

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 7, 2026

THIS PRELIMINARY OFFICIAL STATEMENT is subject to completion and amendment and is intended solely for the solicitation of initial bids to purchase the Bonds. Upon sale of the Bonds, the OFFICIAL STATEMENT will be completed and delivered to the Underwriter.

IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE BONDS (I) IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND (II) IS NOT AN ITEM OF TAX PREFERENCE FOR PURPOSES OF THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "TAX MATTERS" HEREIN, INCLUDING INFORMATION REGARDING POTENTIAL ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

THE BONDS WILL NOT BE DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

NEW ISSUE-BOOK-ENTRY-ONLY

\$10,650,000

COLTON MUNICIPAL UTILITY DISTRICT NO. 2

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

UNLIMITED TAX ROAD BONDS

SERIES 2026

Dated Date: November 1, 2026

Due: September 1, as shown on the cover

Interest Accrual Date: Date of Delivery

The bonds described above (the "Bonds") are obligations solely of Colton Municipal Utility District No. 2 (the "District"), and are not obligations of the State of Texas, Montgomery County, the City of Todd Mission, the Master District (as defined herein) or any entity other than the District. THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED "RISK FACTORS."

Principal of the Bonds is payable at maturity or prior redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A. in Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds accrues from the initial date of delivery (expected to be on or about November 19, 2026) (the "Date of Delivery") and is payable on each March 1 and September 1 (each an "Interest Payment Date") commencing March 1, 2027, until maturity or prior redemption. The Bonds will be issued only in fully registered form and in denominations of \$5,000 each or integral multiples thereof. The Bonds mature and are subject to redemption prior to their maturity as shown on the cover.

The Bonds will be registered and delivered only 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 (as defined herein under "BOOK-ENTRY-ONLY SYSTEM") of the Bonds will not receive physical certificates representing the Bonds but will receive a credit balance on the books of the DTC participants. 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/Registrar, as herein defined, directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. See "BOOK-ENTRY-ONLY SYSTEM."

MATURITY SCHEDULE

Principal Amount (a)	Maturity (September 1)	CUSIP Number (c)	Interest Rate	Initial Reoffering Yield (d)	Principal Amount (a)	Maturity (September 1)	CUSIP Number (c)	Interest Rate	Initial Reoffering Yield (d)
\$ 180,000	2028		%	%	\$ 385,000	2041 (b)		%	%
190,000	2029				405,000	2042 (b)			
205,000	2030				430,000	2043 (b)			
215,000	2031				455,000	2044 (b)			
230,000	2032				485,000	2045 (b)			
240,000	2033 (b)				515,000	2046 (b)			
255,000	2034 (b)				545,000	2047 (b)			
270,000	2035 (b)				575,000	2048 (b)			
285,000	2036 (b)				610,000	2049 (b)			
305,000	2037 (b)				650,000	2050 (b)			
325,000	2038 (b)				690,000	2051 (b)			
340,000	2039 (b)				730,000	2052 (b)			
365,000	2040 (b)				770,000	2053 (b)			

- (a) The Underwriter (hereinafter defined) may designate one or more maturities as term bonds. See accompanying "OFFICIAL NOTICE OF SALE" and "OFFICIAL BID FORM."
- (b) Bonds maturing on or after September 1, 2033, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time, in part, on September 1, 2032, or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- (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 Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (d) Initial Reoffering Yield represents the initial offering yield to the public, which will be established by the Underwriter for offers to the public and which subsequently may be changed.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein.

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson, LLP, Houston, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about November 19, 2026.

BIDS DUE: Wednesday, October 14, 2026, at 10:00 A.M., Houston Time, in Houston, Texas
BID AWARD: Wednesday, October 14, 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.

TABLE OF CONTENTS

MATURITY SCHEDULE	1	TAXING PROCEDURES.....	30
USE OF INFORMATION IN OFFICIAL STATEMENT	3	Authority to Levy Taxes.....	30
SALE AND DISTRIBUTION OF THE BONDS.....	4	Property Tax Code and County-Wide Appraisal District	30
Award of the Bonds.....	4	Property Subject to Taxation by the District.....	30
Prices and Marketability	4	Tax Abatement	31
Securities Laws.....	4	Valuation of Property for Taxation.....	32
OFFICIAL STATEMENT SUMMARY	5	District and Taxpayer Remedies.....	32
SELECTED FINANCIAL INFORMATION (UNAUDITED).....	8	Levy and Collection of Taxes.....	32
THE BONDS	9	Rollback of Operation and Maintenance Tax Rate.....	33
Description	9	District's Rights in the Event of Tax Delinquencies.....	34
Method of Payment of Principal and Interest	9	RISK FACTORS	34
Source of Payment.....	9	General	34
No Arbitrage.....	10	Dependence on Principal Taxpayers and the Developer.....	34
Funds	10	Operating Funds	35
Redemption Provisions.....	10	Undeveloped Acreage and Vacant Lots.....	35
Authority for Issuance	10	Economic Factors and Interest Rates	35
Registration and Transfer	11	Credit Markets and Liquidity in the Financial Markets	35
Lost, Stolen or Destroyed Bonds	11	Increase in Costs of Building Materials.....	35
Replacement of Paying Agent/Registrar.....	11	Competition.....	36
Legal Investment and Eligibility to Secure Public Funds		Developer Obligation to the District.....	36
in Texas	12	Possible Impact on District Tax Rates.....	36
Issuance of Additional Debt	12	Overlapping Master District Debt and Contract Tax	36
Annexation by the City of Todd Mission.....	12	Tax Collections Limitations and Foreclosure Remedies.....	38
Strategic Partnership Agreement	13	Specific Flood Type Risks.....	38
Consolidation	13	Potential Effects of Oil Price Fluctuations on the Houston Area...	38
Remedies in Event of Default.....	13	Extreme Weather Events	38
Defeasance	13	Registered Owners' Remedies and Bankruptcy Limitations	39
BOOK-ENTRY-ONLY SYSTEM	14	Future Debt.....	40
USE AND DISTRIBUTION OF BOND PROCEEDS	16	Marketability of the Bonds.....	40
COLTON	16	Environmental and Air Quality Regulations.....	40
THE DISTRICT	17	Changes in Tax Legislation	42
General	17	Continuing Compliance with Certain Covenants.....	42
Description and Location.....	17	Risk Factors Related to the Purchase of	
Land Use	17	Municipal Bond Insurance	42
Status of Development.....	18	MUNICIPAL BOND RATING AND MUNICIPAL BOND	
Homebuilding.....	18	INSURANCE	43
Future Development	18	LEGAL MATTERS	43
THE DEVELOPER	18	Legal Proceedings	43
Role of a Developer.....	18	No Material Adverse Change	43
Description of the Developer and Principal Landowner.....	18	No-Litigation Certificate	43
Acquisition and Development Financing.....	19	TAX MATTERS	44
Obligations of the Developer.....	19	Tax Exemption	44
MANAGEMENT OF THE DISTRICT	19	Not Qualified Tax-Exempt Obligations.....	44
Board of Directors	19	Additional Federal Income Tax Considerations	44
District Consultants	19	PREPARATION OF OFFICIAL STATEMENT	46
THE ROAD SYSTEM.....	20	Sources and Compilation of Information.....	46
THE SYSTEM	20	Financial Advisor.....	46
The Master District Contract	20	Consultants	46
Master District Facilities	21	Updating the Official Statement.....	47
Internal Water Distribution, Wastewater Collection and Storm		Certification of Official Statement	47
Drainage Facilities.....	22	CONTINUING DISCLOSURE OF INFORMATION	47
Flood Protection and Drainage	22	Annual Reports.....	47
Regulation	22	Event Notices	48
Atlas 14	23	Availability of Information from the MSRB	48
Water and Wastewater Operations	24	Limitations and Amendments.....	48
FINANCIAL INFORMATION CONCERNING THE DISTRICT		Compliance With Prior Undertakings.....	49
(UNAUDITED)	25	MISCELLANEOUS	49
Outstanding Bonds	25	AERIAL LOCATION MAP	
Debt Service Requirements	26	PHOTOGRAPHS OF THE DISTRICT	
Estimated Overlapping Debt.....	27	APPENDIX A—Independent Auditor's Report and Financial	
Overlapping Taxes.....	27	Statements of the District for the year ended	
TAX DATA	28	January 31, 2026	
Debt Service Tax	28		
Contract Tax	28		
Maintenance and Operations Tax	28		
Historical Tax Rate Distribution.....	28		
Historical Tax Collections	28		
Additional Penalties.....	29		
Tax Roll Information.....	29		
Principal Taxpayers	29		
Tax Adequacy for Debt Service.....	30		

USE OF INFORMATION IN OFFICIAL STATEMENT

For purpose of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the “SEC”), as amended and in effect on the date hereof, this document constitutes an OFFICIAL STATEMENT of the District 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 SEC 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 representations 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.

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 Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, for further information.

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, SEC Rule 15c2-12, as amended.

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 Underwriter and thereafter only as specified in “PREPARATION OF OFFICIAL STATEMENT—Updating the Official Statement.”

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 effective interest rate, which bid was tendered by _____ (the "Underwriter"), paying 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, Texas Government Code, as amended.

Prices and Marketability

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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 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 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 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 and the Bonds have not 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 jurisdiction.

OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire OFFICIAL STATEMENT and of the documents summarized or described therein.

THE DISTRICT

Description...

Colton Municipal Utility District No. 2 (the “District”) is a political subdivision of the State of Texas, created pursuant to a special act of the Texas Legislature, Senate Bill 2504, Act of the 86th Legislature, Regular Session, 2019, codified as Chapter 8257, Texas Special District Local Laws Code, and by the duly adopted Order Dividing District of Magnolia Woods Municipal Utility District No. 1 dated February 2, 2023. In an order dated November 5, 2024, the Texas Commission on Environmental Quality (the “TCEQ”) pursuant to a request by the District, granted permission to the District to change its name to Colton Municipal Utility District No. 2. The District operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 637 acres of land. See “THE DISTRICT.”

Location...

The District is located in western Montgomery County, Texas, approximately 45 miles northwest of the downtown business district of the City of Houston. The District lies partially within the extraterritorial jurisdiction of the City of Todd Mission and within the boundaries of the Magnolia Independent School District. Access to the District is provided by State Highway 249, and the main entrance to the District is on Farm-to-Market 1486. See “THE DISTRICT—Description and Location” and “AERIAL LOCATION MAP.”

Colton...

The District is part of Colton, a master-planned community currently planned to encompass approximately 5,725 acres at full development. Colton includes three municipal utility districts currently created: the District, Colton Municipal Utility District No. 1 (“MUD 1” or the “Master District”), and Magnolia Woods Municipal Utility District No. 3 (“MUD 3”). All development in Colton is currently taking place in the District. See “COLTON.”

The Developer and Principal Landowner...

The developer of Colton is Colton Development Company LLC, a Texas limited liability company (“CDC” or the “Developer”). A portion of the undeveloped land within the Colton project boundaries is owned by BAM Houston Real Estate Investment, L.P., a Texas limited partnership (“BAM Houston Real Estate Investment”), which acts solely as a land holding company. BAM Houston Real Estate Investment sells land to the Developer as needed for development. As of July 31, 2026, the Developer had purchased approximately 808 acres within the Colton project boundaries, including approximately 523 acres of land within the District. BAM Houston Real Estate Investment owns approximately 115 acres of land within the District. AIRIA Development Company, a Texas corporation (“AIRIA”) manages the development of Colton for the Developer and BAM Houston Real Estate Investment. The controlling interests in AIRIA, CDC, and BAM Houston Real Estate Investment are primarily lineal descendants (or their trusts) of Lester Benny Binion and Phyllis Cope.

Neither the Developer nor any other landowner is obligated to pay any principal of or interest on the Bonds. See “THE DISTRICT—Status of Development,” “THE DEVELOPER,” “TAX DATA—Principal Taxpayers” and “RISK FACTORS—Dependence on Principal Taxpayers and the Developer.”

Status of Development...

Development in the District currently consists of Colton, Sections One through Eight (682 single-family residential lots developed on approximately 364 acres). As of September 29, 2026, 207 homes in the District were completed and occupied, 143 homes were under construction or in the name of a builder and 332 vacant lots were available for home construction.

Construction is underway for an approximately 8-acre amenity complex in the District that will include playgrounds, a splash pad, park and picnic areas, a gym, outdoor amphitheater and event hall. According to the Developer, the complex is expected to be completed by the end of 2026.

Approximately 211 developable acres within the District have not been provided with utilities and/or paving necessary for the construction of taxable improvements, and approximately 54 acres are not developable (public rights-of-way, detention, open spaces, easements, and utility sites). See “THE DISTRICT—Status of Development.”

Homebuilding...

Homebuilders active within the District include Beazer Homes, Coventry Homes, David Weekley Homes, Drees Custom Homes, Fedrick Harris Estate Homes, Highland Homes, J. Patrick Homes, Partners in Building, Perry Homes, Village Builders and Westin Homes. See “THE DISTRICT—Homebuilders.” According to the Developer, homes within the District range in price from approximately \$300,000 to over \$1,000,000.

Water and Wastewater...

The Master District, in its capacity as the provider of regional water, wastewater and storm sewer facilities (“Master District Water/Sewer/Drainage Facilities”), regional park facilities (“Master District Park Facilities”), regional road facilities (“Master District Road Facilities”) and other facilities necessary to serve the Service Area (as defined herein), including the District (hereinafter collectively referred to as the “Master District Facilities”), has contracted with the District to construct and provide service from the Master District Facilities. See “RISK FACTORS—Overlapping Master District Debt and Contract Tax.” The Master District owns and operates the Master District Facilities, with the exception of the Master District Road Facilities conveyed to and accepted by Montgomery County, Grimes County, or Waller County, as applicable. See “THE ROAD SYSTEM.” The District provides the internal water distribution, wastewater collection and storm drainage utilities within its boundaries. See “THE SYSTEM—The Master District Contract,” and “—Master District Facilities.”

Payment Record...

The District has previously issued \$6,000,000 of unlimited tax road bonds in one series, all of which is currently outstanding (the “Outstanding Bonds”). See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.” The District capitalized twenty-four (24) months of interest from proceeds of the Outstanding Bonds in December 2025 and will capitalize twelve (12) months of interest from Bond proceeds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.” The District has never defaulted on its debt obligations.

THE BONDS

Description...

The \$10,650,000 Unlimited Tax Road Bonds, Series 2026 (the “Bonds”) are being issued as fully registered bonds pursuant to a resolution (the “Bond Resolution”) authorizing the issuance of the Bonds adopted by the District's Board of Directors (the “Board”). The Bonds are scheduled to mature serially on September 1 in the years 2028 through 2053, both inclusive, in the principal amounts and accrue interest at the rates shown on the cover page hereof. Interest on the Bonds accrues from the Date of Delivery, and is payable on March 1, 2027, and each September 1 and March 1 thereafter, until maturity or prior redemption. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. See “THE BONDS.”

Book-Entry-Only System...

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 certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”

Redemption...

Bonds maturing on or after September 1, 2033, are subject to redemption prior to their maturity dates in whole, or from time to time in part, at the option of the District on September 1, 2032, or on 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. See “THE BONDS—Redemption Provisions.”

<i>Use of Proceeds...</i>	Proceeds of the Bonds will be used to finance road facilities as described herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will 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; to pay engineering fees and administrative costs; and to pay 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 second series of bonds issued out of an aggregate of \$172,350,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of constructing or acquiring road facilities and related improvements. The Bonds are issued by the District pursuant to the terms and provisions of Article III, Section 52 of the Texas Constitution, the general laws of the State of Texas, including, without limitation, Chapters 49 and 54 of the Texas Water Code, as amended, and the Bond Resolution. See “THE BONDS—Authority for Issuance,” and “—Issuance of Additional Debt.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds and the Outstanding Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations of the District and are not obligations of the State of Texas, Montgomery County, the City of Todd Mission, the Master District or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. Applications have been made to municipal bond insurance companies for qualification of the Bonds for municipal bond insurance. If qualified, the purchase of municipal bond insurance with respect to the Bonds is optional and at the expense of the Underwriter. See “RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”
<i>Not Qualified Tax-Exempt Obligations...</i>	The Bonds will not be designated “qualified tax-exempt obligations” for financial institutions.
<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas.
<i>Disclosure Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Houston, Texas.

RISK FACTORS

The purchase and ownership of the Bonds are subject to special risk factors and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned “RISK FACTORS.”

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2026 Taxable Assessed Valuation.....	\$134,113,735	(a)
Estimated Taxable Assessed Valuation as of August 1, 2026.....	\$188,161,565	(b)
Gross Direct Debt Outstanding	\$16,650,000	(c)
Estimated Overlapping Debt	<u>22,795,350</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$39,445,350	
Ratios of Gross Direct Debt to:		
2026 Taxable Assessed Valuation	12.41%	
Estimated Taxable Assessed Valuation as of August 1, 2026	8.85%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2026 Taxable Assessed Valuation	29.41%	
Estimated Taxable Assessed Valuation as of August 1, 2026	20.96%	
Debt Service Funds Available:		
Road Debt Service Fund Balance as of September 16, 2026	\$374,980	(e)
Capitalized Interest from Bonds Proceeds (Twelve (12) Months).....	<u>639,000</u>	(f)
Total Funds Available for Debt Service	\$1,013,980	
Operating Funds Available as of September 16, 2026	\$16,019	(g)
Road Capital Projects Fund as of September 16, 2026	\$75,376	(h)
Anticipated 2026 Debt Service Tax Rate	\$0.22	
Anticipated 2026 Maintenance and Operations Tax Rate	<u>1.28</u>	
Anticipated 2026 Total Tax Rate	\$1.50	(i)
Average Annual Debt Service Requirement (2027-2053).....	\$1,202,779	(j)
Maximum Annual Debt Service Requirement (2050).....	\$1,248,400	(j)
Tax Rates Required to Pay Average Annual Debt Service (2027-2053) at a 95% Collection Rate		
Based upon 2026 Taxable Assessed Valuation.....	\$0.95	(k)
Based upon Estimated Taxable Assessed Valuation as of August 1, 2026.....	\$0.68	(k)
Tax Rates Required to Pay Maximum Annual Debt Service (2050) at a 95% Collection Rate		
Based upon 2026 Taxable Assessed Valuation.....	\$0.98	(k)
Based upon Estimated Taxable Assessed Valuation as of August 1, 2026.....	\$0.70	(k)
Status of Development as of September 29, 2026 (l):		
Total Developed Lots	682	
Homes Completed and Occupied	207	
Homes Under Construction or in a Builder's Name.....	143	
Lots Available for Home Construction	332	
Estimated Population	725	(m)
(a)	The Montgomery Central Appraisal District (the "Appraisal District") has certified \$131,714,149 of taxable value and an additional \$2,399,586 of taxable value remains uncertified. The uncertified value is subject to review and downward revision or adjustment prior to certification. No tax will be levied on said uncertified value until it is certified by the Appraisal District. See "TAXING PROCEDURES."	
(b)	Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on August 1, 2026. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2026 and August 1, 2026, will be certified as of January 1, 2027. See "TAXING PROCEDURES."	
(c)	After the issuance of the Bonds. Includes the Bonds and the Outstanding Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."	
(d)	See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt," and "—Overlapping Taxes."	
(e)	Reflects remaining capitalized interest from proceeds of the Outstanding Bonds.	
(f)	The District will capitalize twelve (12) months of interest from Bond proceeds. The amount shown above is estimated at 6.00%. See "THE BONDS—Funds" and "USE AND DISTRIBUTION OF BOND PROCEEDS."	
(g)	See "RISK FACTORS—Operating Funds."	
(h)	The District will contribute \$75,000 of surplus Road Capital Projects Funds toward the projects to be financed by the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."	
(i)	The District has authorized the publication of a 2026 total tax rate in the amount of \$1.50 and expects to adopt such tax rate in October 2026 with \$0.22 allocated to debt service and \$1.28 allocated to maintenance and operations. See "TAX DATA—Historical Tax Rate Distribution."	
(j)	Based upon an estimated interest rate of 6.00% per annum. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."	
(k)	See "TAX DATA—Tax Adequacy for Debt Service," and "RISK FACTORS—Possible Impact on District Tax Rates."	
(l)	See "THE DISTRICT—Status of Development."	
(m)	Based upon 3.5 persons per occupied single-family residence.	

PRELIMINARY OFFICIAL STATEMENT

COLTON MUNICIPAL UTILITY DISTRICT NO. 2

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

\$10,650,000

UNLIMITED TAX ROAD BONDS SERIES 2026

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Colton Municipal Utility District No. 2 (the "District") of its \$10,650,000 Unlimited Tax Road Bonds, Series 2026 (the "Bonds").

The Bonds are issued by the District pursuant to the terms and provisions of Article III, Section 52 of the Texas Constitution, the general laws of the State of Texas, including, without limitation, Chapters 49 and 54 of the Texas Water Code, as amended, an election held within the District and a resolution authorizing the issuance, sale and delivery of the Bonds adopted by the Board of Directors of the District (the "Bond Resolution").

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, Colton Development Company LLC, a Texas limited liability company ("CDC" or the "Developer") and AIRIA Development Company, a Texas corporation ("AIRIA") and the 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 certain of the documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

THE BONDS

Description

The Bonds will be dated November 1, 2026, and accrue interest from the Date of Delivery, with interest payable each March 1 and September 1, beginning March 1, 2027 (each, an "Interest Payment Date"), and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Method of Payment of Principal and Interest

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A., Houston, Texas as the initial Paying Agent/Registrar for the Bonds (the "Paying Agent/Registrar"). The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry-only system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Houston, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the registered owner of the Bonds (the "Registered Owners") of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution.

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, 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.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Montgomery County, the City of Todd Mission, the Master District or any entity other than the District.

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 Resolution 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 that the Bonds shall not become “arbitrage bonds” under the Code and the regulations prescribed from time to time thereunder.

Funds

In the Bond Resolution, the Road Debt Service Fund is confirmed, and the proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund (the “Road Debt Service Fund”).

Twelve (12) months of capitalized interest shall be deposited into the Road Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Road Capital Projects Fund to be used for the purpose of reimbursing the Developer for certain construction costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Road Capital Projects Fund will be used as described in the Bond Resolution or ultimately transferred to the Road Debt Service Fund. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2033, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on September 1, 2032, or any date thereafter, at a price of par value plus unpaid accrued interest on the principal amounts called for redemption from the most recent Interest Payment Date to the date fixed for redemption.

If less than all of the Bonds are redeemed at any time the maturities of the Bonds to be redeemed will be selected by the District. If less than all the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

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 less than all the Bonds outstanding 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 which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Authority for Issuance

At a bond election held within the District, voters of the District authorized the issuance of \$172,350,000 principal amount of unlimited tax bonds for constructing or acquiring roads and related improvements. See “THE BONDS—Issuance of Additional Debt” herein.

The Bonds are issued by the District pursuant to the terms and provisions of Article III, Section 52 of the Texas Constitution, the general laws of the State of Texas, including, without limitation, Chapters 49 and 54 of the Texas Water Code, as amended, and the Bond Resolution.

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.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office 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 Resolution.

In the event the Book-Entry-Only System should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered Owners of lost, stolen or destroyed Bonds will be required to pay the District's costs to replace such Bonds. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Resolution 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.

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 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.

Issuance of Additional Debt

The District may issue additional bonds necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See “THE DISTRICT—General.” The District’s voters have authorized a total of \$172,350,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring roads and related facilities and \$172,350,000 principal amount of unlimited tax bonds for refunding such obligations. The District’s voters have also authorized a total of \$112,985,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring water, sanitary sewer and drainage facilities, \$112,985,000 principal amount of unlimited tax bonds for refunding such obligations, \$67,680,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring park and recreational facilities and \$67,680,000 principal amount of unlimited tax bonds for refunding such obligations. After issuance of the Bonds, \$155,700,000 in principal amount of unlimited tax bonds for acquiring or constructing road facilities, all of the unlimited tax bonds for water, sanitary sewer and drainage facilities, all of the unlimited tax bonds for constructing or acquiring parks and recreational facilities, and all the unlimited tax bonds authorized for refunding purposes will remain authorized but unissued. See “RISK FACTORS—Future Debt.”

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 greater than three percent (3%) of the value of the taxable property in the District.

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purposes by the qualified voters in the District; (b) approval of the master plan and bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election at this time for such purposes. If additional debt obligations are issued in the future by the District, such issuance may increase gross debt to property value ratios and adversely affect the investment security of the Bonds.

Annexation by the City of Todd Mission

Under existing Texas law, since the District lies partially within the extraterritorial jurisdiction of the City of Todd Mission, the District must conform to a City ordinance consenting to the creation of the District. In addition, except as set forth below under “Strategic Partnership Agreement,” the District may be annexed by the City of Todd Mission without the District’s consent. If the District is annexed, the City of Todd Mission would assume the District’s assets and obligations (including the Bonds) and may dissolve the District. Annexation of territory by the City of Todd Mission is a policy-making matter within the discretion of the Mayor and City Council of the City of Todd Mission, and therefore, the District makes no representation that the City of Todd Mission will ever annex the District and assume its debt, nor does the District make any representation concerning the ability of the City of Todd Mission to pay debt service on the District’s bonds if annexation were to occur. See “Strategic Partnership Agreement” below.

Strategic Partnership Agreement

The District lies partially within the extraterritorial jurisdiction of the City of Todd Mission. Effective May 9, 2024, the District entered into a Strategic Partnership Agreement, as amended (the “SPA”) with the City of Todd Mission, pursuant to which approximately 71 acres within the boundaries of the District (the “SPA Area”) have been annexed into the City of Todd Mission for “limited purposes,” specifically for the levy of the City of Todd Mission’s sales and use tax within the SPA Area’s boundaries. The City of Todd Mission agrees that it will not annex all or part of the District or commence any action to annex all or part of the District for full purposes until the terms and conditions provided in the development agreement entered into between the City of Todd Mission and the Developer, dated July 8, 2021, governing the property subject to the SPA, have been satisfied, at which time the City of Todd Mission has the option to annex the District if it chooses to do so. Accordingly, the City of Todd Mission may not annex the District for full purposes prior to July 8, 2066 without the written consent of the Developer. Upon full purpose annexation of the District, the District will continue to exist for an extended period to allow for the completion of District operations and the integration of the District’s system into the City of Todd Mission’s system, following which period the City of Todd Mission shall act to abolish the District in accordance with applicable law; provided that, if the City of Todd Mission has not abolished the District within 90 days after annexation, the District shall be automatically abolished on the 91st day. At such time, the City of Todd Mission will assume all rights, assets, liabilities and obligations of the District (including all obligations to reimburse the developers within the District) and the District will not be continued or converted for limited purposes. Upon annexation, the City of Todd Mission shall assume the responsibility for the operation and maintenance of the water, sanitary sewer and drainage systems, park and recreational facilities and road facilities of the District and shall be entitled to all utility revenues of the system as consideration for the assumption of such obligations. The rates and fees charged by the City of Todd Mission shall be the same as the rates and fees charged by the City of Todd Mission to customers of the same class in other parts of the City of Todd Mission.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds) with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

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 Resolution, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, 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 Resolution. Except for mandamus, the Bond Resolution 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 Resolution 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.”

Defeasance

The Bond Resolution 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) for obligations of the District payable from revenues or from ad valorem taxes or both, or a commercial bank or trust company designated in the proceedings authorizing such discharge amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating

firm not less than AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Resolution.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the 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 a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning the Depository Trust Company ("DTC"), New York, NY 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 or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds 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 do so on a timely basis or that DTC, DTC Direct Participants or DTC 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 DTC Direct Participants is on file with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual 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 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.

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 system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by LJA, Inc. (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 certain agreed upon procedures are completed by the District’s auditor. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used. See “THE ROAD SYSTEM.”

CONSTRUCTION COSTS

• Paving to Serve:	
Colton, Section Four.....	\$ 872,874
Colton, Section Five.....	1,410,732
Colton, Section Six.....	1,241,701
Colton, Section Seven.....	1,397,244
Colton, Section Eight.....	800,580
• Land Purchase Costs.....	2,551,767
• Less: Surplus Funds (a).....	(75,000)
Total Construction Costs.....	\$ 8,199,898

NON-CONSTRUCTION COSTS

• Underwriter's Discount (Estimated at 3.00%).....	\$ 319,500
• Capitalized Interest (12 Months Estimated at 6.00%).....	639,000
• Developer Interest (Estimated).....	946,108
Total Non-Construction Costs.....	\$ 1,904,608

ISSUANCE COSTS AND FEES

• Issuance Costs and Professional Fees.....	\$ 490,994
• Bond Engineering Report.....	45,000
• State Regulatory Fees.....	9,500
Total Issuance Costs and Fees.....	\$ 545,494
TOTAL BOND ISSUE.....	\$ 10,650,000

(a) The District intends to apply \$75,000 of surplus road capital projects funds to the projects to be financed by the Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)”

COLTON

The District is part of Colton, a master-planned community currently planned to encompass approximately 5,725 acres at full development. Colton includes three municipal utility districts currently created: the District, the Master District and MUD 3. All development in Colton is currently taking place in the District.

THE DISTRICT

General

The District is a political subdivision of the State of Texas, created pursuant to a special act of the Texas Legislature, Senate Bill 2504, Act of the 86th Legislature, Regular Session, 2019, codified as Chapter 8257, Texas Special District Local Laws Code, and by the duly adopted Order Dividing District of Magnolia Woods Municipal Utility District No. 1 dated February 2, 2023. In an order dated November 5, 2024, the TCEQ, pursuant to a request by the District, granted permission to the District to change its name to Colton Municipal Utility District No. 2. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended.

The TCEQ exercises continuing supervisory jurisdiction over the District. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; to collect, transport, and treat wastewater; to control and divert storm water; to provide parks and recreational facilities and to construct certain roads inside and outside its boundaries. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, purchase, construct, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the TCEQ and the voters of the District. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities.

Description and Location

The District is located in Montgomery County approximately 45 miles northwest of the central downtown business district of the City of Houston. The District lies partially within the extraterritorial jurisdiction of the City of Todd Mission and within the boundaries of the Magnolia Independent School District. Access to the District is provided by State Highway 249, and the main entrance to the District is on Farm-to-Market 1486. The District consists of approximately 637 acres of land. See “AERIAL LOCATION MAP.”

Land Use

The District currently includes approximately 364 acres developed as 682 single-family residential lots, approximately 8 acres under construction for an amenity complex, approximately 211 acres of undeveloped but developable land and approximately 54 acres of undevelopable land (public rights-of-way, detention, open spaces, easements, and utility sites). The table below represents a detailed breakdown of the current acreage and development in the District. See “Status of Development” herein.

<u>Single-Family Residential</u>	Approximate <u>Acres</u>	<u>Lots</u>
Colton		
Section One.....	61	113
Section Two.....	30	113
Section Three.....	55	113
Section Four.....	21	86
Section Five.....	38	80
Section Six.....	75	77
Section Seven.....	70	63
Section Eight.....	14	37
Subtotal.....	364	682
Amenity Complex (a).....	8	--
Future Development.....	211	--
Undevelopable (b).....	54	--
Totals.....	637	682

- (a) Construction is underway for an approximately 8-acre amenity complex in the District. See “Status of Development” below.
(b) Represents public rights-of-way, detention, open spaces, easements, and utility sites.

Status of Development

Single-Family Residential: Development in the District currently consists of Colton, Sections One through Eight (682 single-family residential lots developed on approximately 364 acres). As of September 29, 2026, 207 homes in the District were completed and occupied, 143 homes were under construction or in the name of a builder and 332 vacant lots were available for home construction.

Construction is underway for an approximately 8-acre amenity complex in the District that will include playgrounds, a splash pad, park and picnic areas, a gym, outdoor amphitheater and event hall. According to the Developer, the complex is expected to be completed by the end of 2026.

Approximately 211 developable acres within the District have not been provided with utilities and/or paving necessary for the construction of taxable improvements, and approximately 54 acres are not developable (public rights-of-way, detention, open spaces, easements, and utility sites). See “TAX DATA—Principal Taxpayers,” and “RISK FACTORS.”

Homebuilding

Homebuilders active within the District include Beazer Homes, Coventry Homes, David Weekley Homes, Drees Custom Homes, Fedrick Harris Estate Homes, Highland Homes, J. Patrick Homes, Partners in Building, Perry Homes, Village Builders and Westin Homes. See “THE DISTRICT—Homebuilders.” According to the Developer, homes within the District range in price from approximately \$300,000 to over \$1,000,000.

Future Development

Approximately 211 developable acres of land currently within the District are not yet served with water distribution and supply, wastewater collection and treatment, storm drainage facilities, or roads. See “RISK FACTORS—Future Debt.” The Engineer has stated that under regulatory criteria and current development plans, the remaining authorized but unissued bonds (after issuance of the Bonds) in the aggregate principal amount of \$336,365,000 should be sufficient to finance the construction of facilities to complete the District’s water, sanitary sewer, drainage, roads and recreation system for full development of the District.

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 streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave streets in areas where utilities are to be financed by a district through a specified bond issue, 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 principal 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.

Prospective Bond purchasers should note that the prior real estate experience 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 “TAX DATA—Principal Taxpayers,” and “RISK FACTORS—Dependence on Principal Taxpayers and the Developer.”

Description of the Developer and Principal Landowner

The developer of Colton is Colton Development Company LLC, a Texas limited liability company (“CDC” or the “Developer”). A portion of the undeveloped land within the Colton project boundaries is owned by BAM Houston Real Estate Investment, L.P., a Texas limited partnership (“BAM Houston Real Estate Investment”), which acts solely as a land holding company. BAM Houston Real Estate Investment sells land to the Developer as needed for development. As of July 31, 2026, the Developer had purchased approximately 808 acres within the boundaries of the Service Area, including approximately 523 acres of land within the District. BAM Houston Real Estate Investment owns approximately 115 acres of land within the District. AIRIA Development Company, a Texas corporation (“AIRIA”) manages the development of Colton for the Developer and BAM Houston Real Estate Investment. The controlling interests in AIRIA, CDC, and BAM Houston Real Estate Investment are primarily lineal descendants (or their trusts) of Lester Benny Binion and Phyllis Cope.

Neither the Developer nor any affiliated company is responsible for, is liable for or has made any commitment for payment of the Bonds or other obligations of the District, and the inclusion of such financial statements and description of financial arrangements herein should not be construed as an implication to that effect. Neither the Developer nor any affiliated company has any legal commitment to the District or to owners of the Bonds to continue development of the land within the District and the Developer may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the financial condition of the Developer is subject to change at any time. Because of the foregoing, financial information concerning the Developer will neither be updated nor provided following issuance of the Bonds. See “RISK FACTORS—Dependence on Principal Taxpayers and the Developer.”

Acquisition and Development Financing

The Developer is currently funding land acquisition through loans from BAM Houston Real Estate Investment in the amount of \$27,651,600 that currently have an outstanding balance of \$25,348,131.35 as of July 31, 2026. The loans are secured by liens on the property, which are released by BAM Houston Real Estate Investment as the Developer sells parcels to third parties. According to the Developer, Colton Development Company deposited \$80,000,000 into an investment account in September 2024 as the source of construction funding. As of July 31, 2026, there was \$16,613,714.66 remaining in the account. The Developer is in material compliance with the terms of the loans.

Obligations of the Developer

Neither the Developer nor any other landowner is obligated to pay any principal of or interest on the Bonds. Neither the Developer nor any other landowner has any legal commitment to the District or to owners of the Bonds to continue development of the land within the District and may sell or otherwise dispose of their property within the District, or any other assets, at any time. See “THE DISTRICT—Status of Development,” “TAX DATA—Principal Taxpayers” and “RISK FACTORS—Dependence on Principal Taxpayers and the Developer.”

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) 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. All of the members of the Board own 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>District Board Title</u>	<u>Term Expires</u>
Conor Joyce	President	May 2028
Keith Faseler	Vice President	May 2030
Spencer Robinson	Secretary	May 2030
Patrick Bullock	Assistant Vice President	May 2028
Clayton Taylor	Assistant Secretary	May 2030

District Consultants

The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

Bond Counsel/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District's Bonds. The fees of the attorneys in their capacity as Bond Counsel are payable from proceeds of the sale of the Bonds and contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

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

Financial Advisor: Masterson Advisors LLC serves as the District's Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Engineer: The District's consulting engineer is LJA, Inc.

Auditor: The financial statements of the District as of January 31, 2026, and for the year then ended, included in this OFFICIAL STATEMENT, have been audited by Forvis Mazars, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's January 31, 2026, financial statements.

Bookkeeper: The District has contracted with Municipal Accounts & Consulting, L.P., for bookkeeping services (the "Bookkeeper").

Utility System Operator: The operator of the District's internal water and wastewater system is Si Environmental, LLC. Si Environmental, LLC also serves as the operator of the Master District's water supply and wastewater treatment system. See "THE SYSTEM."

Tax Appraisal: The Montgomery Central Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collector function. Assessments of the Southwest, Inc. (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

THE ROAD SYSTEM

The Master District, in its capacity as the provider of facilities for regional arterial, collector and thoroughfare roads and improvements in aid thereof ("Master District Road Facilities") necessary to serve the Service Area has constructed or will construct the Master District Road Facilities. The major arterial, collector and thoroughfare roads necessary to serve the Service Area, include but are not limited to Permian Parkway.

All Master District Road Facilities within Montgomery County are designed and constructed in accordance with Montgomery County rules and regulations. To date, Montgomery County has completed initial acceptance of the completed Master District Road Facilities and will begin operation and maintenance after one year. In the event Montgomery County were to fail to accept the Master District Road Facilities, the Master District is expected to include the cost of maintenance of same in the Master District's operation and maintenance expenses to be shared by the Participants, currently, only the District, in accordance with the Master District Contract, and such cost could be significant. These roads lie within the public right-of-way. In addition to the roadway, public utilities such as underground water, sewer, and drainage facilities are located within the right-of-way. The right-of-way is also shared by streetlights, sidewalks and franchise utilities (power, gas, telephone and cable).

In addition to the Master District Road Facilities, internal roadways have been or are being constructed by the District as the only current Participant. The internal roadways constructed by the District are designed and constructed in accordance with Montgomery County standards, rules and regulations. To date, Montgomery County has completed initial acceptance of the District's completed road facilities and will begin operation and maintenance after one year. In the event that Montgomery County were to fail to accept the District's road facilities, the District is expected to include the cost of maintenance of same in the District's operation and maintenance expenses, and such cost could be significant. These roads lie within the public right-of-way. In addition to the roadway, public utilities such as underground water, sewer, and drainage facilities are located within the right-of-way. The right-of-way is also shared by streetlights, sidewalks and franchise utilities (power, gas, telephone and cable). See "USE AND DISTRIBUTION OF BOND PROCEEDS."

THE SYSTEM

The Master District Contract

The Master District provides or will provide certain regional water, sanitary sewer, storm sewer, parks, roads and other facilities (collectively, the "Master District Facilities") necessary to serve the Master District's approximately 5,725 acre Service Area, including the District. The Master District's Service Area currently includes MUD 1, MUD 3 and the District. Currently, only the District has an active Master District Contract (as defined in "RISK FACTORS—Overlapping Master District Debt and Contract Tax") with the Master District. MUD 1 and MUD 3 are within the Service Area but do not currently have active Master District Contracts, though both may activate such contracts in the future.

The Master District Contract provides that all Participants shall pay a pro rata share of debt service on the Master District's Contract Revenue Bonds (as defined in "RISK FACTORS—Overlapping Master District Debt and Contract Tax") based upon each Participants' certified appraised value as a percentage of the certified appraised value of all the Participants, calculated annually. Each Participant is obligated to pay its pro rata share of the annual debt service payments from the proceeds of annual ad valorem Contract Tax (as defined in "RISK FACTORS—Overlapping Master District Debt and Contract Tax") without legal limit as to rate or amount, or from any other legally available funds. The Contract Payments (as defined in "RISK FACTORS—Overlapping Master District Debt and Contract Tax") for each Participant

shall be calculated to include the charges and expenses of paying agents, registrars and trustees utilized in connection with the Contract Revenue Bonds the principal, interest and redemption requirements of the Contract Revenue Bonds and all amounts required to establish and maintain funds established under the applicable bond resolution. Each Participant's Contract Payments will be calculated annually by the Master District; however, the levy of a Contract Tax or the provisions of other funds to make its Contract Payments is the sole responsibility of each Participant. At this time, as the only Participant, the District's share of debt service payments on any Master District Bonds would be 100%. The Master District expects to issue \$6,700,000 of Water/Sewer/Drainage Contract Revenue Bonds and \$7,195,000 of Contract Revenue Road Bonds in the fourth quarter of 2026.

The Master District Contract also provides for operation and maintenance expenses for facilities constructed pursuant to the Master District Contract; duties of the parties; establishment and maintenance of funds; assignment; arbitration; amendments; force majeure; insurance; and other provisions. The Master District owns and operates the Master District Facilities, except for Master District Road Facilities that are accepted by Montgomery County, Grimes County, or Waller County, as applicable, for operation and maintenance. Each Participant (including the District) will own and operate its internal facilities. The internal facilities are expected to be financed with unlimited tax bonds sold by each of the Participants, currently, only the District. It is anticipated that the Master District Facilities will be constructed in stages to meet the needs of the Service Area. In the event that the Master District fails to meet its obligations to provide Master District Water/Sewer/Drainage Facilities as required by the Service Area, each Participant has the right pursuant to the Master District Contract to design, acquire, construct, or expand the Master District Water/Sewer/Drainage Facilities needed to provide it with service, and convey such Master District Water/Sewer/Drainage Facilities to the Master District in consideration of payment by the Master District of the actual and reasonable necessary capital costs expended by it for such Master District Water/Sewer/Drainage Facilities. Each Participant is further obligated to pay monthly charges to the Master District for water and sewer services rendered pursuant to the Master District Contract. The monthly charges to be paid by each Participant to the Master District will be used to pay its share of operation and maintenance expenses and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. The Participant's share of operation and maintenance expenses and reserve requirements is based upon a "unit cost" of operation and maintenance expense and reserve requirements calculated by the Master District and expressed in terms of "cost per equivalent single-family residential connection." The Participant's monthly payment to the Master District for operation and maintenance expenses will be calculated by multiplying the number of equivalent single-family residential connections reserved to it on the first day of the previous month by the unit cost per equivalent single-family residential connection. The monthly cost per single-family equivalent connection being charged by the Master District to the Participant is currently \$779. Pursuant to the Master District Contract the Participant is obligated to establish and maintain rates, fees and charges for its water and wastewater services which, together with taxes levied and funds received from any other lawful sources, are sufficient at all times to pay operation and maintenance charges of the Master District, to pay other costs of operating and maintaining its own utility system, and to pay its obligations pursuant to the Master District Contract, including its Contract Payments. The Master District does not expect that revenues from the Participant's wastewater collection and water distribution systems will ever be sufficient to pay a significant portion of contract payments for application to debt service on the Contract Revenue Bonds. All sums payable by the Participant to the Master District pursuant to the Master District Contract are to be paid by such Participant without set off, counterclaim, abatement, suspension or diminution. If the Participant fails to pay its share of these costs in a timely manner, the Master District Contract provides that the Master District shall be entitled to cancel, in whole or in part, any reservation or allocation of capacity in the Master District's facilities by such Participant in addition to the Master District's other remedies pursuant to the Master District Contract. As a practical matter, the Participant has no alternative provider of the water and wastewater services rendered by the Master District under the Master District Contract.

Master District Facilities

Water Supply: The water supply facilities of the Master District currently consist of two water wells with a total capacity of 1,950 gallons per minute ("gpm"), 290,000 gallons of standpipe storage capacity, pressure tank capacity of 20,000 gallons, booster pump capacity of 4,500 gpm, and all appurtenances. According to the Engineer, the major components of the Master District's water supply system have capacity to serve approximately 1,000 equivalent single-family connections ("ESFCs"). As of September 29, 2026, the Master District was serving 350 ESFCs (including 207 active single-family connections and 143 homes under construction or in a builder's name).

In order to fully provide water supply to the Service Area, the Master District Facilities will need to be expanded from time to time to meet the demand for such facilities.

Wastewater Treatment: The Master District is currently constructing a 200,000 gallons per day ("gpd") regional wastewater treatment plant that is expected to be completed in 2027, at which time the wastewater will be treated at the Master District plant. Currently, the utility system operator removes wastewater from the system with pump trucks, which then haul the wastewater offsite for treatment. According to the Engineer, the major components of the Master District's wastewater treatment system have capacity to serve approximately 800 ESFCs. As of September 29, 2026, the Master District was serving 350 ESFCs (including 207 active single-family connections and 143 homes under construction or in a builder's name).

Regional Water Distribution and Wastewater Collection: Regional water distribution facilities consist of waterlines ranging in size from 12-inch to 16-inch, generally located within the rights-of-way. These water distribution facilities supply water from the Master District water supply facilities to the Participant's facilities. The Wastewater Collection facilities include wastewater lines ranging in size from 12-inch to 24-inch generally located within the rights-of-way of collection roads and the previously listed major thoroughfares. These collection lines collect waste from the Participants and transport it to the Master District's wastewater treatment facilities.

Regional Road System: See "THE ROAD SYSTEM."

Master Drainage: The Master District also provides or will provide the Service Area with drainage facilities designed to handle a 100-year storm event. These facilities include drainage channels, detention ponds, water quality ponds, conveyance storm sewer, and reinforced outfalls.

Master District Park Facilities: The Master District provides or will provide an interconnected grade separated trail system connecting community parks and recreation facilities. This system extends along and utilizes the drainage corridors as linear parks connecting multiple neighborhood parks. Pursuant to the Master District Contract, the Master District may finance the cost of Master District Park Facilities either through the issuance of Master District Park Contract Revenue Bonds or may require the Participant to remit Park Construction Charges (as defined in the Master District Contract) to pay for Master District Park Facilities. See "THE BONDS—Issuance of Additional Debt."

Internal Water Distribution, Wastewater Collection and Storm Drainage Facilities

Internal water distribution, wastewater collection and storm drainage facilities have been constructed by the District to serve approximately 682 single-family residential lots on approximately 364 acres and an amenity complex on approximately 8 acres. See "THE DISTRICT—Status of Development."

Flood Protection and Drainage

The District is located within Montgomery County and natural pattern for overland flow within the development heads south to Mill Creek. Underground storm sewers within subdivision sections are directed to Master District ponds and drainage channels, which ultimately outfall to the Mill Creek. The Master District is the operator of the major drainage facilities in the Service Area.

Multiple drainage system improvements, such as an underground storm sewer drainage system and drainage channels, were constructed to serve development within the District. All platted subdivisions are primarily served with curb and gutter streets and underground storm sewers. Pavement is designed and constructed with "stair stepped" sump inlets and paving elevations generally descend to a low point in the subdivision where the inlets and storm sewer system has been designed to accommodate the anticipated 100-year storm event. All other storm sewers upstream from this extreme event storm sewer system are designed to accommodate the Montgomery County design storm event. All drainage facilities were designed in accordance with Montgomery County Drainage District minimum design criteria. Drainage facilities were constructed to convey storm water runoff into Master District ponds and drainage channels.

The Master District developed a Phase 1 master drainage plan for approximately 1,300 acres within the Service Area that received approval from Montgomery County. As development occurs within the Phase 1 Service Area, the master drainage plan removes any of the developed lots from the 100-year flood plain by filling the development areas, with the flood plain fill mitigated by excavation from other areas within the flood plain that will remain undeveloped. According to the Engineer, none of the currently developed lots are in the 100-year flood plain as a result of the aforementioned process. The flood plain removal is accomplished by submittal of detailed survey information provided to FEMA through a process called a Letter of Map Revisions Based on Fill ("LOMR-F") based on lot elevation. However, during times of severe flooding, area roads can become inundated, which may restrict access into, within, and out of the District. According to the Engineer, approximately 78 acres of the Service Area remain within the 100-year flood plain and portions of this will be filled and removed from the floodplain as development warrants. See "RISK FACTORS—Extreme Weather Events."

Regulation

Construction and operation of the District's facilities and the Master District Facilities as they now exist or as they 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 and the Master District. Discharge of treated sewage into Texas waters, if any, is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of Montgomery County. Montgomery County also exercises regulatory jurisdiction over the District and the Master District Facilities.

According to the Engineer, the District's improvements that will be financed with proceeds of the District bond issuances have been designed and the corresponding plans prepared in accordance with accepted engineering practices and specifications and the approval and permitting requirements of the TCEQ, the Texas Department of Health, and Montgomery County, where applicable. Construction of the District's facilities is subject to inspection by the TCEQ, and Montgomery County. Each of the aforementioned agencies exercises continuing jurisdiction over the District's and Master District's facilities.

Atlas 14

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

Water and Wastewater Operations

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. Nevertheless, net revenues from operations of the District's water and wastewater system, if any, are available for any legal purpose, including the payment of debt service on the Bonds and the Outstanding Bonds, upon Board action. However, it is not anticipated that net revenues will be used or would be sufficient to pay debt service on the Bonds and the Outstanding Bonds.

The following statement sets forth, in condensed form, the General Operating Fund for the District as shown in the District's audited financial statements for the fiscal years ended January 31, 2025, and January 31, 2026, and an unaudited summary for the seven-month period ended August 31, 2026 provided by the 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 complete information.

	2/1/2026 to 8/31/2026 (unaudited)	Fiscal Year Ended January 31	
		2026	2025
Revenues:			
Water Service	\$ 146,572	\$ 40,644	\$ -
Sewer Service	126,492	25,700	-
Property Taxes	335,000	1,326	-
Penalty and Interest	3,529	1,588	-
Tap Connection and Inspection Fees	575,237	794,626	-
Regional Water fee	2,065	998	-
Investment Income	1,025	48	-
Miscellaneous	-	9,517	170
Total Revenue	\$ 1,189,920	\$ 874,447	\$ 170
Expenditures:			
Purchased Services	\$ 490,361	\$ 873,321	\$ -
Professional Fees	77,526	114,646	95,719
Contracted Services	20,919	65,300	20,652
Repairs and Maintenance	202,210	159,541	-
Tap Connections	299,452	379,317	-
Other Expenditures	22,382	40,655	30,165
Total Expenditures	\$ 1,112,849	\$ 1,632,780	\$ 146,536
NET REVENUES	<u>\$ 77,071</u>	<u>\$ (758,333)</u>	<u>\$ (146,366)</u>
Other Financing Sources (a)	\$ 410,000	\$ 343,000	\$ 132,500
General Operating Fund			
Balance (Beginning of Year)	\$ (437,377)	\$ (22,044)	\$ (8,178)
General Operating Fund			
Balance (End of Year)	\$ 49,694	\$ (437,377)	\$ (22,044)

(a) Developer advances. See "RISK FACTORS—Operating Funds."

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2026 Taxable Assessed Valuation.....	\$134,113,735	(a)
Estimated Taxable Assessed Valuation as of August 1, 2026.....	\$188,161,565	(b)
Gross Direct Debt Outstanding	\$16,650,000	(c)
Estimated Overlapping Debt	<u>22,795,350</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$39,445,350	
Ratios of Gross Direct Debt to:		
2026 Taxable Assessed Valuation	12.41%	
Estimated Taxable Assessed Valuation as of August 1, 2026	8.85%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2026 Taxable Assessed Valuation	29.41%	
Estimated Taxable Assessed Valuation as of August 1, 2026	20.96%	
Debt Service Funds Available:		
Road Debt Service Fund Balance as of September 16, 2026	\$374,980	(e)
Capitalized Interest from Bonds Proceeds (Twelve (12) Months).....	<u>639,000</u>	(f)
Total Funds Available for Debt Service	\$1,013,980	
Operating Funds Available as of September 16, 2026	\$16,019	(g)
Road Capital Projects Fund as of September 16, 2026	\$75,376	(h)

- (a) The Appraisal District has certified \$131,714,149 of taxable value and an additional \$2,399,586 of taxable value remains uncertified. The uncertified value is subject to review and downward revision or adjustment prior to certification. No tax will be levied on said uncertified value until it is certified by the Appraisal District. See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on August 1, 2026. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2026 and August 1, 2026, will be certified as of January 1, 2027. See "TAXING PROCEDURES."
- (c) After the issuance of the Bonds. Includes the Bonds and the Outstanding Bonds. See "Outstanding Bonds" below.
- (d) See "Estimated Overlapping Debt," and "Overlapping Taxes" herein.
- (e) Reflects remaining capitalized interest from proceeds of the Outstanding Bonds.
- (f) The District will capitalize twelve (12) months of interest from Bond proceeds. The amount shown above is estimated at 6.00%. See "THE BONDS—Funds" and "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (g) See "RISK FACTORS—Operating Funds."
- (h) The District will contribute \$75,000 of surplus Road Capital Projects Funds toward the projects to be financed by the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Outstanding Bonds

The District has previously issued one series of unlimited tax bonds for road facilities in the principal amount of \$6,000,000, all of which is currently outstanding (the "Outstanding Bonds").

Debt Service Requirements

The following sets forth the debt service requirements on the Outstanding Bonds and the estimated debt service on the Bonds at an estimated interest rate of 6.00% per annum. This schedule does not reflect that the District capitalized twenty-four (24) months of interest from proceeds of the Outstanding Bonds in December 2025 and that 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 Requirements	Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2027	\$ 393,881.25	\$ -	\$ 500,550.00	\$ 500,550.00	\$ 894,431.25
2028	394,281.25	180,000	639,000.00	819,000.00	1,213,281.25
2029	394,481.25	190,000	628,200.00	818,200.00	1,212,681.25
2030	394,481.25	205,000	616,800.00	821,800.00	1,216,281.25
2031	399,281.25	215,000	604,500.00	819,500.00	1,218,781.25
2032	398,681.25	230,000	591,600.00	821,600.00	1,220,281.25
2033	402,881.25	240,000	577,800.00	817,800.00	1,220,681.25
2034	401,293.75	255,000	563,400.00	818,400.00	1,219,693.75
2035	404,493.75	270,000	548,100.00	818,100.00	1,222,593.75
2036	407,268.75	285,000	531,900.00	816,900.00	1,224,168.75
2037	409,618.75	305,000	514,800.00	819,800.00	1,229,418.75
2038	411,068.75	325,000	496,500.00	821,500.00	1,232,568.75
2039	412,068.75	340,000	477,000.00	817,000.00	1,229,068.75
2040	412,618.75	365,000	456,600.00	821,600.00	1,234,218.75
2041	412,168.75	385,000	434,700.00	819,700.00	1,231,868.75
2042	416,243.75	405,000	411,600.00	816,600.00	1,232,843.75
2043	414,606.25	430,000	387,300.00	817,300.00	1,231,906.25
2044	417,493.75	455,000	361,500.00	816,500.00	1,233,993.75
2045	419,668.75	485,000	334,200.00	819,200.00	1,238,868.75
2046	421,131.25	515,000	305,100.00	820,100.00	1,241,231.25
2047	421,506.25	545,000	274,200.00	819,200.00	1,240,706.25
2048	421,150.00	575,000	241,500.00	816,500.00	1,237,650.00
2049	425,062.50	610,000	207,000.00	817,000.00	1,242,062.50
2050	428,000.00	650,000	170,400.00	820,400.00	1,248,400.00
2051	424,500.00	690,000	131,400.00	821,400.00	1,245,900.00
2052	425,250.00	730,000	90,000.00	820,000.00	1,245,250.00
2053	-	770,000	46,200.00	816,200.00	816,200.00
Total	\$ 10,683,181.25	\$ 10,650,000	\$ 11,141,850.00	\$ 21,791,850.00	\$ 32,475,031.25

Average Annual Debt Service Requirements (2027-2053)\$1,202,779
Maximum Annual Debt Service Requirement (2050).....\$1,248,400

Estimated Overlapping Debt

The following table indicates the outstanding debt payable from ad valorem taxes of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service, and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Montgomery County.....	\$ 535,450,000	9/30/2026	0.14%	\$ 749,630
Magnolia Independent School District.....	703,170,000	9/30/2026	1.14%	8,016,138
Lone Star College System.....	336,455,000	9/30/2026	0.04%	134,582
The Master District (a).....	13,895,000	9/30/2026	100.00%	13,895,000
Total Estimated Overlapping Debt.....				\$ 22,795,350
The District's Total Direct Debt (b).....				16,650,000
Total Direct and Estimated Overlapping Debt.....				\$ 39,445,350

Ratio of Gross Direct Debt and Estimated Overlapping Debt to:

2026 Taxable Assessed Valuation	29.41%
Estimated Taxable Assessed Valuation as of August 1, 2026	20.96%

- (a) The Master District expects to issue \$6,700,000 of Water/Sewer/Drainage Contract Revenue Bonds and \$7,195,000 of Contract Revenue Road Bonds in the fourth quarter of 2026.
- (b) Includes the Bonds and the Outstanding Bonds.

Overlapping Taxes

Set forth below is a summary of taxes levied for the 2025 or 2026 tax year by all entities overlapping the District and the District's anticipated 2026 tax rate. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	Tax Rate per \$100 of Taxable Assessed Valuation
Montgomery County (a).....	\$ 0.386000
Montgomery County Hospital District (a).....	0.045800
Magnolia Independent School District (a).....	0.932500
Montgomery County Emergency Services District No. 10 (b).....	0.096300
Lone Star College District (a).....	0.105800
Total Overlapping Tax Rate.....	\$ 1.566400
The District (c).....	\$ 1.500000
Total Tax Rate.....	\$ 3.066400

- (a) Represents the 2026 tax rate.
- (b) Represents the 2025 tax rate.
- (c) The District has authorized the publication of a 2026 total tax rate in the amount of \$1.50 and expects to adopt such tax rate in October 2026 with \$0.22 allocated to debt service and \$1.28 allocated to maintenance and operations. See "TAX DATA—Historical Tax Rate Distribution."

TAX DATA

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds and the Outstanding Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Outstanding Bonds. See “Historical Tax Rate Distribution” and “Tax Roll Information” below and “TAXING PROCEDURES.”

Contract Tax

The Master District has the statutory authority and voter authorization of each of the Participants currently participating in the Master District Contract, currently, only the District, to issue Contract Revenue Bonds. Each of the Participants’ pro rata share of the debt service requirements on the Contract Revenue Bonds is determined by dividing each Participant’s certified appraised value by the total of all the Participants’ certified appraised valuation. The Master District Contract obligates each Participant to pay its pro rata share of debt service requirements on the Contract Revenue Bonds from the proceeds of an annual unlimited contract tax, or from any other legally available funds. The debt service requirement includes principal, interest and redemption requirements on the Contract Revenue Bonds, paying agent/registrar fees, and all amounts necessary to establish and maintain funds established under the bond resolution or indenture pursuant to which the Master District’s Contract Revenue Bonds are issued. The Master District expects to issue \$6,700,000 of Water/Sewer/Drainage Contract Revenue Bonds and \$7,195,000 of Contract Revenue Road Bonds in the fourth quarter of 2026. The District expects to levy its initial Contract Tax in 2027, after the Master District issues such Contract Revenue Bonds. At this time, as the only Participant, the District’s share of debt service payments on any Master District Bonds would be 100%. See “THE SYSTEM—The Master District Contract” and “RISK FACTORS—Overlapping Master District Debt and Contract Tax.”

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 water, sanitary sewer and drainage system and roads, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted May 6, 2023 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 utility maintenance and \$0.25 for road maintenance. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

Historical Tax Rate Distribution

	Anticipated 2026 (a)	2025	2024 (b)
Debt Service Tax	\$ 0.22	\$ -	\$ -
Maintenance Tax	1.28	1.50	1.50
Total District Tax Rate	\$ 1.50	\$ 1.50	\$ 1.50

(a) The District has authorized the publication of a 2026 total tax rate in the amount of \$1.50 and expects to adopt such tax rate in October 2026 with \$0.22 allocated to debt service and \$1.28 allocated to maintenance and operations.

(b) Initial year of taxation.

Historical Tax Collections

The following statement of tax collections sets forth in condensed form the historical tax experience of the District. The 2024 tax year was the District’s initial tax levy. Such table has been prepared for inclusion herein based upon information obtained from a report prepared by the Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” below.

Tax Year	Taxable Assessed Valuation (a)	Tax Rate	Total Tax Levy	Total Collections as of August 31, 2026(b)	
				Amount	Percent
2024	\$ 87,999	\$ 1.50	\$ 1,320	\$ 1,320	100.00%
2025	28,155,366	1.50	422,330	416,967	98.73%

(a) Certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for exemptions granted by the District.

(b) Unaudited.

Additional Penalties

The District has contracted with an 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 Roll Information

The District's taxable 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 2024 through 2026 Taxable Assessed Valuation. Accurate breakdowns of the uncertified portion (\$2,399,586) of the 2026 Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of August 1, 2026, of \$188,161,565, are not available.

	2026 Taxable Assessed Valuation	2025 Taxable Assessed Valuation	2024 Taxable Assessed Valuation
Land	\$ 62,801,612	\$ 28,191,913	\$ 2,802,281
Improvements	77,979,251	-	-
Personal Property	1,399,498	-	-
Gross Assessed Valuation	\$ 142,180,361	\$ 28,191,913	\$ 2,802,281
Exemptions	(10,466,212)	(36,547)	(2,714,282)
Uncertified Value	2,399,586	-	-
Total	<u>\$ 134,113,735</u>	<u>\$ 28,155,366</u>	<u>\$ 87,999</u>

Principal Taxpayers

The following table represents the ten principal taxpayers, and the taxable assessed value of such property as a percentage of the certified portion (\$131,714,149) of the 2026 Taxable Assessed Valuation of \$134,113,735. This represents ownership as of January 1, 2026. Accurate principal taxpayer lists related to the uncertified portion (\$2,399,586) of the 2026 Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of August 1, 2026, of \$188,161,565, are not available as of the date hereof.

<u>Taxpayer</u>	<u>2026 Certified Taxable Assessed Valuation</u>	<u>% of 2026 Certified Taxable Assessed Valuation</u>
Colton Development Company LLC (a)	\$ 13,772,621	10.46%
Westin Homes & Properties LP (b)	7,432,150	5.64%
Weekley Homes LLC (b)	7,391,380	5.61%
DFH Coventry LLC (b)	7,021,199	5.33%
Newmark Homes Houston LLC	6,853,358	5.20%
Beazer Homes Texas LP (b)	5,186,802	3.94%
Highland Homes Houston LLC (b)	4,690,670	3.56%
Drees Custom Homes LP (b)	3,977,286	3.02%
Perry Homes LLC (b)	3,206,692	2.43%
Partners in Building LP (b)	2,263,117	1.72%
Total	<u>\$ 61,795,275</u>	<u>46.92%</u>

(a) See "THE DEVELOPER"

(b) See "THE DISTRICT—Homebuilding."

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District's tax base occurred beyond the 2026 Taxable Assessed Valuation of \$134,113,735 (\$131,714,149 of certified value plus \$2,399,586 of uncertified value) or the Estimated Taxable Assessed Valuation as of August 1, 2026, of \$188,161,565. 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 "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements," and "RISK FACTORS—Possible Impact on District Tax Rates."

Average Annual Debt Service Requirement (2027-2053)	\$1,202,779
\$0.95 Tax Rate on the 2026 Taxable Assessed Valuation	\$1,210,376
\$0.68 Tax Rate on Estimated Taxable Assessed Valuation as of August 1, 2026	\$1,215,524
Maximum Annual Debt Service Requirement (2050).....	\$1,248,400
\$0.98 Tax Rate on the 2026 Taxable Assessed Valuation	\$1,248,599
\$0.70 Tax Rate on Estimated Taxable Assessed Valuation as of August 1, 2026	\$1,251,274

No representation or suggestion is made that the uncertified portion of the 2026 Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation as of August 1, 2026 provided by the Appraisal District for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their 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 Resolution to levy such a tax from year-to-year as described more fully herein under "THE BONDS—Source of Payment." Under Texas law, the District 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," "—Contract Tax," and "—Maintenance and Operations Tax."

Property Tax Code and County-Wide Appraisal District

Title 1 of the Texas Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

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

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, and mobile homes 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; most individually owned automobiles; and intangible personal property. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and of certain disabled persons, and travel trailers, to the extent deemed advisable by the Board. 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 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, but only to the maximum extent of \$5,000 to \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to the exemption for the full amount of the residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran is entitled to an exemption for the full value of the veteran's residence homestead to which the disabled veterans' exemption applied including the surviving spouse of a disabled veteran who would have qualified for such exemption if it had been in effect on the date the disabled veteran died. 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 homesteads in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to 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 assessor and collector 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 before July 1. The District has never adopted an order granting a general residential homestead exemption.

Freeport Goods and Goods-in-Transit Exemptions: A "Freeport Exemption" applies to goods, wares, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas that are destined to be forwarded outside of Texas and that are detained in Texas for assembling, storing, manufacturing, processing, or fabricating for fewer than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property that are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit 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. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Montgomery County or the City of Todd Mission may designate all or part of the area within the District as a reinvestment zone. Thereafter, Montgomery County, the City of Todd Mission 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 Montgomery County nor the City of Todd Mission has designated land within the District as a reinvestment zone for the purpose of granting tax abatements.

Valuation of Property for Taxation

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

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited 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, open space or timberland 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.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) 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 a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses 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 (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely 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. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established

by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement in writing and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continues to accrue during the period of deferral.

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

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all 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 a rollback election held within any of the districts described below.

Special Taxing Units: Special Taxing Units that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, may be required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year's debt service and contract tax rate plus 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, may be required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus 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 can be classified as Developing Districts. The qualified voters of these districts, upon the Developing District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax 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 an election is called and passes, the total tax rate for Developing Districts is the current year's debt service and contract tax rate plus 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 is made by the Board of Directors on an annual basis. The Board of Directors designated the District as a Developing District for the 2026 tax year. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year 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 "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes." In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two (2) years for residential and agricultural use property and six (6) months for all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See "RISK FACTORS—General" and "—Tax Collection Limitations and Foreclosure Remedies."

RISK FACTORS

General

The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Todd Mission, the Master District (as defined herein) or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt or, in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS—Source of Payment." The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See "Registered Owners' Remedies" below.

Dependence on Principal Taxpayers and the Developer

There is a high concentration of ownership of taxable value in the District, and the District is in early stages of development. The ten principal taxpayers represent \$61,795,275 or 46.92% of the certified portion (\$131,714,149) of the 2026 Taxable Assessed Valuation of \$134,113,735 within the District as of January 1, 2026. See "TAX DATA—Principal Taxpayers." Accurate principal taxpayer lists related to the uncertified portion (\$2,399,586) of the 2026 Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of August 1, 2026, of \$188,161,565, are not available as of the date hereof. The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay taxes in a timely manner, the District may need to levy additional taxes or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Resolution, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes could have a material adverse effect upon the District's ability to pay debt service on the Bonds. See "Tax Collections Limitations and Foreclosure Remedies" herein.

The Developer has informed the District that its current plans are to continue developing its property and marketing lots to homebuilders. Neither the Developer nor any future developer is obligated to implement development plans on any particular schedule, or at all. Thus, the furnishing of any information related to any proposed development should not be interpreted as a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer to implement any plan of development. Furthermore, there is no restriction on any landowner's right to sell land. The District can make no prediction as to the effects that current or future economic conditions or governmental circumstances may have on any plans of the Developer or any other landowners. See "THE DISTRICT—Status of Development" and "THE DEVELOPER."

Operating Funds

The District's current primary sources of operating revenue are maintenance tax revenue, water and sewer revenue, tap fees, and advances from the Developer. The District levied a 2025 total tax rate in the amount of \$1.50 per \$100 of taxable assessed valuation, all of which was allocated to maintenance and operations and has authorized the publication of a 2026 total tax rate in the amount of \$1.50 per \$100 of taxable assessed valuation and expects to adopt such tax rate in October 2026 with \$1.28 allocated to maintenance and operations. The District's unaudited General Fund balance as of September 16, 2026 was \$16,019. The revenue produced from the 2026 maintenance tax rate of \$1.28 may not be sufficient to offset the operating expenses of the District. Continued maintenance of a positive Operating Fund balance may depend upon (1) cash subsidies from the Developer, and (2) continued development and increased amounts of maintenance tax revenue and water and sewer revenue. If funds from these sources are not forthcoming, the District would have to increase its maintenance tax rate. Such an increase may result in a total District tax rate excess of similar developments and could adversely affect the continued development of the District, as well as the willingness of taxpayers to pay taxes on their property. See "—Dependence on Principal Taxpayers and the Developer" herein, "THE DEVELOPER," and "THE SYSTEM—Water and Wastewater Operations."

Undeveloped Acreage and Vacant Lots

There are approximately 211 developable acres that have not been fully provided with water, sanitary sewer and drainage facilities and paving necessary to the construction of taxable improvements and 332 developed single-family residential lots that remain vacant. The District makes no representation as to when or if development of this acreage will occur or the timing of new home construction. Future increases in value will result primarily from the construction of lots and homes. Failure of the Developer to develop the developable land or of builders to construct homes on the developed lots could impact the rate of growth of taxable values in the District. See "THE DISTRICT—Land Use" and "—Status of Development."

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, developed lots and undeveloped land. The market value of such properties, lots and undeveloped land is related to general economic conditions in the greater Houston region and the national economy and those conditions can affect the demand for residences. Demand for properties of this type, and undeveloped land can be significantly affected by factors such as interest rates, credit availability, construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could impact such values.

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 45 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the greater Houston metropolitan and regional economies and the national financial and credit markets. A downturn in the economic conditions of the City of Houston and the nation could adversely affect development and building plans in the District and restrain the growth or reduce the value of the District's property tax base.

Increase in Costs of Building Materials

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

Competition

The demand for and construction of single-family homes in the District could be affected by competition from other residential developments, including residential developments located in the northwest portion of the greater Houston metropolitan area, and within western Montgomery County. Such homes could represent additional competition for new homes proposed to be sold within the District. The competitive position of the Developer in the sale of lots for single-family residential homes 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/or marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

Developer Obligation to the District

There are no commitments from or obligations of the Developer or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or construction of improvements in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed tracts of land or developed lots could restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds the District will increase or maintain its taxable property. See "THE DEVELOPER."

Possible 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 owners of property within the District to pay their taxes. The 2026 Taxable Assessed Valuation is \$134,113,735 (\$131,714,149 of certified value plus \$2,399,586 of uncertified value). After issuance of the Bonds, the maximum annual debt service requirement will be \$1,248,400 (2050), and the average annual debt service requirement will be \$1,202,779 (2027-2053 inclusive). Assuming no increase or decrease from the 2026 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, a tax rate of \$0.98 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 \$0.95 per \$100 taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the average annual debt service requirements. The Estimated Taxable Assessed Valuation as of August 1, 2026, is \$188,161,565, which reduces the above calculations to \$0.70 and \$0.68 per \$100 of taxable assessed valuation, respectively. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Outstanding Bonds based upon the 2026 Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation as of August 1, 2026, the District can make no representations regarding the future level of assessed valuation within the District. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements" and "TAX DATA—Tax Adequacy for Debt Service."

No representation or suggestion is made that the uncertified portion of the 2026 Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation as of August 1, 2026 will be the amounts finally certified by the Appraisal District and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

Overlapping Master District Debt and Contract Tax

Colton Municipal Utility District No. 1 (the "Master District," or "MUD 1") is a political subdivision of the State of Texas, created pursuant to a special act of the Texas Legislature, Senate Bill 2504, Act of the 86th Legislature, Regular Session, 2019, codified as Chapter 8257, Texas Special District Local Laws Code, and by the duly adopted Order Dividing District of Magnolia Woods Municipal Utility District No. 1 dated February 2, 2023. In an order dated October 11, 2024, the Texas Commission on Environmental Quality (the "TCEQ") pursuant to a request by the Master District, granted permission to the Master District to change its name to Colton Municipal Utility District No. 1. The Master District operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The Master District also serves as a provider of regional water, wastewater, drainage, regional park/recreational and regional road facilities to the approximate 5,725 acre service area (the "Service Area"), which includes MUD 1, Magnolia Woods Municipal Utility District No. 3 ("MUD 3") and the District. Currently, only the District has an active Contract for Financing, Operation, and Maintenance of Regional Water, Sanitary Sewer, Storm Sewer, Park, Road and Other Facilities, as amended (the "Master District Contract") with the Master District and is referred to herein as the "Participant." MUD 1 and MUD 3 are within the Service Area but do not currently have active Master District Contracts, though both may activate such contracts in the future. See "THE SYSTEM—Master District Contract."

The Master District is expected to issue contract revenue bonds for the purpose of purchasing or acquiring regional water, sanitary sewer, and drainage facilities (“Water/Sewer/Drainage Contract Revenue Bonds”), for the purpose of constructing or acquiring regional roads and related improvements (“Road Contract Revenue Bonds”) and for the purpose of constructing or acquiring regional park facilities and related improvements (“Park Contract Revenue Bonds”). The Water/Sewer/Drainage Contract Revenue Bonds, the Road Contract Revenue Bonds and the Park Contract Revenue Bonds are referred to herein collectively as the “Contract Revenue Bonds.” The Master District expects to issue \$6,700,000 of Water/Sewer/Drainage Contract Revenue Bonds and \$7,195,000 of Contract Revenue Road Bonds in the fourth quarter of 2026. Pursuant to the Master District Contract, the Master District may finance the cost of Master District Park Facilities either through the issuance of Master District Park Contract Revenue Bonds or may require the Participant to remit Park Construction Charges (as defined in the Master District Contract) to pay for Master District Park Facilities. The Master District Contract obligates each Participant to pay a pro rata share of the debt service on any Water/Sewer/Drainage Contract Revenue Bonds, any Road Contract Revenue Bonds and any Park Contract Revenue Bonds based upon the Certified Appraised Value of each Participant as a percentage of the Certified Appraised Value of all Participants, calculated annually. Each Participant is obligated to make such payments (“Water/Sewer/Drainage Contract Payments,” “Road Contract Payments” and “Park Contract Payments,” respectively) from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied by such Participant for such purpose on all taxable property within its boundaries (“Water/Sewer/Drainage Contract Tax,” “Road Contract Tax” and “Park Contract Tax,” respectively), or from any other lawful source of such Participant’s income. The debt service requirement includes principal, interest and redemption requirements on the Contract Revenue Bonds, paying agent/registrar fees, and all amounts necessary to establish and maintain funds established under the bond resolutions pursuant to which the Master District’s contract revenue bonds are issued. At this time, as the only Participant, the District’s share of debt service payments on any Master District Bonds would be 100%.

The Water/Sewer/Drainage Contract Tax, the Road Contract Tax and the Park Contract Tax are referred to herein collectively as the “Contract Tax” and the Water/Sewer/Drainage Contract Payment, the Road Contract Payment and the Park Contract Payment are referred to herein collectively as the “Contract Payment.”

The Contract Tax is in addition to the direct total tax rate of the District. The District authorized publication of its intent to levy a 2026 total tax rate in the amount of \$1.50 per \$100 of taxable assessed valuation with \$0.22 allocated to debt service and \$1.28 allocated to maintenance and operations. The Master District expects to issue \$6,700,000 of Water/Sewer/Drainage Contract Revenue Bonds and \$7,195,000 of Contract Revenue Road Bonds in the fourth quarter of 2026. The District expects to levy a Contract Tax in 2027, after the Master District issues such Contract Revenue Bonds. The District cannot represent whether any of the development planned or occurring in the District will be successful or whether the appraised valuation of the land located within the District will justify payment of the Contract Tax by property owners. Increases in the Contract Tax rate could have an adverse impact upon future development and/or home sales within the District and in the willingness of owners of property located within the District to pay ad valorem taxes levied by the District, including the Contract Tax.

The Contract Tax rate and debt service tax rate that may be required to service debt on any bonds issued by the District or the Master District is subject to numerous uncertainties such as the growth of taxable values within the boundaries of each, regulatory approvals, construction costs and interest rates. There can be no assurances that the composite of the tax rates imposed by all jurisdictions on property in the District will be competitive with the composite of the tax rates imposed on competing projects in the Montgomery County area. To the extent that such composite tax rates are not competitive with competing developments, the growth of property tax values in the District and the investment quality or security of the Bonds could be adversely affected. A combined tax rate of \$1.50 per \$100 of taxable assessed valuation for the District is higher than the tax rate of many utility districts in the Houston metropolitan area, although such a combined rate is within the range of tax rates imposed for similar purposes by many utility districts in the Houston metropolitan area in stages of development comparable with the District.

The current TCEQ rules regarding the feasibility of a bond issue for utility districts in Montgomery County limit the projected combined total tax rate of entities levying a tax for water, sanitary sewer, drainage, roads and recreational facilities to \$1.50 per \$100 of taxable assessed valuation. In the case of the District, the total combined tax rate under current TCEQ rules includes the tax rate of the District. The current combined tax rate of the District is consistent with the rules of the TCEQ. If the total combined tax rate of the District, including the Contract Tax, should ever exceed \$1.50 per \$100 of taxable assessed valuation, the District and the Master District could be prohibited under rules of the TCEQ from selling additional bonds which require the prior approval of TCEQ. See “Possible Impact on District Tax Rates” above and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (Unaudited)—Estimated Overlapping Debt” and “—Overlapping Taxes.”

Tax Collections Limitations and Foreclosure Remedies

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."

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 manmade drainage systems (canals or channels) downstream.

Potential Effects of Oil Price Fluctuations 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 industry could have on property values within 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 25, 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. See "THE SYSTEM—Flood Protection and Drainage."

Registered Owners' Remedies and Bankruptcy Limitations

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 Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, 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 Resolution. Except for mandamus, the Bond Resolution 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 Resolution 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 a 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.

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

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 involuntary bankruptcy.

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 have authorized a total of \$172,350,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring roads and related facilities and \$172,350,000 principal amount of unlimited tax bonds for refunding such obligations. The District's voters have also authorized a total of \$112,985,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring water, sanitary sewer and drainage facilities, \$112,985,000 principal amount of unlimited tax bonds for refunding such obligations, \$67,680,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring park and recreational facilities and \$67,680,000 principal amount of unlimited tax bonds for refunding such obligations. After issuance of the Bonds, \$155,700,000 in principal amount of unlimited tax bonds for acquiring or constructing road facilities, all of the unlimited tax bonds for water, sanitary sewer and drainage facilities, all of the unlimited tax bonds for constructing or acquiring parks and recreational facilities, and all the unlimited tax bonds authorized for refunding purposes will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. Such bonds may finance facilities which are not necessarily related to increased taxable values in the District. See "THE BONDS—Issuance of Additional Debt."

To date, the Developer has advanced certain funds for construction of water, sanitary sewer and drainage facilities and roads and related improvements for which it has not been reimbursed. After the reimbursements are made with Bond proceeds, the District will owe approximately \$16,000,000 to the Developer for water, sanitary sewer and drainage facilities and for roads and related improvements constructed on the District's behalf. In addition, the District may sell park bonds to pay its pro rata share of Master District park facilities. The principal amount of unlimited tax bonds issued by the District for constructing and/or acquiring park and recreational facilities may not exceed one percent (1%) of the District's certified taxable assessed valuation, 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 greater than three percent (3%) of the value of the taxable property in the District. The Master District Contract allows the Participant to issue park bonds in an amount not to exceed three percent (3%) of the value of taxable property in the Participant. The District intends to issue additional bonds in order to reimburse the Developer for monies currently owed. 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 to finance water, sanitary sewer, drainage and recreational facilities (but not roads) is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. See "THE BONDS—Issuance of Additional Debt."

Marketability of the Bonds

The District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price 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 more generally bought, sold or traded in the secondary market.

Environmental and Air Quality Regulations

Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways 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.

Changes in Tax Legislation

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

Continuing Compliance with Certain Covenants

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

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 risk factors:

The long-term ratings on the Bonds are dependent in part on the financial strength of the bond insurer (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 Underwriter has 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.

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. Applications have been made to municipal bond insurance companies for qualification of the Bonds for municipal bond insurance. If qualified, the purchase of municipal bond insurance with respect to the Bonds is optional and at the expense of the Underwriter. See “RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance.”

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas, payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel to a like effect and to the effect that, under existing law, interest on the Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Code (as defined herein), and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals.

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under “THE BONDS,” “THE DISTRICT—General,” “THE SYSTEM—The Master District Contract,” “TAXING PROCEDURES,” “LEGAL MATTERS,” “TAX 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 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 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.

Allen Boone Humphries Robinson LLP also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

No Material Adverse Change

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

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or non encumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

Tax Exemption

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, under existing law, interest on the Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The District has covenanted in the Bond Resolution that it will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Bond Resolution pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the District and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the District and such parties, which Bond Counsel has not independently verified. If the District fails to comply with the covenants in the Bond Resolution or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Bond Counsel will express no opinion as to the amount or timing of interest on the Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Bond Resolution upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel’s ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer, and the Owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds, regardless of the ultimate outcome of the audit.

Not Qualified Tax-Exempt Obligations

The District will not designate the Bonds as “qualified tax-exempt obligations” for financial institutions.

Additional Federal Income Tax Considerations

Collateral Tax Consequences: Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore, prospective purchasers of the Bonds should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

An “applicable corporation” (as defined in section 59(k) of the Code) may be subject to a 15 percent alternative minimum tax imposed under section 55 of the Code on its “adjusted financial statement income” (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation’s “adjusted financial statement income,” ownership of the Bonds could subject certain corporations to alternative minimum tax consequences.

Ownership of tax-exempt obligations also may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds.

Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium: If the issue price of any maturity of the Bonds exceeds the stated redemption price payable at maturity of such Bonds, such Bonds (the “Premium Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Accounting Treatment of Original Issue Discount: If the issue price of any maturity of the Bonds is less than the stated redemption price payable at maturity of such Bonds (the “OID Bonds”), the difference between (i) the amount payable at the maturity of each OID Bond, and (ii) the initial offering price to the public of such OID Bond constitutes original issue discount with respect to such OID Bond in the hands of any owner who has purchased such OID Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such OID Bond equal to that portion of the amount of such original issue discount allocable to the period that such OID Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions “TAX MATTERS—Tax Exemption” and “TAX MATTERS—Additional Federal Income Tax Considerations—Collateral Tax Consequences” and “—Tax Legislative Changes” generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (i) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (ii) all of the OID Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this OFFICIAL STATEMENT. Neither the District nor Bond Counsel has made any investigation or offers any assurance that the OID Bonds will be offered and sold in accordance with such assumptions.

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

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

Tax Legislative Changes: Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any recently enacted, proposed, pending or future legislation.

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 Developer, the Engineer, the Tax Assessor/Collector, the Bookkeeper, the Appraisal District and information from 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 below 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. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a 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. Each consultant has agreed to the use of information provided by such firms.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the historical breakdown of the District's assessed valuations and certain other historical data concerning tax rates and tax collections has been provided by Assessments of the Southwest, Inc. and is included herein in reliance upon the authority of such firm as an expert in assessing property values and collecting taxes.

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the District's and Master District's water and wastewater system and certain information included in the sections entitled "THE DISTRICT—Description and Location" and "—Status of Development," "THE SYSTEM," and "THE ROAD SYSTEM" has been provided by LJA, Inc., and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: The financial statements of the District as of January 31, 2026, and for the year then ended, included in this OFFICIAL STATEMENT, have been audited by Forvis Mazars, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's January 31, 2026, financial statements.

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE SYSTEM— Water and Wastewater Operations" has been provided by Municipal Accounts & Consulting, L.P. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

If subsequent to the date of the OFFICIAL STATEMENT, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the OFFICIAL STATEMENT to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the OFFICIAL STATEMENT satisfactory to the Underwriter; provided, however, that the obligation of the District to the Underwriter to so amend or supplement the OFFICIAL STATEMENT will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time 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 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 the 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 Resolution, the District has 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 ("EMMA") system.

Annual Reports

The District will provide certain financial information and operating data annually to the MSRB. The financial information and operating data which will be provided 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)," (except for "Estimated Overlapping Debt"), "TAX DATA," and in APPENDIX A (Independent Auditor's Report and Financial Statements of the District and certain supplemental schedules). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2027. Any financial statements provided by the District shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax 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 or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect beneficial owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms “obligated person” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the “Rule”). The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from the MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through its Electronic Municipal Market Access (“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 registered owners 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 owners and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution 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 Underwriter 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 above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

Since the District's first issuance of bonds in 2025, the District has complied in all material respects with its prior continuing disclosure agreement made in accordance with the Rule.

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.

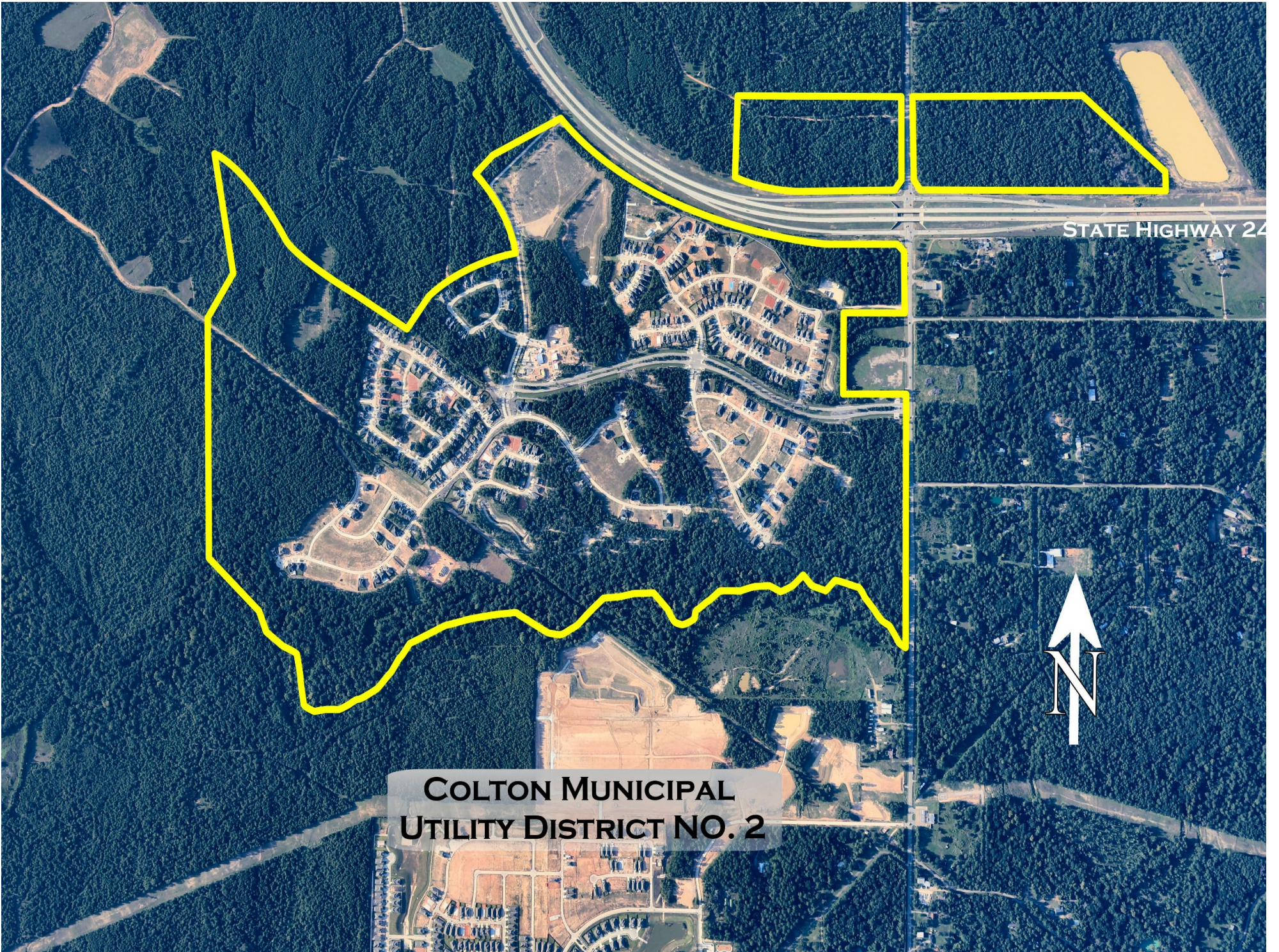
This OFFICIAL STATEMENT was approved by the Board of Directors of Colton Municipal Utility District No. 2, as of the date shown on the cover page.

/s/ _____
President, Board of Directors
Colton Municipal Utility District No. 2

ATTEST:

/s/ _____
Secretary, Board of Directors
Colton Municipal Utility District No. 2

AERIAL LOCATION MAP
(Approximate boundaries as of July 2026)



STATE HIGHWAY 24

**COLTON MUNICIPAL
UTILITY DISTRICT NO. 2**



PHOTOGRAPHS OF THE DISTRICT
(Taken July 2026)













APPENDIX A

Independent Auditor's Report and Financial Statements of the District for the Year Ended January 31, 2026



Colton Municipal Utility District No. 2 Montgomery County, Texas

**Independent Auditor's Report, Financial Statements,
and Supplementary Information**

January 31, 2026



Colton Municipal Utility District No. 2
Contents
January 31, 2026

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Position and Governmental Funds Balance Sheet	8
Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances	9
Notes to Financial Statements	10
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	21
Notes to Required Supplementary Information	22
Supplementary Information	
Other Schedules Included Within This Report	23
Schedule of Services and Rates	24
Schedule of General Fund Expenditures	25
Schedule of Temporary Investments	26
Analysis of Taxes Levied and Receivable	27
Schedule of Long-Term Debt Service Requirements by Years	28
Changes in Long-Term Bonded Debt	29
Comparative Schedules of Revenues and Expenditures – General Fund and Debt Service Fund	30
Board Members, Key Personnel, and Consultants	32

Independent Auditor's Report

Board of Directors
Colton Municipal Utility District No. 2
Montgomery County, Texas

Opinions

We have audited the financial statements of the governmental activities and each major fund of Colton Municipal Utility District No. 2 (District), as of and for the year ended January 31, 2026, 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 accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of January 31, 2026, and the respective changes in financial position thereof 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 (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 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 GAAS 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 GAAS, 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 budgetary comparison schedule, as listed in the table of contents, 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 GAAS, 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 accompanying schedules required by the Texas Commission on Environmental Quality listed in the table of contents are presented for purposes of additional analysis and are 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Forvis Mazars, LLP

Houston, Texas
June 10, 2026

Colton Municipal Utility District No. 2
Management's Discussion and Analysis
Year Ended January 31, 2026

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and by the District's state oversight agency, the Texas Commission on Environmental Quality (Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities that engage in a single governmental program, such as the provision of water, sanitary sewer, and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position, and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period, and expenses are recorded even though they may not have used cash during the current year.

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures, and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

Colton Municipal Utility District No. 2
Management's Discussion and Analysis
Year Ended January 31, 2026

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time but do not include capital assets such as land and water, sewer, and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements:

Summary of Net Position

	<u>2026</u>	<u>2025</u>
Current and other assets	\$ 1,414,009	\$ 12,569
Capital assets	<u>16,316,371</u>	<u>1,207,735</u>
Total assets	<u>\$ 17,730,380</u>	<u>\$ 1,220,304</u>
Long-term liabilities	\$ 27,478,816	\$ 1,568,906
Other liabilities	<u>872,931</u>	<u>71,106</u>
Total liabilities	<u>28,351,747</u>	<u>1,640,012</u>
Deferred inflows of resources	<u>416,601</u>	<u>1,326</u>
Net position		
Net investment in capital assets	(681,124)	(8,889)
Restricted	554	-
Unrestricted	<u>(10,357,398)</u>	<u>(412,145)</u>
Total net position	<u>\$ (11,037,968)</u>	<u>\$ (421,034)</u>

Colton Municipal Utility District No. 2
Management's Discussion and Analysis
Year Ended January 31, 2026

The total net position of the District decreased by \$10,616,934. The majority of the decrease in net position is related to services and depreciation expenses and conveyance of capital assets to another governmental entity exceeding other revenues. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Changes in Net Position

	2026	2025
Revenues		
Property taxes	\$ 1,326	\$ -
Charges for services	67,342	-
Other revenues	809,170	170
Total revenues	877,838	170
Expenses		
Services	1,633,077	184,355
Depreciation	345,403	8,889
Conveyance of capital assets	9,109,309	146,782
Debt service	406,983	-
Total expenses	11,494,772	340,026
Change in net position	(10,616,934)	(339,856)
Net position, beginning of year	(421,034)	(81,178)
Net position, end of year	<u>\$ (11,037,968)</u>	<u>\$ (421,034)</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended January 31, 2026 were \$242,634, an increase of \$264,678 from the prior year.

The general fund's fund balance decreased by \$415,333 primarily due to service operations expenditures exceeding services and tap connection and inspection fees revenues as well as developer advances received.

The debt service fund's fund balance increased by \$560,490 primarily due to proceeds received from the sale of road bonds.

The capital projects fund's fund balance increased by \$119,521 primarily due to proceeds received from the sale of road bonds exceeding capital outlay expenditures and debt issuance costs.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to tap connection and inspection fees revenues and related expenditures being greater than expected and property taxes revenues and developer advances received being less than expected. The fund balance as of January 31, 2026 was expected to be \$295,336, and the actual end-of-year fund balance was \$(437,377).

**Colton Municipal Utility District No. 2
Management's Discussion and Analysis
Year Ended January 31, 2026**

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

Capital Assets (Net of Accumulated Depreciation)

	<u>2026</u>	<u>2025</u>
Land and improvements	\$ 1,127,528	\$ 816,598
Water facilities	2,409,743	-
Wastewater facilities	5,275,643	-
Drainage facilities	7,154,802	34,373
Land improvements	<u>348,655</u>	<u>356,764</u>
Total capital assets	<u>\$ 16,316,371</u>	<u>\$ 1,207,735</u>

During the current year, additions to capital assets were as follows.

Land and improvements, including mass grading to serve Colton, Section 5, Phase Nos. 1 and 2	\$ 310,930
Water, sewer, and drainage facilities to serve Colton, Sections 1–8 and Carrizo Way	<u>15,143,109</u>
Total additions to capital assets	<u>\$ 15,454,039</u>

The developer within the District has constructed facilities on behalf of the District under the terms of a contract with the District. The District has agreed to reimburse the developer for these facilities from the proceeds of future bond sales, subject to the approval of the Commission, as applicable. As of January 31, 2026, a liability for developer-constructed capital assets of \$21,104,611 has been recorded in the government-wide financial statements.

Debt

The changes in the debt position of the District during the fiscal year ended January 31, 2026 are summarized as follows:

Long-term debt payable, beginning of year	\$ 1,568,906
Increases in long-term debt	25,973,610
Decreases in long-term debt	<u>(63,700)</u>
Long-term debt payable, end of year	<u>\$ 27,478,816</u>

At January 31, 2026, the District had \$112,985,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing, and improving the water, sanitary sewer, and drainage systems within the District; \$67,680,000 of unlimited tax bonds authorized, but unissued, for the purposes of constructing park and recreational facilities; and \$166,350,000 of unlimited tax bonds authorized, but unissued, for the purpose of constructing roads.

The District's Series 2025 Road bonds are not rated.

**Colton Municipal Utility District No. 2
Management's Discussion and Analysis
Year Ended January 31, 2026**

Other Relevant Factors

Relationship to the City of Todd Mission

Under existing Texas law, since the District lies partially within the extraterritorial jurisdiction of the City of Todd Mission (City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City on or after July 8, 2066. If the District is annexed, the City must assume the District's assets and obligations (including the bonded indebtedness) and abolish the District within 90 days.

Effective May 9, 2024, the District entered into a Strategic Partnership Agreement (Agreement) with the City, which annexed certain property within the boundaries of the District into the City for "limited purposes," as described therein. Under the terms of the Agreement, the City has agreed it will not annex the District as a whole for full purposes until the terms and conditions provided in the Development Agreement entered into between the City and the developer, dated July 8, 2021, governing the property subject to this Agreement, have been satisfied, at which time the City has the option to annex the District if it chooses to do so.

Economic Dependency

The District's developer owns the majority of the taxable property within the District. The District's ability to meet its obligations is dependent on the developer's ability to pay property taxes.

Since inception, the developer has advanced \$548,500 to the District for operations. The District does not have sufficient funds or anticipated revenues sufficient to liquidate these advances during the forthcoming fiscal year. These advances have been recorded as liabilities in the government-wide financial statements.

Contingencies

The developer of the District is constructing facilities within the boundaries of the District. The District has agreed to reimburse the developer for these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission, as applicable. The District's engineer has stated that current construction amounts are approximately \$1,247,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Colton Municipal Utility District No. 2
Statement of Net Position and Governmental Funds Balance Sheet
January 31, 2026

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 315,822	\$ -	\$ 390	\$ 316,212	\$ -	\$ 316,212
Short-term investments	501	560,490	136,017	697,008	-	697,008
Receivables						
Property taxes	154,109	-	-	154,109	-	154,109
Service accounts	25,224	-	-	25,224	-	25,224
Prepaid expenditures	3,126	-	-	3,126	-	3,126
Operating reserve	218,330	-	-	218,330	-	218,330
Capital assets (net of accumulated depreciation)						
Land and improvements	-	-	-	-	1,127,528	1,127,528
Infrastructure	-	-	-	-	14,840,188	14,840,188
Land improvements	-	-	-	-	348,655	348,655
Total Assets	\$ 717,112	\$ 560,490	\$ 136,407	\$ 1,414,009	\$ 16,316,371	\$ 17,730,380
Liabilities						
Accounts payable	\$ 424,055	\$ -	\$ 16,886	\$ 440,941	\$ 82,819	\$ 523,760
Accrued interest payable	-	-	-	-	35,338	35,338
Customer deposits	48,000	-	-	48,000	-	48,000
Unearned tap connection fees	265,783	-	-	265,783	-	265,783
Due to others	50	-	-	50	-	50
Long-term liabilities, due after one year	-	-	-	-	27,478,816	27,478,816
Total Liabilities	737,888	-	16,886	754,774	27,596,973	28,351,747
Deferred Inflows of Resources						
Deferred property tax revenues	416,601	-	-	416,601	-	416,601
Fund Balances/Net Position						
Fund balances (deficit)						
Nonspendable, prepaid expenditures	3,126	-	-	3,126	(3,126)	-
Restricted						
Unlimited tax road bonds	-	560,490	-	560,490	(560,490)	-
Roads	-	-	119,521	119,521	(119,521)	-
Assigned to operating reserve	218,330	-	-	218,330	(218,330)	-
Unassigned	(658,833)	-	-	(658,833)	658,833	-
Total fund balances (deficit)	(437,377)	560,490	119,521	242,634	(242,634)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 717,112	\$ 560,490	\$ 136,407	\$ 1,414,009		
Net position						
Net investment in capital assets					(681,124)	(681,124)
Restricted for capital projects					554	554
Unrestricted net position					(10,357,398)	(10,357,398)
Total net position					<u>\$ (11,037,968)</u>	<u>\$ (11,037,968)</u>

Colton Municipal Utility District No. 2
Statement of Activities and Governmental Funds Revenues,
Expenditures, and Changes in Fund Balances
Year Ended January 31, 2026

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 1,326	\$ -	\$ -	\$ 1,326	\$ -	\$ 1,326
Water service	40,644	-	-	40,644	-	40,644
Sewer service	25,700	-	-	25,700	-	25,700
Regional water fee	998	-	-	998	-	998
Penalty and interest	1,588	-	-	1,588	-	1,588
Tap connection and inspection fees	794,626	-	-	794,626	-	794,626
Investment income	48	2,727	664	3,439	-	3,439
Other income	9,517	-	-	9,517	-	9,517
Total Revenues	874,447	2,727	664	877,838	-	877,838
Expenditures/Expenses						
Service operations						
Purchased services	873,321	-	-	873,321	-	873,321
Professional fees	114,646	-	-	114,646	187	114,833
Contracted services	65,300	-	-	65,300	-	65,300
Repairs and maintenance	159,541	-	-	159,541	-	159,541
Other expenditures	40,655	-	110	40,765	-	40,765
Tap connections	379,317	-	-	379,317	-	379,317
Capital outlay	-	-	4,822,330	4,822,330	(4,822,330)	-
Depreciation	-	-	-	-	345,403	345,403
Conveyance of capital assets	-	-	-	-	9,109,309	9,109,309
Debt service						
Interest and fees	-	-	-	-	35,338	35,338
Debt issuance costs	-	-	326,645	326,645	45,000	371,645
Total Expenditures/Expenses	1,632,780	-	5,149,085	6,781,865	4,712,907	11,494,772
Excess (Deficiency) of Revenues Over Expenditures	(758,333)	2,727	(5,148,421)	(5,904,027)	(4,712,907)	
Other Financing Sources (Uses)						
General obligation bonds issued	-	557,763	5,442,237	6,000,000	(6,000,000)	
Discount on debt issued	-	-	(174,295)	(174,295)	174,295	
Developer advances received	343,000	-	-	343,000	(343,000)	
Total Other Financing Sources	343,000	557,763	5,267,942	6,168,705	(6,168,705)	
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(415,333)	560,490	119,521	264,678	(264,678)	
Change in Net Position					(10,616,934)	(10,616,934)
Fund Balances (Deficit)/Net Position						
Beginning of year	(22,044)	-	-	(22,044)	-	(421,034)
End of year	\$ (437,377)	\$ 560,490	\$ 119,521	\$ 242,634	\$ -	\$ (11,037,968)

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Colton Municipal Utility District No. 2 (District), formerly known as Magnolia Woods Municipal Utility District No. 2, was created by the special act of the Texas Legislature, Senate Bill Number 2504 (Bill) Act of the 86th Legislature of the State of Texas, Regular Session, 2019 as codified as Chapter 8257, Texas Special District Local Laws Code. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Texas Commission on Environmental Quality (Commission). The principal functions of the District are to finance, construct, own and/or operate waterworks, wastewater, drainage, park, road and paving, and other facilities.

The District is governed by a Board of Directors (Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-Wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities that engage in a single governmental program, such as the provision of water, wastewater, drainage, and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services, and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District, which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services, and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed, or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Colton Municipal Utility District No. 2
Notes to Financial Statements
January 31, 2026

Capital Projects Fund – The capital projects fund is used to account for financial resources that are restricted, committed, or assigned to expenditures for capital outlays.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components.

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance are available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures, and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures, and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered

Colton Municipal Utility District No. 2
Notes to Financial Statements
January 31, 2026

susceptible to accrual include taxes, charges for services, and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period, and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables, if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of 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 amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Investments and Investment Income

Investments in certificates of deposit, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes and penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Any collections on the current year tax levy are deferred and recognized in the subsequent fiscal year. Current year revenues recognized are those taxes collected during the fiscal year for prior years' tax levies, plus any collections received during fiscal 2025 on the 2024 levy.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended January 31, 2026, the tax levied in October 2025 is recorded as receivable and deferred inflows of resources and will be considered earned during the fiscal year ending January 31,

Colton Municipal Utility District No. 2
Notes to Financial Statements
January 31, 2026

2027. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives is not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

Water production and distribution facilities	10–45 years
Wastewater collection and treatment facilities	10–45 years
Drainage facilities	10–45 years
Land improvements	10–45 years

The District conveys ownership of road and paving facilities constructed by the District to another governmental entity upon completion for maintenance.

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

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

Colton Municipal Utility District No. 2
Notes to Financial Statements
January 31, 2026

Reconciliation of Government-Wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the fund financial statements.	\$ 16,316,371
Accounts payable amounts that are not payable in the current period are not reported in the fund financial statements.	(82,819)
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(35,338)
Long-term debt obligations are not due and payable in the current period and are not reported in the fund financial statements.	<u>(27,478,816)</u>
Adjustment to fund balances to arrive at net position.	<u>\$ (11,280,602)</u>

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures, and changes in fund balances because:

Change in fund balances.	\$ 264,678
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense, noncapitalized costs, and conveyance of capital assets exceeded capital outlay expenditures in the current period.	(4,632,569)
Governmental funds report developer advances as other financing sources or uses as amounts are received or paid. However, for government-wide financial statements, these amounts are recorded as an increase or decrease in due to developer.	(343,000)
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	174,295

Colton Municipal Utility District No. 2
Notes to Financial Statements
January 31, 2026

Governmental funds report proceeds from the sale of bonds because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any affect on net position.	\$ (6,000,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	<u>(80,338)</u>
Change in net position of governmental activities.	<u><u>\$ (10,616,934)</u></u>

Note 2. Deposits, Investments, and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government’s deposits may not be returned to it. The District’s deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies, or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At January 31, 2026, none of the District’s bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies, and counties and other political subdivisions with an investment rating not less than “A,” insured or collateralized certificates of deposit, and certain bankers’ acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts, and investment pools.

The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District’s investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations. The District’s investments in Texas CLASS are reported at net asset value.

Colton Municipal Utility District No. 2
Notes to Financial Statements
January 31, 2026

At January 31, 2026, the District had the following investments and maturities:

Type	Maturities in Years				
	Fair Value	Less Than 1	1–5	6–10	More Than 10
Texas CLASS	\$ 697,008	\$ 697,008	\$ -	\$ -	\$ -

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years, and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At January 31, 2026, the District's investments in Texas CLASS were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet and statement of net position at January 31, 2026 as follows:

Carrying value	
Deposits	\$ 316,212
Investments	697,008
Total	<u>\$ 1,013,220</u>

Investment Income

Investment income of \$3,439 for the year ended January 31, 2026 consisted of interest income.

Fair Value of Measurements

The District has the following recurring fair value measurements as of January 31, 2026:

- Pooled investments of \$697,008 are valued at fair value per share of the pool's underlying portfolio.

Note 3. Capital Assets

A summary of changes in capital assets for the year ended January 31, 2026 is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable			
Land and improvements	\$ 816,598	\$ 310,930	\$ 1,127,528

Colton Municipal Utility District No. 2
Notes to Financial Statements
January 31, 2026

Governmental Activities (Continued)	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, depreciable			
Water production and distribution facilities	\$ -	\$ 2,464,510	\$ 2,464,510
Wastewater collection and treatment facilities	-	5,395,543	5,395,543
Drainage facilities	35,154	7,283,056	7,318,210
Land improvements	364,872	-	364,872
Total capital assets, depreciable	400,026	15,143,109	15,543,135
Less accumulated depreciation			
Water production and distribution facilities	-	(54,767)	(54,767)
Wastewater collection and treatment facilities	-	(119,900)	(119,900)
Drainage facilities	(781)	(162,627)	(163,408)
Land improvements	(8,108)	(8,109)	(16,217)
Total accumulated depreciation	(8,889)	(345,403)	(354,292)
Total governmental activities, net	\$ 1,207,735	\$ 15,108,636	\$ 16,316,371

Note 4. Long-Term Liabilities

Changes in long-term liabilities for the year ended January 31, 2026 were as follows:

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable					
General obligation bonds	\$ -	\$ 6,000,000	\$ -	\$ 6,000,000	\$ -
Less discounts on bonds	-	174,295	-	174,295	-
	-	5,825,705	-	5,825,705	-
Due to developer – advances	205,500	343,000	-	548,500	-
Due to developer – construction	1,363,406	19,804,905	63,700	21,104,611	-
Total governmental activities long-term liabilities	\$ 1,568,906	\$ 25,973,610	\$ 63,700	\$ 27,478,816	\$ -

Colton Municipal Utility District No. 2
Notes to Financial Statements
January 31, 2026

General Obligation Bonds

	<u>Road Series 2025</u>
Amount outstanding, January 31, 2026	\$6,000,000
Interest rates	4.00% to 5.00%
Maturity dates, serially beginning/ending	September 1, 2027/2052
Interest payment dates	March 1/September 1
Callable date*	September 1, 2031

*Or any date thereafter; callable at par plus accrued interest to the date of redemption

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at January 31, 2026:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2027	\$ -	\$ 196,765	\$ 196,765
2028	115,000	278,881	393,881
2029	120,000	274,281	394,281
2030	125,000	269,481	394,481
2031	130,000	264,482	394,482
2032–2036	770,000	1,236,631	2,006,631
2037–2041	1,000,000	1,052,644	2,052,644
2042–2046	1,285,000	795,182	2,080,182
2047–2051	1,665,000	451,850	2,116,850
2052–2053	790,000	59,750	849,750
Total	<u>\$ 6,000,000</u>	<u>\$ 4,879,947</u>	<u>\$ 10,879,947</u>

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount:

Bonds voted	
Water, sewer, and drainage facilities	\$ 112,985,000
Park and recreational facilities	67,680,000
Road facilities	172,350,000
Refunding bond authorization	353,015,000
Bonds sold	
Road facilities	6,000,000

Developer Advances

Since inception, the developer has advanced \$548,500 to the District for operations. The District does not have sufficient funds or anticipated revenues sufficient to liquidate these advances during the forthcoming year. These advances have been recorded as liabilities in the government-wide financial statements.

Due to Developer – Construction

The developer has constructed facilities on behalf of the District under the terms of a contract with the District. The District has agreed to reimburse the cost of these facilities from the sale of unlimited tax bonds subject to the approval of the Commission, as applicable, and the terms of the contracts with the developer. As of January 31, 2026, a liability for developer-constructed capital assets of \$21,104,611 was recorded in the government-wide financial statements.

Note 5. Significant Bond Resolution and Commission Requirements

- (A) The Bond Resolution requires that the District levy and collect an ad valorem road debt service tax sufficient to pay principal and interest on road bonds when due. During the year ended January 31, 2026, the District did not levy an ad valorem road debt service tax rate. The District will utilize available debt service fund resources and road bond proceeds for the interest requirements to be paid of \$196,765.
- (B) In accordance with the Road Series 2025 Bond Resolution, a portion of the bond proceeds were deposited into the debt service fund and reserved for the payment of bond interest. This bond interest reserve is reduced as the interest is paid.

Bond interest reserve, beginning of year	\$ -
Additions – interest appropriated from Road Series 2025 bond proceeds	<u>557,763</u>
Bond interest reserve, end of year	<u>\$ 557,763</u>

Note 6. Maintenance Taxes

At an election held May 6, 2023, voters authorized a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended January 31, 2026, the District levied an ad valorem maintenance tax at the rate of \$1.5000 per \$100 of assessed valuation, which resulted in a tax levy of \$416,601 on the taxable valuation of \$27,773,374 for the 2025 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

At an election held May 6, 2023, voters authorized a road maintenance tax not to exceed \$0.25 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended January 31, 2026, the District did not levy an ad valorem road maintenance tax. The road maintenance tax, if levied, will be used by the general fund to pay expenditures of operating the roads within the District.

Note 7. Financing and Operation of Regional Facilities

On May 6, 2023, the District's voters authorized entry into a 40-year regional facilities contract (contract) with Colton Municipal Utility District No. 1 (Colton No. 1) whereby Colton No. 1 agreed to provide or cause to be provided for

Colton Municipal Utility District No. 2
Notes to Financial Statements
January 31, 2026

the financing, operation and maintenance of regional water, sanitary sewer, storm sewer, park, road, and other facilities (regional facilities). Colton No. 1 will act as the master district, shall be the owner of the regional facilities constructed and acquired and be able to provide the services permitted by law to all participating districts that are in existence or will be created within the service area.

Under the terms of the contract, the Master District will charge the participants a monthly operational fee calculated by multiplying the unit cost per connection by the number of equivalent single-family residential connections reserved to each district. The District's share of operational costs for the year was \$873,321.

The District is to maintain an operation and maintenance reserve equivalent to three months of budgeted operation and maintenance expenses. The District has contributed \$218,330 as its share of a three-month operating reserve.

In addition, the Master District is authorized to issue contract revenue bonds, sufficient to complete construction and acquisition of the regional water, sewer, drainage, park, and road facilities as needed to serve all districts in the service area. Each participating district is obligated to pay its pro rata share of the debt service requirements on the Master District's contract revenue bonds.

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. The District has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts in the past two fiscal years.

Note 9. Economic Dependency

The District's developer owns the majority of the taxable property in the District. The District's ability to meet its obligations is dependent on the developer's ability to pay property taxes.

Note 10. Contingencies

The developer of the District is constructing facilities within the boundaries of the District. The District has agreed to reimburse the developer for these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission, as applicable. The District's engineer has stated that current construction amounts are approximately \$1,247,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Note 11. Deficit Fund Balance

At January 31, 2026, the District's general fund had a deficit fund balance of \$437,377. The District anticipates that growth within the District will generate revenues sufficient to pay costs of operating the District.

Required Supplementary Information

Colton Municipal Utility District No. 2
Budgetary Comparison Schedule – General Fund
Year Ended January 31, 2026

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 735,000	\$ 735,000	\$ 1,326	\$ (733,674)
Water service	12,500	12,500	40,644	28,144
Sewer service	12,500	12,500	25,700	13,200
Regional water fee	-	-	998	998
Penalty and interest	2,500	2,500	1,588	(912)
Tap connection and inspection fees	449,250	449,250	794,626	345,376
Investment income	-	-	48	48
Other income	-	2,500	9,517	7,017
Total Revenues	1,211,750	1,214,250	874,447	(339,803)
Expenditures				
Service operations				
Purchased services	-	873,320	873,321	(1)
Professional fees	125,000	125,000	114,646	10,354
Contracted services	65,000	89,600	65,300	24,300
Repairs and maintenance	-	145,000	159,541	(14,541)
Other expenditures	35,400	42,700	40,655	2,045
Tap connections	221,250	221,250	379,317	(158,067)
Total Expenditures	446,650	1,496,870	1,632,780	(135,910)
Excess (Deficiency) of Revenues Over Expenditures	765,100	(282,620)	(758,333)	(475,713)
Other Financing Sources				
Developer advances received	-	600,000	343,000	(257,000)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	765,100	317,380	(415,333)	(732,713)
Fund Balance (Deficit), Beginning of Year	(22,044)	(22,044)	(22,044)	-
Fund Balance (Deficit), End of Year	\$ 743,056	\$ 295,336	\$ (437,377)	\$ (732,713)

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was amended during fiscal 2026.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Supplementary Information

Colton Municipal Utility District No. 2
Other Schedules Included Within This Report
January 31, 2026

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 10–20
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-Term Debt Service Requirements by Years
- [X] Changes in Long-Term Bonded Debt
- [X] Comparative Schedules of Revenues and Expenditures – General Fund and Debt Service Fund
- [X] Board Members, Key Personnel, and Consultants

Colton Municipal Utility District No. 2
Schedule of Services and Rates
Year Ended January 31, 2026

1. Services provided by the District

☒ 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 than emergency interconnect)		
☐ Other _____		

2. Retail service providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>	
Water:	\$ 22.00	7,000	N	\$ 2.25	7,001 to	15,000
				\$ 2.50	15,001 to	25,000
				\$ 3.00	25,001 to	No Limit
Wastewater:	\$ 55.00	-	Y			
Conservation district fee:	\$ 0.094	1,000	N	\$ 0.094	1,001 to	No Limit

Does the District employ winter averaging for wastewater usage? Yes ☐ No ☒

Total charges per 10,000 gallons usage (including fees): Water \$ 29.69 Wastewater \$ 55.00

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	158	158	x1.0	158
1"	51	51	x2.5	128
1 1/2"	-	-	x5.0	-
2"	4	4	x8.0	32
3"	2	2	x15.0	30
4"	-	-	x25.0	-
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	215	215		348
Total wastewater	208	208	x1.0	208

3. Total water consumption (in thousands) during the fiscal year

Gallons pumped into the system:	12,676
Gallons billed to customers:	12,676
Water accountability ratio (gallons billed/gallons pumped):	100.00%

**"ESFC" means equivalent single-family connections

Colton Municipal Utility District No. 2
Schedule of General Fund Expenditures
Year Ended January 31, 2026

Personnel (including benefits)		\$ -
Professional Fees		
Auditing	\$ 15,100	
Legal	72,391	
Engineering	27,155	
Financial advisor	-	114,646
Purchased Services for Resale		
Bulk water and wastewater service purchases		873,321
Regional Water Authority		-
Contracted Services		
Bookkeeping	35,164	
General manager	-	
Appraisal district	3,198	
Tax collector	4,126	
Security	-	
Other contracted services	19,987	62,475
Utilities		-
Repairs and Maintenance		159,541
Administrative Expenditures		
Directors' fees	10,166	
Office supplies	2,576	
Insurance	3,069	
Other administrative expenditures	24,844	40,655
Capital Outlay		
Capitalized assets	-	
Expenditures not capitalized	-	-
Tap Connection Expenditures		379,317
Solid Waste Disposal		2,825
Fire Fighting		-
Parks and Recreation		-
Debt Service, Contractual Obligations		-
Total Expenditures		<u>\$ 1,632,780</u>

Colton Municipal Utility District No. 2
Schedule of Temporary Investments
January 31, 2026

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>	<u>Accrued Interest Receivable</u>
General Fund				
Texas CLASS	3.83%	Demand	\$ 501	\$ -
Debt Service Fund				
Texas CLASS	3.83%	Demand	560,490	-
Capital Projects Fund				
Texas CLASS	3.83%	Demand	<u>136,017</u>	<u>-</u>
Totals			<u>\$ 697,008</u>	<u>\$ -</u>

Colton Municipal Utility District No. 2
Analysis of Taxes Levied and Receivable
Year Ended January 31, 2026

	Maintenance Taxes	
Receivable, Beginning of Year	\$	-
2025 Original Tax Levy		390,731
Additions and corrections		<u>25,870</u>
Adjusted tax levy		<u>416,601</u>
Current year tax collections		<u>(262,492)</u>
Receivable, End of Year	\$	<u><u>154,109</u></u>
Receivable, by Years		
2025	\$	<u><u>154,109</u></u>
	2025	2024
Property Valuations		
Land	\$ 42,296,287	\$ 2,802,681
Improvements	1,062,650	-
Personal property	-	-
Exemptions	<u>(15,585,563)</u>	<u>(2,714,282)</u>
Total Property Valuations	<u><u>\$ 27,773,374</u></u>	<u><u>\$ 88,399</u></u>
Tax Rates per \$100 Valuation		
Maintenance tax rate*	<u><u>\$ 1.5000</u></u>	<u><u>1.5000</u></u>
Tax Levy	<u><u>\$ 416,601</u></u>	<u><u>\$ 1,326</u></u>
Percent of Taxes Collected to Taxes Levied**	<u><u>63%</u></u>	<u><u>100%</u></u>

*Maximum tax rate approved by voters: \$1.50 on May 6, 2023

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

Colton Municipal Utility District No. 2
Schedule of Long-Term Debt Service Requirements by Years
January 31, 2026

Due During Fiscal Years Ending January 31	Road Series 2025		
	Principal Due September 1	Interest Due March 1, September 1	Total
2027	\$ -	\$ 196,765	\$ 196,765
2028	115,000	278,881	393,881
2029	120,000	274,281	394,281
2030	125,000	269,481	394,481
2031	130,000	264,482	394,482
2032	140,000	259,281	399,281
2033	145,000	253,681	398,681
2034	155,000	247,881	402,881
2035	160,000	241,294	401,294
2036	170,000	234,494	404,494
2037	180,000	227,269	407,269
2038	190,000	219,619	409,619
2039	200,000	211,068	411,068
2040	210,000	202,069	412,069
2041	220,000	192,619	412,619
2042	230,000	182,169	412,169
2043	245,000	171,244	416,244
2044	255,000	159,606	414,606
2045	270,000	147,494	417,494
2046	285,000	134,669	419,669
2047	300,000	121,131	421,131
2048	315,000	106,506	421,506
2049	330,000	91,150	421,150
2050	350,000	75,063	425,063
2051	370,000	58,000	428,000
2052	385,000	39,500	424,500
2053	405,000	20,250	425,250
Totals	<u>\$ 6,000,000</u>	<u>\$ 4,879,947</u>	<u>\$ 10,879,947</u>

Colton Municipal Utility District No. 2
Changes in Long-Term Bonded Debt
Year Ended January 31, 2026

	Bond Issue Road Series 2025			
Interest rates	4.00% to 5.00%			
Dates interest payable	March 1/ September 1			
Maturity dates	September 1, 2027/2052			
Bonds outstanding, beginning of current year	\$ -			
Bonds sold during current year	6,000,000			
Retirements, principal	<u>-</u>			
Bonds outstanding, end of current year	<u>\$ 6,000,000</u>			
Interest paid during current year	<u>\$ -</u>			
Paying agent's name and address				
	Road Series 2025 – The Bank of New York Mellon Trust Company, N.A., Houston, Texas			
Bond authority	Water, Sewer, and Drainage Facilities Bonds	Park and Recreational Facilities Bonds	Road Facilities Bonds	Refunding Bonds
Amount authorized by voters	\$ 112,985,000	\$ 67,680,000	\$ 172,350,000	\$ 353,015,000
Amount issued	\$ -	\$ -	\$ 6,000,000	\$ -
Remaining to be issued	<u>\$ 112,985,000</u>	<u>\$ 67,680,000</u>	<u>\$ 166,350,000</u>	<u>\$ 353,015,000</u>
Debt service fund cash and temporary investment balances as of January 31, 2026:	<u>\$ 560,490</u>			
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 402,961</u>			

Colton Municipal Utility District No. 2
Comparative Schedule of Revenues and Expenditures – General Fund
Two Years Ended January 31,

	Amounts		Percent of Fund Total Revenues	
	2026	2025	2026	2025
General Fund				
Revenues				
Property taxes	\$ 1,326	\$ -	0.2 %	- %
Water service	40,644	-	4.6	-
Sewer service	25,700	-	2.9	-
Regional water fee	998	-	0.1	-
Penalty and interest	1,588	-	0.2	-
Tap connection and inspection fees	794,626	-	90.9	-
Investment income	48	-	0.0	-
Other income	9,517	170	1.1	100.0
Total Revenues	874,447	170	100.0	100.0
Expenditures				
Service operations				
Purchased services	873,321	-	99.9	-
Professional fees	114,646	95,719	13.1	-
Contracted services	65,300	20,652	7.5	-
Repairs and maintenance	159,541	-	18.2	-
Other expenditures	40,655	30,165	4.6	-
Tap connections	379,317	-	43.4	-
Total Expenditures	1,632,780	146,536	186.7	-
Deficiency of Revenues Over Expenditures	(758,333)	(146,366)	(86.7) %	100.0 %
Other Financing Sources				
Developer advances received	343,000	132,500		
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(415,333)	(13,866)		
Fund Balance (Deficit), Beginning of Year	(22,044)	(8,178)		
Fund Balance (Deficit), End of Year	\$ (437,377)	\$ (22,044)		
Total Active Retail Water Connections	215	-		
Total Active Retail Wastewater Connections	208	-		

*Percentage not meaningful

Colton Municipal Utility District No. 2
Schedule of Revenues and Expenditures – Debt Service Fund
Year Ended January 31, 2026

	<u>Amounts</u>	<u>Percent of Fund Total Revenues</u>
Debt Service Fund		
Revenues		
Investment income	<u>\$ 2,727</u>	<u>100.0 %</u>
Other Financing Sources		
General obligation bonds issued	<u>557,763</u>	
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	560,490	
Fund Balance, Beginning of Year	<u>-</u>	
Fund Balance, End of Year	<u><u>\$ 560,490</u></u>	

Colton Municipal Utility District No. 2
Board Members, Key Personnel, and Consultants
Year Ended January 31, 2026

Complete District mailing address:	Colton Municipal Utility District No. 2 c/o Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, TX 77027
District business telephone number:	713.860.6400
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	October 23, 2024
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-End
Conor Joyce	Elected 05/24– 05/28	\$ 1,989	\$ 397	President
Keith Faseler	Appointed 10/24– 05/26	2,210	253	Vice President
Spencer Robinson	Elected 05/23– 05/26	1,326	42	Secretary
Patrick Bullock	Elected 05/24– 05/28	2,652	310	Assistant Vice President
Clayton Taylor	Elected 05/23– 05/26	1,989	126	Assistant Secretary

*Fees are the amounts actually paid to a director during the District's fiscal year.

Colton Municipal Utility District No. 2
Board Members, Key Personnel, and Consultants
Year Ended January 31, 2026

(Continued)

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Allen Boone Humphries Robinson LLP	02/13/23	\$ 80,488 166,007	General Counsel Bond Counsel
Assessments of the Southwest, Inc.	02/13/23	4,624	Tax Assessor/ Collector
Forvis Mazars, LLP	01/29/25	31,800	Auditor
LJA Engineering, Inc.	08/08/23	72,155	Engineer
Masterson Advisors LLC	02/13/23	123,188	Financial Advisor
Montgomery Central Appraisal District	Legislative Action	3,198	Appraiser
Municipal Accounts & Consulting, L.P.	02/13/23	41,367	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	05/19/23	-	Delinquent Tax Attorney
Si Environmental, LLC	09/19/23	573,209	Operator
Investment Officers			
Mark Burton and Ghia Lewis	05/19/23	N/A	Bookkeepers