MINIMUM TAX IMPOSED ON CORPORATIONS. SEE "TAX MATTERS" FOR A DISCUSSION OF BOND COUNSEL'S OPINION.

The Bonds have NOT been designated as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS—NOT Qualified Tax-Exempt Obligations."

NEW ISSUE—Book-Entry-Only

**S&P Global Ratings (BAM Insured)..... "AA"
See "MUNICIPAL BOND INSURANCE" and "RATINGS" herein.**

HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF GRAYSON COUNTY
(A political subdivision of the State of Texas, located within Grayson County)

**\$5,650,000
UNLIMITED TAX UTILITY BONDS
SERIES 2026**

Dated: January 1, 2026

Due: November 1, as shown on inside cover page

Interest Accrues: Delivery Date

The \$5,650,000 Unlimited Tax Utility Bonds, Series 2026 (the "Bonds"), are obligations of Heritage Ranch Municipal Utility District No. 1 of Grayson County (the "District") and are not obligations of the State of Texas; Grayson County, Texas (the "County"); the City of Sherman, Texas (the "City"); or any entity other than the District. Neither the full faith and credit nor the taxing power of the State of Texas; the County; the City; 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 BOKF, NA, Dallas, Texas, or any successor paying agent/registrant (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 at the principal payment office of the Paying Agent/Registrar upon surrender of the Bonds for payment at maturity or upon prior redemption. The Bonds are dated January 1, 2026, and interest on the Bonds accrues from the initial date of delivery (on or about January 15, 2026) (the "Delivery Date"), and is payable on May 1, 2026, and each November 1 and May 1 (each an "Interest Payment Date") thereafter until maturity or prior redemption 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 Bonds are issuable in principal denominations of \$5,000 or any integral multiple thereof in fully registered form only.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM")**.



See "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS" on inside cover.

The Bonds constitute the first series of unlimited tax bonds to be issued by the District for the purpose of acquiring or constructing water sewer and drainage facilities to serve the District (the "Utility System"). Voters of the District authorized the issuance of the following: \$64,457,759 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System, \$65,318,177 principal amount of unlimited tax bonds for the purpose of acquiring or constructing road facilities to serve the District (the "Road System"), \$96,686,638 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Utility System and \$97,977,266 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Road System. Following the issuance of the Bonds, \$58,807,759 principal amount of unlimited tax bonds for Utility System purposes, \$65,318,177 principal amount of unlimited tax bonds for Road System purposes, \$96,686,638 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Utility System and \$97,977,266 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Road System will remain authorized but unissued. See "THE BONDS—Authority for Issuance."

The Bonds, when issued, will be payable from the proceeds of Pledged TIRZ Revenues (herein defined) and of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District.

INVESTMENT IN THE BONDS IS SUBJECT TO CERTAIN RISK FACTORS AS DESCRIBED HEREIN. SEE "RISK FACTORS" HEREIN.

The Bonds are offered, when, as and if issued by the District to the winning bidder of the Bonds (the "Initial Purchaser") subject, among other things, to the approval of the Attorney General of Texas and of Coats Rose, P.C., Bond Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about January 15, 2026.

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

\$5,650,000 Unlimited Tax Utility Bonds, Series 2026

Maturity (November 1) (a)	Principal Amount	Interest Rate	Initial Reoffering Yield (b)	CUSIP No. 42728A (c)	Maturity (November 1) (a)	Principal Amount	Interest Rate	Initial Reoffering Yield (b)	CUSIP No. 42728A (c)
2027	\$140,000	6.500%	3.050%	AA8	2039 (d)	\$250,000	4.000%	4.100%	AN0
2028	150,000	6.500%	3.050%	AB6	2040 (d)	265,000	4.250%	4.250%	AP5
2029	155,000	6.500%	3.050%	AC4	2041 (d)	275,000	4.250%	4.350%	AQ3
2030	165,000	6.500%	3.100%	AD2	2042 (d)	290,000	4.250%	4.450%	AR1
2031	170,000	6.500%	3.150%	AE0	2043 (d)	305,000	4.250%	4.500%	AS9
2032 (d)	180,000	6.500%	3.200%	AF7	2044 (d)	320,000	4.375%	4.550%	AT7
2033 (d)	190,000	5.625%	3.250%	AG5	2045 (d)	335,000	4.375%	4.600%	AU4
2034 (d)	200,000	4.000%	3.500%	AH3	2046 (d)	350,000	4.375%	4.650%	AV2
2035 (d)	205,000	4.000%	3.650%	AJ9	2047 (d)	365,000	4.500%	4.700%	AW0
2036 (d)	215,000	4.000%	3.800%	AK6	2048 (d)	385,000	4.500%	4.720%	AX8
2037 (d)	225,000	4.000%	3.900%	AL4	2049 (d)	275,000	4.500%	4.730%	AY6
2038 (d)	240,000	4.000%	4.000%	AM2					

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- (a) Pledged TIRZ Revenues (herein defined), as currently established by the TIRZ Reimbursement Agreement, are expected to be received through 2047 (with final payment received in 2048). See "SHERMAN TAX INCREMENT REINVESTMENT ZONE #8" and "TIRX REIMBURSEMENT AGREEMENT."
- (b) The initial reoffering yield has been provided by the Initial Purchaser (herein defined) and represents the initial offering price to the public of a substantial amount of the Bonds for each maturity. Such initial reoffering yield may be changed for subsequent purchasers. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date.
- (c) CUSIP numbers will be assigned to the Bonds by CUSIP Global Services, managed by FactSet Research Systems, Inc. on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (d) The Bonds maturing on November 1, 2032, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on November 1, 2031, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS—Redemption Provisions."

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 Initial Purchaser.

This Official Statement does not constitute and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any 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, contracts, records, and engineering and other related reports set forth in this 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 Coats Rose, P.C. (“Bond Counsel”) for further information.

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading “MUNICIPAL BOND INSURANCE” and “APPENDIX B—Specimen Municipal Bond Insurance Policy.”

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 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 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 Initial Purchaser and thereafter only as specified in “OFFICIAL STATEMENT—Updating of Official Statement.”

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 any purpose.

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net interest cost, which was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser"). The Initial Purchaser has agreed to purchase the Bonds, bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS" on the inside cover page of this Official Statement, at a price of 97.000943% of the principal amount thereof, which resulted in a net effective interest rate of 4.649410%, calculated pursuant to Chapter 1204, Texas Government Code, as amended.

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 Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial reoffering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE 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 United States Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended, in reliance upon 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 acts 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 jurisdictions.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") 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 APPENDIX B 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.

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products to issuers in the U.S. public finance markets. BAM will only insure municipal bonds, as defined in Section 6901 of the New York Insurance Law, which are most often issued by states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.bambonds.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at <https://www.spglobal.com/en/>. The rating of BAM should be evaluated independently. The rating reflects S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds 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 Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2025 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$517.2 million, \$273.6 million and \$243.6 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.bambonds.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "MUNICIPAL BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos: For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at <https://bambonds.com/insights/#video>. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles: Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at <https://bambonds.com/credit-profiles>. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers: The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit

Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

RATINGS

The Bonds are expected to receive an insured rating of “AA” from S&P solely in reliance upon the issuance of the Policy for the Bonds by BAM 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 District is not aware of any rating assigned the Bonds other than the rating of S&P.

The District has not made an application for an underlying rating on the Bonds. Furthermore, it is not expected that the District would have been successful in receiving an investment grade underlying rating on the Bonds.

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OFFICIAL STATEMENT SUMMARY

The following 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 District* Heritage Ranch Municipal Utility District No. 1 of Grayson County (the "District"), a political subdivision of the State of Texas, is located within the city limits of the City of Sherman, Texas (the "City") in Grayson County, Texas (the "County"). See "THE DISTRICT."
- The Bonds* The District is issuing its \$5,650,000 Unlimited Tax Utility Bonds, Series 2026 (the "Bonds"). The Bonds are dated January 1, 2026 and mature on November 1 in each of the years and principal amounts set forth on the inside cover page. Interest accrues from the initial date of delivery (expected to be on or about January 15, 2026) (the "Delivery Date"), at the rates per annum set forth on the inside cover page and is payable on May 1, 2026, and on each November 1 and May 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS—General."
- Redemption Provisions* The Bonds maturing on and after November 1, 2032, are subject to redemption, in whole or from time to time in part, at the option of the District, on November 1, 2031, and on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS—Redemption Provisions."
- Book-Entry-Only System* The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York, pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners (hereinafter defined) thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (hereinafter defined) to Cede & Co., which will make distribution of the amounts so paid to the participating members of The Depository Trust Company for subsequent payment to the Beneficial Owners of the Bonds. See "THE BONDS—Book-Entry-Only System."
- Source of Payment* Principal of and interest on the Bonds is payable from Pledged TIRZ Revenues (herein defined) and the proceeds of a continuing direct annual ad valorem tax, levied upon all taxable property within the District, without legal limitation as to rate or amount. The Bonds are obligations solely of the District and are not obligations of the State of Texas; the County; the City; or any entity other than the District. See "THE BONDS—Source of Payment."

Unlimited Tax: The Bonds are secured by the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. In addition, the Bonds are secured by a pledge of and lien on Pledged TIRZ Revenues.

Pledged TIRZ Revenues: The City has created a tax increment fund into which the TIRZ Increments shall be deposited (the "Tax Increment Fund"). The City has entered into a TIRZ Participation Agreement (herein defined) with the County, pursuant to which

each taxing entity has agreed to deposit annually the TIRZ Increments to the Tax Increment Fund. The portion of TIRZ Increments deposited each year to the Tax Increment Fund which portion is attributable to ad valorem taxation of property within the District, net of any operating costs of the TIRZ, is referred to herein as the “Pledged TIRZ Revenues.” See “RISK FACTORS—Dependence on Collection of TIRZ Increments.”

Authority for Issuance.....The Bonds are issued pursuant to (i) an order authorizing the issuance of the Bonds (the "Bond Order"); (ii) Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, particularly Chapters 49 and 54 of the Texas Water Code, as amended; (iii) an order of the Texas Commission on Environmental Quality (the “TCEQ”); and (iv) an election held within the District on May 7, 2022.

Voted AuthorizationAt an election held within the District on May 7, 2022, voters of the District authorized the District’s issuance of \$64,457,759 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the water, sewer, and drainage facilities to serve the District (the “Utility System”); \$65,318,177 principal amount of unlimited tax bonds for the purpose of acquiring or constructing roads and improvements in aid thereof to serve the District (the “Road System”); \$96,686,638 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Utility System; and \$97,977,266 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Road System.

Short-Term Debt.....The District issued its \$3,647,000 Bond Anticipation Note, Series 2025 (the “BAN”), dated March 7, 2025. The BAN matures on March 6, 2026, and accrues interest at a rate of 5.25% per annum, calculated on the basis of 360-day year and actual days elapsed. The District will use a portion of the proceeds from the sale of the Bonds to redeem the BAN prior to its maturity. Proceeds from the BAN were used to reimburse the Developer for a portion of the improvements and related costs shown under “THE BONDS—Use and Distribution of Bond Proceeds.”

Use and Distribution of Bond Proceeds.....Proceeds of the sale of the Bonds will be used by the District to redeem the BAN, the proceeds of which were used to reimburse the Developer for a portion of the improvements and related costs shown under “THE BONDS—Use and Distribution of Proceeds of the Bonds.” Additionally, proceeds from the sale of the Bonds will also be used to reimburse the Developer for the improvements and related costs that were not reimbursed by the BAN and to pay: developer interest; BAN interest; eighteen (18) months of capitalized interest; and other certain costs associated with the issuance of the Bonds. See “THE BONDS—Use and Distribution of Proceeds of the Bonds.”

NOT Qualified Tax-Exempt Obligations.....The Bonds have NOT been designated as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS—NOT Qualified Tax-Exempt Obligations.”

Municipal Bond Insurance.....Build America Mutual Assurance Company (“BAM”). See “MUNICIPAL BOND INSURANCE.”

Ratings.....S&P Global Ratings (BAM insured): “AA.” See “MUNICIPAL BOND INSURANCE” and “RATINGS.”

Bond Counsel..... Coats Rose, P.C., Dallas, Texas.
Disclosure Counsel..... McCall, Parkhurst & Horton L.L.P., Dallas, Texas.
Financial Advisor..... Robert W. Baird & Co. Incorporated, Irving, Texas.
Paying Agent/Registrar BOKF, NA, Dallas, Texas.
District Engineer Spiars Engineering, Inc., Plano, Texas.

THE DISTRICT

Description..... The District was created by Acts of the 87th Legislature of the State of Texas, May 30, 2021, Regular Session pursuant to Senate Bill 2219, codified as Chapter 7920A of the Texas Special District Local Laws Code. The District was created as a municipal utility district under Section 52, Article III, and Section 59, Article XVI, of the Texas Constitution and operates under Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 170.193 acres. See “THE DISTRICT—General.”

Location..... The District is located in Grayson County, approximately 67 miles north of downtown Dallas. The District is bound to the south by U.S. Highway 82 and Canyon Grove Road, and to the west by Plainview Road and is located entirely within the corporate limits of the City. The District is located within the Sherman Independent School District.

The Developer..... The developer of land within the District is RCICD Heritage Ranch LLC, a Texas limited liability company (“RCICD” or the “Developer”), a special purpose entity jointly owned and controlled by Rockhill Capital & Investments, LLC (“Rockhill”) and TPJ Properties, LTD (“TPJ”). To date, RCICD has developed approximately 51 acres (257 single-family lots) within the District as Heritage Ranch, Phase 1 and continues to own approximately 119 developable acres within the District. See “THE DEVELOPER.”

Status of Development..... The District consists of approximately 170.193 total acres. To date, approximately 51 acres have been developed as 257 single-family lots as Heritage Ranch, Phase 1. As of November 1, 2025, the District included approximately 148 completed homes (approximately 98 occupied, 46 unoccupied, and 4 model homes); approximately 28 homes under construction; and approximately 81 vacant developed lots. The remaining approximately 119 acres within the District are planned for future development as additional single-family residential sections. See “DEVELOPMENT OF THE DISTRICT.”

Homebuilders..... The homebuilders currently active in the District are Highland Homes and K. Hovnanian Homes. New homes being constructed in the District range in price from approximately \$270,000 to \$439,000 and range in size from approximately 1,524 square feet to 3,164 square feet. See “DEVELOPMENT OF THE DISTRICT—Homebuilders within the District.”

RISK FACTORS

THE BONDS ARE SUBJECT TO CERTAIN RISK FACTORS. PROSPECTIVE PURCHASERS SHOULD REVIEW THIS ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED “RISK FACTORS,” BEFORE MAKING AN INVESTMENT DECISION.

**SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

2025 Taxable Assessed Valuation.....	\$ 33,927,371	(a)
Estimate of Value as of October 1, 2025	\$ 62,129,720	(b)
Direct Debt:		
The Bonds.....	<u>\$ 5,650,000</u>	
Total Gross Direct Debt.....	\$5,650,000	
Less: Portion of the Bonds Supported by Pledged TIRZ Revenues.....	<u>(1,890,000)</u>	(c)
Total Net Direct Debt.....	\$ 3,760,000	
Estimated Overlapping Debt	<u>\$ 3,065,424</u>	(d)
Total Gross Direct and Estimated Overlapping Debt.....	\$ 8,715,424	
Total Net Direct and Estimated Overlapping Debt.....	\$ 6,825,424	
Gross Direct Debt Ratios (e):		
As a percentage of 2025 Taxable Assessed Valuation	16.65	%
As a percentage of Estimate of Value as of October 1, 2025	9.09	%
Gross Direct and Estimated Overlapping Debt Ratios (e):		
As a percentage of 2025 Taxable Assessed Valuation	25.69	%
As a percentage of Estimate of Value as of October 1, 2025	14.03	%
Utility System Debt Service Fund Balance (as of Delivery of the Bonds)	\$ 397,228	(f)
General Operating Fund Balance (as of December 3, 2025).....	\$ 11,524	(g)
2025 Tax Rate		
Utility System Debt Service	\$0.000	
Maintenance & Operation	<u>\$0.600</u>	
Total	\$0.600	(h)
Gross Average Annual Debt Service Requirement (2026-2049).....	\$ 388,681	(i)
Gross Maximum Annual Debt Service Requirement (2048)	\$ 414,700	(i)
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay Gross Average Annual Debt Service Requirement on the Bonds (2026-2049)		
Based on 2025 Taxable Assessed Valuation.....	\$ 1.21	
Based on Estimate of Value as of October 1, 2025	\$ 0.66	
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay Gross Maximum Annual Debt Service Requirement on the Bonds (2048)		
Based on 2025 Taxable Assessed Valuation.....	\$ 1.29	
Based on Estimate of Value as of October 1, 2025	\$ 0.71	

- (a) Represents the certified assessed valuation of all taxable property in the District as of January 1, 2025, as provided by the Appraisal District (hereinafter defined).
- (b) Provided by the Appraisal District for informational purposes only. This amount is an estimate of the taxable value of all taxable property located within the District as of October 1, 2025, and includes an estimate of additional taxable value resulting from the construction of taxable improvements from January 1, 2025, through October 1, 2025. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) For illustrative purposes only. This amount reflects the principal amount of the Bonds supported by the Pledged TIRZ Revenues (hereinafter defined).
- (d) See "DISTRICT DEBT—Direct and Estimated Overlapping Debt Statement."
- (e) If the portion of the Bonds supported by the Pledged TIRZ Revenues is excluded, the direct debt ratio based on the 2025 Taxable Assessed Valuation and the Estimate of Value as of October 1, 2025, is 11.08% and 6.05%, respectively. If the portion of the Bonds supported by the Pledged TIRZ Revenues is excluded, the direct and estimated overlapping debt ratio is 20.12% and 10.99%, respectively.
- (f) Eighteen (18) months of capitalized interest will be deposited into the Utility System Debt Service Fund (hereinafter defined) upon closing of the Bonds. Neither Texas law nor the Bond Order (hereinafter defined) require that the District maintain any particular sum in the Utility System Debt Service Fund. Funds in the Utility System Debt Service Fund are pledged only to pay the debt service on the Bonds and any other bonds issued for the purpose of acquiring or constructing the Utility System (hereinafter defined). Funds in the Utility System Debt Service Fund are not pledged to pay debt service on bonds issued for the purpose of acquiring or constructing the Road System (hereinafter defined).
- (g) See "RISK FACTORS—Operating Funds."
- (h) See "TAX DATA—Tax Rate Distribution."
- (i) See "DISTRICT DEBT—Debt Service Requirement Schedule."

OFFICIAL STATEMENT

relating to

HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1 OF GRAYSON COUNTY

(a political subdivision of the State of Texas, located within Grayson County)

\$5,650,000

UNLIMITED TAX UTILITY BONDS

SERIES 2026

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Heritage Ranch Municipal Utility District No. 1 of Grayson County (the "District") of its \$5,650,000 Unlimited Tax Utility Bonds, Series 2026 (the "Bonds").

The Bonds are issued pursuant to (i) an order authorizing the issuance of the Bonds (the "Bond Order"); (ii) Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, particularly Chapters 49 and 54 of the Texas Water Code, as amended; (iii) an order of the Texas Commission on Environmental Quality (the "TCEQ"); and (iv) an election held within the District on May 7, 2022.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Order. This Official Statement also includes information about the District, the Developer (hereinafter defined), 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.

RISK FACTORS

General

The Bonds are obligations of the District and are not obligations of the State of Texas; Grayson County, Texas (the "County"); the City of Sherman, Texas (the "City"); or any political subdivision other than the District. The Bonds are secured by Pledged TIRZ Revenues (hereinafter defined) and the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied by the District upon all taxable property located within the District. See "THE BONDS—Source of Payment." The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District and the Participants (hereinafter defined) to collect from the property owners within the District taxes levied against all taxable property located within the District and the TIRZ (herein defined), respectively, or, in the event 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, and the transfer of the TIRZ Increments (herein defined) to the Tax Increment Fund (herein defined) when requested. The District makes no representations 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, commercial and retail industries, not only due to general economic conditions, but also due to the particular factors discussed below.

Tax and Collection Rates May Decline

The amount of TIRZ Increments available to pay principal of and interest on the Bonds is determined by the taxable value of real property in the TIRZ (herein defined), the tax rate of the Participants (herein defined), and the percentage of taxes actually collected from taxpayers in the TIRZ and paid into the Tax Increment Fund. The TIRZ Increments do not result from any increase in the appraised value of personal property (such as equipment and inventory) in the TIRZ. Under the TIRZ Reimbursement Agreement, the City and the TIRZ agreed that neither party will permit a reduction in the TIRZ Increments paid by the City and County except to the extent provided in the TIRZ Participation Agreement (herein defined and as discussed below), entered into by the City and County, which permits the County to exclude from the County tax increment that portion of the County's tax rate allocated to the County's Road & Bridge Improvement Fund, but prohibits the County from entering into any agreements that would reduce the County Increment (herein defined). Texas law only requires the Participants to contribute the TIRZ Increments actually collected and only to the extent provided

in the applicable interlocal agreement. The Participants will set their tax rate in accordance with the Texas Tax Code and other applicable law, which contain various limitations on the rate at which taxes may be levied. If the Participant's tax rates decrease, the amount of TIRZ Increments available in the Tax Increment Fund may decrease.

The creation of TIRZ Increments is also dependent on the Participants successfully collecting the taxes that they levy in a timely manner. If the percentage of taxes collected by the Participants in the TIRZ declines, the amount of TIRZ Increments available in the Tax Increment Fund may decrease. Historical tax collection rates may not accurately predict future tax collection rates.

The collection of, and accounting for, the TIRZ Increments involve extensive administration and are subject to error. Errors in the collection of (or accounting for) the TIRZ Increments could delay or reduce the Tax Increment available for the payment of debt service on the Bonds.

Limited Obligation of the Participants and Limited Remedies

While the Bonds are secured by the unlimited taxing authority of the District, the Bonds are further secured by the Pledged TIRZ Revenues consisting of TIRZ Increments made by the Participants and transferred to the Tax Increment Fund. THE PARTICIPANTS ARE NOT OBLIGATED TO MAKE ANY PAYMENTS OF PRINCIPAL OR INTEREST ON THE BONDS. FURTHERMORE, THE BONDS ARE NOT OBLIGATIONS OF THE STATE OR ANY ENTITY OTHER THAN THE DISTRICT, NOR ARE THEY DIRECT OBLIGATIONS OF THE CITY OR THE COUNTY. THE SOLE OBLIGATION OF THE CITY AND COUNTY WITH RESPECT TO THE PAYMENT OF PLEDGED TIRZ REVENUES IS TO FORWARD TO THE CITY THE TIRZ INCREMENTS PURSUANT TO THE TIRZ PARTICIPATION AGREEMENT AND THE SOLE OBLIGATION OF THE CITY IS TO DEPOSIT THOSE TIRZ INCREMENTS COLLECTED FROM THE PARTICIPANTS, TO THE TAX INCREMENT FUND IN ACCORDANCE WITH THE TERMS OF THE TIRZ REIMBURSEMENT AGREEMENT.

The obligation of each Participant to pay its Tax Increment is limited in term, as addressed below in "Dependence on Collection of TIRZ Increments." A Participant may suspend its payment obligations under the TIRZ Participation Agreement only in the event (i) the City approves an amendment to the ordinance creating the TIRZ different from an amendment approved by the TIRZ Board; or (ii) the boundaries of the TIRZ are expanded, until such time as the amendment or boundary change is approved by such Participant.

If a party to the TIRZ Reimbursement Agreement is in default, the sole and exclusive remedy available to the non-defaulting parties is to seek the equitable remedy of specific performance of the agreement through mandamus action or other appropriate means.

Taxable Value in the Zone May Decline

Each year the total appraised value of all taxable real property in the TIRZ compared to the Base Value (herein defined) will determine the Captured Appraised Value (herein defined).

The District cannot make any representation that the property within the TIRZ will achieve or maintain any certain value. Generally, property owners have the right to protest the appraised value of their property in the TIRZ and are not required to render their property for ad valorem taxation at any agreed upon level. The appraised value of the property and improvements will finally be determined and certified by the Appraisal District (herein defined) in accordance with the procedures described in "TAXING PROCEDURES," and may be at a value lower than projected. The appraisal method or combination of methods that the Appraisal District uses within the TIRZ is within the discretion of its Chief Appraiser and may change from time to time. The use of a particular method or combination of methods of appraisal with respect to property in the TIRZ may, over time, cause a decrease in the Captured Appraised Value in the TIRZ and, therefore, result in a reduction in the amount of Tax Increment available to pay debt service on the Bonds.

Several factors can adversely or positively affect the taxable value of one or more specific properties within the TIRZ, which can either individually, or in the aggregate, affect the Captured Appraised Value in the TIRZ. A discussion of several such factors follows but is not intended to be an exhaustive list of all factors that could potentially affect the taxable value within the TIRZ.

First, the appraised value of the residential development within the TIRZ is affected by the demand for such commercial establishments and housing. Demand is affected by many factors, such as interest rates, credit availability, construction costs, energy availability, mobility and the general economic conditions and

demographic characteristics of the United States and the State of Texas, and the specific economic conditions and demographic characteristics of the District and the surrounding area.

Second, the Texas Tax Code allows certain property to be appraised at less than its market value. Upon application of the owner, houses or lots held for sale by a developer or builder which remain unoccupied, are not leased or rented and produce no income are required to be appraised at the price for which they would sell as a unit to a purchaser who would continue the owner's business. A landowner in the TIRZ may apply for and receive a designation that his land is being used for agricultural, open-space, timber, or certain other purposes. The value of land held for these purposes may be much less than land used for industrial, commercial or residential purposes. If a landowner receives the agricultural use, open space or timberland designation and later loses it by changing the use of the property or selling it to an unqualified owner, the City can collect taxes based on the new use, including taxes for the previous five years, unless the property was owned by an individual farmer whose primary occupation is farming, in which case the City can collect taxes based on the new use for the previous three years. In this circumstance, both the base year tax value and the current year tax value of property may increase, thereby changing the previously established Captured Appraised Value for each year.

Third, under State law, the Participants have the right on a year to year basis to grant various exemptions from taxation, including general homestead exemption or an exemption for residential homesteads of persons 65 years of age or disabled. See "TAXING PROCEDURES" herein. An increase in tax exemptions available in the TIRZ may result in a reduction in the amount of TIRZ Increments available to be deposited to the Tax Increment Fund.

Fourth, owners of property in the TIRZ may sell their properties to entities which do not pay ad valorem taxes on their property or convert their property to a use which is exempt from ad valorem taxes. Development of property for certain types of multi-family housing may result in the property becoming exempt from ad valorem taxes. See "TAXING PROCEDURES."

Fifth, taxes on property in the TIRZ may be abated. The Texas Tax Code, Chapter 311, as amended (the "TIRZ Act") allows any taxing unit that is not a school district to enter into a tax abatement agreement with an owner of real property in the TIRZ for a term not to exceed ten years, if the board of directors of the TIRZ (the "TIRZ Board") approves the agreement and the governing body of the taxing unit approves the agreement. Under such a tax abatement agreement, increases in value in the real property subject to the agreement are not considered in determining the taxable value in the TIRZ. Finally, natural disasters or other events could damage or completely destroy property in the TIRZ. See "—Potential Impact of Natural Disaster" below.

A Decrease in Taxable Value Produces a Greater Decrease in Captured Appraised Value and Can Reduce TIRZ Increments Significantly

A percentage decrease in taxable values results in a larger percentage decrease in the Captured Appraised Value. For instance, if the TIRZ had a taxable value of \$100 and a Captured Appraised Value of \$50, then a reduction in taxable value to \$95 would be a 5% decrease in taxable values and a 10% decrease in Captured Appraised Value. If the TIRZ had a taxable value of \$100 and a Captured Appraised Value of \$25, then a reduction in taxable value to \$95 would be a 5% decrease in taxable values and a 20% decrease in Captured Appraised Value. Thus, a low ratio of Captured Appraised Value to taxable value could result in significant decreases in the TIRZ Increments produced in the event that there is a decrease in taxable value within the TIRZ.

Risk of Higher Priority Debt

The obligations of the Participants to pay TIRZ Increments into the Tax Increment Fund are subject to the rights of any of the holders of bonds, notes or other obligations that have been issued by the Participants that are payable from and secured by a general levy of ad valorem taxes throughout the taxing jurisdiction of the Participants. If taxable values in the respective jurisdictions decline so that the respective Participants cannot pay its outstanding tax-supported indebtedness without use of the TIRZ Increments, there may be insufficient remaining TIRZ Increments to be deposited to the Tax Increment Fund.

Changes in Tax Increment Legislation

Current law may change so as to directly or indirectly reduce or eliminate the amount of TIRZ Increments available for deposit to the Tax Increment Fund. The Texas Legislature meets biennially in odd numbered years and may make changes to the TIRZ Act.

Dependence on Collection of TIRZ Increments

The City has entered into an agreement to participate with the County (the "TIRZ Participation Agreement"), pursuant to which each taxing entity has agreed to annually deposit into the Tax Increment Fund the TIRZ Increments from such Participant. The TIRZ Reimbursement Agreement provides for the City to rebate 50% of its maintenance and operations portion of the ad valorem property taxes levied and collected by the City, excluding any amounts necessary to pay for the operation and administration of the TIRZ, for a given year on the Captured Appraised Value (herein defined) within the District (the "City Increment"). The TIRZ Participation Agreement provides for the County to rebate 50% of its maintenance and operations portion of the ad valorem property taxes levied and collected by the County, excluding any amounts necessary to pay for the operation and administration of the TIRZ, for a given year on the Captured Appraised Value within the TIRZ (the "County Increment"). The City and the County are herein referred to as the "Participants." The captured appraised value of real property taxable by the Participants for a given year is the total appraised value of all real property located in the TIRZ for that year less the base value (the "Captured Appraised Value"). The base value is the total appraised value of all real property in the TIRZ taxable by the Participants in the year in which the TIRZ was designated as such under Chapter 311 of the Texas Tax Code (the "Base Value"). Tax revenue collected on personal property is not included in the TIRZ Increments. The amount of the TIRZ Increments are closely related to the taxable assessed value in the District as certified annually by the Appraisal District.

Pursuant to the TIRZ Reimbursement Agreement, the City has agreed to dedicate and make available to the District the TIRZ Increments attributable to ad valorem taxation of property within the District. The monies held in the District's Debt Service Fund established by the Bond Order, including Pledged TIRZ Revenues transferred thereto, are irrevocably pledged to payment of the Bonds.

Pledged TIRZ Revenues are expected to be sufficient in amount to pay the majority of the principal and interest on the Bonds and the District will levy an annual ad valorem tax in connection with the remaining debt service on the Bonds over the life of the Bonds; however, while the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy, assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, a continuing direct annual ad valorem tax, without limit as to rate or amount, upon all taxable property in the District sufficient to pay the principal and interest on the Bonds with full allowance being made for inadequate Pledged TIRZ Revenues, delinquencies and costs of collection. In the Bond Order, the District covenants that proceeds of said tax are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

Factors Affecting Taxable Values and Tax Payments

Credit Markets and Liquidity in Financial Markets: Interest rates and the availability of mortgage and development funding have a direct impact on construction activity, particularly on short-term interest rates at which developers are able to obtain financing for development costs.

Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 67 miles from the central downtown business district of the City of Dallas, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Dallas metropolitan and regional economies and the national financial and credit markets. A downturn in the economic conditions of Dallas and the nation could adversely affect development plans in the District and restrain the growth of the District's property tax base.

Competition: The demand for and construction of single-family homes in the District could be affected by competition from other residential developments, including other residential developments located in the northern portion of the Dallas area market. In addition to competition for new home sales from other developments, there are numerous previously owned homes in the area of the District. Such homes could

represent additional competition for new homes proposed to be sold within the District. The competitive position of a builder in the sale of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District and tax revenues to be received by the District.

Economic Factors: The rate of development within the District is directly related to the vitality of the residential housing development industry in the Dallas-Fort Worth metropolitan area. New construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. New construction can also be affected by energy availability and costs, including oil and gasoline prices, upon which the Texas economy is heavily dependent. Decreased levels of such construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development in the District.

Dependence on Major Taxpayers and the Developer: The District's tax base is concentrated in a small number of taxpayers. As reflected in this Official Statement under the caption "TAX DATA—Principal Taxpayers," the District's top ten principal taxpayers as of January 1, 2025, owned approximately 35.00% of the assessed value of property located in the District. In addition, the Developer owned approximately 12.70% of the assessed value of property located in the District as of January 1, 2025. The District cannot represent that its tax base will in the future be (i) distributed among a significantly larger number of taxpayers or (ii) less concentrated in property owned by a relatively small number of property owners than it is currently. Failure by the Developer or one or more of the District's principal property owners to make full and timely payments of taxes due may have an adverse effect on the investment quality or security of the Bonds. If any one or more of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet its debt service requirements, the availability of which is uncertain. See "RISK FACTORS—Tax Collections and Foreclosure Remedies" below and "THE DEVELOPER" herein.

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners.

Developer Under No Obligation to the District: The Developer has informed the District of their current plans to continue to develop land in the District for residential purposes. However, the Developer is not obligated to implement such plan on any particular schedule or at all. Thus, the furnishing of information related to the proposed development by the Developer should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer, or any other subsequent landowners to whom a party may sell all or a portion of their holdings within the District, to implement any plan of development. Furthermore, there is no restriction on the Developer's right to sell their land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer. Failure to construct taxable improvements on developed lots and tracts and failure of the Developer to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon the Developer (see "TAX DATA—Principal Taxpayers") for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of the Developer will be or what effect, if any, such conditions may have on their ability to pay taxes. See "THE DEVELOPER" and "DEVELOPMENT OF THE DISTRICT."

Maximum Impact on District Tax Rate: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners within the District to pay their taxes. The 2025 Taxable Assessed Valuation of all taxable property located within the District is \$33,927,371 and the Estimate of Value as of October 1, 2025, is \$62,129,720. See "TAX DATA." After issuance of the Bonds, the gross maximum annual debt service requirement on the Bonds (2048), not including any Pledged TIRZ Revenues, will be \$414,700, and the gross average annual debt service requirement on the Bonds (2026-2049), not including and Pledged TIRZ Revenues, will be \$388,681. Assuming no decrease to the District's 2025 Taxable Assessed Valuation, debt service tax rates of \$1.29 and \$1.21 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the gross maximum annual debt service requirement and the gross average annual debt service requirement, respectively. Assuming no decrease from the Estimate of Value as of October 1, 2025, debt service tax rates of \$0.71 and \$0.66 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the gross maximum annual debt service requirement and the gross average annual debt service requirement, respectively.

Including the Pledged TIRZ Revenues, after issuance of the Bonds, the net maximum annual debt service requirement (2048) will be \$287,375, and the net average annual debt service requirement (2026-2049) will be \$255,395. Assuming no decrease to the District's 2025 Taxable Assessed Valuation, debt service tax rates of \$0.90 and \$0.80 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the net maximum annual debt service requirement and the net average annual debt service requirement, respectively. Assuming no decrease from the Estimate of Value as of October 1, 2025, debt service tax rates of \$0.49 and \$0.44 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the net maximum annual debt service requirement and the net average annual debt service requirement, respectively. See "DISTRICT DEBT—Debt Service Requirement Schedule" and "TAX DATA—Tax Rate Calculations."

Increases in the District's tax rate to rates substantially higher than the levels discussed above may have an adverse impact upon future development of the District, the sale and construction of property within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District.

Vacant Developed Lots

As of October 1, 2025, approximately 81 developed lots within the District remained available for construction. Failure of the Developer and/or builders to construct taxable improvements on developed lots could result in substantial increases in the rate of taxation by the District during the term of the Bonds to pay debt service on the Bonds and any other tax supported debt of the District issued in the future. Future increases in value will result primarily from the construction of homes by builders. The District makes no representation that the lot sales and building program will be successful.

Increase in Costs of Building Materials

As a result of supply issues, shipping constraints, and ongoing trade disputes (including tariffs), there have been recent substantial increases in the cost of lumber and other building materials, causing many homebuilders and general contractors to experience budget overruns. Further, the unpredictable nature of current trade policy (including the threatened imposition of tariffs) may impact the ability of the developers or homebuilders in the District to estimate costs. Additionally, immigration policies may affect the State's workforce, and any labor shortages that could occur may impact the rate of construction within the District. Uncertainty surrounding availability and cost of materials may result in decreased levels of construction activity, and may restrict the growth of property values in the District. The District makes no representations regarding the probability of development or homebuilding continuing in a timely manner or the effects that current or future economic or governmental circumstances may have on any plans of the developers or homebuilders.

Operating Funds

The District's only source of operating revenue is maintenance tax revenue. The District does not collect water and wastewater revenues from its residents. The District levied a 2025 maintenance tax of \$0.60 per \$100 of assessed valuation. The District's general fund balance as of December 3, 2025 was \$11,524. The revenue produced from a \$0.60 maintenance tax in 2025 or a reduced maintenance tax in subsequent years may not be sufficient to offset the operating expenses of the District. Continued maintenance of a positive general fund balance will depend upon (1) cash subsidies from the Developer and (2) continued development and increased amounts of maintenance tax revenues. If funds from these sources are not forthcoming, the District would have to increase its maintenance tax rate.

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.

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 of the Bonds (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 do 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 State of 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.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Registered Owners 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. Texas law requires a district, such as the District, to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

Notwithstanding noncompliance by the District with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until 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 proceeds and in making the decision of whether to grant the petitioning District relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owners' claim.

If the petitioning District were allowed to proceed voluntarily under Chapter 9 of the Federal 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 Registered Owners 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 Owners' claims against a district.

The District may not be placed into bankruptcy involuntarily.

Future Debt

At an election held within the District on May 7, 2022, voters of the District authorized the District's issuance of \$64,457,759 principal amount of unlimited tax bonds for the purpose of acquiring and/or constructing water, sewer and drainage facilities to serve the District (the "Utility System"); \$65,318,177 principal amount

of unlimited tax bonds for the purpose of acquiring or constructing roads and improvements in aid thereof to serve the District (the "Road System"); \$96,686,638 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Utility System; and \$97,977,266 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Road System.

Following the issuance of the Bonds, \$65,318,177 principal amount of unlimited tax bonds for the Road System; \$58,807,759 principal amount of unlimited tax bonds for the Utility System; \$96,686,638 principal amount of unlimited tax bonds for the purpose of refunding bonds previously issued for the Utility System; and \$97,977,266 principal amount of unlimited tax bonds for the purpose of refunding bonds previously issued for the Road System will remain authorized but unissued.

Based on current calculations and information available and provided to date, after reimbursement with the proceeds of the Bonds, the District will still owe the Developer approximately \$5,309,328 for the current expenditures related to the Utility System and approximately \$5,586,286 for the current expenditures related to the construction of the Road System on behalf of the District.

Based on present engineering costs estimates and on development plans supplied by the Developer, in the opinion of the Engineer (hereinafter defined), following the issuance of the Bonds, the remaining principal amount of authorized but unissued bonds will be sufficient to fully reimburse the Developer for the existing facilities.

All of the remaining bonds that have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The issuance of such bonds for the Utility System, including the Bonds, is subject to the prior approval of the TCEQ; however; the District's issuance of bonds for the Road System is not subject to approval of the TCEQ.

Continuing Compliance with Certain Covenants

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure of the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "TAX MATTERS."

Future and 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.

Marketability of the Bonds

The District has no understanding with the winning bidders for the Bonds (the "Initial Purchaser") 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 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 and traded in the secondary market.

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.

Environmental Regulations

Wastewater treatment, water supply, storm sewer facilities and construction activities within the District are subject to complex environmental laws and regulations at the federal, state and local levels that may require or prohibit certain activities that affect the environment, such as:

- Requiring permits for construction and operation of water wells, wastewater treatment and other facilities;
- Restricting the manner in which wastes are treated and released into the air, water and soils;
- Restricting or regulating the use of wetlands or other properties; or
- Requiring remedial action to prevent or mitigate pollution.

Sanctions against a municipal utility district or other type of special purpose district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Air Quality Issues: Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the TCEQ may impact new industrial, commercial and residential development in the Dallas-Fort Worth area. Under the Clean Air Act ("CAA") Amendments of 1990, a ten-county Dallas-Fort Worth area ("2008 DFW Area") – Collin, Dallas, Denton, Ellis, Johnson, Kaufman, Parker, Rockwall, Tarrant, and Wise Counties – has been designated a "severe" nonattainment area under the eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (the "2008 Ozone Standard") effective November 7, 2022, with an attainment year of 2026. The "severe" nonattainment classification provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

Further, a nine-county Dallas-Fort Worth area ("2015 DFW Area") – Collin, Dallas, Denton, Ellis, Johnson, Kaufman, Parker, Tarrant, and Wise Counties has been designated a "serious" nonattainment area under the eight-hour ozone standard of 70 ppb promulgated by the EPA in 2015 (the "2015 Ozone Standard"), effective July 22, 2024. The requirements for an area designated as "serious" vary and establish several attainment deadlines ranging from January 1, 2026 to January 1, 2028, with such deadlines applicable to the specific requirements of the EPA's final action.

In order to demonstrate progress toward attainment of the EPA's ozone standards, the TCEQ has established a state implementation plan ("SIP") for the 2008 and 2015 DFW Areas setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the area. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the 2008 and 2015 DFW Areas to reach attainment with the ozone standards by the EPA's attainment deadlines. These additional controls could have a negative impact on the area's economic growth and development. As a result of the DFW Area's reclassification, the TCEQ must submit revisions of the SIP to the EPA no later than January 1, 2026, addressing the "serious" nonattainment classification.

Water Supply & Discharge Issues: Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) groundwater well permitting and surface

water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) wetlands dredge and fill activities. Each of these is addressed below:

Certain governmental entities regulate groundwater usage in the DFW Area. A municipal utility district or other type of special purpose district that (i) is located within the boundaries of such an entity that regulates groundwater usage, and (ii) relies on local groundwater as a source of water supply, may be subject to requirements and restrictions on the drilling of water wells and/or the production of groundwater that could affect both the engineering and economic feasibility of district water supply projects.

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and the EPA’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future. Further, the EPA has established a NPDWR for six (6) Per- and Polyfluoroalkyl Substances (“PFAS”), which requires public water systems to perform certain monitoring and remediation measures. Public water systems may be subject to additional PFAS regulation in the future, which could increase the cost of constructing, operating, and maintaining water production and distribution facilities.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2023, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

The TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on August 15, 2024. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. While the District is currently not subject to the MS4 permit, if the District’s inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

Operations of utility districts, including the District, are also potentially subject to requirements and restrictions under the CWA regarding the use and alteration of wetland areas that are within the “waters of the United States.” The District must obtain a permit from the United States Army Corps of Engineers (“USACE”) if operations of the District require that wetlands be filled, dredged, or otherwise altered.

In 2023, the Supreme Court of the United States issued its decision in *Sackett v. EPA*, which clarified the definition of “waters of the United States” and significantly restricted the reach of federal jurisdiction under the CWA. Under the *Sackett* decision, “waters of the United States” includes only geographical features that are described in ordinary parlance as “streams, oceans, rivers, and lakes” and to adjacent wetlands that are indistinguishable from such bodies of water due to a continuous surface connection. Subsequently, the EPA and USACE issued a final rule amending the definition of “waters of the United States” under the CWA to conform with the Supreme Court decision.

While the *Sackett* decision and subsequent regulatory action removed a great deal of uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction, operations of municipal utility districts, including the Regional District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements, in the future.

Potential Impact of Natural Disaster

The District could be impacted by a natural disaster such as wide-spread fires, earthquakes, or weather events such as hurricanes, tornados, tropical storms, or other severe weather events that could produce high winds, heavy rains, hail, and flooding. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value of the District or an increase in the District's tax rates. See "TAXING PROCEDURES—Reappraisal of Property after Disaster."

There can be no assurance that a casualty will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any taxable properties in the District that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which assessed values in the District would be adversely affected. There can be no assurance the District will not sustain damage from such natural disasters.

Changes in Tax Legislation

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

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 applicable Bond Insurance Policy (the "Insurance 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 Insurance 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 provider of the policy, if any (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 Insurance 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."

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 nor the Initial Purchaser 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” herein for further information provided by the Bond Insurer and the Insurance Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

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. A copy of the Bond Order may be obtained from the District upon request to Coats Rose, P.C., Dallas, Texas, Bond Counsel. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

Description

The Bonds are dated January 1, 2026, with interest payable on May 1, 2026, and each November 1 and May 1 thereafter (each an “Interest Payment Date”) until the earlier of maturity or redemption. The Bonds mature on November 1 of the years and in the amounts shown on the inside cover page of the Official Statement and interest on the Bonds accrues from the initial date of delivery (on or about January 15, 2026) (the “Delivery Date”), and thereafter from the most recent Interest Payment Date to which interest has been paid.

The Bonds will be issued only in fully registered form in any integral multiples of \$5,000 of principal amount 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 BOKF, NA, Dallas, 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 “—Book-Entry-Only System” below.

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 (“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.

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 DTC, while the Bonds are registered in its nominee 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, (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, 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.

DTC 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 maturity of the Bonds, each in the aggregate principal amount of such maturity, 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 a 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 Bond ("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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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 the 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, the 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, Bond 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, Bond certificates will be printed and delivered to DTC.

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 DTC Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry 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.

Successor Paying Agent/Registrar

Provisions are made in the Bond Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Record Date

The record date for payment of the interest on any regularly scheduled Interest Payment Date is defined as the 15th day of the month (whether or not a business day) preceding such Interest Payment Date.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar or its corporate trust office and such transfer or exchange shall be without expenses or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by the United States mail, first class, postage prepaid, to the new Registered Owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of the Bonds will be delivered to the Registered Owner or assignee of the Registered Owner in not more than three business days after the receipt of the Bonds to be cancelled, and the written instrument of transfer or request for exchange duly executed by the Registered Owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be of the same series and in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein defined for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

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.

Redemption Provisions

Bonds maturing on November 1, 2032, and thereafter shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on November 1, 2031, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such random method as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Source of Payment

Principal of and interest on the Bonds are payable from (i) Pledged TIRZ Revenues, as described below, and (ii) the proceeds of a continuing, direct annual ad valorem tax, levied upon all taxable property within the District, without legal limitation as to rate or amount. The Bonds are obligations solely of the District and are not obligations of the State of Texas; the County; the City; or any entity other than the District.

Unlimited Tax: The Bonds are payable from and secured by the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. In addition, the Bonds are payable from and secured by a pledge of and a lien on Pledged TIRZ Revenues as described below.

Pledged TIRZ Revenues: The City has created a tax increment fund into which the TIRZ Increments shall be deposited (the "Tax Increment Fund"). The City has entered into a TIRZ Participation Agreement (hereinafter defined) with the County, pursuant to which each taxing entity has agreed to deposit annually the TIRZ Increments to the Tax Increment Fund. The portion of TIRZ Increments deposited each year to the Tax Increment Fund which portion is attributable to ad valorem taxation of property within the District, net of any operating costs of the TIRZ, is referred to herein as the "Pledged TIRZ Revenues." See "RISK FACTORS—Dependence on Collection of TIRZ Increments."

Pledged TIRZ Revenues will not be received for the entire period the Bonds are scheduled to be outstanding. The final TIRZ payments, as currently established in the TIRZ Reimbursement Agreement (herein defined) and the Development Agreement (herein defined), are expected to be received in 2047 (with final payment received in 2048), and the final maturity of the Bonds is scheduled to occur in 2049. It is expected that the District will use only its unlimited taxes to support the debt service payments on the Bonds scheduled for the year 2049 and thereafter. See "DISTRICT DEBT—Debt Service Requirement Schedule."

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 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 revenues or from ad valorem taxes or both, or a commercial bank or trust company designated in the proceedings authorizing such discharge 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.

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 defaults 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 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 be further limited by a State of 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 and creditors of political subdivisions, such as the District.

Authority for Issuance

The Bonds are issued pursuant to (i) an order authorizing the issuance of the Bonds (the "Bond Order"); (ii) Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, particularly Chapters 49 and 54 of the Texas Water Code, as amended; (iii) an order of the Texas Commission on Environmental Quality (the "TCEQ"); and (iv) an election held within the District on May 7, 2022.

At an election held within the District on May 7, 2022, voters of the District authorized the District's issuance of \$64,457,759 principal amount of unlimited tax bonds for the Utility System; \$65,318,177 principal amount of unlimited tax bonds for the purpose of the Road System; \$96,686,638 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Utility System; and \$97,977,266 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Road System.

Short-Term Debt

The District issued its \$3,647,000 Bond Anticipation Note, Series 2025 (the "BAN"), dated March 7, 2025. The BAN matures on March 6, 2026, and accrues interest at a rate of 5.25% per annum, calculated on the basis of 360-day year and actual days elapsed. The District will use a portion of the proceeds from the sale of the Bonds to redeem the BAN prior to its maturity. Proceeds from the BAN were used to reimburse the Developer for a portion of the improvements and related costs shown under "—Use and Distribution of Bond Proceeds."

Issuance of Additional Debt

The Bonds constitute the first series of unlimited tax bonds issued by the District for the Utility System. Following the issuance of the Bonds, \$58,807,759 principal amount of unlimited tax bonds for the purpose of acquiring and/or constructing the Utility System; \$65,318,177 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Road System; \$96,686,638 principal amount of unlimited tax bonds for the purpose of refunding bonds previously issued for the Utility System; and \$97,977,266 principal amount of unlimited tax bonds for the purpose of refunding bonds previously issued for the Road System, will remain authorized but unissued. According to the Engineer the remaining bonds authorized will be sufficient to fully finance the reimbursable costs to fully develop the District.

Based on current calculations and information available and provided to date, after reimbursement with the proceeds of the Bonds, the District will still owe the Developer approximately \$5,309,328 for the current expenditures related to the Utility System and approximately \$5,586,286 for the current expenditures related to the construction of the Road System on behalf of the District.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. Bonds issued for the Utility System, including the Bonds, are required to be approved by the TCEQ.

No Arbitrage

The District will certify, on the date of delivery of the Bonds, that based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed thereunder. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

Funds

The Bond Order creates the District's fund for debt service on bonds issues for the Utility System, including the Bonds, and any additional unlimited tax bonds issued for the Utility System (the "Utility System Debt Service Fund"). Upon closing of the Bonds, eighteen (18) months of capitalized interest will be deposited into the Utility System Debt Service Fund. The Utility System Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Bonds and any additional unlimited tax bonds issued by the District for the Utility System, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds, and any additional unlimited tax bonds issued by the District for the Utility System payable in whole or in part from taxes. Amounts on deposit in the Utility System Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds, and any unlimited tax bonds issued by the District for the Utility System payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due. Amounts on deposit in the Utility System Debt Service Fund may not be used to pay debt service on bonds issued by the District for the Road System.

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.

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is an excerpt 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 unmatured 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.

No representation is made that the Bonds will be suitable for or acceptable to financial or public entities for investment or collateral purposes. No representation is made concerning other laws, rules, regulations or investment criteria which apply to or which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

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Use and Distribution of Bond Proceeds

Proceeds of the sale of the Bonds will be used by the District to redeem the BAN, the proceeds of which were used to reimburse the Developer for a portion of the improvements and related costs shown below. Additionally, proceeds from the sale of the Bonds will also be used to reimburse the Developer for the improvements and related costs that were not reimbursed by the BAN and to pay: developer interest; BAN interest; eighteen (18) months of capitalized interest; and other certain costs associated with the issuance of the Bonds.

Construction Costs

A. Developer Contribution Items	
1. Heritage Ranch Phase 1 - WS&D	\$ 2,790,645
2. Engineering & Testing	763,403
3. Phase 1 Misc. Construction Expenses	20,250
4. Preliminary Engineering	<u>39,252</u>
Total Developer Contribution Items	\$ 3,613,550
B. District Items	
1. Phase 1A & 1B Detention Pond Land	<u>\$ 87,662</u>
Total District Items	\$ 87,662
Total Construction Costs	\$ 3,701,212

Non-Construction Costs

A. Legal Fees	\$ 153,000
B. Fiscal Agent Fees	113,000
C. Interest	
1. Capitalized Interest (18 Months)	397,228
2. Developer Interest	441,650
3. BAN Interest	167,002
D. Bond Discount	169,447
E. Bond Issuance Expenses	47,023
F. Bond Application Report Costs	51,625
G. BAN Issuance Expenses	90,390
H. Operating Expenses	170,381
I. Market Study	7,500
J. Attorney General's Fee	5,650
K. TCEQ Bond Issuance Fee	14,125
L. Contingency (a)	<u>120,767</u>
Total Non-Construction Costs	\$ 1,948,788
Total Bond Issue Requirement	\$ 5,650,000

(a) Represents the sum of the difference between the estimated and actual amounts of capitalized interest on the Bonds, interest on the BAN, and discount on the Bonds.

Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer (herein defined) and the Financial Advisor (herein defined). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District's auditor.

In the instance that approved estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for approved uses in accordance with the rules of the TCEQ. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

THE DISTRICT

General

The District was created by Acts of the 87th Legislature of the State of Texas, May 30, 2021, Regular Session pursuant to Senate Bill 2219, codified as Chapter 7920A of the Texas Special District Local Laws Code. The District was created as a municipal utility district under Section 52, Article III, and Section 59, Article XVI, of the Texas Constitution and operates under Chapters 49 and 54 of the Texas Water Code, as amended. The District, which lies wholly within the corporate limits of the City, is subject to the continuing supervisory jurisdiction of the TCEQ with respect to the Utility System.

The District is empowered, among other things, 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. The District is also empowered to purchase, construct, operate and maintain certain road improvements, recreational facilities, and fire-fighting facilities, separately or jointly with one or more conservation and reclamation districts, municipalities or other political subdivisions, after approval by the City and the voters of the District. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. See “THE BONDS—Issuance of Additional Debt.”

Location of the District

The District is located in Grayson County, approximately 67 miles north of downtown Dallas. The District is bound to the south by U.S. Highway 82 and Canyon Grove Road, and to the west by Plainview Road and is located entirely within the corporate limits of the City. The District is located within the Sherman Independent School District.

At the time of creation, the District contained a total of approximately 175 acres. Subsequently, on April 11, 2022, the District excluded approximately 3.89 acres. Currently, the District is comprised of approximately 170.193 acres.

Management of the District

The District is governed by the Board of Directors (the “Board”), which consists of five directors and has control over, management, and supervision of all affairs of the District. All directors serve four-year staggered terms and are elected by the voters of the District:

<u>Name</u>	<u>Position</u>	<u>Term Expires</u> <u>May</u>
Russell Maine	President	2028
Austin Hix	Vice President	2026
Chris Colombe	Secretary	2028
Rick Ellis	Assistant Secretary	2026
Jeremiah Taylor	Assistant Secretary	2028

Investment Policy

The District has adopted an Investment Policy (the “Policy”) as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the “Act”). The District’s goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the District are to be invested only in accordance with the Policy. The Policy states that the funds of the District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation and secured by collateral authorized by the Act, and in TexPool and TexStar, which are public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long-term securities or derivative products in the portfolio.

Consultants

Although the District does not have a general manager or any other full-time employees, it has contracted for bookkeeping, tax assessing and collecting, auditing, engineering, and legal services as follows:

Bond Counsel and General Counsel: The District has engaged Coats Rose, P.C., Dallas, Texas, as general counsel to the District and as bond counsel (“Bond Counsel”) in connection with the issuance of the Bonds. The fees to be paid Bond Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds. See “LEGAL MATTERS.”

Disclosure Counsel: McCall, Parkhurst & Horton L.L.P., Dallas, Texas, serves as Disclosure Counsel to the District. The fee to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds is contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor: Robert W. Baird & Co. Incorporated is engaged as financial advisor to the District in connection with the issuance of the Bonds (the “Financial Advisor”). The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance 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.

Tax Assessor/Collector: The tax assessor/collector for the District is Bruce Stidham, the Grayson County Tax Assessor/Collector (the “Tax Assessor/Collector”).

Bookkeeper: The District’s bookkeeper is L&S District Services, LLC (the “Bookkeeper”).

Auditor: The District engaged McCall Gibson Swedlund Barfoot Ellis PLLC to audit its financial statements for the fiscal year ended March 31, 2025. The District’s audited financial statements are attached as “APPENDIX A” to this Official Statement.

Engineer: The consulting engineer retained by the District in connection with the design and construction of the District’s facilities is Spiars Engineering, Inc. (the “Engineer”).

Historical Operations of the District

The following is a summary of the District’s Operating Fund. The figures for the fiscal years ending March 31 in the years 2024 and 2025, were obtained from the District’s annual audited financial statements, reference to which is hereby made. See “APPENDIX A.” The District is required by statute to have a certified public accountant prepare and file an annual audit of its financial records with the TCEQ.

	Fiscal Year Ended March 31,	
	2025	2024
Revenues:		
Property Taxes	\$ 38,009	\$ 1,492
Interest Income	1,139	154
Total Revenues	<u>\$ 39,148</u>	<u>\$ 1,646</u>
Expenditures:		
Professional Fees	\$ 10,844	\$ 3,133
Contract Services	5,151	5,882
Other	8,040	8,472
Total Expenditures	<u>\$ 24,035</u>	<u>\$ 17,487</u>
Net Revenues (Deficit)	<u>\$ 15,113</u>	<u>\$ (15,841)</u>
Other Financing Sources:		
Developer Advances	\$ 10,000	\$ 11,000
Beginning Fund Balance	\$ 279	\$ 5,120
Ending Fund Balance	\$ 25,392	\$ 279

DEVELOPMENT OF THE DISTRICT

Status of Development within the District

The District consists of approximately 170.193 total acres. To date, approximately 51 acres have been developed as 257 single-family lots as Heritage Ranch, Phase 1. As of November 1, 2025, the District included approximately 148 completed homes (approximately 98 occupied, 46 unoccupied, and 4 model homes); approximately 28 homes under construction; and approximately 81 vacant developed lots. The remaining approximately 119 acres within the District are planned for future development as additional single-family residential sections.

The table below summarizes the status of development and land use within the District as of November 1, 2025.

<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>	
Heritage Ranch, Phase 1	<u>50.89</u>	<u>257</u>	<u>148</u>	<u>28</u>	<u>81</u>
Total	50.89	257	148	28	81
Under Development	-				
Remaining Developable	119.30				
Total District Acreage	170.19				

Homebuilders within the District

The homebuilders currently active in the District are Highland Homes and K. Hovnanian Homes. New homes being constructed in the District range in price from approximately \$270,000 to \$439,000 and range in size from approximately 1,524 square feet to 3,164 square feet.

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**PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(December 2025)**



THE DEVELOPER

The Role of a Developer

In general, the activities of a landowner or developer in a 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.

Prospective Bond purchasers should note that the prior real estate experience of a developer should not be construed as an indication that further development within the District will occur, or construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. Circumstances surrounding development within the District may differ from circumstances surrounding development of other land in several respects, including the existence of different economic conditions, financial arrangements, homebuilders, geographic location, market conditions, and regulatory climate.

Neither the Developer nor any affiliate entities is obligated to pay principal of or interest on the Bonds. Furthermore, neither the Developer or its affiliate entities has a binding commitment to the District to carry out any plan of development, and the furnishing of information relating to the proposed development by the Developer or its affiliate entities should not be interpreted as such a commitment. Prospective purchasers are encouraged to inspect the District in order to acquaint themselves with the nature of development that has occurred or is occurring within the District's boundaries.

Description of the Developer

The developer of land within the District is RCICD Heritage Ranch LLC, a Texas limited liability company ("RCICD" or the "Developer"), a special purpose entity jointly owned and controlled by Rockhill Capital & Investments, LLC ("Rockhill") and TPJ Properties, Ltd. ("TPJ"). To date, RCICD has developed approximately 51 acres (257 single-family lots) within the District as Heritage Ranch, Phase 1 and continues to own approximately 119 acres developable acres within the District.

Development Financing

The Developer has financed the purchase and development of land within the District through two loan agreements as follows: (i) a primary loan agreement dated February 28, 2022, with First United Bank and Trust Company. Such loan's maximum principal amount is \$13,421,000, of which approximately \$1,279,436 remains outstanding as of November 1, 2025; and (ii) a secondary loan agreement dated November 28, 2023, with First United Bank and Trust Company. Such loan's maximum principal amount is \$2,445,999, of which approximately \$779,920 remains outstanding as of November 1, 2025.

Lot Sales Contracts

The Developer has entered lot sales contracts with Highland Homes and K Hovnanian Homes. The contracts for the sale of lots between the Developers and the builders require that earnest money be deposited with a title company, typically between 10- 20% of the total price of the completed lots. The sales contracts establish certain required lot purchases quarterly, with the earnest money deposits being returned pro-rata to the builders upon purchase of the lots under each contract. The Developer's sole remedy for builders not purchasing lots in accordance with the contracts is cancellation of the contract and retention of the remaining earnest money on deposit.

Effective 30th October 2025, K Hovnanian Homes entered into a Mutual Termination and Release Agreement with RCICD where by the remaining 32 lots to be purchased by K Hovnanian Homes under the agreement effective January 4, 2022 will no longer be purchased and the remaining unapplied Earnest monies of \$197,774 will be retained by RCICD. The Developer is currently marketing such lots for sale to other homebuilders.

According to the Developer, Highland Homes is in compliance with its lot sale contracts. As of November 1, 2025, the total number of lots contracted and purchased by each builder is listed below:

<u>Homebuilder</u>	<u>Total Lots Contracted</u>	<u>Total Lots Purchased</u>
Highland Homes	125	106
K Hovnanian Homes	93	93
Totals	218	199

THE UTILITY SYSTEM

Regulation

According to the Engineer, the Utility System has 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 County, Texas, and the City. 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.

Description of the Utility System

Water Supply: Water supply for the District is provided by the City. The District is located fully within the corporate limits of the City; therefore, residents receive water directly from the City. The facilities are conveyed to the City for operation and maintenance upon completion. The District’s water capacity is capable of serving the ultimate buildout of the District, which is sufficient to service the 257 equivalent single-family connections (“ESFC(s)”) currently active within the District.

Wastewater Treatment: Wastewater treatment for the District is provided by the City. The District is located fully within the corporate limits of the City; therefore, residents receive wastewater service directly from the City. The City owns and operates the Post Oak Wastewater Treatment Plant, under TDPES Permit No. WQ0010329001, with a capacity of 16 million gallons per day. The District’s wastewater capacity is capable of serving the ultimate buildout of the District, which is sufficient to service the 257 ESFCs currently active within the District.

Drainage: The northern portion of the District naturally drains to the south into tributaries of Post Oak Creek, which eventually flow to the Red River. Rainwater flows to curb and gutter streets to an underground storm sewer collection system to detention ponds or natural drainage ways before being released to tributaries of Post Oak Creek.

100-Year Flood Plain

No portion of the District lies within the FEMA 100-year flood plain.

Atlas 14

In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. Such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

THE ROAD SYSTEM

The District’s Road System will be funded with proceeds of bonds issued for the Road System. See “RISK FACTORS—Future Debt” and “THE BONDS—Issuance of Additional Debt.” Construction of the District’s roads is subject to certain regulations by the City and the Texas Department of Transportation. The roads in the District are constructed with concrete pavement and curbs and gutter roadways. Remaining streets provide local interior service within the District. The Road System is being constructed by the District and once complete, will be dedicated to and owned and maintained by the City.

DEVELOPMENT AGREEMENT

Effective October 5, 2021, the Developer entered into a Heritage Ranch Master Development Agreement (the "Development Agreement") with the City and provides for the design, construction, installation and development of certain improvements within the District. Such improvements include, but are not limited to, the following: (i) single-family residential development; (ii) recreational facilities development; (iii) parks, trails, green and open spaces, pedestrian connectivity paths, and other quality-of-life amenities; (iv) enhanced entryway and landscaping features within the District unique to the District; (v) a school site if Sherman Independent School District chooses a location within the District; and (vi) all collector streets, residential streets, utilities, drainage, and other infrastructure required to serve the District. The term of such Development Agreement is 2047, unless otherwise extended.

SHERMAN TAX INCREMENT REINVESTMENT ZONE #8

On May 2, 2022, the City, pursuant to City Ordinance No. 6476, created Tax Increment Reinvestment Zone #8 (the "TIRZ") for the purpose of development of the City's property between Plainview Road and N. Travis Street, as well as to promote residential growth in the City. The TIRZ currently encompasses approximately 172 acres within the corporate limits of the City, and the TIRZ includes all of the land within the District.

Effective February 20, 2023, the District entered into a TIRZ#8 Reimbursement Agreement (the "TIRZ Reimbursement Agreement") with the City and the TIRZ for the purpose of promoting development of certain improvements within the District.

General Statutory Requirements for Tax Increment Reinvestment Zones in Texas

A tax increment reinvestment zone under the TIRZ Act is created by a city, which also approves a project plan and financing plan for a zone. The ordinance creating a zone and the plans may provide that the city will deposit all or a portion of its Tax Increment into a tax increment fund established by the city for a zone. Other taxing units which tax property in a zone may agree with the city that they will also deposit all or a portion of their Tax Increment into the tax increment fund established for a zone. Pursuant to the TIRZ Reimbursement Agreement, the City holds and maintains the Tax Increment Fund.

The amount of a taxing unit's tax increment for a year is the amount of property taxes levied and collected by a taxing unit for that year on the Captured Appraised Value of real property taxable by a taxing unit and located in a zone. The Captured Appraised Value of real property taxable by a taxing unit for a year is the total appraised value of all real property taxable by the taxing unit and located in a zone for that year less the total appraised value of all real property taxable by a taxing unit and located in a zone in the year in which a zone was designated as such under the TIRZ Act (the "Base Value"). In the event a zone is enlarged by ordinance or resolution of a city, the Tax Increment Base for added property is the value of all real property taxable by a taxing unit and located in the added area in the year of enlargement and in the event the boundaries of a zone are reduced, the Tax Increment Base is reduced by the taxable value of the real property removed from a zone for the year in which the property was originally included in a zone's boundaries.

The TIRZ Act provides that each taxing unit that participates in a zone is required to pay into the tax increment fund for a zone the collected Tax Increment that it has agreed to pay under its agreement with a city and in accordance with the project plan. The TIRZ Act provides that the payment by a participating taxing unit is to be made into the tax increment fund not later than the 90th day after the later of: (i) the delinquency date for such taxing unit's property taxes or (ii) the date a city submits to a taxing unit an invoice specifying the Tax Increment produced by such taxing unit and the amount the taxing unit is required to pay into the tax increment fund for a zone.

Section 311.0123 of the TIRZ Act permits a city to also designate a portion or amount of tax increment generated from municipal sales and use taxes attributable to a zone above the sales tax base similar to that done for taxable real property. No sales tax will be utilized as a source of payment for the Bonds.

Calculation of Tax Increment for the TIRZ

Pursuant to the TIRZ Reimbursement Agreement, the City has agreed to dedicate and make available to the District the TIRZ Increments attributable to ad valorem taxation of property within the District for use to pay for certain public improvements, including the payment of debt service obligations on bonds, including the Bonds, or other obligations issued or incurred by the District to finance the payment of such improvements. The TIRZ Reimbursement Agreement provides for the City to rebate 50% of its maintenance and operations portion of the ad valorem property taxes levied and collected by the City, excluding any amounts necessary to

pay for the maintenance and administration of the TIRZ, for a given year on the Captured Appraised Value within the District until the earlier of (i) the date that the debt service payments for bonds issued to achieve full repayment of the costs directly related to the design and construction of the TIRZ Improvements (herein defined) which are eligible for financing by the TIRZ pursuant to the TIRZ Act (“Project Costs”) have been repaid in full, (ii) the date that the Development Agreement expires or terminates, or (iii) the date the TIRZ terminates its existence. Additionally, the TIRZ Reimbursement Agreement states that the City’s obligation of payment from the Tax Increment Fund to the District shall continue until the earlier of (i) the date all TIRZ Bonds issued to pay the Project Costs have been paid in full, (ii) the date the Project Costs have otherwise been paid in full, or (iii) the termination date of the TIRZ. The TIRZ Participation Agreement provides for the County to rebate 50% of its maintenance and operations portion of the ad valorem property taxes levied and collected by the County, excluding any amounts necessary to pay for the maintenance and administration of the TIRZ, for a given year on the Captured Appraised Value within the TIRZ until the termination of the TIRZ. TIRZ Increments are calculated by multiplying the Captured Appraised Value by their respective tax rate per \$100 of valuation for the tax year, then multiplying that product by the Participants’ collection percentage, and then multiplying that product by its rate of participation. The collection percentage is determined by comparing the taxes collected from all taxable real property in the TIRZ to the total taxes due for the tax year from all real property in the TIRZ.

The obligation of the Participants to pay the TIRZ Increments into the Tax Increment Fund is subject to the rights of any holders of bonds, notes or other obligations that have been or are hereafter issued by the City that are payable from or secured by a general levy of ad valorem taxes through the tax jurisdiction of the City, as applicable.

TIRZ Base Value

The table below shows the allocable portion of the base value applicable to the District for each Participant (January 1, 2022 taxable value) as provided by the City.

	<u>City</u>	<u>County</u>
January 1, 2022 (Base Year)	\$ 6,548	\$ 6,548

TIRZ Term

Unless otherwise terminated, as provided in the TIRZ Reimbursement Agreement, the TIRZ Reimbursement Agreement shall be in full force and effect for a term expiring on the earlier of (i) the date that the debt service payments for bonds issued to achieve full repayment of the Project Costs have been repaid in full, (ii) the date that the Development Agreement expires or terminates, of which terminates in 2047 unless extended, or (iii) the date the TIRZ terminates its existence. Additionally, the TIRZ Reimbursement Agreement states that the City’s obligation of payment from the Tax Increment Fund to the District shall continue until the earlier of the date all TIRZ Bonds issued to pay the Project Costs have been paid in full, the date the Project Costs have otherwise been paid in full, or the termination date of the TIRZ.

Participating Taxing Units

As discussed above, the TIRZ Increments received from the Participants will be paid into the Tax Increment Fund and used to pay project costs within the TIRZ, including, without limitation, debt service on the Bonds and any other obligations issued to finance project costs in the TIRZ. Under the TIRZ Reimbursement Agreement, the City and TIRZ agreed that neither party will permit a reduction in the TIRZ Increments paid by the City and County except to the extent provided in the TIRZ Participation Agreement, entered into by the City and County, which permits the County to exclude from the County tax increment that portion of the County’s tax rate allocated to the County’s Road & Bridge and Improvement Fund, but prohibits the County from entering into any agreements that would reduce the County Increment. State law only requires the Participants to contribute TIRZ Increments actually collected by it and only to the extent provided in the TIRZ Reimbursement Agreement.

TIRZ REIMBURSEMENT AGREEMENT

Effective February 20, 2023, the District entered into the TIRZ Reimbursement Agreement between the City and the TIRZ for the purpose of promoting development and constructing the water, sanitary sewer and drainage facilities or capacities and roads necessary to serve the District (the “TIRZ Improvements”).

In order to promote and expedite the development of the District, the Developer, on behalf of the District, is willing to design and construct the TIRZ Improvements, and, in return, the City is willing to reimburse the cost

of the TIRZ Improvements with monies made available to the City as a result of the growth of ad valorem tax base within the District. Upon final acceptance of the TIRZ Improvements by the City, such TIRZ Improvements will be dedicated and conveyed to the City.

Tax Increment Fund

The TIRZ Reimbursement Agreement provides for a Tax Increment Fund created and maintained by the City, into which the TIRZ Increments are required to be deposited not later than the first business day of April during the term of the TIRZ Reimbursement Agreement. In the TIRZ Reimbursement Agreement, the City and the TIRZ grant, dedicate, pledge and otherwise provide and make available to the District the Pledged TIRZ Revenues for the purposes set forth therein. Further, under the TIRZ Reimbursement Agreement, the City shall, at all times, comply with the provisions of the TIRZ Reimbursement Agreement and TIRZ Participation Agreement and take no action that would entitle any of the other Participants to suspend payment of their respective Tax Increments into the Tax Increment Fund, unless otherwise provided in said respective agreements as discussed in prior sections.

Remedies in the Event of Default

If a party to the TIRZ Reimbursement Agreement is in default, the sole and exclusive remedy available to the non-defaulting parties is to seek the equitable remedy of specific enforcement of the TIRZ Reimbursement Agreement through a mandamus action or other appropriate means.

Estimated TIRZ Increments – Tax Year 2025

The Financial Advisor has provided the following table related to the estimated Tax Increments for the TIRZ.

	<u>City</u>	<u>County</u>
January 1, 2022 (Base Year) ^(a)	\$ 6,548	\$ 6,548
January 1, 2025 Taxable Assessed Valuation	\$ 33,927,371	\$ 33,927,371
Participation Rate	50%	50%
Estimated Exemptions	3%	20%
Participation to Date ^(b)	\$ 4,218	\$ 3,330
Estimated 2025 Captured Value for TIRZ	\$ 32,903,002	\$ 27,135,349
2025 Tax Rate ^(c)	\$ 0.258440	\$ 0.286903
Estimated Collection Rates	100%	100%
Total Estimated 2025 Tax Increments	\$ 42,517	\$ 38,926

(a) Represents the allocable base value for the District as provided by the City.

(b) As of September 30, 2025.

(c) Maintenance and operations portion only.

Final Project and Financing Plan

On October 17, 2022, the City adopted the Project Plan (as defined by the TIRZ Act) pursuant to City Ordinance No. 6529. The Project Plan includes the list of TIRZ Improvements eligible for TIRZ funding (i.e., payable from TIRZ Increments), which consists of streets, storm sewers, detention ponds, retaining walls, landscaping, utility services, an amenity center and the relocation of the gas lines and wells. The components of the Utility System included for funding from proceeds of the Bonds are eligible TIRZ Improvements under the Project Plan.

Subsequently, on November 21, 2022, the City adopted the First Amendment to the Project Plan pursuant to City Ordinance No. 6546, which updated the original Project Plan to include reimbursement to the District for bonds issued to reimburse the Developer for Project Costs.

The Project Plan and subsequent First Amendment to the Project Plan are applicable only to the initial phase (“Phase 1”) of a contemplated 4 phases of development in the District. In accordance with the Development Agreement, the Project Plan is subject to annual review by the Developer and City as development continues in the District and is intended to be amended to account for future phases of development subject to approval by the City. Upon approval and adoption of the amended Project Plan, the amended Project Plan shall replace the prior Project Plan and shall be incorporated into the Development Agreement.

DISTRICT DEBT

2025 Taxable Assessed Valuation.....	\$	33,927,371	(a)
Estimate of Value as of October 1, 2025	\$	62,129,720	(b)
Direct Debt:			
The Bonds.....	\$	<u>5,650,000</u>	
Total Gross Direct Debt.....		\$5,650,000	
Less: Portion of the Bonds Supported by Pledged TIRZ Revenues.....		<u>(1,890,000)</u>	(c)
Total Net Direct Debt.....	\$	3,760,000	
Estimated Overlapping Debt	\$	<u>3,065,424</u>	(d)
Total Gross Direct and Estimated Overlapping Debt.....	\$	8,715,424	
Total Net Direct and Estimated Overlapping Debt.....	\$	6,825,424	
Gross Direct Debt Ratios (e):			
As a percentage of 2025 Taxable Assessed Valuation		16.65	%
As a percentage of Estimate of Value as of October 1, 2025		9.09	%
Gross Direct and Estimated Overlapping Debt Ratios (e):			
As a percentage of 2025 Taxable Assessed Valuation		25.69	%
As a percentage of Estimate of Value as of October 1, 2025		14.03	%
Utility System Debt Service Fund Balance (as of Delivery of the Bonds)	\$	397,228	(f)
General Operating Fund Balance (as of December 3, 2025).....	\$	11,524	(g)
2025 Tax Rate			
Utility System Debt Service		\$0.000	
Maintenance & Operation		<u>\$0.600</u>	
Total		\$0.600	(h)
Gross Average Annual Debt Service Requirement (2026-2049).....	\$	388,681	(i)
Gross Maximum Annual Debt Service Requirement (2048)	\$	414,700	(i)
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay Gross Average Annual Debt Service Requirement on the Bonds (2026-2049)			
Based on 2025 Taxable Assessed Valuation.....	\$	1.21	
Based on Estimate of Value as of October 1, 2025	\$	0.66	
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay Gross Maximum Annual Debt Service Requirement on the Bonds (2048)			
Based on 2025 Taxable Assessed Valuation.....	\$	1.29	
Based on Estimate of Value as of October 1, 2025	\$	0.71	

- (a) Represents the certified assessed valuation of all taxable property in the District as of January 1, 2025, as provided by the Appraisal District.
- (b) Provided by the Appraisal District for informational purposes only. This amount is an estimate of the taxable value of all taxable property located within the District as of October 1, 2025, and includes an estimate of additional taxable value resulting from the construction of taxable improvements from January 1, 2025, through October 1, 2025. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) For illustrative purposes only. This amount reflects the principal amount of the Bonds supported by the Pledged TIRZ Revenues.
- (d) See "DISTRICT DEBT—Direct and Estimated Overlapping Debt Statement."
- (e) If the portion of the Bonds supported by the Pledged TIRZ Revenues is excluded, the direct debt ratio based on the 2025 Taxable Assessed Valuation and the Estimate of Value as of October 1, 2025, is 11.08% and 6.05%, respectively. If the portion of the Bonds supported by the Pledged TIRZ Revenues is excluded, the direct and estimated overlapping debt ratio is 20.12% and 10.99%, respectively.
- (f) Eighteen (18) months of capitalized interest will be deposited into the Utility System Debt Service Fund upon closing of the Bonds. Neither Texas law nor the Bond Order require that the District maintain any particular sum in the Utility System Debt Service Fund. Funds in the Utility System Debt Service Fund are pledged only to pay the debt service on the Bonds and any other bonds issued for the purpose of acquiring or constructing the Utility System. Funds in the Utility System Debt Service Fund are not pledged to pay debt service on bonds issued for the purpose of acquiring or constructing the Road System (hereinafter defined).
- (g) See "RISK FACTORS—Operating Funds."
- (h) See "TAX DATA—Tax Rate Distribution."
- (i) See "DISTRICT DEBT—Debt Service Requirement Schedule."

Estimated Overlapping Debt Statement

The following statement indicates the direct and estimated overlapping debt of the District. The table includes the estimated amount of indebtedness of governmental entities overlapping the District, defined as outstanding bonds payable from ad valorem taxes, and the estimated percentages and amounts of such indebtedness attributable to property located within the District. This information is based upon data secured from the individual jurisdictions and/or the *Texas Municipal Reports* published by the Municipal Advisory Council of Texas. The calculations by which the statement was derived were made in part by comparing the reported assessed valuation of the property in the overlapping taxing jurisdictions with the 2025 Taxable Assessed Valuation of property within the District. No effect has been given to the tax burden levied by any applicable taxing jurisdiction for maintenance and operational or other purposes.

Taxing Jurisdiction	Outstanding Debt	Overlapping	
	10/31/2025	Percent	Amount
Grayson County	\$ 33,370,000	0.15%	\$ 49,269
City of Sherman	207,665,000	0.44%	911,137
Junior College	112,060,000	0.13%	140,607
Sherman Independent School District	618,575,000	0.32%	1,964,411
Total Estimated Overlapping Debt			\$ 3,065,424
Gross Direct Debt (a)			\$ 5,650,000
Total Gross Direct and Estimated Overlapping Debt			\$ 8,715,424
Less: Total TIRZ Supported Bonds			<u>(\$ 1,890,000)</u>
Total Net Direct and Estimated Overlapping Debt (a)			\$ 6,825,424

(a) The Bonds.

Debt Ratios

Gross Direct Debt Ratio (a):

As a percentage of the 2025 Taxable Assessed Valuation.....	16.65 %
As a percentage of the Estimate of Value as of October 1, 2025.....	9.09 %

Gross Direct and Estimated Overlapping Debt Ratio (a):

As a percentage of the 2025 Taxable Assessed Valuation.....	25.69 %
As a percentage of the Estimate of Value as of October 1, 2025.....	14.03 %

(a) If the portion of the Bonds supported by the Pledged TIRZ Revenues is excluded, the direct debt ratio based on the 2025 Taxable Assessed Valuation and the Estimate of Value as of October 1, 2025, is 11.08% and 6.05%, respectively. If the portion of the Bonds supported by the Pledged TIRZ Revenues is excluded, the direct and estimated overlapping debt ratio is 20.12% and 10.99%, respectively.

Debt Service Requirement Schedule

The following schedule sets forth the principal and interest requirements for the Bonds. Totals may not sum due to rounding.

<u>Calendar Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2026	\$ -	\$ 210,384	\$ 210,384
2027	140,000	264,819	404,819
2028	150,000	255,719	405,719
2029	155,000	245,969	400,969
2030	165,000	235,894	400,894
2031	170,000	225,169	395,169
2032	180,000	214,119	394,119
2033	190,000	202,419	392,419
2034	200,000	191,731	391,731
2035	205,000	183,731	388,731
2036	215,000	175,531	390,531
2037	225,000	166,931	391,931
2038	240,000	157,931	397,931
2039	250,000	148,331	398,331
2040	265,000	138,331	403,331
2041	275,000	127,069	402,069
2042	290,000	115,381	405,381
2043	305,000	103,056	408,056
2044	320,000	90,094	410,094
2045	335,000	76,094	411,094
2046	350,000	61,438	411,438
2047	365,000	46,125	411,125
2048	385,000	29,700	414,700
2049	275,000	12,375	287,375
<u>Total</u>	<u>\$5,650,000</u>	<u>\$ 3,678,340</u>	<u>\$ 9,328,340</u>

Gross Average Annual Debt Service Requirements (2026-2049).....	\$388,681
Gross Maximum Annual Debt Service Requirements (2048).....	\$414,700

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TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds, the Outstanding Bonds issued for the Road System, and any additional bonds payable from taxes that the District may hereafter issue for the purpose of constructing or acquiring the Road System (see “RISK FACTORS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. The Board is also authorized to levy an annual ad valorem tax, without legal limit as to rate or amount, on all taxable property in the District in sufficient amount to pay the principal of and interest on any bonds payable from taxes that the District has heretofore or may hereafter issue for the purpose of acquiring or constructing the Utility System (see “RISK FACTORS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. In the Bond Order, the District agrees to levy such a tax from year to year as described more fully above 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, wastewater and drainage system and road 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 the State 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 the State 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 responsibility for reviewing and equalizing the values established by the Ellis Grayson Central Appraisal District (the “Appraisal District”). The Appraisal District has the responsibility of appraising property for all taxing units within the County, including the District. Such appraisal values will be subject to review and change by the Ellis Central Appraisal Review Board (the “Appraisal Review Board”). The appraisal roll, as approved by the Appraisal Review Board, will be used by the District in establishing its tax rolls and tax rate.

The Property Tax Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before May 15, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the value in the prior tax year or the value rendered by the property owner, or whose property was not on the appraisal roll the preceding year, or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the District; however, any property owner who has timely filed notice with the appraisal review board may appeal a final determination by the appraisal review board by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. 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. In addition, taxing units, such as the District, are entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records of the granting in whole or in part of certain exemptions. A taxing unit may not, however, challenge the valuation of individual properties.

Although the District has the responsibility for establishing tax rates and levying and collecting its taxes each year, under the Property Tax Code, the District does not establish appraisal standards or determine the frequency of revaluation or reappraisal. The appraisal district is governed by a board of directors elected by the governing bodies of the county and all cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district. The Property Tax Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraised values. Such plan must provide for reappraisal of all real property in the appraisal district at least once every three years. It

is not known what frequency of future reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of 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; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. The District has not adopted disabled or over 65 exemptions.

Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse, and surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. 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. 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 was killed or fatally injured in the line of duty is, subject to certain conditions, also 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.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads 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. The adoption of a homestead exemption may be considered each year, but must be adopted by July 1. The District has not adopted a general homestead exemption.

Freeport Goods Exemption and "Goods-in-Transit": 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 is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside

or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

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. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10 percent annually regardless of the market value of the property.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all property in the Appraisal District at least once every three years. It is not known what frequency of reappraisals 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 a 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 to formally include such values on its appraisal roll.

During the 2nd Special Session, convened on June 27, 2023, the Texas Legislature passed Senate Bill 2 ("SB 2"), which, among other things, includes provisions that prohibit an appraisal district from increasing the appraised value of real property during the 2024 tax year on non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5,000,000 (the "Maximum Property Value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property (collectively, the "Appraisal Cap"). After the 2024 tax year, through December 31, 2026, the Appraisal Cap may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in consumer price index, as applicable, to the Maximum Property Value. SB 2 was signed into law by the Governor on July 22, 2023. The provisions described hereinabove took effect on January 1, 2024.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against DCAD to comply with the Property Tax Code. The District may challenge the level of appraisal of a certain category of property, the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption. The District may not, however, protest a valuation of any individual property.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, Texas law provides for an additional notice and, upon petition by qualified voters, an election which could result in the repeal of certain tax rate increases on residential homesteads. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased

property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Tax Abatement

The City and/or the County may designate all or part of the area within the District as a reinvestment zone. The District, at the option and discretion of the District, and the County and/or City 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 (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed 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. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdiction.

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. The date of delinquency may be postponed if the tax bills are mailed after January 1. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Directors of the District based on valuation of property within the District as of the preceding January 1.

Taxes are due September 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%) 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 provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person at least sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas Law is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in equal installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes within the District in the preceding 24 months.

Reappraisal of Property 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% physically 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.

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 for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local 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 power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim 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 applicable 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. The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See "RISK FACTORS – Tax Collection Limitations" and "– Registered Owners' Remedies."

Tax Payment Installments After Disaster

The Property Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property.

Certain qualified taxpayers, including owners of residential homesteads, located within a designated disaster area or emergency area and whose property has been damaged as a direct result of the disaster or emergency, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction, such as the District, if the taxpayer pays at least 1/4th of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three (3) equal installments within six (6) months of the delinquency date.

Additionally, the Property Tax Code authorizes a taxing jurisdiction, such as the District, solely at the jurisdiction's discretion to adopt a similar installment payment option for taxes imposed on property that is located within a designated disaster area or emergency area and is owned or leased by certain qualified business entities, regardless of whether the property has been damaged as a direct result of the disaster or emergency.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies municipal utility districts differently based on their current operation and maintenance tax rate or on the percentage of projected build-out that a 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 pursuant to Chapter 49 is described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts 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 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.

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 of Texas or President of the United States, 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 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 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.

The District: A determination as to the District's status as a Special Taxing Unit, Developed District or Developing District is made on an annual basis. For the 2025 tax year, the District was classified as a Developing District. 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.

TAX DATA

General

Taxable property within the District is subject to the assessment, levy and collection by the District of an 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 for the purpose of acquiring or constructing the Utility System or Road System that 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, including the receipt of Pledged TIRZ Revenues. In addition, the District has the power and authority to assess, levy and collect ad valorem taxes, in an unlimited amount, for operation and maintenance purposes. The District levied a total tax of \$0.60 per \$100 of assessed valuation for the 2025 tax year, composed entirely of maintenance and operations.

Tax Rate Limitation

Utility System Debt Service:	Unlimited (no legal limit as to rate or amount).
Road System Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance and Operations:	\$1.00 per \$100 assessed valuation.

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District’s improvements if such maintenance tax is authorized by vote of the District’s electors. Such tax, when levied, is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any parity bonds which may be issued in the future. In 2025, the District levied a maintenance tax of \$0.60 per \$100 of assessed valuation. See “—Tax Rate Distribution” below.

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds after taking in to consideration and available Pledged TIRZ Revenues. The District anticipates levying its first debt service tax in 2026 to pay debt service on the Bonds. See “—Tax Rate Distribution” below, “TAXING PROCEDURES,” and “RISK FACTORS.”

Historical Tax Collections

The following table illustrates the collection history of the District for the 2022 – 2025 tax years:

<u>Tax Year</u>	<u>Adjusted Taxable Value</u>	<u>Tax Rate</u>	<u>Adjusted Tax Levy</u>	<u>Collections Current Year</u>	<u>Current Year Ending 9/30</u>	<u>Collections 8/31/2025</u>
2022 (a)	\$ 4,935	\$ 0.500	\$ 25	100.00%	2023	100.00%
2023	248,628	0.600	1,492	100.00	2024	100.00
2024	3,007,042	0.600	18,042	97.71 (b)	2025	97.71
2025	33,927,371	0.600	203,564	(c)	2026	(c)

(a) The District levied its first tax rate for the 2022 tax year.

(b) Collections as of August 31, 2025, which is the latest report made available by Grayson County.

(c) In process of collections.

Tax Rate Distribution

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Utility System Debt Service	\$0.000	\$0.000	\$0.000	\$0.000
Maintenance	0.600	0.600	0.600	0.500
Total	\$0.600	\$0.600	\$0.600	\$0.500

Analysis of Tax Base

The following table illustrates the District’s total taxable assessed value in the 2022–2025 tax years by type of property.

<u>Type of Property</u>	<u>2025 Assessed Taxable Valuation</u>	<u>2024 Assessed Taxable Valuation</u>	<u>2023 Assessed Taxable Valuation</u>	<u>2022 Assessed Taxable Valuation</u>
Land	\$ 13,328,094	\$ 5,894,824	\$ 3,846,275	\$ 3,846,275
Improvements	23,011,757	-	-	-
Personal Property	251,351	257,087	243,693	-
Exemptions	(2,663,831)	(3,144,869)	(3,841,340)	(3,841,340)
Total	\$33,927,371	\$ 3,007,042	\$ 248,628	\$ 4,935

Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2025:

Taxpayer	Type of Property	Assessed Valuation 2025 Tax Roll	Percent of 2025 Value
RCICD Heritage Ranch LLC (a)	Land	\$ 4,309,421	12.70%
Highland Homes Dallas LLC (b)	Land and Improvements	2,766,993	8.16%
K Hovnanian DFW Heritage Ranch LLC (b)	Land and Improvements	1,041,025	3.07%
HCA Model Fund 2018-15 Texas LLC (c)	Land and Improvements	797,085	2.35%
Homeowner	Land and Improvements	683,125	2.01%
Homeowner	Land and Improvements	499,365	1.47%
Homeowner	Land and Improvements	459,299	1.35%
Homeowner	Land and Improvements	442,716	1.31%
Homeowner	Land and Improvements	442,535	1.31%
Homeowner	Land and Improvements	432,324	1.26%
Total		\$ 11,873,888	35.00%

- (a) See "THE DEVELOPER"
- (b) See "DEVELOPMENT OF THE DISTRICT— Homebuilders within the District."
- (c) Entity related to K Hovnanian Homes.

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the combined debt service tax rates per \$100 of taxable assessed valuation that would be required to meet certain debt service requirements on the Bonds, if no growth in the District’s tax base occurs beyond the 2025 Taxable Assessed Valuation (\$33,927,371) or the Estimate of Value as of October 1, 2025 (\$62,129,720). The calculations assume collection of 95% of taxes levied, the sale of the Bonds, but not the sale of any additional bonds by the District.

Gross Average Annual Debt Service Requirement (2026-2049)	\$388,681
Gross Debt Service Tax Rate of \$1.21 on the 2025 Taxable Assessed Valuation produces	\$389,995
Gross Debt Service Tax Rate of \$0.66 on the Estimate of Value as of October 1, 2025, produces	\$389,553
Net Average Annual Debt Service Requirement(2026-2049) (a)	\$255,395
Net Debt Service Tax Rate of \$0.80 on the 2025 Taxable Assessed Valuation produces.....	\$257,848
Net Debt Service Tax Rate of \$0.44 on the Estimate of Value as of October 1, 2025, produces	\$259,702
Gross Maximum Annual Debt Service Requirement (2048).....	\$414,700
Gross Debt Service Tax Rate of \$1.29 on the 2025 Taxable Assessed Valuation produces	\$415,780
Gross Debt Service Tax Rate of \$0.71 on the Estimate of Value as of October 1, 2025, produces	\$419,065
Net Maximum Annual Debt Service Requirement (2034) (a)	\$287,375
Net Debt Service Tax Rate of \$0.90 on the 2025 Taxable Assessed Valuation produces.....	\$290,079
Net Debt Service Tax Rate of \$0.49 on the Estimate of Value as of October 1, 2025, produces	\$289,214

- (a) Includes the continued receipt of Pledged TIRZ Revenues of approximately \$81,443 in 2025 and approximately \$141,701 in 2026 and thereafter through the remaining term of the TIRZ Reimbursement Agreement, which was calculated using the Participants’ participation rates and 2025 tax rates applicable to the TIRZ with the 2025 incremental values through the term of the TIRZ Reimbursement Agreement. See "SHERMAN TAX INCREMENT REINVESTMENT ZONE #8" and "TIRZ REIMBURSEMENT AGREEMENT."

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on 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 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 an estimation of all 2025 taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. No prediction can be made of the tax rates that will be levied in future years by the respective taxing jurisdictions.

<u>Taxing Jurisdiction</u>	<u>2025 Tax Rate</u>
The District	\$0.600000
Grayson County	0.305100
Sherman Independent School District	1.234200
City of Sherman	0.508000
Junior College	<u>0.145980</u>
Total	\$2.793280

LEGAL MATTERS

Legal Opinions

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable from an annual ad valorem tax levied without limit as to rate or amount upon all taxable property within the District, and Pledged TIRZ Revenues. Issuance of the Bonds is also subject to the legal opinion of Bond Counsel that, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law, and from Pledged TIRZ Revenues. The legal opinion will further state that the interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions as described below under "TAX MATTERS." The legal opinion of Bond Counsel will be printed on the Bonds, if certificated Bonds are issued. Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Disclosure Counsel.

Coats Rose, P.C., Dallas, Texas, serves as Bond Counsel and General Counsel to the District. The legal fees paid to Bond Counsel, Disclosure Counsel, and General Counsel for services rendered in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

No-Litigation Certificate

The District will furnish the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is to their knowledge then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds.

No Material Adverse Change

The obligations of the Initial Purchaser 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

Opinion

On the date of initial delivery of the Bonds, Coats Rose, P.C., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Registered Owners may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation. Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

NOT Qualified Tax-Exempt Obligations

The Bonds are not designated as “qualified tax-exempt obligations” for financial institutions.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the SEC regarding the District’s continuing disclosure obligations because the District has not issued 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 Registered 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 events, to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated with respect to the District includes all quantitative financial information and operating data found attached to this Official Statement under the headings “APPENDIX A.” The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2026.

Any information so provided shall be prepared in accordance with generally accepted accounting principles or other such principles 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 to the MSRB within such six-month period, and audited financial statements when and if the audit report becomes available. The District’s current fiscal year end is March 31. Accordingly, it must provide updated information by the last day in September 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 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 Internal Revenue Service 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-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, 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 or other obligated person within the meaning of SEC Rule 15c2-12; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, 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 or other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the

Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which reflect financial difficulties. The terms “material” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds nor the Bond Order make any provision for debt service reserves or liquidity enhancement. 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 a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

The District has agreed to provide the information only to the MSRB. The MSRB has prescribed that such information must be filed via EMMA. The MSRB makes the information available to the public without charge and investors will be able to 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 operations of the District, but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the SEC Rule 15c2-12, 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 SEC Rule 15c2-12 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 have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The Bonds represent the first series of bonds to be issued by the District; therefore the District has not entered into a continuing disclosure agreement in accordance with SEC Rule 15c2-12.

OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the Developer, the District's records, the Engineer, the Tax Assessor/Collector, 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 March 31, 2025, were prepared by McCall Gibson Swedlund Barfoot Ellis PLLC, Certified Public Accountants, and have been included herein as "APPENDIX A." McCall Gibson Swedlund Barfoot Ellis PLLC, Certified Public Accountants, has agreed to the publication of its audit opinion on such financial statements in this 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," and "DEVELOPMENT OF THE DISTRICT" has been provided by the Developer and has been included herein in reliance upon the 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 Utility System and the Road System, and, in particular, that engineering information included in the sections entitled "THE BONDS," "THE DISTRICT," "DEVELOPMENT OF THE DISTRICT," and "THE UTILITY SYSTEM" and "THE ROAD SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as an expert 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 collection rates and valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" was provided by the Tax Assessor/Collector and the Appraisal District. Such information has been included herein in reliance upon the Tax Assessor/Collector's authority as an expert in the field of tax collection and the Appraisal District's authority as an expert in the field of property appraisal.

Certification as to Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish the respective Initial Purchaser a certificate, executed by the authorized members of the Board, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the information, descriptions and statements of or pertaining to the District contained in this Official Statement, on the date thereof and on the date of delivery were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data contained in this Official Statement, of or pertaining to entities other than the District and their activities are concerned, such statements and data have been obtained from sources which the District believes to be reliable and that the District has no reason to believe that they are untrue in any material respect or omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; however, the District has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. This Official Statement is duly approved by the Board of Directors of the District as of the date specified on the first page hereof.

Updating of Official Statement

The District will 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, to the other matters described in the Official Statement, until the delivery of the Bonds to the Initial Purchaser, unless the respective Initial Purchaser 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.

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 Heritage Ranch Municipal Utility District No. 1 of Grayson County as of the date shown on the cover page hereof.

/s/ Russell Maine
President, Board of Directors
Heritage Ranch Municipal Utility District No. 1
of Grayson County

ATTEST:

/s/ Chris Colombe
Secretary, Board of Directors
Heritage Ranch Municipal Utility District No. 1
of Grayson County

APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY**

GRAYSON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2025

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McCall Gibson Swedlund Barfoot Ellis PLLC

Certified Public Accountants

*Chris Swedlund
Noel W. Barfoot
Joseph Ellis
Ashlee Martin*

*Mike M. McCall
(retired)
Debbie Gibson
(retired)*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Heritage Ranch Municipal Utility
District No. 1 of Grayson County
Grayson County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Heritage Ranch Municipal Utility District No. 1 of Grayson County (the "District"), as of and for the year ended March 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 the District as of March 31, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Board of Directors
Heritage Ranch Municipal Utility
District No. 1 of Grayson County

Supplementary 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 supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide an assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot Ellis PLLC

McCall Gibson Swedlund Barfoot Ellis PLLC
Certified Public Accountants
Houston, Texas

September 16, 2025

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2025**

Management’s discussion and analysis of the financial performance of Heritage Ranch Municipal Utility District No. 1 of Grayson County (the “District”) provides an overview of the District’s financial activities for the year ended March 31, 2025. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District’s annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District’s overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all of the District’s assets, liabilities and deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District’s net position changed during the current year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has two governmental fund types. The General Fund accounts for resources not accounted for in another fund, property tax revenues, developer advances, professional fees and administrative costs. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2025**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District’s governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information (“RSI”) and other supplementary information. The budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District’s financial position. In the case of the District, liabilities exceeded assets by \$567,199 as of March 31, 2025.

A portion of the District’s net position reflects its net investment in capital assets which includes the costs paid by the District, or a developer on behalf of the District, for land and land improvements, water, wastewater and drainage facilities, and roads and paving improvements, less any debt used to acquire those assets that is still outstanding.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2025**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following is a comparative analysis of government-wide changes in net position:

	Summary of Changes in the Statement of Net Position		Change Positive (Negative)
	2025	2024	
Current and Other Assets	\$ 104,060	\$ 4,422	\$ 99,638
Capital Assets (Net of Accumulated Depreciation)	<u>10,765,538</u>	<u> </u>	<u>10,765,538</u>
Total Assets	<u>\$ 10,869,598</u>	<u>\$ 4,422</u>	<u>\$ 10,865,176</u>
Due to Developers	\$ 7,761,879	\$ 41,800	\$ (7,720,079)
Bond Anticipation Note Payable	3,647,000		(3,647,000)
Other Liabilities	<u>27,918</u>	<u>4,143</u>	<u>(23,775)</u>
Total Liabilities	<u>\$ 11,436,797</u>	<u>\$ 45,943</u>	<u>\$ (11,390,854)</u>
Net Position:			
Net Investment in Capital Assets	\$ (502,160)	\$	\$ (502,160)
Restricted	(12,590)		(12,590)
Unrestricted	<u>(52,449)</u>	<u>(41,521)</u>	<u>(10,928)</u>
Total Net Position	<u>\$ (567,199)</u>	<u>\$ (41,521)</u>	<u>\$ (525,678)</u>

The following table provides a summary of the District's operations for the fiscal years ended March 31, 2025 and March 31, 2024.

	Summary of Changes in the Statement of Activities		Change Positive (Negative)
	2025	2024	
Revenues:			
Property Taxes	\$ 38,421	\$ 1,492	\$ 36,929
Other Revenues	<u>1,360</u>	<u>154</u>	<u>1,206</u>
Total Revenues	\$ 39,781	\$ 1,646	\$ 38,135
Total Expenses	<u>565,459</u>	<u>17,487</u>	<u>(547,972)</u>
Change in Net Position	\$ (525,678)	\$ (15,841)	\$ (509,837)
Net Position, Beginning of Year	<u>(41,521)</u>	<u>(25,680)</u>	<u>(15,841)</u>
Net Position, Ending of Year	<u>\$ (567,199)</u>	<u>\$ (41,521)</u>	<u>\$ (525,678)</u>

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2025**

FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS

The District’s combined fund balances as of March 31, 2025 were a deficit balance of \$3,558,680, a decrease of \$3,558,959 from the prior year.

The General Fund fund balance increased by \$25,113, primarily due to property tax revenues and developer advances exceeding professional fees and administrative costs.

The Capital Projects Fund fund balance decreased by \$3,584,072, primarily due to the issuance of the \$3,647,000 Bond Anticipation Note, Series 2025 (the “2025 BAN”), the proceeds of which were used to reimburse the District's developer for the costs of certain water, wastewater and drainage facilities, engineering fees and District operating and creation costs. The 2025 BAN was outstanding as of year end, but will likely be redeemed prior to its March 2026 maturity by means of the issuance of bonds.

CAPITAL ASSETS

Capital assets as of March 31, 2025 totaled \$10,765,538 (net of accumulated depreciation) and included land and land improvements, water, wastewater and drainage facilities, and road and paving improvements. See Note 6 for additional information. Facilities which have been constructed to serve residents of the District are conveyed to the City of Sherman, Texas for operation and maintenance purposes. The District is entitled to significant residual interest in the facilities conveyed and, therefore, records these facilities as District assets in accordance with GASB Statement No. 94 (see Note 9).

Capital Assets At Year-End			
	2025	2024	Change Positive (Negative)
Capital Assets Not Being Depreciated -			
Land and Land Improvements	\$ 11,945	\$	\$ 11,945
Capital Assets Subject to Depreciation:			
Utilities Infrastructure	8,092,651		8,092,651
Roads and Paving	2,916,002		2,916,002
Less Accumulated Depreciation	(255,060)		(255,060)
Total Net Capital Assets	\$ 10,765,538	\$ -0-	\$ 10,765,538

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2025**

LONG-TERM DEBT

The District has not issued bonds as of March 31, 2025.

As of March 31, 2025, the District recorded a liability for unreimbursed costs to the Developer totaling \$7,761,879, of which \$78,253 consisted of operating advances and District creation costs funded by the developer with the remainder consisting of infrastructure costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with GASB standards, the Board of Directors adopted a budget for the General Fund for the year ended March 31, 2025, and did not amend the budget during the current year. The adopted budget included projected revenues of \$5,100, developer advances of \$61,891 and expenditures of \$66,991. Overall, the increase in General Fund fund balance was \$25,113 more than budgeted.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The adopted budget for fiscal year 2026 projects no change in General Fund fund balance. Revenues and developer advances are budgeted to be \$18,580 and \$55,881, respectively, while expenditures are budgeted to be \$74,461.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Heritage Ranch Municipal Utility District No. 1 of Grayson County, c/o Coats Rose, P.C., 16000 North Dallas Parkway, Suite 350, Dallas, Texas 75248.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2025**

	General Fund	Capital Projects Fund
ASSETS		
Cash	\$ 29,970	\$ 73,678
Receivables:		
Property Taxes	412	
Due from Other Funds	10,750	
Land		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 41,132	\$ 73,678
 LIABILITIES		
Accounts Payable	\$ 15,328	\$
Accrued Interest Payable		
Due to Other Governmental Units		
Due to Developer		
Due to Other Funds		10,750
Bond Anticipation Note Payable		3,647,000
TOTAL LIABILITIES	\$ 15,328	\$ 3,657,750
 DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 412	\$ -0-
 FUND BALANCES (DEFICIT)		
Restricted for Authorized Construction - Bond Anticipation Note	\$	\$ (3,584,072)
Unassigned	25,392	
TOTAL FUND BALANCES (DEFICIT)	\$ 25,392	\$ (3,584,072)
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 41,132	\$ 73,678
 NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 103,648	\$	\$ 103,648
412		412
10,750	(10,750)	
	11,945	11,945
	<u>10,753,593</u>	<u>10,753,593</u>
<u>\$ 114,810</u>	<u>\$ 10,754,788</u>	<u>\$ 10,869,598</u>
\$ 15,328	\$	\$ 15,328
	12,590	12,590
	7,761,879	7,761,879
10,750	(10,750)	
<u>3,647,000</u>		<u>3,647,000</u>
<u>\$ 3,673,078</u>	<u>\$ 7,763,719</u>	<u>\$ 11,436,797</u>
<u>\$ 412</u>	<u>\$ (412)</u>	<u>\$ -0-</u>
\$ (3,584,072)	\$ 3,584,072	\$
<u>25,392</u>	<u>(25,392)</u>	
<u>\$ (3,558,680)</u>	<u>\$ 3,558,680</u>	<u>\$ -0-</u>
<u>\$ 114,810</u>		
	\$ (502,160)	\$ (502,160)
	(12,590)	(12,590)
	<u>(52,449)</u>	<u>(52,449)</u>
	<u>\$ (567,199)</u>	<u>\$ (567,199)</u>

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

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MARCH 31, 2025**

Total Fund Balance - Governmental Funds	\$ (3,558,680)
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	10,765,538
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Deferred inflows of resources related to property tax revenues for the 2024 tax levy became part of recognized revenue in the governmental activities of the District.	412
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:

Due to Developers	\$ (7,761,879)	
Accrued Interest Payable	<u>(12,590)</u>	<u>(7,774,469)</u>

Total Net Position - Governmental Activities	<u>\$ (567,199)</u>
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The accompanying notes to the financial statements are an integral part of this report.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2025**

	General Fund	Capital Projects Fund
REVENUES		
Property Taxes	\$ 38,009	\$
Investment Revenues	1,139	221
TOTAL REVENUES	\$ 39,148	\$ 221
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 10,844	\$
Contracted Services	5,151	
Operating and Creation Costs		159,129
Depreciation		
Other	8,040	
Capital Outlay		3,336,972
Debt Service:		
Debt Interest		
Debt Issuance Costs		88,192
TOTAL EXPENDITURES/EXPENSES	\$ 24,035	\$ 3,584,293
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	\$ 15,113	\$ (3,584,072)
OTHER FINANCING SOURCES (USES)		
Developer Advances	\$ 10,000	\$ -0-
NET CHANGE IN FUND BALANCES	\$ 25,113	\$ (3,584,072)
CHANGE IN NET POSITION		
FUND BALANCES (DEFICIT)/ NET POSITION - APRIL 1, 2024	279	
FUND BALANCES (DEFICIT) NET POSITION - MARCH 31, 2025	\$ 25,392	\$ (3,584,072)

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 38,009	\$ 412	\$ 38,421
<u>1,360</u>	<u> </u>	<u>1,360</u>
<u>\$ 39,369</u>	<u>\$ 412</u>	<u>\$ 39,781</u>
\$ 10,844	\$	\$ 10,844
5,151		5,151
159,129	26,453	185,582
	255,060	255,060
8,040		8,040
3,336,972	(3,336,972)	
	12,590	12,590
<u>88,192</u>	<u> </u>	<u>88,192</u>
<u>\$ 3,608,328</u>	<u>\$ (3,042,869)</u>	<u>\$ 565,459</u>
<u>\$ (3,568,959)</u>	<u>\$ 3,043,281</u>	<u>\$ (525,678)</u>
<u>\$ 10,000</u>	<u>\$ (10,000)</u>	<u>\$ -0-</u>
\$ (3,558,959)	\$ 3,558,959	\$
	(525,678)	(525,678)
	(41,800)	(41,521)
<u>279</u>	<u> </u>	<u> </u>
<u>\$ (3,558,680)</u>	<u>\$ 2,991,481</u>	<u>\$ (567,199)</u>

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

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2025**

Net Change in Fund Balance - Governmental Funds \$ (3,558,959)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. 412

Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and the depreciation expense is recorded in the Statement of Activities. (255,060)

Governmental funds report capital outlay as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. 3,336,972

Governmental funds report interest expenditures on long-term debt and bond anticipation notes as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt and bond anticipation notes through fiscal year-end. (12,590)

Governmental funds report developer advances as other financing sources. In the Statement of Net Position developer advances are recorded as a liability. (36,453)

Change in Net Position - Governmental Activities \$ (525,678)

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

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2025**

NOTE 1. CREATION OF DISTRICT

Heritage Ranch Municipal Utility District No. 1 of Grayson County (the “District”) was created pursuant to Senate Bill 2219, 87th Texas Legislature, Regular Session, codified at Chapter 7920A Special District Local Laws Code effective May 30, 2021, as a conservation and reclamation district created under and essential to accomplish the purposes of Section 52, Article III, and Section 59, Article XVI, of the Texas Constitution and operating pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality (the “Commission”). The principal functions of the District are to finance, construct, own and operate waterworks, wastewater, drainage and road facilities and to provide such facilities and services to the customers of the District. The Board of Directors of the District held its organizational meeting on August 27, 2021.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local 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 statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2025**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and amortization reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it's the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated to obtain net total revenues and expenses of the government-wide Statement of Activities.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2025**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

The District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has two governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, property tax revenues, developer advances, professional fees, and administrative costs.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for the acquisition or construction of facilities and related costs

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the period and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent year to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of March 31, 2025, the Capital Projects Fund owed the General Fund \$10,750 for costs associated with the Bond Anticipation Note issued during the year.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2025**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

An annual 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 original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the budgeted amounts compared to the actual amounts of revenues and expenditures for the current year.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that directors are considered “employees” for federal payroll tax purposes only.

Capital Assets

Capital assets include land and land improvements along with water, wastewater and drainage facilities and roads and paving improvements are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated acquisition value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives include 45 years for utilities and 30 years for roads.

Facilities which have been constructed to serve residents of the District are conveyed to the City of Sherman, Texas for operation and maintenance purposes. The District is entitled to significant residual interest in the facilities conveyed and, therefore, records these facilities as District assets in accordance with GASB Statement No. 94 (see Note 9).

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2025**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources.

Fund balances in governmental funds are classified using the following hierarchy:

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 does not have any nonspendable fund balances.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. 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 expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2025**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. BOND AUTHORIZATION

At an election held May 7, 2022, the voters of the District authorized the issuance of bonds up to \$64,457,759 for the purposes of acquiring or constructing water, sewer and drainage facilities, \$65,318,178 for road facilities, \$96,686,638 for the purpose of refunding water, sewer and drainage facilities bonds and \$97,977,266 for the purpose of refunding road bonds of which all remain authorized but unissued.

The District had no outstanding bonds at March 31, 2025.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes. Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged.

At fiscal year end, the carrying amount of the District's deposits and the bank balance was \$103,648. The District was not exposed to custodial credit risk.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2025**

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position as of March 31, 2025, as listed below:

	Cash
GENERAL FUND	\$ 29,970
CAPITAL PROJECTS FUND	73,678
TOTAL DEPOSITS	\$ 103,648

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District has no investments as of March 31, 2025.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2025**

NOTE 5. MAINTENANCE TAX

On May 7, 2022, the voters of the District approved the levy and collection of a maintenance tax rate not to exceed \$1.00 per \$100 of assessed valuation on taxable property within the District. During the year ended March 31, 2025, the District levied an ad valorem a maintenance tax rate of \$0.60 per \$100 of assessed valuation, which resulted in a tax levy of \$18,042 on the adjusted taxable valuation of \$3,007,042 for the 2024 tax year.

All property values and exempt status, if any, are determined by the 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 levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

NOTE 6. CAPITAL ASSETS

Facilities which have been constructed to serve residents of the District are conveyed to the City of Sherman, Texas for operation and maintenance purposes. The District is entitled to significant residual interest in the facilities conveyed and, therefore, records these facilities as District assets in accordance with GASB Statement No. 94 (see Note 9).

Capital asset activity for the current fiscal year is summarized in the following table:

	April 1, 2024	Increases	Decreases	March 31, 2025
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ - 0 -	\$ 11,945	\$ - 0 -	\$ 11,945
Capital Assets Subject to Depreciation				
Utilities Infrastructure	\$	\$ 8,092,651	\$	\$ 8,092,651
Roads and Paving		2,916,002		2,916,002
Total Capital Assets Subject to Depreciation	\$ - 0 -	\$ 11,008,653	\$ - 0 -	\$ 11,008,653
Accumulated Depreciation				
Utilities Infrastructure	\$	\$ 155,338	\$	\$ 155,338
Roads and Paving		99,722		99,722
Total Accumulated Depreciation	\$ - 0 -	\$ 255,060	\$ - 0 -	\$ 255,060
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ - 0 -	\$ 10,753,593	\$ - 0 -	\$ 10,753,593
Total Capital Assets, Net of Accumulated Depreciation	\$ - 0 -	\$ 10,765,538	\$ - 0 -	\$ 10,765,538

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2025**

NOTE 7. 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 natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the last three years.

NOTE 8. UNREIMBURSED COSTS

The District has entered into financing agreements with Developers which calls for the Developers to fund operating advances as well as costs associated with the construction of roads and paving improvements and water, wastewater, and drainage infrastructure. The District has an obligation to reimburse its Developer for these costs from future bond issues or other lawfully available funds. At March 31, 2025, the District owed the Developer \$7,761,879, of which \$78,253 was related to operating advances and creation costs. The following table summarizes the current activity related to unreimbursed costs.

Due to Developer, April 1, 2024	\$	41,800
Add: Current Year Additions		11,216,180
Less: Current Year Payments		<u>(3,496,101)</u>
Due to Developers, March 31, 2025	\$	<u>7,761,879</u>

NOTE 9. AGREEMENT WITH THE CITY OF SHERMAN, TEXAS

Effective February 20, 2023, the District entered into a Reimbursement Agreement (the “Agreement”) with the City of Sherman, Texas (the “City”) and the Sherman Tax Increment Reinvestment Zone #8 (the “TIRZ”) whereby the District agreed to participate in the TIRZ as part of making improvements to provide a public water supply, sanitary sewer services, drainage services and roads within the District (the “TIRZ Improvements”). The Agreement provides for the City to establish and maintain a separate Tax Increment Revenue Fund including the City’s and Grayson County’s Increments. In consideration for the District’s services in causing the TIRZ Improvements to be designed and constructed in accordance with this Agreement, the City shall pay to the District that portion of TIRZ Revenue necessary and required to pay the actual debt service required to reimburse the Developer for the funding, development and construction of the TIRZ Improvements. The TIRZ Improvements are conveyed to the City upon completion and acceptance by the City for operation and maintenance.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2025**

NOTE 10. BOND ANTICIPATION NOTE

On March 7, 2025, the District closed on the issuance of its \$3,647,000 Bond Anticipation Note, Series 2025 (the “2025 BAN”) with an interest rate of 5.25% and maturity date of March 6, 2026. Proceeds from the 2025 BAN were used to reimburse the Developer for a portion of the costs of certain water, wastewater and drainage facilities, engineering fees, operating advances, and District creation costs.

NOTE 11. FUND DEFICIT

The Capital Projects Fund had a deficit fund balance of \$3,584,072 at March 31, 2025. This deficit was created as a result of the issuance of the \$3,647,000 2025 BAN during the year. Proceeds from a forthcoming bond sale, currently anticipated to occur in late 2025 or early 2026, will be used to pay off the 2025 BAN prior to its scheduled maturity, thus alleviating the deficit.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2025

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2025**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 5,000	\$ 38,009	\$ 33,009
Investment Revenues	100	1,139	1,039
TOTAL REVENUES	<u>\$ 5,100</u>	<u>\$ 39,148</u>	<u>\$ 34,048</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 50,000	\$ 10,844	\$ 39,156
Contracted Services	4,800	5,151	(351)
Other	12,191	8,040	4,151
TOTAL EXPENDITURES	<u>\$ 66,991</u>	<u>\$ 24,035</u>	<u>\$ 42,956</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (61,891)</u>	<u>\$ 15,113</u>	<u>\$ 77,004</u>
OTHER FINANCING SOURCES (USES)			
Developer Advances	<u>\$ 61,891</u>	<u>\$ 10,000</u>	<u>\$ (51,891)</u>
NET CHANGE IN FUND BALANCE	\$ -0-	\$ 25,113	\$ 25,113
FUND BALANCE - APRIL 1, 2024	<u>279</u>	<u>279</u>	<u></u>
FUND BALANCE - MARCH 31, 2025	<u><u>\$ 279</u></u>	<u><u>\$ 25,392</u></u>	<u><u>\$ 25,113</u></u>

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

MARCH 31, 2025

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2025**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

<u>N/A</u>	Retail Water	<u>N/A</u>	Wholesale Water	<u>N/A</u>	Drainage
<u>N/A</u>	Retail Wastewater	<u>N/A</u>	Wholesale Wastewater	<u>N/A</u>	Irrigation
<u>N/A</u>	Parks/Recreation	<u>N/A</u>	Fire Protection	<u>N/A</u>	Security
<u>N/A</u>	Solid Waste/Garbage	<u>N/A</u>	Flood Control	<u>N/A</u>	Roads
<u>N/A</u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				

The City of Sherman, Texas provides services to District residents; see Note 9.

2. RETAIL SERVICE PROVIDERS: NOT APPLICABLE

3. TOTAL WATER CONSUMPTION: NOT APPLICABLE

4. STANDBY FEES: NOT APPLICABLE

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No

County in which District is located:

Grayson County, Texas

Is the District located within a city?

Entirely X Partly Not at all

City in which District is located:

City of Sherman, Texas.

Are Board Members appointed by an office outside the District?

Yes No X

See accompanying independent auditor's report.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2025**

PROFESSIONAL FEES:	
Auditing	\$ 9,000
Engineering	<u>1,844</u>
TOTAL PROFESSIONAL FEES	<u>\$ 10,844</u>
CONTRACTED SERVICES:	
Appraisal District	\$ 323
Bookkeeping	<u>4,828</u>
TOTAL CONTRACTED SERVICES	<u>\$ 5,151</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 3,569
Insurance	3,069
Travel, Website, and Other	<u>1,402</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 8,040</u>
TOTAL EXPENDITURES	<u>\$ 24,035</u>

See accompanying independent auditor's report.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2025**

	Maintenance Taxes	
TAXES RECEIVABLE -		
APRIL 1, 2024	\$	-0-
Adjustments to Beginning		
Balance, Including Rollbacks	20,379	\$ 20,379
Original 2024 Tax Levy	\$ 18,042	
Adjustment to 2024 Tax Levy		18,042
TOTAL TO BE		
ACCOUNTED FOR		\$ 38,421
 TAX COLLECTIONS:		
Prior Years	\$ 20,379	
Current Year	17,630	38,009
 TAXES RECEIVABLE -		
MARCH 31, 2025		\$ 412
 TAXES RECEIVABLE BY		
YEAR:		
2024		\$ 412

See accompanying independent auditor's report.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2025**

	2024	2023
PROPERTY VALUATIONS:		
Land	\$ 5,894,824	\$ 3,846,275
Personal Property	257,087	243,693
Exemptions	(3,144,869)	(3,841,340)
TOTAL PROPERTY VALUATIONS	\$ 3,007,042	\$ 248,628
TAX RATES PER \$100 VALUATION:		
Maintenance	\$ 0.60	\$ 0.60
ADJUSTED TAX LEVY*	\$ 18,042	\$ 1,492
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED		
	97.72 %	100.00 %

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – A rate not to exceed \$1.00 per \$100 of assessed valuation approved by voters on May 7, 2022.

See accompanying independent auditor’s report.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – TWO YEARS**

	Amounts		Percentage of Total Revenues	
	2025	2024	2025	2024
REVENUES				
Property Taxes	\$ 38,009	\$ 1,492	97.1 %	90.6 %
Investment Revenues	<u>1,139</u>	<u>154</u>	<u>2.9</u>	<u>9.4</u>
TOTAL REVENUES	<u>\$ 39,148</u>	<u>\$ 1,646</u>	<u>100.0 %</u>	<u>100.0 %</u>
EXPENDITURES				
Professional Fees	\$ 10,844	\$ 3,133	27.7 %	190.3 %
Contracted Services	5,151	5,882	13.2	357.4
Other	<u>8,040</u>	<u>8,472</u>	<u>20.5</u>	<u>514.7</u>
TOTAL EXPENDITURES	<u>\$ 24,035</u>	<u>\$ 17,487</u>	<u>61.4 %</u>	<u>1,062.4 %</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 15,113</u>	<u>\$ (15,841)</u>	<u>38.6 %</u>	<u>(962.4) %</u>
OTHER FINANCING SOURCES (USES)				
Developer Advances	<u>\$ 10,000</u>	<u>\$ 11,000</u>		
NET CHANGE IN FUND BALANCE	\$ 25,113	\$ (4,841)		
BEGINNING FUND BALANCE	<u>279</u>	<u>5,120</u>		
ENDING FUND BALANCE	<u>\$ 25,392</u>	<u>\$ 279</u>		
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>**</u>	<u>**</u>		
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>**</u>	<u>**</u>		

The City of Sherman, Texas provides services to residents of the District; see Note 9.

See accompanying independent auditor's report.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2025**

District Mailing Address - Heritage Ranch Municipal Utility District No. 1 of Grayson County
c/o Coats Rose, P.C.
16000 North Dallas Parkway, Suite 350
Dallas, Texas 75248

District Telephone Number - (972) 788-1600

Board Members	<u>Term of Office (Elected or Appointed)</u>	<u>Fees of Office for the year ended March 31, 2025</u>	<u>Expense Reimbursements for the year ended March 31, 2025</u>	<u>Title</u>
Mike Maberry	05/2024 - 05/2028 (Elected)	\$ 884	\$ -0-	President
Julie Thomas	03/2025 - 05/2026 (Appointed)	\$ -0-	\$ -0-	Vice President
Chris Colombe	05/2024 - 05/2028 (Elected)	\$ 884	\$ 21	Secretary
Rick Ellis	05/2022 - 05/2026 (Elected)	\$ 663	\$ 11	Assistant Secretary
Kaity Davis	08/2024 - 05/2028 (Appointed)	\$ 442	\$ -0-	Assistant Secretary

Note: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developer or with any of the District's consultants.

The most recent submission date of the District Registration Form was on March 4, 2025.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**HERITAGE RANCH MUNICIPAL UTILITY DISTRICT NO. 1
OF GRAYSON COUNTY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2025**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2025</u>	<u>Title</u>
Coats Rose, P.C.	08/27/21	\$ -0- \$ 40,972	General Counsel BAN Related
McCall Gibson Swedlund Barfoot Ellis PLLC	08/07/24	\$ 9,000 \$ 10,000	Auditor BAN Related
L & S District Services, LLC	08/27/21	\$ 4,828	Bookkeeper/ Investment Officer
Robert W. Baird & Co. Incorporated	08/27/21	\$ 36,470	Financial Advisor
Spiars Engineering	08/27/21	\$ 1,844 \$ 750	Engineer BAN Related

See accompanying independent auditor's report.

APPENDIX B
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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 (as defined herein) 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 BAM 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 made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or 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, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the “Insurer’s Fiscal Agent”) for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer 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, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer’s Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer’s Fiscal Agent on behalf of BAM. The Insurer’s Fiscal Agent is the agent of BAM only, and the Insurer’s Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer’s Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN