

PRELIMINARY OFFICIAL STATEMENT DATED MAY 20, 2026

This Preliminary Official Statement is subject to completion and amendment and is intended solely for the purpose of soliciting initial bids on the Bonds. Upon the sale of the Bonds, the Official Statement will be completed and delivered to the Initial Purchaser.

IN THE OPINION OF BOND COUNSEL (HERIN DEFINED), UNDER EXISTING LAW AND ASSUMING CONTINUING COMPLIANCE WITH COVENANTS IN THE BOND ORDER (HEREIN DEFINED), INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND IS NOT INCLUDED IN COMPUTING 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 “LEGAL MATTERS” FOR A DISCUSSION ON THE OPINION OF BOND COUNSEL.

THE BONDS WILL BE DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “LEGAL MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS.”

NEW ISSUE - Book-Entry-Only

\$6,400,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206

(A political subdivision of the State of Texas located within Montgomery County)

UNLIMITED TAX ROAD BONDS, SERIES 2026

Dated Date: June 1, 2026

Due: May 1, as shown below

Interest Accrual Date: Date of Delivery

Principal of the bonds described above (the “Bonds”) will be payable at stated maturity or redemption upon presentation of the Bonds at the principal payment office of the paying agent/registrar, initially Zions Bancorporation, National Association, Amegy Bank Division, (the “Paying Agent/Registrar,” “Paying Agent” or “Registrar”) in Houston, Texas. Interest on the Bonds will accrue from the initial date of delivery (expected to be on or about June 30, 2026) (the “Date of Delivery”) and be payable on November 1, 2026 and on each May 1 and November 1 thereafter until the earlier of maturity or redemption. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued only in fully registered form in \$5,000 denominations or integral multiples thereof. The Bonds are subject to redemption prior to maturity as shown below.

The Bonds will be registered in the name of 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 the Paying Agent 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 as described herein. See “BOOK-ENTRY-ONLY SYSTEM.”

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

<u>Due</u> <u>(May 1)</u>	<u>Principal</u> <u>Amount (a)</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (b)</u>	<u>CUSIP</u> <u>Number (c)</u>	<u>Due</u> <u>(May 1)</u>	<u>Principal</u> <u>Amount (a)</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (b)</u>	<u>CUSIP</u> <u>Number (c)</u>
2028	\$ 135,000				2041	\$ 205,000	(d)		
2029	140,000				2042	205,000	(d)		
2030	180,000				2043	205,000	(d)		
2031	180,000				2044	205,000	(d)		
2032	180,000				2045	205,000	(d)		
2033	180,000 (d)				2046	265,000	(d)		
2034	190,000 (d)				2047	265,000	(d)		
2035	190,000 (d)				2048	275,000	(d)		
2036	190,000 (d)				2049	275,000	(d)		
2037	190,000 (d)				2050	625,000	(d)		
2038	190,000 (d)				2051	650,000	(d)		
2039	205,000 (d)				2052	665,000	(d)		
2040	205,000 (d)								

- (a) The Initial Purchaser (as defined herein) may elect to designate one or more maturities as term bonds. See accompanying “Official Notice of Sale” and “Official Bid Form.”
- (b) Initial reoffering yield represents the initial offering yield to the public which has been established by the Initial Purchaser (as herein defined) for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date.
- (c) CUSIP Numbers will be assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (d) Bonds maturing on and after May 1, 2033, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on May 1, 2032, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

The Bonds, when issued, will constitute valid and legally binding obligations of Montgomery County Municipal Utility District No. 206 (the “District”) and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe or any entity other than the District. THE BONDS ARE SUBJECT TO CERTAIN RISK FACTORS DESCRIBED HEREIN, INCLUDING A HIGH CONCENTRATION OF OWNERSHIP OF TAXABLE PROPERTY IN THE DISTRICT. See “RISK FACTORS.”

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Sanford Kuhl Hagan Kugle Parker Kahn LLP, Bond Counsel. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Houston, Texas, Disclosure Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about June 30, 2026.

Bids Due: Wednesday, May 27, 2026, at 9:45 A.M., Houston Time in Houston, Texas
Bid Award: Wednesday, May 27, 2026, at 11:30 A.M., Houston Time in Houston, Texas

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

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities Exchange Act of the Securities and Exchange Commission, as amended and in effect on the date hereof, this document constitutes an Official Statement with respect to the Bonds that has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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 representation must not be relied upon as having been authorized by the District.

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

Any information and expressions of opinion herein contained are subject to change and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the District or other matters described herein since the date hereof.

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, 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 Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1330 Post Oak Boulevard, Suite 2650, Houston, Texas, 77056, upon payment of duplication costs.

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

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or 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, the other matters described in this Official Statement until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in “PREPARATION OF OFFICIAL STATEMENT—Updating the Official Statement.”

OFFICIAL STATEMENT SUMMARY

The following information is qualified in its entirety by the detailed information appearing elsewhere in this Official Statement.

THE DISTRICT

<i>Description</i>	Montgomery County Municipal Utility District No. 206 (the “District”) is a political subdivision of the State of Texas, created by an act of the Texas Legislature (House Bill 4611 of the 87th Regular Session, effective June 15, 2021, as codified in Chapter 7928A of the Texas Special District Local Laws Code), and operates under Article XVI, Section 59 and Article III, Section 52 of the Constitution of the State of Texas, Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District currently consists of approximately 93 acres of land. See “THE DISTRICT.”
<i>Location</i>	The District is located in Montgomery County within the corporate limits of City of Conroe (the “City”), approximately 41 miles northwest of the central downtown business district of the City of Houston. The District lies within the boundaries of Conroe Independent School District. The District is approximately 3 miles east of Interstate Highway 45 and approximately one mile north of State Highway 105. See “THE DISTRICT—Description and Location” and “AERIAL PHOTOGRAPH.”
<i>The Developer</i>	The developer in the District is Cliffstone Hills, Ltd., a Texas limited partnership, (the “Developer”) whose general partner is C.I.L. Holdings LLC and whose limited partner is Camcorp Interests, LLC. Legend Classic Homes, LLC (a homebuilder in Cliffstone Hills, Sections One and Two) is owned by Camcorp Interests, LLC. Camillo Properties LLC (the owner of the rental homes in Cliffstone Hills, Sections One and Two) and all of the other above-mentioned entities have direct or indirect common ownership. No landowner, developer or any of their respective affiliates, is obligated to pay any principal of or interest on the Bonds. See “THE DISTRICT,” “THE DEVELOPER” and “RISK FACTORS—Dependence on Principal Taxpayers.”
<i>Status of Development</i>	Development in the District consists of the subdivision Cliffstone Hills, Sections One and Two, totaling 537 single-family residential lots on approximately 77 acres. As of May 13, 2026, there were 531 completed single-family homes (512 occupied) and 6 homes under construction. There are approximately 16 acres of land in the District that are not developable, including public rights-of-way, drainage, detention, open space and recreation and utility sites. There is no remaining developable land in the District. See “THE DISTRICT—Land Use” and “—Status of Development.”
<i>Homebuilders</i>	Legend Classic Homes, LLC is building homes in Cliffstone Hills, Sections One and Two, which have a median sales price of approximately \$268,000. See “THE DISTRICT—Homebuilding.”
<i>Payment Record</i>	The District has previously issued \$8,690,000 principal amount of unlimited tax bonds for the purchase and construction of water, sewer and drainage facilities in two series and \$880,000 principal amount of unlimited tax bonds for acquiring or constructing parks and recreational facilities, \$9,450,000 of which is currently outstanding as of the date hereof (the “Outstanding Bonds”). See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.” The District capitalized six (6) months of interest from proceeds of the Series 2025 Bonds in December 2025 and will capitalize twelve (12) months of interest from proceeds of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.” The District has never defaulted on its debt obligations.

THE FINANCING

<i>The Issuer</i>	Montgomery County Municipal Utility District No. 206, a political subdivision of the State of Texas, is located in Montgomery County, Texas. See “THE DISTRICT.”
<i>The Issue</i>	\$6,400,000 Unlimited Tax Road Bonds, Series 2026 (the “Bonds”) are issued pursuant to an order (the “Bond Order”) of the District’s Board of Directors and are authorized pursuant to the election held within the District. See “THE BONDS—Authority for Issuance.” The Bonds will be issued as fully registered bonds maturing in the years and in the amounts and paying interest at the rates shown on the cover hereof. Interest on the Bonds accrues from the Date of Delivery and is payable on November 1, 2026, and on each May 1 and November 1 thereafter until the earlier of stated maturity or prior redemption. See “THE BONDS.”

<i>Redemption</i>	The Bonds maturing on and after May 1, 2033, are subject to redemption, in whole or from time to time in part, at the option of the District, prior to their maturity dates, on May 1, 2032, or on any date thereafter. Upon redemption, the Bonds will be payable at a price of par plus accrued interest to the date of redemption. See “THE BONDS.”
<i>Book-Entry Only System</i>	The Depository Trust Company (defined as “DTC”), New York, New York, 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 requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “THE BONDS—Book-Entry-Only System.”
<i>Source of Payment</i>	The Bonds are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the District, which, under Texas law, is not limited as to rate or amount. The Bonds are obligations of the District and are not obligations of the State of Texas, Montgomery County, the City or any other political subdivision or agency. See “THE BONDS—Source of and Security for Payment” and “TAXING PROCEDURES.”
<i>Use of Proceeds</i>	Proceeds of the Bonds will be used to reimburse the Developer for the construction costs shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will also be used to capitalize twelve (12) months of interest on the Bonds, to pay interest on funds advanced by the Developer on behalf of the District and to pay engineering fees and certain other costs related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
<i>Authority for Issuance</i>	The Bonds are the first series of bonds issued out of \$96,985,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of acquiring or constructing road facilities at an election held within the District on May 7, 2022. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order, Article III, Section 52 of the Texas Constitution, the general laws of the State of Texas, including but not by way of limitation, Chapters 49 and 54 of the Texas Water Code, as amended and Chapter 7928A of the Texas Special District Local Laws Code, as amended. See “THE BONDS—Authority for Issuance.”
<i>Qualified Tax-Exempt Obligations</i>	The District will designate the Bonds as “qualified tax-exempt obligations” within the meaning of pursuant to Section 265(b) of the Internal Revenue Code of 1986. See “LEGAL MATTERS—Qualified Tax-Exempt Obligations.”
<i>Municipal Bond Rating and Municipal Bond Insurance</i>	The District has not applied for an underlying investment grade rating on the Bonds nor is it expected that the District would have been successful if such application had been made. The District has submitted applications to various municipal bond insurers for a contract for municipal bond insurance on the Bonds. The purchase of such insurance is at the Initial Purchaser’s option and expense. See “RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”
<i>Bond Counsel</i>	Sanford Kuhl Hagan Kugle Parker Kahn LLP, Bond Counsel, Houston, Texas. See “MANAGEMENT” and “LEGAL MATTERS.”
<i>Disclosure Counsel</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Financial Advisor</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT.”
<i>Paying Agent/Registrar</i>	Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas.
<i>Risk Factors</i>	The purchase and ownership of the Bonds are subject to special risk factors and all prospective purchasers are urged to examine carefully the entire Official Statement for a discussion of investment risks, including particularly the section captioned “RISK FACTORS.”

SELECTED FINANCIAL INFORMATION

2025 Certified Taxable Assessed Valuation	\$107,591,024 (a)
Estimated Taxable Assessed Valuation as of January 1, 2026.....	\$126,671,085 (b)
Gross Debt Outstanding (after issuance of the Bonds)	\$15,850,000 (c)
Estimated Overlapping Debt.....	<u>8,968,881</u> (d)
Gross Direct Debt and Estimated Overlapping Debt	\$24,818,881
Ratios of Gross Debt to:	
2025 Certified Taxable Assessed Valuation	14.73%
Estimated Taxable Assessed Valuation as of January 1, 2026.....	12.51%
Ratios of Gross Debt and Estimated Overlapping Debt to:	
2025 Certified Taxable Assessed Valuation	23.07%
Estimated Taxable Assessed Valuation as of January 1, 2026.....	19.59%
2025 Tax Rate:	
Debt Service.....	\$0.80
Maintenance and Operations.....	<u>0.30</u>
Total.....	\$1.10
Average Annual Debt Service Requirement (2027-2052)	\$1,026,954 (e)
Maximum Annual Debt Service Requirement (2030).....	\$1,104,794 (e)
Tax Rates Required to Pay Average Annual Debt Service Requirement at a 95% Collection Rate:	
Based upon 2025 Certified Taxable Assessed Valuation.....	\$1.01/\$100 A.V.
Based upon Estimated Taxable Assessed Valuation as of January 1, 2026	\$0.86/\$100 A.V.
Tax Rates required to pay Maximum Annual Debt Service Requirement at a 95% Collection Rate:	
Based upon 2025 Certified Taxable Assessed Valuation.....	\$1.09/\$100 A.V.
Based upon Estimated Taxable Assessed Valuation as of January 1, 2026	\$0.92/\$100 A.V.
Status of Development as of May 13, 2026 (f):	
Completed Single-Family Homes (512 Occupied)	531
Homes Under Construction.....	6
Estimated Population	1,792 (g)

- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) As estimated by the Appraisal District as of January 1, 2026, for information purposes only. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, this estimate will not be the basis for any tax levy by the District. The 2025 Certified Taxable Assessed Valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2025 to January 1, 2026. See "TAXING PROCEDURES."
- (c) Includes the Bonds and the Outstanding Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (d) See "ESTIMATED OVERLAPPING DEBT."
- (e) See "DEBT SERVICE REQUIREMENTS."
- (f) See "THE DISTRICT—Status of Development."
- (g) Based upon 3.5 persons per occupied single-family residence.

PRELIMINARY OFFICIAL STATEMENT

\$6,400,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206

(A political subdivision of the State of Texas located within Montgomery County)

UNLIMITED TAX ROAD BONDS, SERIES 2026

This Preliminary Official Statement provides certain information in connection with the issuance by Montgomery County Municipal Utility District No. 206 (the “District”) of its \$6,400,000 Unlimited Tax Road Bonds, Series 2026 (the “Bonds”).

The Bonds are issued pursuant to Article III, Section 52 of the Texas Constitution, the general laws of the State of Texas including but not limited to, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 7928A of the Texas Special District Local Laws Code, as amended, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”) and an election held within the District on May 7, 2022.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, the Developer (defined herein) and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1330 Post Oak Boulevard, Suite 2650, Houston, Texas, 77056, upon payment of duplication costs thereof.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order of the Board authorizing the issuance and sale of the Bonds. 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.

The Bonds will be dated June 1, 2026, and accrue interest from the Date of Delivery, and are payable on each November 1 and May 1 commencing November 1, 2026, until the earlier of maturity or prior redemption. The Bonds mature on May 1 in the amounts and years and accrue interest at the rates shown on the cover page of this Official Statement. Interest calculations are based on a 360-day year comprised of twelve 30-day months. The Bonds will be issued only in fully registered form in \$5,000 denominations or integral multiples thereof.

In the event the Book-Entry-Only System (defined below) is discontinued and physical bond certificates issued, interest on the Bonds will be payable by check on or before each interest payment date, mailed by the Paying Agent/Registrar (as defined on the cover page) 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 a Registered Owner at the risk and expense of such Registered Owner.

Book-Entry-Only System

The information in this section concerning DTC (defined below) and DTC’s book-entry system (the “Book-Entry-Only System”) has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, Direct Participants or Indirect Participants (both defined herein) will distribute to the Beneficial Owners (defined herein) (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, Direct Participants or Indirect Participants will 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 “Procedure” of DTC to be followed in dealing with Direct Participants is on file with DTC.

The Depository Trust Company (“DTC”), New York, New York, 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 requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, 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," together with a Direct Participant, the "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 purchaser 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-Only 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 affect 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request copies of notices be provided directly to them.

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 the District (or the trustee on behalf thereof) 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). Principal, premium, if any, interest payments and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, 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, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds 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, 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. 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Authority for Issuance

At a bond election held within the District on May 7, 2022, voters of the District authorized the issuance of \$96,985,000 principal amount of unlimited tax bonds for acquiring or constructing road facilities. The Bonds represent the first issuance of bonds from such authorization. See "—Issuance of Additional Debt" herein. The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, Article III, Section 52 of the Texas Constitution and the general laws of the State of Texas including but not limited to, Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 7928A of the Texas Special District Local Laws Code, as amended.

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

Source of and Security for Payment

The Bonds (together with the Outstanding Bonds and any additional unlimited tax or combination unlimited tax and revenue bonds as may hereafter be issued) are payable as to principal and interest from the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy annually a tax sufficient in amount to pay principal of and interest on the Bonds, full allowance being made for delinquencies and costs of collection. In the Bond Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose. Collected taxes will be placed in the District's "Road Debt Service Fund" and used solely to pay principal of and interest on the Bonds and on any additional bonds payable from taxes which may be issued. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City, or any other political entity other than the District. See "—Issuance of Additional Debt" herein.

Funds

In the Bond Order, the Road Debt Service Fund is created, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, in such fund.

Twelve (12) months of capitalized interest shall be deposited into the Road Debt Service Fund upon receipt. The remaining proceeds from sale of the Bonds shall be deposited into the District's Road Capital Projects Fund, to be used for the purpose of reimbursing the Developer for certain construction costs and for paying engineering fees, administration costs and costs of issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS" for a more complete description of the use of proceeds from the Bonds.

The Road Debt Service Fund is available for payment of principal and interest on bonds issued for road facilities, including the Bonds. It is not available to pay principal and interest on bonds issued for water, sewer and drainage and park facilities.

The District also maintains a Water, Sewer and Drainage and Park Debt Service Fund that is available for payment of debt service on bonds issued for water, sewer and drainage and park facilities. It is not available to pay principal or interest on bonds issued for road facilities, including the Bonds.

No Arbitrage

The District will certify as of the date the Bonds are delivered and paid for that, based upon all facts and estimates then 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 in the Bond Order 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.

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.

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after May 1, 2033, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000, on May 1, 2032, or on any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written 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 Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if fewer than all the Bonds outstanding within any one maturity are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest that would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Method of Payment of Principal and Interest

The Board has appointed Zions Bancorporation, National Association, Amegy Bank Division, having its principal corporate trust office and its principal payment office in Houston, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See “—Book-Entry-Only System” herein.

Registration and Transfer

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

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, or on receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity to hold them harmless. Upon the issuance of a new bond the District may require payment of taxes, governmental charges and other expenses (including the fees and expenses of the Paying Agent/Registrar), bond printing and legal fees in connection with any such replacement.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

Issuance of Additional Debt

At an election held within the District on May 7, 2022, the District’s voters authorized the issuance of \$98,950,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, sewer and drainage facilities, \$96,985,000 principal amount of unlimited tax bonds for acquiring or constructing road facilities, \$36,760,000 principal amount of unlimited tax bonds for acquiring or constructing parks and recreational facilities, \$148,425,000 principal amount of unlimited tax refunding bonds for water, sewer and drainage facilities, \$145,477,500 unlimited tax refunding bonds for road facilities and \$55,140,000 principal amount of unlimited tax refunding bonds for parks and recreational facilities. After issuance of the Bonds, \$90,260,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, sewer and drainage facilities, \$90,585,000 principal amount of unlimited tax bonds for acquiring or constructing road facilities, \$35,880,000 principal amount of unlimited tax bonds for acquiring or constructing parks and recreational facilities and all of the bonds authorized for refunding bonds will remain authorized but unissued. The issuance of additional bonds (except for refunding bonds and road bonds) is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds.

The District is authorized by statute to develop parks and recreational facilities, including issuing bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) amendments to existing city ordinances specifying the purposes for which the District may issue bonds; (b) preparation of a detailed park plan; (c) authorization of park bonds by the qualified voters in the District; (d) approval of the park projects and bonds by the TCEQ; and (e) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent (1%) of the value of the taxable property in the District, unless the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent (1%) but not three percent (3%) of the value of the taxable property in the District. At an election held within the District on May 7, 2022, voters of the District authorized a total of \$36,760,000 principal amount of unlimited tax bonds for acquiring or constructing park and recreational facilities, \$35,880,000 of which remains authorized but unissued.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue such bonds, the District would be required to obtain authorization from the District's voters to issue such bonds and approval of the bonds by the Attorney General of Texas. The District has not considered calling such an election at this time.

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 that may ultimately be issued by the District. The issuance of additional bonds and levy of taxes in connection therewith may dilute the security for the Bonds.

Dissolution

Under existing Texas law, since the District lies wholly within the corporate limits of the City, the District may be dissolved by the City without the District's consent, subject to compliance by the City with Chapter 43 of the Texas Local Government Code, as amended. If the District is dissolved, the City will assume the District's assets and obligations (including the Bonds). Dissolution of the District by the City is a policy matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that dissolution will or will not occur and makes no representation of the City's financial capability to pay debt service on the Bonds if such dissolution were to occur.

Remedies in Event of Default

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 observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages. 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. See "RISK FACTORS—Registered Owners' Remedies and Bankruptcy Limitations."

Legal Investment and Eligibility to Secure Public Funds in Texas

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

“(a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic.”

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

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 of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both or with a commercial bank or trust company designated in the proceedings authorizing such discharge, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct obligations of 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, and which 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.

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

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by LJA Engineering, Inc., the District's engineer (the "Engineer"). Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer and Masterson Advisors LLC (the "Financial Advisor"). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and review by the District's auditor. Surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used.

CONSTRUCTION COSTS	
Cliffstone Hills, Section One - Paving.....	\$ 2,922,317
Cliffstone Hills, Section Two - Paving.....	445,943
Cliffstone Hills, Sections One & Two - Clearing & Grubbing.....	140,189
Land Acquisition Costs.....	<u>1,242,906</u>
TOTAL CONSTRUCTION COSTS.....	\$ 4,751,355
NON-CONSTRUCTION COSTS	
Bond Discount (Estimated at 3.00%).....	\$ 192,000
Capitalized Interest (Twelve (12) Months Estimated at 5.00%).....	320,000
Developer Interest (Estimated).....	<u>765,321</u>
TOTAL NON-CONSTRUCTION COSTS.....	\$ 1,277,321
ISSUANCE COSTS AND FEES	
Issuance Costs and Professional Fees.....	\$ 329,924
Bond Engineering Fees.....	35,000
State Regulatory Fees.....	<u>6,400</u>
TOTAL ISSUANCE COSTS AND FEES.....	\$ 371,324
TOTAL BOND ISSUE.....	\$ 6,400,000

THE DISTRICT

General

The District is a municipal utility district created by an act of the Texas Legislature (House Bill 4611 of the 87th Regular Session, effective June 15, 2021, as codified in Chapter 7928A of the Texas Special District Local Laws Code), and operates under Article XVI, Section 59 and Article III, Section 52 of the Constitution of the State of Texas, Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District is subject to the continuing supervisory jurisdiction of the TCEQ. The District is comprised of approximately 93 acres of land.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. Additionally, the District may develop and finance road facilities and, subject to certain limitations, develop and finance parks and recreational facilities.

The TCEQ exercises continuing supervisory jurisdiction over the District. To comply with its consent ordinance for creation from the City, within which the District is located, the District is required to observe certain requirements of the City consent ordinance which: limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage, park and recreational facilities and roads and related improvements; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to legally subdivided lots that are part of a recorded subdivision plat or otherwise exempt from the subdivision requirements of the City and Montgomery County. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM—Regulation."

Description and Location

The District is located in Montgomery County within the corporate limits of City of Conroe (the "City"), approximately 41 miles northwest of the central downtown business district of the City of Houston. The District lies within the boundaries of Conroe Independent School District. The District is approximately 3 miles east of Interstate Highway 45 and approximately one mile north of State Highway 105. See "AERIAL PHOTOGRAPH."

Land Use

	Approximate	
	Acres	Lots
<i>Single-Family Residential</i>		
Cliffstone Hills		
Section 1.....	39	263
Section 2.....	38	274
Subtotal.....	77	537
<i>Undevelopable (a)</i>	16	---
	93	537

(a) Includes public rights-of-way, drainage, detention, open space and recreation and utility sites.

Status of Development

Development in the District consists of the subdivision Cliffstone Hills, Sections One and Two, totaling 537 single-family residential lots on approximately 77 acres. As of May 13, 2026, there were 531 completed single-family homes (512 occupied) and 6 homes under construction. The estimated population in the District is 1,792, which is based upon 3.5 persons per occupied single-family residence. There is no remaining developable land in the District.

Homebuilding

Legend Classic Homes, LLC is building homes in Cliffstone Hills, Sections One and Two, which have a median sales price of approximately \$268,000.

Undeveloped Acreage

There are approximately 16 acres of land in the District that are not developable, including public rights-of-way, drainage, detention, open space and recreation and utility sites.

THE DEVELOPER

Role of a Developer

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. A developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

Neither the Developer, nor any of its affiliates, are obligated to pay principal of or interest on the Bonds. Furthermore, the Developer does not have a binding commitment to the District to carry out any plan of development and the Developer may sell or otherwise dispose of its property within the District, or any other assets, at any time, and the furnishing of information relating to the proposed development by the Developer should not be interpreted as such a commitment. Prospective Bond 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 boundaries of the District. See "RISK FACTORS."

Prospective Bond purchasers should note that any prior real estate experience discussed below of the Developer should not be construed as an indication that further development within the District will occur, or that 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. See "RISK FACTORS."

Cliffstone Hills, Ltd.

The developer of Cliffstone Hills, Sections One and Two (537 single-family residential lots on approximately 77 acres) is Cliffstone Hills, Ltd. (the "Developer"). Cliffstone Hills, Ltd. has not and is not engaged in any business other than the ownership, development, management and sale of land within the District, and all or substantially all of Cliffstone Hills, Ltd.'s assets are, or are derived from or in connection with, land within the District. Cliffstone Hills, Ltd. does not own any remaining developable land in the District.

Camcorp Interests, LLC and Related Entities and Subsidiaries

C.I.L. Holdings LLC, a Texas limited liability company, is the general partner, and Camcorp Interests, LLC, a Texas limited liability company, is the limited partner of Cliffstone Hills, Ltd. Legend Classic Homes, LLC is building homes in the District and is 100% owned by Camcorp Interests, LLC. Camillo Properties LLC is also the owner of the rental homes in the District and is a related company to Camcorp Interests, LLC. All current development activities within the District, if any, are funded by Camcorp Interests, LLC. All of the above-mentioned entities have direct or indirect common ownership. See "TAX DATA—Principal Taxpayers."

MANAGEMENT

Board of Directors

The District is governed by the Board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year terms and elections are held in May in even numbered years only. Each of the board members owns land within the District subject to a note and deed of trust in favor of the Developer. Directors have staggered four-year terms. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kristina Early	President	May 2030
Ian Blake	Vice President	May 2028
Michael McKennon	Secretary	May 2030
Paige Gill	Assistant Secretary	May 2028
Sydney LaPlante	Assistant Secretary	May 2030

While the District does not employ any full-time employees, it has contracted for certain services as follows:

Tax Assessor/Collector

Land and improvements within the District were appraised for ad valorem taxation purposes by the Appraisal District. The District's Tax Assessor/Collector is appointed by the Board of Directors of the District. Utility Tax Service, LLC is currently serving in this capacity for the District.

Bookkeeper

The District has engaged Municipal Accounts & Consulting, L.P. to serve as the District's bookkeeper.

Engineer

The consulting engineer for the District in connection with the design and construction of the District's System is LJA Engineering, Inc. (the "Engineer").

Utility System Operator

The City independently operates the District Utility Facilities.

Attorney

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

Financial Advisor

Masterson Advisors LLC serves as financial advisor to the District. The fees to be paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

Disclosure Counsel

The District has engaged McCall, Parkhurst & Horton L.L.P., Houston, Texas as disclosure counsel. The fees paid to disclosure counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District's financial statements for the fiscal year ending May 31, 2025, have been audited by the independent accounting firm of McCall Gibson Swedlund Barfoot Ellis PLLC. See "APPENDIX A" for a copy of the District's audited financial statements.

THE SYSTEM

Regulation

Construction and operation of the District's water, sanitary sewer and storm drainage system (the "System") as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Construction of water, sanitary sewer and storm drainage facilities is subject to the regulatory authority of the District, the City and Montgomery County. The TCEQ also exercises regulatory jurisdiction over portions of the System.

City of Conroe Ordinance

The District operates pursuant to that City of Conroe Ordinance dated December 9, 2021 (the "Ordinance"). Pursuant to the Ordinance, the City consented to the creation of the District within the city limits of the City. Pursuant to the Ordinance, the District assumed responsibility for acquiring and constructing the water distribution, sanitary sewer collection, and drainage facilities, as well as roads and improvements in aid thereof, to serve development occurring within the boundaries of the District (the "Facilities"). The District further assumed the responsibility for acquiring and constructing detention, road and recreational improvements to serve development within its boundaries. The Ordinance provides that the Facilities and all detention facilities and recreational improvements shall be designed and constructed in accordance with the requirements and criteria of the City and all applicable regulatory authorities.

Water Supply and Wastewater Treatment

Water supply and wastewater treatment for the District is provided by the City. The City has allocated 540 equivalent single-family connections (“ESFCs”) for the water supply and wastewater capacity to serve 540 ESFCs, which is adequate to serve existing development in the District. As of May 13, 2026, the City was serving 537 ESFCs in the District (531 completed homes and 6 homes under construction).

Water Distribution, Wastewater Collection and Storm Drainage

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve approximately 537 single-family residential lots within the District. See “THE DISTRICT—Land Use.”

100-Year Flood Plain

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (“FEMA”) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded and a number of neighborhoods in the Greater Houston Area that are above the 100-year flood plain have flooded multiple times in the past several years. The District’s drainage system has been designed and constructed to all current standards. According to the Engineer, none of the developable acreage within the District is located within the 100-year flood plain. See “RISK FACTORS—Extreme Weather Events.”

THE PARK SYSTEM

The District prepared and approved a Park Plan, as may be amended from time to time. The Park Plan outlines projects related to parks and recreational facilities within the District. The Developer has constructed certain park and recreational facilities within the District. Proceeds of certain of the Outstanding Bonds have been used to reimburse the Developer for various park and recreational facility expenditures, including but not limited to the amenity portions of certain detention ponds, land acquisition costs, interest on funds advanced by the Developer on behalf of the District, landscaping, hardscaping, and related appurtenances located within the District on District-owned property or within public rights-of-way.

THE ROAD SYSTEM

Proceeds of the Bonds are being expended to finance the public road system (the “Roads”) which serve the property owners of the District by providing roads within the District and the surrounding area. The Roads to be financed from the proceeds of the Bonds are comprised of those roads described as shown under “USE AND DISTRIBUTION OF BOND PROCEEDS.”

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2025 Certified Taxable Assessed Valuation	\$107,591,024 (a)
Estimated Taxable Assessed Valuation as of January 1, 2026.....	\$126,671,085 (b)
Gross Debt Outstanding (after the issuance of the Bonds)	\$15,850,000 (c)
Estimated Overlapping Debt.....	<u>8,968,881</u> (d)
Gross Direct Debt and Estimated Overlapping Debt	\$24,818,881

Ratios of Gross Debt to:

2025 Certified Taxable Assessed Valuation	14.73%
Estimated Taxable Assessed Valuation as of January 1, 2026.....	12.51%

Ratios of Gross Debt and Estimated Overlapping Debt to:

2025 Certified Taxable Assessed Valuation	23.07%
Estimated Taxable Assessed Valuation as of January 1, 2026.....	19.59%

Area of District — 93 Acres
Estimated Population — 1,792 (e)

- (a) As certified by the Appraisal District. See “TAXING PROCEDURES.”
- (b) As estimated by the Appraisal District as of January 1, 2026, for information purposes only. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, this estimate will not be the basis for any tax levy by the District. The 2025 Certified Taxable Assessed Valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2025 to January 1, 2026. See “TAXING PROCEDURES.”
- (c) Includes the Bonds and the Outstanding Bonds. See “—Outstanding Bonds” below.
- (d) See “ESTIMATED OVERLAPPING DEBT.”
- (e) Based upon 3.5 persons per occupied single-family residence.

Cash and Investment Balances (unaudited as of April 17, 2026)

General Fund	Cash and Temporary Investments	\$ 660,831
Debt Service Fund	Cash and Temporary Investments	\$1,008,822 (a)(b)
Capital Projects Fund	Cash and Temporary Investments	\$ 36,413

- (a) Although all of the District’s debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a portion of the District’s ad valorem tax revenue will be allocated to Road Bonds, including the Bonds and a portion will be allocated to Water, Sewer and Drainage and Park Bonds. The Road Debt Service Fund is not pledged to Water, Sewer and Drainage and Park Bonds and the Water, Sewer and Drainage and Park Debt Service Fund is not pledged to Road Bonds, including the Bonds. See “THE BONDS—Funds.” Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service Fund.
- (b) Excludes twelve (12) months of capitalized interest that will be deposited in the Debt Service Fund upon issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

District Investment Policy

The policy of the District is to invest District funds only in instruments which further the following investment objectives of the District stated in order of importance: (1) preservation and safety of principal; (2) liquidity; and (3) yield. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District portfolio.

Outstanding Bonds

The District has previously issued two series of unlimited tax bonds for purchasing and constructing water, sewer and drainage facilities and one series of unlimited tax bonds for acquiring or constructing parks and recreational facilities. The following table lists the original principal amount of such bonds by series and the principal amount of such bonds currently outstanding as of the date hereof (the “Outstanding Bonds”).

Series	Original Principal Amount	Outstanding Bonds (as of 5/2/2026)
Unlimited Tax Bonds, Series 2024	\$ 5,800,000	\$ 5,680,000
Unlimited Tax Bonds, Series 2025	2,890,000	2,890,000
Unlimited Tax Park Bonds, Series 2025A	880,000	880,000
Total	\$ 9,570,000	\$ 9,450,000

ESTIMATED OVERLAPPING DEBT STATEMENT

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds (“Tax Debt”) was developed from information contained in the “Texas Municipal Reports” published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of the overlapping Tax Debt of the District.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Montgomery County.....	\$ 479,290,000	3/31/2026	0.10%	\$ 479,290
City of Conroe.....	466,075,000	3/31/2026	0.64%	2,982,880
Conroe ISD.....	2,844,260,000	3/31/2026	0.19%	5,404,094
Lone Star College.....	342,055,000	3/31/2026	0.03%	102,617
Total Estimated Overlapping Debt.....				\$ 8,968,881
Direct Debt (a).....	15,850,000	Current	100.00%	15,850,000
Total Direct and Estimated Overlapping Debt.....				\$ 24,818,881
Ratio of Direct and Estimated Overlapping Debt to 2025 Certified Taxable Assessed Valuation.....				23.07%
Ratio of Direct and Estimated Overlapping Debt to Estimated Taxable Assessed Valuation as of January 1, 2026...				19.59%

(a) Includes the Bonds and the Outstanding Bonds.

Overlapping Tax Rates for 2025

	2025 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Montgomery County.....	\$ 0.3770
Montgomery County Hospital District.....	0.0473
City of Conroe.....	0.4272
Conroe ISD.....	0.9496
Lone Star College.....	0.1060
Total Overlapping Tax Rate.....	\$ 1.9071
The District (a).....	\$ 1.1000
Total Tax Rate.....	\$ 3.0071

(a) See “TAX DATA—Tax Rate Distribution.”

GENERAL OPERATING FUND

General

The Bonds and the Outstanding Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District.

The following statement sets forth in condensed form the District's General Fund operating statement as derived from the District's audited financial statements for the fiscal years ended May 31, 2024 and May 31, 2025 and an unaudited summary for the ten-month period ended March 31, 2026, as provided by the District's bookkeeper. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and more complete information.

	6/1/2025 to 3/31/2026 (a)	Fiscal Year Ended May 31	
		2025	2024
Revenues			
Property Taxes	\$ 304,943	\$ 744,355	\$ 224,264
Penalty, Interest and Other	-	-	2,196
Investment & Miscellaneous Revenues	7,911	11,567	-
Total Revenues	\$ 312,854	\$ 755,922	\$ 226,460
Expenditures			
Professional Fees	\$ 75,090	\$ 67,935	\$ 55,571
Contracted Services	14,126	21,262	26,267
Repairs & Maintenance	-	69,024	-
Other	270,316	17,470	14,290
Bond Issuance Costs	-	17,500	-
Total Expenditures	\$ 359,532	\$ 193,191	\$ 96,128
Revenues Over (Under) Expenditures	\$ (46,678)	\$ 562,731	\$ 130,332
Other Sources (Uses)			
Developer Advances	\$ -	\$ -	\$ 35,000
Transfers In (Out)	21,835	29,382	-
Total Other Financing Sources	\$ 21,835	\$ 29,382	\$ 35,000
Fund Balance (Beginning of Year)	\$ 763,371	\$ 171,258	\$ 5,926
Fund Balance (End of Year)	\$ 738,528	\$ 763,371	\$ 171,258

(a) Unaudited. Provided by the District's bookkeeper.

DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements on the Outstanding Bonds and the estimated debt service requirements for the Bonds at an assumed interest rate of 5.00% per annum. This schedule does not reflect the fact that the District capitalized six (6) months of interest from proceeds of the Series 2025 Bonds in December 2025 and twelve (12) months of interest will be capitalized from proceeds of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Year	Outstanding Bonds Debt Service	Plus: Debt Service on the Bonds			Total Debt Service
	Requirements	Principal	Interest	Total	Requirements
2026	\$ 212,759.38 (a)	\$ -	\$ 107,555.56	\$ 107,555.56	\$ 320,314.94
2027	638,368.75	-	320,000.00	320,000.00	958,368.75
2028	633,743.75	135,000	316,625.00	451,625.00	1,085,368.75
2029	628,631.25	140,000	309,750.00	449,750.00	1,078,381.25
2030	623,043.75	180,000	301,750.00	481,750.00	1,104,793.75
2031	626,506.25	180,000	292,750.00	472,750.00	1,099,256.25
2032	624,862.50	180,000	283,750.00	463,750.00	1,088,612.50
2033	630,706.25	180,000	274,750.00	454,750.00	1,085,456.25
2034	628,306.25	190,000	265,500.00	455,500.00	1,083,806.25
2035	635,306.25	190,000	256,000.00	446,000.00	1,081,306.25
2036	641,506.25	190,000	246,500.00	436,500.00	1,078,006.25
2037	642,006.25	190,000	237,000.00	427,000.00	1,069,006.25
2038	646,806.25	190,000	227,500.00	417,500.00	1,064,306.25
2039	650,806.25	205,000	217,625.00	422,625.00	1,073,431.25
2040	658,871.88	205,000	207,375.00	412,375.00	1,071,246.88
2041	665,737.50	205,000	197,125.00	402,125.00	1,067,862.50
2042	666,456.25	205,000	186,875.00	391,875.00	1,058,331.25
2043	680,790.63	205,000	176,625.00	381,625.00	1,062,415.63
2044	683,456.25	205,000	166,375.00	371,375.00	1,054,831.25
2045	684,821.88	205,000	156,125.00	361,125.00	1,045,946.88
2046	621,368.75	265,000	144,375.00	409,375.00	1,030,743.75
2047	623,093.75	265,000	131,125.00	396,125.00	1,019,218.75
2048	628,631.25	275,000	117,625.00	392,625.00	1,021,256.25
2049	637,762.50	275,000	103,875.00	378,875.00	1,016,637.50
2050	214,725.00	625,000	81,375.00	706,375.00	921,100.00
2051	-	650,000	49,500.00	699,500.00	699,500.00
2052	-	665,000	16,625.00	681,625.00	681,625.00
Total	\$ 15,229,075.01	\$ 6,400,000	\$ 5,392,055.56	\$ 11,792,055.56	\$ 27,021,130.56

(a) Excludes the May 1, 2026 debt service payment of \$318,411.

Average Annual Debt Service Requirements (2027-2052).....	\$1,026,954
Maximum Annual Debt Service Requirement (2030).....	\$1,104,794

TAX DATA

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. For the 2025 tax year, the District levied a tax for debt service in the amount of \$0.80 per \$100 assessed valuation. See “—Tax Rate Distribution” and “—Summary of Assessed Valuation” herein, and “TAXING PROCEDURES.”

Maintenance and Operations Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District’s improvements, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted on May 7, 2022 and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 appraised valuation for maintenance and operation of water, sewer, drainage facilities and \$0.10 for maintenance and operation of park/recreational facilities. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds and the Bonds. See “—Debt Service Tax” above.” For the 2025 tax year, the District levied a tax for maintenance and operations in the amount of \$0.30 per \$100 assessed valuation.

Exemptions

For tax year 2026, the District has not granted any exemptions from taxation.

Tax Rate Limitations

Debt Service: Unlimited (no legal limit as to rate or amount).

Maintenance and Operations: \$1.50 per \$100 taxable assessed valuation.

Maintenance of Park and Recreational Facilities: \$0.10 per \$100 taxable assessed valuation.

Tax Rate Distribution

	2025	2024	2023	2022 (a)
Debt Service	\$ 0.80	\$ -	\$ -	\$ -
Maintenance and Operations	0.30	1.10	1.10	1.10
Total	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10

(a) Initial year of taxation for the District.

Additional Penalties

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District established an additional penalty of twenty percent (20%) of the tax to defray the costs of collection. This 20% penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than May 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Property Tax Code.

Tax Collections

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. Tax year 2022 was the initial year of taxation for the District. This summary has been prepared for inclusion herein, based upon information from District records. Reference is made to these records and statements for further and more complete information.

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of March 31, 2026 (a)	
				Amount	Percent
2022	\$ 2,886,130	\$ 1.10	\$ 31,747	\$ 31,747	100.00%
2023	20,585,403	1.10	226,439	226,126	99.86%
2024	68,196,439	1.10	750,161	743,358	99.09%
2025	107,591,024	1.10	1,183,501	1,136,813	96.06%

(a) Unaudited.

Principal Taxpayers

The following list of principal taxpayers was provided by the District's tax assessor/collector based upon the 2025 Certified Taxable Assessed Valuation which reflects ownership as of January 1, 2025. A principal taxpayer list related to the Estimated Taxable Assessed Valuation as of January 1, 2026 of \$126,671,085, is not available from the Appraisal District as of the date hereof.

<u>Taxpayer</u>	<u>2025 Certified Taxable Assessed Valuation</u>	<u>% of 2025 Certified Taxable Assessed Valuation</u>
Camillo Properties LTD (a)	\$ 44,674,360	41.52%
Legend Classic Homes LTD (a)	1,772,056	1.65%
Individual	352,950	0.33%
Individual	335,186	0.31%
Individual	324,210	0.30%
Individual	319,957	0.30%
Individual	318,382	0.30%
Individual	318,382	0.30%
Individual	318,382	0.30%
Individual	316,003	0.29%
Total	\$ 49,049,868	45.59%

(a) Related entities. See “THE DEVELOPER” and “RISK FACTORS—Rental Homes” for a discussion of the rental properties owned by Camillo Properties LTD.

Summary of Assessed Valuation

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate. See “TAXING PROCEDURES—Valuation of Property for Taxation.” The following represents the composition of property comprising the 2022 through 2025 Certified Taxable Assessed Valuations. An accurate breakdown related to the Estimated Taxable Assessed Valuation as of January 1, 2026 of \$126,671,085, is not available as of the date hereof.

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Land	\$ 23,216,143	\$ 24,371,422	\$ 15,933,250	\$ 2,886,130
Improvements	86,430,456	44,250,503	4,634,460	-
Personal Property	320,394	58,273	19,362	-
Exemptions	(2,375,969)	(483,759)	(1,669)	-
Total	<u>\$ 107,591,024</u>	<u>\$ 68,196,439</u>	<u>\$ 20,585,403</u>	<u>\$ 2,886,130</u>

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2025 Certified Taxable Assessed Valuation of \$107,591,024 or the Estimated Taxable Assessed Valuation as of January 1, 2026 of \$126,671,085. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “DEBT SERVICE REQUIREMENTS” and “RISK FACTORS—Impact on District Tax Rates.”

Average Annual Debt Service Requirement (2027-2052)	\$1,026,954
\$1.01 Tax Rate on 2025 Certified Taxable Assessed Valuation.....	\$1,032,336
\$0.86 Tax Rate on Estimated Taxable Assessed Valuation as of January 1, 2026	\$1,034,903
Maximum Annual Debt Service Requirement (2030)	\$1,104,794
\$1.09 Tax Rate on 2025 Certified Taxable Assessed Valuation.....	\$1,114,105
\$0.92 Tax Rate on Estimated Taxable Assessed Valuation as of January 1, 2026	\$1,107,105

No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of January 1, 2026, for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amount or its inclusion herein as assurance of its attainment. See “TAXING PROCEDURES.”

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 an amount sufficient to pay the principal of and interest on the Bonds, the Outstanding Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “RISK FACTORS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully herein under “THE BONDS—Source of and Security for Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See “TAX DATA—Debt Service Tax” and “—Maintenance and Operations Tax.”

Property Tax Code and County-Wide Appraisal District

The Texas Tax Code (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 a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Montgomery Central Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units wholly within Montgomery County, including the District. Such appraisal values are subject to review and change by the Montgomery County Appraisal Review Board (the “Appraisal Review Board”). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Montgomery County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

Property Subject to Taxation by the District

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; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. Qualifying surviving spouses of persons 65 years of age and older would be entitled to receive an exemption equal to the exemption received by the deceased spouse. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such 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. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. 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 was donated by a charitable organization. The exemption will apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed or fatally injured in the line or duty is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who is killed or fatally injured in the line of duty is, 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. See “TAX DATA.”

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised 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 May 1. The District currently does not grant a homestead exemption. See “TAX DATA.”

Freeport Goods and Goods-in-Transit Exemptions: A “Freeport Exemption” applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil 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, for 2011 and prior tax years, was applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which 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. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. For 2012 and subsequent tax years, the exemption applies to covered property if it 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. 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 personal 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. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken no official action to allow taxation of all such goods-in-transit personal property but may choose to exempt same in the future by further official action.

Tax Abatement

Montgomery County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, Montgomery County, the City and the District, under certain circumstances, 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 appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. To date, neither the County nor the City has designated land within the District as a reinvestment zone.

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 formally 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 upon 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 under the Property Tax Code. Increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use, for open space land, and timberland.

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

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 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 the Appraisal District to comply with the Property Tax Code. The District may challenge the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, under certain circumstances, an election would be required to determine whether to approve the adopted total tax rate. See "Rollback of Operation and Maintenance Tax Rate." 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.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only for the items specified in the Texas Property Tax Code. 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 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 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 with the District in the preceding 24 months.

Property owners affected by a disaster may pay property taxes in four equal installments following the disaster. In addition, certain classes of disabled veterans may receive a deferral or abatement of delinquent taxes without penalty during the time they own or occupy the property as their residential homestead.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies municipal utility districts differently based on 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 is described for each classification below. Debt service and contract tax rates cannot be reduced by an 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, subject to certain homestead exemptions, are required to hold a rollback 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 1.08 times the previous year's operation and maintenance tax rate.

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, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold a rollback 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 1.035 times the previous year's operation and maintenance tax rate 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 are 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 rate imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If a rollback election is called and passes, the total tax rate for Developing Districts is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

The District: A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made on an annual basis, at the time a district sets its tax rate. For 2025, the District was designated 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 rollback election calculation.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year 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 the State of Texas and each local 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 (see "ESTIMATED OVERLAPPING DEBT STATEMENT—Overlapping Tax Rates for 2025"). 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.

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, 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, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest 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. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "RISK FACTORS—General" and "—Tax Collections and Foreclosure Remedies."

RISK FACTORS

General

The Bonds, which are obligations of the District and not obligations of the State of Texas, Montgomery County, the City or any other political entity other than the District, will be secured by a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property within the District. See “THE BONDS—Source of and Security for Payment.” The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities.

Dependence on Principal Taxpayers

The principal taxpayers represent \$49,049,868, or approximately 45.59% of the 2025 Certified Taxable Assessed Valuation of \$107,591,024, which represents ownership as of January 1, 2025. Camillo Properties LTD (now known as Camillo Properties LLC) and Legend Classic Homes LTD (now known as Legend Classic Homes LLC), both entities related to Camcorp Interests, LLC and the Developer, represent \$46,446,416, or approximately 43.17% of the 2025 Certified Taxable Assessed Valuation. See “THE DEVELOPER” and “TAX DATA—Principal Taxpayers.” If Camillo Properties LTD or another principal taxpayer were to default in the payment of taxes in an amount which exceeds the balance in the District’s Debt Service Fund, the ability of the District to make timely payment of debt service on the Bonds and the Outstanding Bonds would be dependent on the ability of the District to enforce and liquidate its tax lien, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in the District being forced to set an excessive tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its Debt Service Fund. See “—Tax Collection Limitations and Foreclosure Remedies” herein and “TAX PROCEDURES—Levy and Collection of Taxes.”

Rental Homes

A substantial portion of the homes being constructed in Cliffstone Hills, Sections One and Two (224 lots) were constructed by Camillo Properties LLC, formerly known as Camillo Properties, Ltd., as rental properties. It is anticipated that Camillo Properties LLC, formerly known as Camillo Properties Ltd., or one or more wholly owned subsidiaries (collectively, “Camillo Properties”), will continue to be a principal taxpayer as long as Camillo Properties continue to own such rental homes. On the 2025 certified tax roll, Camillo Properties represent \$44,674,360 or 41.52% of the 2025 Certified Taxable Assessed Valuation of \$107,591,024. See “TAX DATA—Principal Taxpayers.”

Camillo Properties, as the owner of such rental homes, is responsible for the payment of property taxes, maintenance of the homes and the landscape maintenance of the front yards.

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, including rental homes. The market value of such homes is related to general economic conditions affecting the demand for residences. Demand for homes of this type can be significantly affected by factors such as interest rates, credit availability, and the prosperity and demographic characteristics of the urban center toward which the marketing of homes is directed. See “THE DISTRICT—Status of Development.”

Competition

The demand for and construction of single-family homes and rental homes in the District, which is approximately 41 miles from the central downtown business district of the City of Houston, could be affected by competition from other residential developments including other residential developments located in the northern portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developer and its affiliates 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. The District can give no assurance that building and marketing programs in the District by the Developer or the homebuilders will be implemented or, if implemented, will be successful.

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The District's 2025 Certified Taxable Assessed Valuation is \$107,591,024. After issuance of the Bonds, the maximum annual debt service requirement will be \$1,104,794 (2030) and the average annual debt service requirement will be \$1,026,954 (2027-2052 inclusive). Assuming no increase or decrease from the 2025 Certified Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$1.09 per \$100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and a tax rate of \$1.01 per \$100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the average annual debt service requirement. The Estimated Taxable Assessed Valuation as of January 1, 2026 is \$126,671,085. Assuming no increase or decrease from the Estimated Taxable Assessed Valuation as of January 1, 2026, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.92 and \$0.86 per \$100 of assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and average annual debt service requirement, respectively. See "DEBT SERVICE REQUIREMENTS."

No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of January 1, 2026, for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amount or its inclusion herein as assurance of its attainment. See "TAX DATA—Tax Adequacy for Debt Service" and "TAXING PROCEDURES."

Potential Effects of Oil Price Volatility on the Houston Area

The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The District cannot predict the impact that negative conditions in the oil and gas industry could have on property values in the District.

Extreme Weather Events

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced multiple storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017 and brought historic levels of rainfall during the successive four days.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

Specific Flood Type Risks

The District may be subject to the following flood risks:

Ponding (or Pluvial) Flood: Ponding, or pluvial, flooding occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can exceed the drainage capacity of a drainage system, which may result in water within the drainage system becoming trapped and diverted onto streets and nearby property until it is able to reach a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam, levee or reservoir.

Riverine (or Fluvial) Flood: Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or man-made drainage (canals or channels) systems downstream.

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 state and local 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 market conditions limiting the proceeds from a foreclosure sale of taxable property and collection procedures. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. The costs of collecting any

such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a 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 against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See "TAXING PROCEDURES—District's Rights in the Event of Tax Delinquencies."

Registered Owners' Remedies and Bankruptcy Limitations

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, if it fails to make payments into any fund or funds created in the Bond Order, or if it defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners (defined herein) have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default, and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a 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.

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay, or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it is (1) authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If a 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 the 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.

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. The District's voters authorized the issuance of \$98,950,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, sewer and drainage facilities, \$96,985,000 principal amount of unlimited tax bonds for acquiring or constructing road facilities, \$36,760,000 principal amount of unlimited tax bonds for acquiring or constructing parks and recreational facilities, \$148,425,000 principal amount of unlimited tax refunding bonds for water, sewer and drainage facilities, \$145,477,500 unlimited tax refunding bonds for road facilities and \$55,140,000 principal amount of unlimited tax refunding bonds for parks and recreational facilities. After issuance of the Bonds, \$90,260,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, sewer and drainage facilities, \$90,585,000 principal amount of unlimited tax bonds for acquiring or constructing road facilities, \$35,880,000 principal amount of unlimited tax bonds for acquiring or constructing parks and recreational facilities and all of the bonds authorized for refunding bonds will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional bonds or obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

After reimbursement with the proceeds of the Bonds, the District will owe the Developer approximately \$3,420,000 (as of April 1, 2026). The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds (except for refunding bonds and road bonds) is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increase in taxable value in the District. See “THE BONDS—Issuance of Additional Debt.” Issuance of additional bonds could dilute the investment security for the Bonds.

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 Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston-Brazoria area (“HGB Area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty Counties—has been designated a nonattainment area under two separate federal ozone standards: the eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (the “2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (the “2015 Ozone Standard”). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB Area, the HGB Area remains subject to CAA nonattainment requirements.

The HGB Area is currently designated as a “severe” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2027. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that 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.

The HGB Area is currently designated as a “serious” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2027. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) for the HGB Area 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 HGB 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 HGB Area to reach attainment with the ozone standards by the EPA’s attainment deadlines. These additional controls could have a negative impact on the HGB Area’s economic growth and development.

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 HGB 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) (“CGP”), 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 non-stormwater discharges into surface water in the state. The CGP 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’s 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 District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements, in the future.

Continuing Compliance with Certain Covenants

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. Failure by the District to comply with such covenants in the Bond Order 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 “LEGAL MATTERS.”

Marketability

The District has no agreement with 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 of the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are generally bought, sold or traded in the secondary market.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

Cybersecurity

The District's consultants use digital technologies to collect taxes, hold funds and process disbursements. These systems necessarily hold sensitive protected information that is valued on the black market. As a result, the electronic systems and networks of organizations like the District's consultants are considered targets for cyber-attacks and other potential breaches of their systems. To the extent the District is determined to be the party responsible for various electronic systems or suffers a loss of funds due to a security breach, there could be a material adverse effect on the District's finances. Insurance to protect against such breaches is limited.

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has applied for a bond insurance policy (the "Policy") to guarantee the scheduled payment of principal and interest on the Bonds. If the Policy is issued, investors should be aware of the following investment considerations.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Insurer and its claim paying ability. The 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 Insurer and of the ratings on the Bonds insured by the 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 description of "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE."

The obligations of the Insurer are contractual obligations and in an event of default by the 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 Insurer and no assurance or representation regarding the financial strength or projected financial strength of the 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 Insurer, particularly over the life of the investment. See "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE" for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

LEGAL MATTERS

Legal Opinions

Issuance of the Bonds is subject to (i) 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 a continuing, direct annual ad valorem tax levied without limit as to rate or amount upon all taxable property within the District, and (ii) the legal opinion of Bond Counsel, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that 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. The District will also furnish the opinion of Bond Counsel that will address the matters described under "—Tax Exemption." The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

In addition to serving as Bond Counsel, Sanford Kuhl Hagan Kugle Parker Kahn LLP also acts as general counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of Bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

No-Litigation Certificate

The District will furnish the 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 is then pending against or, to the best knowledge of the certifying officers, threatened against the District contesting or attacking the Bonds or the Bond Order; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority of proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the Bond Order, the corporate existence or boundaries of the District or the titles of the then present officers of the Board.

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.

Qualified Tax-Exempt Obligations

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for "qualified tax-exempt obligations" which include tax-exempt obligations, such as the Bonds, (a) designated by the issuer as "qualified tax-exempt obligations" and (b) issued by a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c) (3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000.

The District will designate the Bonds as "qualified tax-exempt obligations" and will represent that the aggregate amount of tax-exempt obligations (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2026 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2026.

Notwithstanding this exception, financial institutions acquiring the Bonds will be subject to a twenty percent (20%) disallowance of allocable interest expense.

Tax Exemption

The delivery of Bonds is subject to an opinion of Bond Counsel to the effect that, assuming continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code"), and existing regulations, published rulings and court decision procedures, interest on the bonds (i) will be excludable from the income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes and (ii) is not subject to the alternative minimum tax on individuals; however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of determining the alternative minimum tax imposed on corporations. The statutes, regulations, published rulings, and court decisions on which such opinion is based are subject to change.

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

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

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

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

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

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.

Proposed Tax Legislation

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of certain Bonds (the “Discount Bonds”) may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described under “—Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, “S” corporations with “subchapter C” earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the “Premium Bonds”) may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain or decrease the amount of any loss to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. Generally, no corresponding deductions are allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the state and local tax consequences of owning Premium Bonds.

MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE

The District has not applied for an underlying investment grade rating on the Bonds nor is it expected that the District would have been successful if such application had been made. The District has submitted applications to various municipal bond insurers for a contract for municipal bond insurance on the Bonds. The purchase of such insurance is at the Initial Purchaser's option and expense. See “RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance.”

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was tendered by _____ (the "Initial Purchaser") bearing the interest rates shown on the cover page hereof, at a price of _____% of the principal amount thereof which resulted in a net effective interest rate of _____% as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

The Initial Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at yields lower than the public offering yield stated on the inside cover page hereof. The initial offering yield may be changed at any time by the Initial Purchaser.

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

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which the Bonds have been offered for sale to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker, or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

The prices and other terms with respect to the offering and sale of the Bonds may be changed at any 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 offering 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 that stabilize or maintain the market prices of the Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of utility district bonds may be greater than the difference between the bid and asked price 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.

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other 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 shall 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.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The financial data and other information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Developer, the Tax Assessor/Collector, the Appraisal District and information from certain other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described under "—Certification of Official Statement." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Official Statement are included herein 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.

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, including the Official Notice of Sale and the Official Bid Form for the sale of the Bonds. The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Consultants

In approving this Official Statement, the District has relied upon the following consultants:

Engineer: The information contained in this Official Statement relating to engineering matters and to the description of the System and in particular that information included in the sections entitled “THE DISTRICT—Description and Location” “—Land Use” and “—Status of Development,” “THE SYSTEM,” “THE PARK SYSTEM” and “THE ROAD SYSTEM” has been provided by LJA Engineering, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in this Official Statement relating to the assessed valuations has been provided by the Montgomery Central Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Montgomery County, including the District.

Tax Assessor/Collector: The information contained in this Official Statement relating to the historical breakdown of the assessed valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Utility Tax Service, LLC and is included herein in reliance upon the authority of said firm as an expert in assessing and collecting taxes.

Auditor: The District’s financial statements for the fiscal year ending May 31, 2025, have been audited by the independent accounting firm of McCall Gibson Swedlund Barfoot Ellis PLLC. See “APPENDIX A” for a copy of the District’s May 31, 2025, audited financial statements.

Bookkeeper: The information related to the “unaudited” summary of the District’s General Operating Fund as it appears “GENERAL OPERATING FUND—General” has been provided by Municipal Accounts & Consulting, L.P. and is included herein in reliance upon the authority of such firm as experts in tracking and managing the various funds of utility districts.

Bond Counsel has reviewed the information appearing in this Preliminary Official Statement under “THE BONDS,” “THE DISTRICT—General,” “TAXING PROCEDURES,” “LEGAL MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Preliminary Official Statement nor has it conducted an investigation of the affairs of the District or the Developer for the purpose of passing upon the accuracy or completeness of this Preliminary Official Statement. No person is entitled to rely upon Bond Counsel’s limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

Updating the Official Statement

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser, unless the 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 as required by law (but not more than 90 days after the date the District delivers the Bonds).

Certification of Official Statement

The District, acting through its Board of Directors in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the official executing this certificate may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access system ("EMMA").

Annual Reports

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)," "TAX DATA," "GENERAL OPERATING FUND," "DEBT SERVICE REQUIREMENTS and in "APPENDIX A." The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2026.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements for the District are not provided to the District timely, the District will provide unaudited financial statements within the required time period and will provide such audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the District's audit report or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is May 31. Accordingly, it must provide updated information by November 30 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.

Specified Event Notices

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the 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 status of the Bonds, or other material events affecting the tax 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 within the meaning of Rule 15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District within the meaning of the Rule, or the sale of all or substantially all of the assets of the District within the meaning of the Rule, other than in the ordinary course of business, or the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (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 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 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 the financial obligation of the District within the meaning of the Rule, any of which reflect financial difficulties. The term "financial obligation" when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities for which a final official statement has been provided to the MSRB consistent with the Rule. The term "material" when used in this paragraph shall have the meaning ascribed to them under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described under "—Annual Reports."

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public through the EMMA internet portal at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified 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 Registered or Beneficial Owners 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 the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if, but only if, the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Registered and Beneficial Owners of the Bonds. The District may amend or repeal the agreement in the Bond Order if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the initial offering. 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 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.

Compliance with Prior Undertakings

The District issued its initial series of bonds in 2024, and since that time has complied in all material respects with all continuing disclosure agreements made by the District in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

All estimates, statements and assumptions in this Official Statement and the Appendix hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

This Official Statement was approved by the Board of Directors of Montgomery County Municipal Utility District No. 206, as of the date shown on the cover page.

/s/ _____
President, Board of Directors
Montgomery County Municipal Utility District No. 206

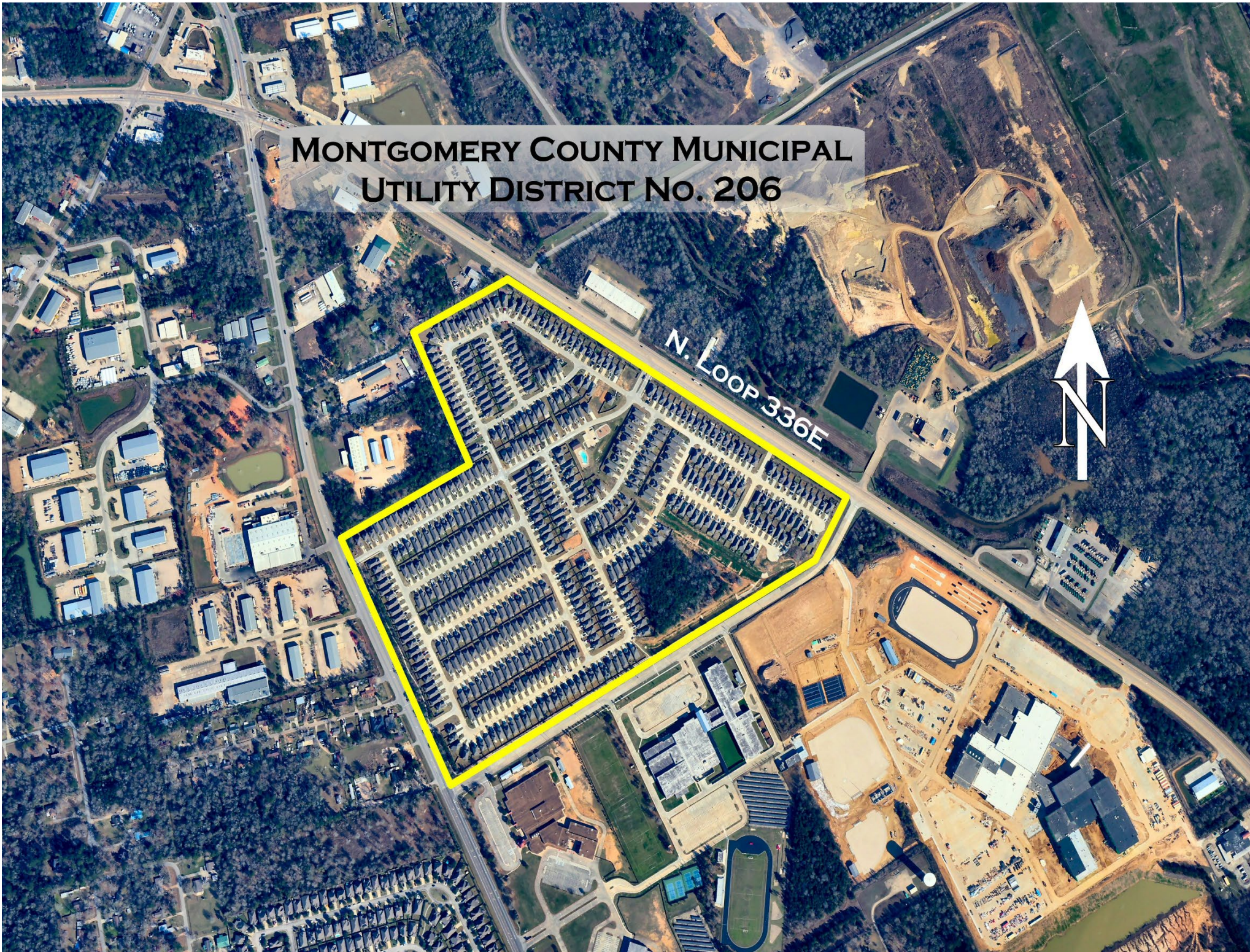
ATTEST:

/s/ _____
Secretary, Board of Directors
Montgomery County Municipal Utility District No. 206

AERIAL PHOTOGRAPH
(Approximate boundaries of the District as of February 2026)

**MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT No. 206**

N. LOOP 336E



PHOTOGRAPHS OF THE DISTRICT
(Taken February 2026)













APPENDIX A

District Audited Financial Statements for the fiscal year ended May 31, 2025

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
MONTGOMERY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
MAY 31, 2025

McCALL GIBSON SWEDLUND BARFOOT ELLIS PLLC
Certified Public Accountants

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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
Montgomery County Municipal Utility District No. 206
Montgomery County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Municipal Utility District No. 206 (the "District") as of and for the year ended May 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 May 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the District implemented new accounting guidance, Governmental Accounting Standards Board Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, resulting in restatement of the District's government-wide financial statements as of and for the fiscal year ended May 31, 2024. Our opinions are not modified with respect to this matter.

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.

Responsibilities of Management for the Financial Statements (continued)

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.

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 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 19, 2025

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2025**

Management’s discussion and analysis of the financial performance of Montgomery County Municipal Utility District No. 206 (the “District”) provides an overview of the District’s financial activities for the year ended May 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 the District’s assets and liabilities 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 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 three governmental fund types. The General Fund accounts for property taxes, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 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. A 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 \$10,228,971 as of May 31, 2025. A portion of the District's net position reflects its net investment in capital assets which include land, water facilities, and wastewater facilities less any debt used to acquire those assets that is still outstanding.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2025**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a comparative analysis of the government-wide changes in net position. Fiscal year ending 2024 balances have been adjusted; see Note 2.

	<u>Summary of Changes in the Statement of Net Position</u>		
	2025	2024*	Change Positive (Negative)
Current and Other Assets	\$ 1,280,569	\$ 213,741	\$ 1,066,828
Capital Assets (Net of Depreciation)	<u>3,346,429</u>	<u>3,295,492</u>	<u>50,937</u>
Total Assets	<u>\$ 4,626,998</u>	<u>\$ 3,509,233</u>	<u>\$ 1,117,765</u>
Due to Developer	\$ 8,838,580	\$ 12,920,825	\$ 4,082,245
Bonds Payable	5,845,972		(5,845,972)
Other Liabilities	<u>171,417</u>	<u>40,290</u>	<u>(131,127)</u>
Total Liabilities	<u>\$ 14,855,969</u>	<u>\$ 12,961,115</u>	<u>\$ (1,894,854)</u>
Net Position:			
Net Investment in Capital Assets	\$ (11,183,936)	\$ (9,516,333)	\$ (1,667,603)
Restricted	247,828		247,828
Unrestricted	<u>707,137</u>	<u>64,451</u>	<u>642,686</u>
Total Net Position	<u>\$ (10,228,971)</u>	<u>\$ (9,451,882)</u>	<u>\$ (777,089)</u>

*As restated

The following table summarizes the District's operations for the years ending May 31, 2025, and May 31, 2024. Fiscal year ending 2024 balances have been adjusted; see Note 2.

	<u>Summary of Changes in the Statement of Activities</u>		
	2025	2024*	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 756,928	\$ 226,457	\$ 530,471
Other Revenues	<u>25,431</u>	<u>2,196</u>	<u>23,235</u>
Total Revenues	\$ 782,359	\$ 228,653	\$ 553,706
Expenses (Including Conveyances)	<u>1,559,448</u>	<u>9,612,461</u>	<u>8,053,013</u>
Change in Net Position	\$ (777,089)	\$ (9,383,808)	\$ 8,606,719
Net Position, Beginning of Year	<u>(9,451,882)</u>	<u>(68,074)</u>	<u>(9,383,808)</u>
Net Position, End of Year	<u>\$ (10,228,971)</u>	<u>\$ (9,451,882)</u>	<u>\$ (777,089)</u>

*As restated

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2025**

FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS

The District’s combined fund balances as of May 31, 2025 were \$1,116,090, an increase of \$944,832 from the prior year.

The District’s General Fund fund balance as of May 31, 2025, was \$763,371, an increase of \$592,113 from the previous fiscal year primarily due to property tax revenues exceeding operating and administrative costs.

The Debt Service Fund fund balance increased by \$269,532, primarily due to capitalized interest funded by the Series 2024 bonds.

The Capital Projects Fund fund balance increased by \$83,187, primarily due to surplus funds from the issuance of the Series 2024 bonds.

CAPITAL ASSETS

Capital assets as of May 31, 2025, total \$3,346,429 (net of accumulated depreciation). Capital assets include land, water facilities and wastewater facilities. As storm drainage and roads are constructed, they are conveyed to Montgomery County for ownership, operation, and maintenance.

The District is located within the city limits of the City of Conroe, Texas (the “City”). All water facilities and wastewater facilities constructed within the District are conveyed to the City once completed and placed in service. The City is responsible for the operation and maintenance of the facilities for the benefit of the residents of the District; however, the District retains a significant residual interest in the water facilities and wastewater facilities and records such facilities as capital assets in accordance with GASB Statement No. 94.

Capital Assets At Year-End			
	2025	2024*	Change Positive (Negative)
Capital Assets Not Being Depreciated -			
Land and Land Improvements	\$ 136,261	\$	\$ 136,261
Capital Assets Subject to Depreciation:			
Water System	1,348,792	1,354,419	(5,627)
Wastewater System	2,044,085	2,049,059	(4,974)
Less Accumulated Depreciation	(182,709)	(107,986)	(74,723)
Total Net Capital Assets	\$ 3,346,429	\$ 3,295,492	\$ 50,937

*As restated

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2025**

LONG-TERM DEBT

At the end of the current fiscal year, the District had total bond debt payable of \$5,800,000. The changes in bonds payable of the District during the current fiscal year are summarized in the following table.

Bond Debt Payable, June 1, 2024	\$ - 0 -
Add: Bond Sale - Series 2024	<u>5,800,000</u>
Bond Debt Payable, May 31, 2025	<u>\$ 5,800,000</u>

The Series 2024 bonds carry an insured rating from Standard and Poor’s of “AA” by virtue of bond insurance issued by Build America Mutual Assurance Company. Credit enhanced ratings provided through bond insurance policies are subject to change based on changes to the ratings of the insurers.

As of May 31, 2025, the District recorded an amount due to the Developer of \$8,838,580 which consisted of operating advances made by the Developer since inception as well as costs associated with the construction of water, wastewater, drainage and road facilities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted a budget for the General Fund for the current fiscal year. Actual revenues were \$579,832 more than budgeted revenues, actual expenditures were \$71,776 more than budgeted expenditures and transfers in of \$29,382 were unbudgeted for which resulted in a positive budget versus actual variance of \$537,438. See the budget to actual comparison for more information.

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 Montgomery County Municipal Utility District No. 206, c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1330 Post Oak Blvd, Suite 2650, Houston, Texas 77056.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2025

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 2,416	\$ 16,057
Investments	854,142	285,041
Receivables:		
Property Taxes	14,766	
Accrued Interest	1,073	2,052
Due from Other Funds	33,618	
Prepaid Costs	21,835	
Land		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 927,850	\$ 303,150
LIABILITIES		
Accounts Payable	\$ 149,713	\$
Accrued Interest Payable		
Due to Developer		
Due to Other Funds		33,618
Long Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 149,713	\$ 33,618
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 14,766	\$ -0-
FUND BALANCES		
Nonspendable - Prepaid Costs	\$ 21,835	\$
Restricted for Authorized Construction		
Restricted for Debt Service		269,532
Unassigned	741,536	
TOTAL FUND BALANCES	\$ 763,371	\$ 269,532
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 927,850	\$ 303,150
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.

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 470	\$ 18,943	\$	\$ 18,943
82,717	1,221,900		1,221,900
	14,766		14,766
	3,125		3,125
	33,618	(33,618)	
	21,835		21,835
		136,261	136,261
		3,210,168	3,210,168
<u>\$ 83,187</u>	<u>\$ 1,314,187</u>	<u>\$ 3,312,811</u>	<u>\$ 4,626,998</u>
\$	\$ 149,713	\$	\$ 149,713
		21,704	21,704
		8,838,580	8,838,580
	33,618	(33,618)	
		120,000	120,000
		5,725,972	5,725,972
<u>\$ -0-</u>	<u>\$ 183,331</u>	<u>\$ 14,672,638</u>	<u>\$ 14,855,969</u>
<u>\$ -0-</u>	<u>\$ 14,766</u>	<u>\$ (14,766)</u>	<u>\$ -0-</u>
\$	\$ 21,835	\$ (21,835)	\$
83,187	83,187	(83,187)	
	269,532	(269,532)	
	741,536	(741,536)	
<u>\$ 83,187</u>	<u>\$ 1,116,090</u>	<u>\$ (1,116,090)</u>	<u>\$ -0-</u>
<u>\$ 83,187</u>	<u>\$ 1,314,187</u>		
		\$ (11,183,936)	\$ (11,183,936)
		247,828	247,828
		707,137	707,137
		<u>\$ (10,228,971)</u>	<u>\$ (10,228,971)</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MAY 31, 2025

Total Fund Balances - Governmental Funds		\$ 1,116,090
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.</p>		3,346,429
<p>Deferred inflows of resources related to property tax revenues for the 2024 and prior tax levies became part of recognized revenue in the governmental activities of the District.</p>		14,766
<p>Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. This liability at year consists of:</p>		
Due to Developer	\$ (8,838,580)	
Accrued Interest Payable	(21,704)	
Bonds Payable	<u>(5,845,972)</u>	<u>(14,706,256)</u>
Total Net Position - Governmental Activities		<u>\$ (10,228,971)</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2025

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 744,355	\$
Penalty and Interest		780
Investment and Miscellaneous Revenues	11,567	8,599
TOTAL REVENUES	\$ 755,922	\$ 9,379
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 67,935	\$
Contracted Services	21,262	10,814
Repairs and Maintenance	69,024	
Depreciation		
Other	17,470	7,563
Capital Outlay		
Developer Interest		
Debt Service:		
Bond Interest		112,136
Bond Issuance Costs	17,500	
TOTAL EXPENDITURES/EXPENSES	\$ 193,191	\$ 130,513
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	\$ 562,731	\$ (121,134)
OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	\$ 29,382	\$
Proceeds from Issuance of Long-Term Debt		390,666
Bond Premium		
TOTAL OTHER FINANCING SOURCES, NET	\$ 29,382	\$ 390,666
NET CHANGE IN FUND BALANCES	\$ 592,113	\$ 269,532
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION -		
JUNE 1, 2024, AS REPORTED	171,258	
CHANGE IN ACCOUNTING PRINCIPLE		
JUNE 1, 2024, AS RESTATED	171,258	-0-
FUND BALANCES/NET POSITION - MAY 31, 2025	\$ 763,371	\$ 269,532

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 744,355	\$ 12,573	\$ 756,928
	780		780
4,485	24,651		24,651
<u>\$ 4,485</u>	<u>\$ 769,786</u>	<u>\$ 12,573</u>	<u>\$ 782,359</u>
\$	\$ 67,935	\$	\$ 67,935
	32,076		32,076
77,045	146,069		146,069
		74,723	74,723
66	25,099		25,099
4,207,905	4,207,905	(4,207,905)	
503,742	503,742		503,742
	112,136	20,725	132,861
559,443	576,943		576,943
<u>\$ 5,348,201</u>	<u>\$ 5,671,905</u>	<u>\$ (4,112,457)</u>	<u>\$ 1,559,448</u>
<u>\$ (5,343,716)</u>	<u>\$ (4,902,119)</u>	<u>\$ 4,125,030</u>	<u>\$ (777,089)</u>
\$ (29,382)	\$	\$	\$
5,409,334	5,800,000	(5,800,000)	
46,951	46,951	(46,951)	
<u>\$ 5,426,903</u>	<u>\$ 5,846,951</u>	<u>\$ (5,846,951)</u>	<u>\$ -0-</u>
\$ 83,187	\$ 944,832	\$ (944,832)	\$
		(777,089)	(777,089)
	171,258	(9,515,154)	(9,343,896)
		(107,986)	(107,986)
<u>-0-</u>	<u>171,258</u>	<u>(9,623,140)</u>	<u>(9,451,882)</u>
<u>\$ 83,187</u>	<u>\$ 1,116,090</u>	<u>\$ (11,345,061)</u>	<u>\$ (10,228,971)</u>

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2025**

Net Change in Fund Balances - Governmental Funds	\$	944,832
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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.		12,573
--	--	--------

Governmental funds do not account for depreciation. However, depreciation expense is recorded in the Statement of Activities.		(74,723)
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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.		4,207,905
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Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		(20,725)
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Governmental funds report bond proceeds and bond premiums as other financing sources. Bond proceeds, net of related bond premium, are recorded as long-term liabilities in the Statement of Net Position.		<u>(5,846,951)</u>
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Change in Net Position - Governmental Activities	\$	<u><u>(777,089)</u></u>
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The accompanying notes to the financial statements are an integral part of this report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 1. CREATION OF DISTRICT

Montgomery County Municipal Utility District No. 206 (the “District”) was created as a result of the passage of House Bill 4611, 87th Regular Session of the Texas Legislature, codified as Chapter 7928A, Texas Special District Laws Code, as a conservation and reclamation district created under and essential to accomplish the purposes of Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution and operating pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, as amended. The District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, storm sewer drainage, irrigation, to construct roads, to provide solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The Board of Directors held its organizational meeting on February 10, 2022.

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. These classifications are defined on the following page.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and 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.

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.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

The District has three governmental funds and considers each to be a major fund. The General Fund accounts for property taxes, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for 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 year 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 period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources and 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 May 31, 2025, the Debt Service Fund owed the General Fund \$33,618 for tax collections. During the year ended May 31, 2025, the Capital Projects Fund transferred \$29,382 to the General Fund for prior year bond engineering costs.

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.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets include land, water facilities and wastewater facilities. Capital assets will be reported in the Statement of Net Position at historical cost. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset will be capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. With the exception of land which is not depreciated, capital assets are depreciated over the estimated useful lives of the assets over a period of 45 years assuming no salvage value.

Water facilities and wastewater facilities constructed within the District are conveyed to the City of Conroe, Texas for operation and maintenance for the benefit of the residents of the District. The District maintains a significant residual interest in the water facilities and wastewater facilities conveyed. Therefore, in accordance with GASB Statement No. 94, these assets are recorded as capital assets of the District. A prior period adjustment was recognized to incorporate this accounting change which resulted in a decrease to net position of the District as of May 31, 2024 of \$107,986.

As storm drainage and roads are constructed, they are conveyed to Montgomery County for ownership, operation, and maintenance. To date, conveyances of roads and storm drainage total \$9,408,347.

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.

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.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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.

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.

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.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 3. LONG-TERM DEBT

The following table summarizes bonds payable activity for the current fiscal year.

	June 1, 2024	Additions	Retirements	May 31, 2025
Bonds Payable	\$	\$ 5,800,000	\$	\$ 5,800,000
Unamortized Premiums		46,951	979	45,972
Bonds Payable, net	\$ -0-	\$ 5,846,951	\$ 979	\$ 5,845,972
		Amount Due Within One Year		\$ 120,000
		Amount Due After One Year		5,725,972
		Total Bonds Payable, net		\$ 5,845,972

	Series 2024
Amounts Outstanding –May 31, 2025	\$ 5,800,000
Interest Rates	4.00% - 6.50%
Maturity Dates – Serially Beginning/Ending	May 1, 2026/2049
Interest Payment Dates	November 1/ May 1
Callable Dates	May 1, 2031*

* The bonds are subject to redemption at the option of the District prior to their maturity in whole, or from time to time in part, on the call date or any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2024 term bonds maturing on May 1, 2031 and 2037 are subject to mandatory redemption beginning May 1, 2026 and 2036, respectively.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 3. LONG-TERM DEBT (Continued)

As of May 31, 2025, the debt service requirements on the outstanding bond were as follows:

Fiscal Year	Principal	Interest	Total
2026	\$ 120,000	\$ 260,443	\$ 380,443
2027	130,000	252,643	382,643
2028	135,000	244,193	379,193
2029	145,000	235,417	380,417
2030	150,000	225,993	375,993
2031-2035	895,000	989,129	1,884,129
2036-2040	1,165,000	780,209	1,945,209
2041-2045	1,515,000	520,410	2,035,410
2046-2049	1,545,000	168,726	1,713,726
	<u>\$ 5,800,000</u>	<u>\$ 3,677,163</u>	<u>\$ 9,477,163</u>

The District has authorized but unissued bonds in the amount of \$93,150,000 for utility facilities, \$148,425,000 for refunding utility bonds, \$96,985,000 for road facilities, \$145,477,500 for refunding road facilities bonds, \$36,760,000 for park facilities and \$55,140,000 for refunding park facilities bonds.

The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. The tax is levied upon all property subject to taxation within the District without limitation as to rate or amount. During fiscal year 2025, the District did not levy a debt service tax.

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 are levied around August/September, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on each five-year anniversary of the bonds.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS
(Continued)

The bond order states the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

NOTE 5. 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 was \$773,943 and the bank balance was \$774,474. The District was not exposed to custodial credit risk.

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

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 2,416	\$ 520,000	\$ 522,416
DEBT SERVICE FUND	16,057	235,000	251,057
CAPITAL PROJECTS FUND	470		470
TOTAL DEPOSITS	\$ 18,943	\$ 755,000	\$ 773,943

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

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 invests in Texas Cooperative Liquid Assets Securities System Trust ("Texas CLASS"), an external public funds investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool's administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. UMB Bank, N.A. serves as custodian for the pool. Investments held by Texas CLASS are priced to market on a weekly basis. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas CLASS.

Certificates of deposit are valued at acquisition cost at the date of purchase.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of May 31, 2025, the District had the following investments and maturities:

Funds and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
Texas CLASS	\$ 334,142	\$ 334,142
Certificates of Deposit	520,000	520,000
<u>DEBT SERVICE FUND</u>		
Texas CLASS	50,041	50,041
Certificate of Deposit	235,000	235,000
<u>CAPITAL PROJECTS FUND</u>		
Texas CLASS	82,717	82,717
TOTAL INVESTMENTS	\$ 1,221,900	\$ 1,221,900

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2025, the District’s investments in Texas CLASS were rated “AAAm” by Standard and Poor’s. The District also manages credit risk by investing in certificates of deposit with balances covered in accordance with Texas statutes.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in Texas CLASS to have a maturity of less than one year since the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value. The District also manages interest rate risk by investing in certificates of deposit with maturities of approximately one year or less.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 6. CAPITAL ASSETS

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

	June 1, 2024	Increases	Decreases	May 31, 2025
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ -0-	\$ 136,261	\$ -0-	\$ 136,261
Capital Assets Subject to Depreciation				
Water System	\$ 1,354,419	\$	\$ 5,627	\$ 1,348,792
Wastewater System	2,049,059	_____	4,974	2,044,085
Total Capital Assets Subject to Depreciation	<u>\$ 3,403,478</u>	<u>\$ -0-</u>	<u>\$ 10,601</u>	<u>\$ 3,392,877</u>
Accumulated Depreciation				
Water System	\$ 43,079	\$ 29,659	\$	\$ 72,738
Wastewater System	64,907	45,064	_____	109,971
Total Accumulated Depreciation	<u>\$ 107,986</u>	<u>\$ 74,723</u>	<u>\$ -0-</u>	<u>\$ 182,709</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 3,295,492</u>	<u>\$ (74,723)</u>	<u>\$ 10,601</u>	<u>\$ 3,210,168</u>
Total Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 3,295,492</u></u>	<u><u>\$ 61,538</u></u>	<u><u>\$ 10,601</u></u>	<u><u>\$ 3,346,429</u></u>

Capital assets include the cost of water and wastewater infrastructure constructed within the District which are conveyed to the City of Conroe, Texas for operation and maintenance for the benefit of the residents of the District. In accordance with GASB Statement No. 94, since the District has a significant residual interest in these water and wastewater system assets, they are recorded as capital assets of the District. As storm drainage and roads are constructed, they are conveyed to Montgomery County for ownership, operation, and maintenance.

NOTE 7. MAINTENANCE TAX

On May 7, 2022, District voters authorized the levy and collection of a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. The maintenance tax is to be used for operation and maintenance purposes. During the year ended May 31, 2025, the District levied an ad valorem maintenance tax rate of \$1.10 per \$100 of assessed valuation, which resulted in a tax levy of \$756,945 on the adjusted taxable valuation of \$68,813,137 for the 2024 tax year.

On May 7, 2022, District voters authorized the levy and collection of a maintenance tax for parks and recreational facilities not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 8. 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 since inception.

NOTE 9. UNREIMBURSED COSTS

The District has entered into a financing and reimbursement agreement with a Developer within the District which provides for the Developer to make payments on behalf of the District for various projects and operating advances. The actual amounts owed, including developer interest, will be calculated at the time debt is issued to reimburse the Developer. The following table summarizes the current fiscal year activity:

Due to Developer, beginning of year	\$ 12,920,825
Current year additions	136,261
Current year payments and adjustments	<u>(4,218,506)</u>
Due to Developer, end of year	<u>\$ 8,838,580</u>

NOTE 10. BOND SALE

On November 26, 2024, the District closed on the sale of its \$5,800,000 Series 2024 Unlimited Tax Bonds. Proceeds will be used to reimburse the developer a portion of the construction and engineering costs for utility facilities serving Cliffstone Hills, Sections One and Two as well as land costs and operating advances. Bond proceeds were also used to fund capitalized interest, developer interest and bond issuance costs. The District used surplus Series 2024 bond proceeds totaling \$108,397 to pay for drainage channel repairs.

NOTE 11. SUBSEQUENT EVENT - BOND SALES

During the fourth quarter of 2025, the District anticipates closing on the sale of its \$2,890,000 Series 2025 Unlimited Tax Bonds, the proceeds of which are to be used to reimburse the developer for construction and engineering costs for utility facilities serving Cliffstone Hills, Sections Two as well as operating advances and creation costs. During the fourth quarter of 2025, the District also anticipates closing on the sale of its \$880,000 Series 2025A Unlimited Tax Park Bonds, the proceeds of which are to be used to reimburse the developer for the Cliffstone Hills Recreation Center and Amenities, including land and engineering costs.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206

REQUIRED SUPPLEMENTARY INFORMATION

MAY 31, 2025

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2025

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 171,090	\$ 744,355	\$ 573,265
Penalty, Interest, and Other	<u>5,000</u>	<u>11,567</u>	<u>6,567</u>
TOTAL REVENUES	<u>\$ 176,090</u>	<u>\$ 755,922</u>	<u>\$ 579,832</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 74,000	\$ 85,435	\$ (11,435)
Contracted Services	16,500	21,262	(4,762)
Repairs and Maintenance	9,720	69,024	(59,304)
Other	<u>21,195</u>	<u>17,470</u>	<u>3,725</u>
TOTAL EXPENDITURES	<u>\$ 121,415</u>	<u>\$ 193,191</u>	<u>\$ (71,776)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 54,675</u>	<u>\$ 562,731</u>	<u>\$ 508,056</u>
OTHER FINANCING SOURCES			
Transfers In	<u>\$ -0-</u>	<u>\$ 29,382</u>	<u>\$ 29,382</u>
NET CHANGE IN FUND BALANCE	\$ 54,675	\$ 592,113	\$ 537,438
FUND BALANCE - JUNE 1, 2024	<u>171,258</u>	<u>171,258</u>	<u></u>
FUND BALANCE - MAY 31, 2025	<u>\$ 225,933</u>	<u>\$ 763,371</u>	<u>\$ 537,438</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

MAY 31, 2025

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2025**

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

_____	Retail Water	_____	Wholesale Water	_____	Drainage
_____	Retail Wastewater	_____	Wholesale Wastewater	_____	Irrigation
_____	Parks/Recreation	_____	Fire Protection	_____	Security
_____	Solid Waste/Garbage	_____	Flood Control	_____	Roads
_____	Participates in joint venture, regional system and/or wastewater service				
_____	Other (specify):				

Note: The City of Conroe, Texas is the provider of water and wastewater treatment services to residents of the District.

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:

Montgomery County, Texas

Is the District located within a city?

Entirely X Partly _____ Not at all _____

City in which District is located:

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes _____ No X

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2025

PROFESSIONAL FEES:	
Auditing	\$ 11,000
Engineering	19,929
Legal	<u>37,006</u>
TOTAL PROFESSIONAL FEES	<u>\$ 67,935</u>
CONTRACTED SERVICES -	
Bookkeeping	<u>\$ 21,262</u>
REPAIRS AND MAINTENANCE	<u>\$ 69,024</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 5,472
Insurance	4,954
Office Supplies and Postage	2,375
Website, Meetings, and Other	<u>4,669</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 17,470</u>
DEBT SERVICE -	
Bond Issuance Costs	<u>\$ 17,500</u>
TOTAL EXPENDITURES	<u><u>\$ 193,191</u></u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
INVESTMENTS
MAY 31, 2025

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
Texas CLASS	XXXX0001	Various	Daily	\$ 334,142	\$
Certificate of Deposit	XXXX8310	4.00%	05/19/26	235,000	309
Certificate of Deposit	XXXX6452	4.25%	02/10/26	25,000	219
Certificate of Deposit	XXXX6172	4.15%	03/17/26	25,000	213
Certificate of Deposit	XXXX3743	4.30%	04/14/26	235,000	332
TOTAL GENERAL FUND				<u>\$ 854,142</u>	<u>\$ 1,073</u>
<u>DEBT SERVICE FUND</u>					
Texas CLASS	XXXX0003	Various	Daily	\$ 50,041	\$
Certificate of Deposit	XXXX6460	4.25%	10/13/25	235,000	2,052
TOTAL DEBT SERVICE FUND				<u>\$ 285,041</u>	<u>\$ 2,052</u>
<u>CAPITAL PROJECTS FUND</u>					
Texas CLASS	XXXX0002	Various	Daily	\$ 82,717	\$ -0-
TOTAL - ALL FUNDS				<u>\$ 1,221,900</u>	<u>\$ 3,125</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2025**

	Maintenance Taxes	
TAXES RECEIVABLE -		
JUNE 1, 2024	\$ 2,193	
Adjustments to Beginning		
Balance	(17)	\$ 2,176
Original 2024 Tax Levy	\$ 641,452	
Adjustment to 2024 Tax Levy	115,493	756,945
TOTAL TO BE		
ACCOUNTED FOR		\$ 759,121
TAX COLLECTIONS:		
Prior Years	\$ 1,863	
Current Year	742,492	744,355
TAXES RECEIVABLE -		
MAY 31, 2025		\$ 14,766
TAXES RECEIVABLE BY		
YEAR:		
2024		\$ 14,453
2023		313
TOTAL		\$ 14,766

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2025**

	2024	2023
PROPERTY VALUATIONS:		
Land	\$ 24,371,422	\$ 15,933,250
Improvements	47,903,659	4,634,460
Personal Property	58,273	19,362
Exemptions	(3,520,217)	(108)
TOTAL PROPERTY VALUATIONS	\$ 68,813,137	\$ 20,586,964
TAX RATES PER \$100 VALUATION:		
Maintenance	\$ 1.10	\$ 1.10
ADJUSTED TAX LEVY*	\$ 756,945	\$ 226,457
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	98.09 %	99.86 %

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

Maintenance Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation authorized by voters on May 7, 2022.

Maintenance Tax for Park and Recreational Facilities – Maximum tax rate of \$0.10 per \$100 of assessed valuation authorized by voters on May 7, 2022.

See accompanying independent auditor’s report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2025

S E R I E S - 2 0 2 4

Due During Fiscal Years Ending May 31	Principal Due May 1	Interest Due November 1 / May 1	Total
2026	\$ 120,000	\$ 260,443	\$ 380,443
2027	130,000	252,643	382,643
2028	135,000	244,193	379,193
2029	145,000	235,417	380,417
2030	150,000	225,993	375,993
2031	160,000	216,243	376,243
2032	170,000	205,843	375,843
2033	180,000	196,281	376,281
2034	185,000	189,081	374,081
2035	200,000	181,681	381,681
2036	210,000	173,681	383,681
2037	220,000	165,282	385,282
2038	230,000	156,482	386,482
2039	245,000	147,282	392,282
2040	260,000	137,482	397,482
2041	270,000	127,082	397,082
2042	285,000	116,282	401,282
2043	305,000	104,882	409,882
2044	320,000	92,682	412,682
2045	335,000	79,482	414,482
2046	355,000	65,662	420,662
2047	375,000	50,576	425,576
2048	395,000	34,638	429,638
2049	420,000	17,850	437,850
	<u>\$ 5,800,000</u>	<u>\$ 3,677,163</u>	<u>\$ 9,477,163</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
CHANGES IN LONG-TERM DEBT
FOR THE YEAR ENDED MAY 31, 2025

Description	Original Bonds Issued	Bonds Outstanding June 1, 2024	
Montgomery County Municipal Utility District No. 206 Unlimited Tax Bonds - Series 2024	<u>\$ 5,800,000</u>	<u>\$ -0-</u>	
Bond Authority:	Utility Bonds	Road Bonds	Park Bonds
Amount Authorized by Voters	\$ 98,950,000	\$ 96,985,000	\$ 36,760,000
Amount Issued	<u>5,800,000</u>	<u> </u>	<u> </u>
Remaining to be Issued	<u>\$ 93,150,000</u>	<u>\$ 96,985,000</u>	<u>\$ 36,760,000</u>
Debt Service Fund cash and investment balances as of May 31, 2025:		<u>\$ 301,098</u>	
Average annual debt service payment for remaining term of all bond debt:		<u>\$ 394,882</u>	

See Note 3 for interest rate, interest payment dates and maturity dates.

See accompanying independent auditor's report.

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding May 31, 2025	Paying Agent
	Principal	Interest		
\$ 5,800,000	\$ -0-	\$ 112,136	\$ 5,800,000	Zion Bancorporation N.A. Houston, TX
Refunding Utility Bonds	Refunding Road Bonds	Refunding Park Bonds		
\$ 148,425,000	\$ 145,477,500	\$ 55,140,000		
<u>\$ 148,425,000</u>	<u>\$ 145,477,500</u>	<u>\$ 55,140,000</u>		

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – TWO YEARS

	Amounts		Percentage of Total Revenues	
	2025	2024	2025	2024
REVENUES				
Property Taxes	\$ 744,355	\$ 224,264	98.5 %	99.0 %
Investment and Miscellaneous Revenues	11,567	2,196	1.5	1.0
TOTAL REVENUES	<u>\$ 755,922</u>	<u>\$ 226,460</u>	<u>100.0 %</u>	<u>100.0 %</u>
EXPENDITURES				
Professional Fees	\$ 85,435	\$ 55,571	11.4 %	24.5 %
Contracted Services	21,262	26,267	2.8	11.6
Repairs and Maintenance	69,024		9.1	
Other	17,470	14,290	2.3	6.3
TOTAL EXPENDITURES	<u>\$ 193,191</u>	<u>\$ 96,128</u>	<u>25.6 %</u>	<u>42.4 %</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 562,731</u>	<u>\$ 130,332</u>	<u>74.4 %</u>	<u>57.6 %</u>
OTHER FINANCING SOURCES				
Transfers In	\$ 29,382	\$		
Developer Advances		35,000		
TOTAL OTHER FINANCING SOURCES	<u>\$ 29,382</u>	<u>\$ 35,000</u>		
NET CHANGE IN FUND BALANCE	\$ 592,113	\$ 165,332		
BEGINNING FUND BALANCE	<u>171,258</u>	<u>5,926</u>		
ENDING FUND BALANCE	<u>\$ 763,371</u>	<u>\$ 171,258</u>		

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND – TWO YEARS**

	Amounts		Percentage of Revenues		Total
	2025	2024	2025	2024	
REVENUES					
Penalty and Interest	\$ 780	\$	8.3 %		%
Investment and Miscellaneous Revenues	<u>8,599</u>	<u></u>	<u>91.7</u>		
TOTAL REVENUES	<u>\$ 9,379</u>	<u>\$ -0-</u>	<u>100.0 %</u>		<u>N/A %</u>
EXPENDITURES					
Tax Collection Expenditures	\$ 18,377	\$	195.9 %		%
Debt Service Interest and Fees	<u>112,136</u>	<u></u>	<u>1,195.6</u>		
TOTAL EXPENDITURES	<u>\$ 130,513</u>	<u>\$ -0-</u>	<u>1,391.5 %</u>		<u>N/A %</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>\$ (121,134)</u>	<u>\$ -0-</u>	<u>(1,291.5) %</u>		<u>N/A %</u>
OTHER FINANCING SOURCES					
Proceeds from Issuance of Long-Term Debt	<u>\$ 390,666</u>	<u>\$ -0-</u>			
NET CHANGE IN FUND BALANCE	\$ 269,532	\$			
BEGINNING FUND BALANCE	<u></u>	<u></u>			
ENDING FUND BALANCE	<u>\$ 269,532</u>	<u>\$ -0-</u>			
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>**</u>	<u>**</u>			
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>**</u>	<u>**</u>			

** The City of Conroe, Texas provides water and wastewater services for residents of the District.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2025**

District Mailing Address - Montgomery County Municipal Utility District No. 206
c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP
1330 Post Oak Blvd, Suite 2650
Houston, TX 77056

District Telephone Number - (713) 850-9000

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of Office for the year ended <u>May 31, 2025</u>	Expense Reimbursements for the year ended <u>May 31, 2025</u>	<u>Title</u>
Kristina Early	05/2022 - 05/2026 (Elected)	\$ 1,105	\$ -0-	President
Ian Blake	05/2024 - 05/2028 (Elected)	\$ 1,105	\$ -0-	Vice President
Michael McKennon	05/2022 - 05/2026 (Elected)	\$ 884	\$ -0-	Secretary
Paige Gill	05/2024 - 05/2028 (Elected)	\$ 1,105	\$ -0-	Assistant Secretary
Sydney LaPlante	05/2022 - 05/2026 (Elected)	\$ 884	\$ -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 October 20, 2024.

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

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 206
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2025

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended May 31, 2025</u>	<u>Title</u>
Sanford Kuhl Hagan Kugle Parker Kahn LLP	02/10/22	\$ 41,323 \$ 161,550	General Counsel Bond Related
McCall Gibson Swedlund Barfoot Ellis PLLC	02/10/22	\$ 11,000 \$ 17,500	Auditor Bond Related
Municipal Accounts & Consulting, L.P.	02/10/22	\$ 22,074 \$ 4,000	Bookkeeper Bond Related
Masterson Advisors, LLC	02/10/22	\$ 112,977	Financial Advisor
LJA Engineering, Inc.	05/10/22	\$ 19,929 \$ 49,623	Engineer Bond Related
Utility Tax Service, LLC	02/10/22	\$ 6,739	Tax Assessor/ Collector

See accompanying independent auditor's report.