

OFFICIAL STATEMENT DATED SEPTEMBER 10, 2026

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF AUDUBON MUNICIPAL UTILITY DISTRICT NO. 3, AND INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION SUBJECT TO THE MATTERS DESCRIBED UNDER “LEGAL MATTERS” HEREIN, INCLUDING THE ALTERNATIVE MINIMUM TAX ON CERTAIN CORPORATIONS. SEE “LEGAL MATTERS” HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

The District has designated the Bonds as “qualified tax-exempt obligations” for financial institutions. See “LEGAL MATTERS – Qualified Tax-Exempt Obligations.”

NEW ISSUE - Book-Entry Only

Ratings: S&P Global Ratings (BAM Insured) “AA” (stable outlook)
See “BOND INSURANCE” and “RATING” herein

\$6,000,000

AUDUBON MUNICIPAL UTILITY DISTRICT NO. 3
(A Political Subdivision of the State of Texas located within Montgomery County, Texas)
UNLIMITED TAX ROAD BONDS, SERIES 2026

Dated: October 1, 2026

Interest Accrual Date: Date of Delivery

**Due: September 1, as shown on
the inside cover**

Principal of the above bonds (the “Bonds”) is payable by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N. A., currently in Houston, Texas, or any successor paying agent/registrar (the “Paying Agent,” “Registrar” or “Paying Agent/Registrar”). Interest on the Bonds accrues from the initial date of delivery (expected October 15, 2026) (the “Date of Delivery”), and is payable on March 1, 2027, and on each September 1 and March 1 thereafter until the earlier of maturity or redemption. The Bonds are issued in denominations of \$5,000 or any integral multiple thereof in fully registered form only. The Bonds, including the Term Bonds, maturing on and after September 1, 2032, are subject to redemption prior to maturity at the option of Audubon Municipal Utility District No. 3 (the “District”), as a whole or in part, on September 1, 2031, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of the Bonds to be redeemed shall be selected by the District in integral multiples of \$5,000 within any one maturity. If fewer than all of the Bonds of any given maturity are to be redeemed at any time, the particular Bonds to be redeemed shall be selected by such method of random selection as determined by the Registrar (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present same to the Registrar for payment of the redemption price on the portion of the Bond so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

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 defined herein) directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. In reading this Official Statement, it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to Registered Owners should be read to include the person for which the Direct or Indirect Participant (as defined under “BOOK-ENTRY-ONLY SYSTEM”) acquires an interest in the Bonds, but (i) all rights or ownership must be exercised through DTC and the Book-Entry Only System, and, (ii) except as described herein, notices that are to be given to Registered Owners under the Bond Order (defined herein) will be given only to DTC. See “BOOK-ENTRY-ONLY SYSTEM.”

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company (“BAM” or the “Insurer”).



See Maturity Schedule on the inside cover

The Bonds are the initial series of bonds issued by the District. The Bonds, when issued, will constitute valid and legally binding obligations of the District, payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See “THE BONDS – Source and Security for Payment.” The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Magnolia or any entity other than the District. INVESTMENT IN THE BONDS IS SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See “RISK FACTORS.”

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 Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about October 15, 2026.

MATURITY SCHEDULE

CUSIP Prefix (a): 050890

\$4,895,000 Serial Bonds

<u>Principal Amount</u>	<u>Maturity (Due September 1)</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield (b)</u>	<u>CUSIP Suffix (a)</u>
2028	\$95,000	7.500%	3.57%	AA0
2029	95,000	7.500	3.69	AB8
2030	100,000	7.500	3.81	AC6
2031	110,000	7.500	3.91	AD4
2032 ^(c)	115,000	7.500	4.02	AE2
2033 ^(c)	120,000	7.500	4.12	AF9
2034 ^(c)	125,000	7.500	4.26	AG7
2035 ^(c)	130,000	7.500	4.36	AH5
2036 ^(c)	140,000	7.500	4.47	AJ1
2037 ^(c)	145,000	7.500	4.61	AK8
2038 ^(c)	155,000	6.875	4.73	AL6
2039 ^(c)	165,000	5.000	4.86	AM4
2040 ^(c)	170,000	5.000	4.96	AN2
2041 ^(c)	180,000	5.000	5.04	AP7
2042 ^(c)	190,000	5.000	5.10	AQ5
2043 ^(c)	200,000	5.000	5.16	AR3
2044 ^(c)	210,000	5.000	5.17	AS1
2045 ^(c)	220,000	5.000	5.09	AT9
2046 ^(c)	230,000	5.000	5.10	AU6
2047 ^(c)	245,000	5.000	5.11	AV4
2048 ^(c)	255,000	5.000	5.12	AW2
2049 ^(c)	270,000	5.000	5.13	AX0
2050 ^(c)	285,000	5.000	5.14	AY8
2051 ^(c)	300,000	5.125	5.15	AZ5
2052 ^(c)	315,000	5.125	5.16	BA9
2053 ^(c)	330,000	5.125	5.17	BB7

\$1,105,000 Term Bonds, Due September 1, 2056(c)(d), CUSIP Suffix BE1 (a), Interest Rate 5.125% (Yield 5.20%)(b)

- (a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by CUSIP Global Services and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District, the Financial Advisor (as defined herein), nor the Underwriter (as defined herein) take any responsibility for the accuracy of CUSIP numbers.
- (b) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriter. Initial reoffering yields represent the initial offering price to the public which has been established by the Underwriter for public offerings, and which subsequently may be changed.
- (c) Subject to optional redemption as described on the front cover.
- (d) Subject to mandatory sinking fund redemption by lot or other customary method of random selection on September 1 in the years and in the amounts set forth herein under the caption "THE BONDS – Redemption Provisions."

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement does not constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, resolutions, contracts, audited financial statements, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Financial Advisor.

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

Neither the District nor the Underwriter make any representations as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which generally can be identified with words or phrases such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "may," "predict," "should," "will" or other words or phrases of similar import. All statements included in this Official Statement that any person expects or anticipates will, should or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses made in light of experience and perceptions of historical trends, current conditions and expected future developments as well as other factors the District believes are appropriate in the circumstances. However, whether actual results and developments conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under "RISK FACTORS" in this Official Statement, as well as additional factors beyond the District's control. The important Risk Factors and assumptions described under that caption and elsewhere herein could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements.

Build America Mutual Assurance Company ("BAM" or the "Insurer") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM supplied by BAM and presented under the heading "BOND INSURANCE" and "APPENDIX C - SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY."

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net effective interest rate, which was tendered by SAMCO Capital Markets, Inc. (the “Underwriter”), to purchase the Bonds bearing the interest rates shown under “MATURITY SCHEDULE” on the inside cover page hereof at a price of 97.008770% of the principal amount thereof, which resulted in a net effective interest rate of 5.417346% as calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

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

The prices and other terms respecting 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 price, 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 THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

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

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM” or the “Insurer”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix C to this Official Statement.

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products to issuers in the U.S. public finance markets. BAM will only insure municipal bonds, as defined in Section 6901 of the

New York Insurance Law, which are most often issued by states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 28 Liberty Street, 59th Floor, New York, New York 10005, its telephone number is: 212-235-2500, and its website is located at: www.bambonds.com.

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2026 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$505.6 million, \$295.6 million and \$210.0 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

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

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments.

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

The long-term ratings on the Bonds are dependent in part on the financial strength of the 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 "BOND INSURANCE" and "RATING" herein. As is stated in this Official Statement under the caption "NO MATERIAL ADVERSE CHANGE," the rating of the Insurer's creditworthiness by any rating agency does not in any manner affect the District's financial condition, and thus any change to such rating, including a downgrade thereof, at any time, does not constitute a change, material or otherwise, in the District's financial condition, and therefore cannot be a basis for termination by the Underwriter of its obligation to take up and pay for the Bonds.

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 to the knowledge of the District 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 the principal of and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

RATING

The Bonds are expected to receive an insured rating of "AA" (stable outlook) from S&P Global Ratings ("S&P"), a business unit of Standard & Poor's Financial Services LLC, based upon the issuance and delivery of the Policy by the Insurer at the time of delivery of the Bonds. The District has made no application for an underlying municipal bond rating of the Bonds, nor is it expected that the District would have been successful in receiving an investment grade rating had such an application been made.

An explanation of the significance of the foregoing rating may only be obtained from S&P. The foregoing rating expresses only the view of S&P at the time the rating is given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned the Bonds other than the rating of S&P. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS."

OFFICIAL STATEMENT SUMMARY

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

THE BONDS

The Issuer	Audubon Municipal Utility District No. 3 (the “District”) is a political subdivision of the State of Texas located within Montgomery County, Texas. See “THE DISTRICT - General.”
The Issue	Audubon Municipal Utility District No. 3 Unlimited Tax Road Bonds, Series 2026, in the aggregate principal amount of \$6,000,000, are dated October 1, 2026. Interest accrues from the Date of Delivery, at the rates set forth on the inside cover page of this Official Statement, and is payable on March 1, 2027, and on each September 1 and March 1 thereafter until maturity or prior redemption. An aggregate of \$4,895,000 of the Bonds are issued as serial bonds maturing on September 1 in each of the years 2028 through 2053, both inclusive, in the principal amounts set forth on the inside cover page of this Official Statement. \$1,105,000 of the Bonds are issued as term bonds maturing on September 1, 2056 (the “Term Bonds”). The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds, including the Term Bonds, scheduled to mature on and after September 1, 2032, are subject to redemption, in whole or in part, prior to their scheduled maturities, on September 1, 2031, or on any date thereafter at the option of the District. Upon redemption, the Bonds will be payable at a price equal to the principal amount of the Bonds, or portions thereof, so called for redemption, plus accrued interest to the date of redemption. In addition to being subject to optional redemption, the Term Bonds are also subject to mandatory sinking fund redemption on September 1 in the years and in the amounts as is more completely described in this Official Statement under the caption “THE BONDS - Redemption Provisions - Mandatory Redemption.” The Bonds will be issued pursuant to a Bond Order (the “Bond Order”) adopted by the Board of Directors of the District and under the authority of Article III, Section 52 of the Texas Constitution; Chapter 7974, Special District Local Laws Code; and Chapters 49 and 54 of the Texas Water Code, as amended.
Book-Entry-Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC (defined herein), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (hereinafter defined) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “Book-Entry-Only System”).

Source of Payment.....	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See “RISK FACTORS - Maximum Impact on District Tax Rates,” “THE BONDS - Source and Security for Payment,” and “TAX DATA - Tax Rate Calculations.” The Bonds are obligations of the District, and are not obligations of the State of Texas, Montgomery County, Texas, the City of Magnolia, Texas, or any entity other than the District.
Use of Bond Proceeds.....	Proceeds of the sale of the Bonds will be used by the District to (1) make payment to Audubon Magnolia Development, LLC (the “Developer”), the developer of land located within the District, for the cost of acquisition or construction of major thoroughfare and collector roads located within the District, particularly: (a) Heron Run, Sections 1 through 5, and a portion of Sections 6A and 6B, and (b) engineering fees associated with the foregoing projects, materials testing and Stormwater Pollution Prevention Planning; (2) capitalize approximately 24 months of interest on the Bonds; (3) pay interest to the Developer in connection with the foregoing projects; and (4) pay for bond issuance costs, legal fees, fiscal agent’s fees, fees to the Attorney General of Texas, and certain financing costs related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
Payment Record.....	The Bonds constitute the initial series of unlimited tax bonds issued by the District for the purpose of constructing and acquiring roads located within the District. The District will capitalize an amount (not to exceed \$660,000) approximately equal to the initial 24 months of interest payments from the proceeds of the sale of the Bonds, and will deposit such sum in the District’s sub-account of the Bond Fund created in respect of Road Bonds (hereinafter defined).
Qualified Tax-Exempt Obligations.....	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “LEGAL MATTERS - Qualified Tax-Exempt Obligations.”
Authorized But Unissued Bonds.....	\$275,329,000 for road facilities (after issuance of the Bonds), \$544,413,000 for waterworks, wastewater and drainage capacities and facilities, \$132,828,000 for recreational facilities, and a total of \$958,570,000 for refunding purposes will remain authorized but unissued after issuance of the Bonds. The District anticipates financing its cost of acquiring or constructing components of the System (hereinafter defined), additional roads and recreational facilities with the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$5,000,000 Unlimited Tax Bonds, Series 2027, that the District expects to issue in approximately the fourth quarter of 2027. See “RISK FACTORS - Future Debt,” “THE BONDS - Authority for Issuance” and - “Issuance of Additional Debt,” and “THE SYSTEM.”

Municipal Bond Insurance.....	Build America Mutual Assurance Company (“BAM” or the “Insurer”). See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS.”
Municipal Bond Rating.....	S&P Global Ratings (BAM Insured) “AA” (stable outlook). See “BOND INSURANCE,” “BOND INSURANCE RISK FACTORS” and “RATING.”
Bond Counsel.....	Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel. See “THE DISTRICT - Management of the District” and “LEGAL MATTERS.”
Disclosure Counsel	McCall, Parkhurst & Horton L.L.P., Houston, Texas.

THE DISTRICT

Description.....	The District is a political subdivision of the State of Texas, created by House Bill No. 1440, Chapter 7974, Special District Local Laws Code, Acts of the 85th Texas Legislature, Regular Session 2017, on May 2, 2020. The District contains approximately 648.18 acres of land. The District is located entirely within Montgomery County, Texas, and entirely within the extraterritorial jurisdiction of the City of Magnolia, Texas (the “City”). The District is located entirely within the Magnolia Independent School District. The District is located approximately 40 miles northwest of the central business district of the City of Houston. The District lies southeast of the intersection of State Highway 249 and F.M. 1488. The entire District is located within the boundaries of Audubon Water Control and Improvement District (“AWCID”), an overlapping water control and improvement district which provides major outfall drainage and drainage facilities for approximately 2,979.98 acres of land, and thus all of the land located within the District is subject to taxation by AWCID. See “District Tax Levy and Overlapping District Taxes and Functions” below, “THE DISTRICT - General” and - “Description,” and “APPENDIX A - LOCATION MAP.”
Audubon Management District.....	The Audubon Management District, formerly known as Montgomery County Management District No. 1 (the “Management District”), was created by an act of the Texas Legislature in 2019 as a special district under Section 59, Article XVI of the Texas Constitution to provide economic development projects and services to the areas of Audubon planned primarily, among other purposes, for commercial development. The Management District encompasses approximately 2,560.1 acres, of which approximately 485.95 acres are within the boundaries of the District. On May 2, 2020, voters authorized the Management District to levy a sales and use tax not to exceed one percent (1%) to finance its projects and services and to levy, assess and collect a maintenance tax not to exceed \$1.50 per \$100 of Assessed Valuation. The Management District has not considered calling an election to authorize the issuance of bonds payable in whole or in part from ad valorem taxes.

In addition, the Management District, on behalf of itself and as the managing district for the District, Audubon Municipal Utility District No. 1 (formerly Montgomery County Municipal Utility District No. 131) (“AMUD1”) Audubon Municipal Utility District No. 2 (formerly Montgomery County Municipal Utility District No. 130) (“AMUD2”), and Audubon Municipal Utility District No. 4 (formerly Montgomery County Municipal Utility District No. 154B) (“AMUD4,” and collectively, the “MUDs”) and AWCID, has entered into an Agreement for the Financing and Construction of Road Improvements (the “Agreement”) with Montgomery County (the “County”). The parties to the Agreement agree to establish a program for the County to finance over time from tax increment revenues and the Management District to develop certain road improvements and improvements in aid thereof to promote economic development in the County, the City, and the area of the Management District.

Authority.....

The rights, powers, privileges, authority and functions of the District are established by Article XVI, Section 59 and Article III, Section 52 of the Constitution of the State of Texas, and the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 7974 Special District Local Laws Code. See “THE DISTRICT - General.”

Audubon Development.....

Audubon is an approximately 2,900 acre mixed-use, master planned development located within the extraterritorial jurisdiction of the City. At full buildout, it is estimated that Audubon will contain approximately 4,200 single-family homes, approximately 2,600 multi-family apartment units and approximately 550 acres developed for mixed-use purposes, including, but not limited to retail, office, schools and churches. Audubon’s planned amenities will include greenspace, trails, and additional amenities commensurate with other master planned communities in the area. The District is one of four municipal utility districts that serve the Audubon development, including the District, AMUD1, AMUD2 and AMUD4. Development is currently underway in the District, AMUD1 and AMUD2. In addition to the MUDs, AWCID provides major outfall drainage and drainage facilities for the entire Audubon development, and the Audubon Management District provides economic development projects and services to the areas of Audubon planned primarily, among other purposes, for commercial development. See “RISK FACTORS - District Tax Levy and Overlapping District Taxes and Functions,” “THE DISTRICT” and “APPENDIX A - LOCATION MAP.”

Development of the District.....

As of July 1, 2026, the District contained 93 single-family homes, including 54 homes under construction. According to the District’s Engineer, the Developer has completed the development of a total of 707 single-family residential lots (approximately 191.35 total acres) within the District, consisting of the subdivisions platted as Heron Run North, Sections 1 through 10, which is complete with the provision of water distribution, wastewater collection and storm drainage facilities (the “System”) and street paving; and a total of 302 single-family residential lots (approximately 68.6 total acres) are currently under development within the District, consisting

of the subdivisions platted as Heron Run South, Sections 13 and 14. See “Developer” below. Century Land Holdings of Texas, LLC, Chesmar Homes, David Weekley Homes, Toll Brothers, Westin Homes, SDH Houston, LLC, EHT of Texas LP, Ravenna Homes LLC, LLC, Drees Custom Homes, L.P. and Perry Homes, LLC (collectively, the “Builders”) are currently constructing homes in the District as described below under the caption entitled “Builders.”

In addition to the total 191.35 acres within the District that have been developed to date and the 68.6 acres that are currently under development, approximately 193.05 acres of land located in the District that are available for future development have not been developed. It is anticipated that approximately 112.05 of such currently undeveloped acres will be developed as future sections of Heron Run and the remaining 81 of such acres will be developed for commercial purposes. However, the owner of such land that is currently available for future development, which owner is described below under the caption “Developer,” is under no legal obligation to the District to develop any of such acreage available for future development according to any specific plan, timetable, or at all. Therefore, the District cannot predict when, or whether, any of such currently undeveloped acreage located within the District might be developed. In addition, Magnolia Independent School District owns approximately 39 acres located within the District on which it is expected to construct a school. The balance of the land that is located within the District is contained within easements, rights-of-way, or is otherwise not available for future development. See “RISK FACTORS - Factors Affecting Taxable Values and Tax Payments,” “TAX DATA - Principal 2026 Taxpayers,” “DEVELOPER,” and “FUTURE DEVELOPMENT.”

The District is financing its cost of acquiring or constructing roads that serve Heron Run, Sections 1 through 5, and a portion of Sections 6A and 6B with the proceeds of the sale of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.” The District anticipates financing its cost of acquiring or constructing components of the System, additional roads and recreational facilities with the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$5,000,000 Unlimited Tax Bonds, Series 2027, that the District expects to issue in approximately the fourth quarter of 2027. See “RISK FACTORS - Future Debt,” “THE BONDS - Issuance of Additional Debt,” and “THE SYSTEM.”

Developer.....

The developer of the 707 fully developed single-family residential lots located within the District that have been developed as Heron Run North, Sections 1 through 10, and the total 302 single-family residential lots (approximately 68.6 total acres) that are currently under development within the District as Heron Run South, Sections 13 and 14, is Audubon Magnolia Development, LLC, a Texas limited liability company, whose manager is JGI Resources, Inc., a Texas corporation (“AMD” or the “Developer”). AMD is a single-purpose entity created for the purpose of owning and developing the land in Audubon.

AMD’s assets consist primarily of the land located in Audubon, including the District, and receivables due from the District for eligible public infrastructure costs. SY Audubon Management, Ltd. is managing the development of Audubon on behalf of AMD. SY Audubon Management, Ltd.’s General Partner is SY ADM, LLC, whose sole member and manager is Sam Yager Incorporated. Sam Yager Incorporated is a Houston-based, mixed-use land development company specializing primarily in single-family residential development. In addition to Audubon, Sam Yager Incorporated has recently managed the development of several other residential development projects including Fulshear Lakes, Harper’s Preserve, City Park, Kings Mill, Summer Lakes, and Lakecrest Forest. AMD owns approximately 193.05 acres of land located in the District that are available for future development that have not been developed. It is anticipated that approximately 112.05 of such currently undeveloped acres will be developed as future sections of Heron Run, and the remaining 81 of such acres will be developed for commercial purposes. However, AMD is under no legal obligation to the District to develop any of such acreage available for future development according to any specific plan, timetable, or at all. Therefore, the District cannot predict when, or whether, any of such currently undeveloped acreage located within the District might be developed. In addition, Magnolia Independent School District owns approximately 39 acres located within the District on which it is expected to construct a school.

Builders.....

Century Land Holdings of Texas, LLC, Chesmar Homes, David Weekley Homes, Toll Brothers, Westin Homes, SDH Houston, LLC, EHT of Texas LP, Ravenna Homes LLC, LLC, Drees Custom Homes, L.P. and Perry Homes, LLC (collectively, the “Builders”) are currently constructing homes in the District which range from approximately 1,464 to 4,639 square feet in size of living area and in sales price from approximately \$269,990 to \$950,000. The Builders may change the size(s) and the type(s) of homes which they elect to build, and the sales prices thereof, or may suspend building activity altogether, at their sole discretion.

District Tax Levy and Overlapping
District Taxes and Functions

As is stated above, the entirety of the District is located within AWCID. AWCID, which covers 2,979.98 acres of land, expects to issue bonds to finance the acquisition or construction of drainage improvements to provide major outfall drainage and drainage facilities to areas which lie within AWCID. The principal of and interest on AWCID bonds will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within AWCID. See “THE SYSTEM – Audubon Water Control and Improvement District.” AWCID levies a tax on the land located within the District, which tax is in addition to the tax levied by the District. AWCID levied a tax of \$0.30 per \$100 of Assessed Valuation in 2025, consisting of debt service and maintenance tax components of \$0.15 and \$0.15, respectively. As stated in this Official Statement under the captions “RISK FACTORS - Factors Affecting Taxable Values and Tax Payments” and “ - District Tax Levy and

Overlapping District Taxes and Functions,” the District's 2025 or anticipated 2026 tax rate of \$1.15 per \$100 of assessed valuation plus the AWCID 2025 tax rate of \$0.30 per \$100 of assessed valuation totals \$1.45 per \$100 of assessed valuation, and, as is described in this Official Statement under the caption “TAX DATA - Estimated Overlapping Taxes,” the aggregate of the tax levies of all units of government which levy taxes against the property located within the District plus the District’s 2025 or anticipated 2026 tax levy is \$3.0331 per \$100 of Assessed Valuation. Such aggregate levy is higher than the aggregate of the tax levies of some municipal utility districts located in the greater Houston metropolitan area, but is within the range of the aggregate tax levies of municipal utility districts in the Houston metropolitan area which are in stages of development comparable with the District. One must consider the total tax burden of all overlapping jurisdictions imposed upon property located within the District as contrasted with property located in comparable real estate developments to gauge the relative tax burden on property within the District. The tax rate necessary to service the debt issued or to be issued by the District and AWCID, and the tax rates levied by other overlapping jurisdictions, are subject to numerous uncertainties and variables, and thus the District can give no assurance that the composite tax rates imposed by overlapping jurisdictions, plus the District's tax rate, will be competitive with the tax rates of competing projects. To the extent that the District's composite tax rates are not competitive with competing developments, the investment quality or security of the Bonds could be adversely affected.

Voters within the Management District, which includes 485.95 acres within the boundaries of the District, have approved the levy of a sales and use tax not to exceed one percent (1%). The Management District has not considered calling an election to authorize the issuance of bonds payable in whole or in part from ad valorem taxes. See “THE DISTRICT – Audubon Management District.”

RISK FACTORS

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

**SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

2026 Assessed Valuation..... (As of January 1, 2026) See "TAX DATA" and "TAX PROCEDURES"	\$ 51,970,892 (a)
Estimated Valuation at May 15, 2026 See "TAX DATA" and "TAX PROCEDURES"	\$ 61,352,720 (b)
Direct Debt:	
The Bonds	\$ <u>6,000,000</u> (c)
Estimated Overlapping Debt	\$ <u>1,157,770</u>
Total Direct and Estimated Overlapping Debt	\$ 7,157,770
Direct Debt Ratio	
: as a percentage of 2026 Assessed Valuation.....	11.54 %
: as a percentage of Estimated Valuation at May 15, 2026	9.78 %
Direct and Overlapping Debt Ratio	
: as a percentage of 2026 Assessed Valuation.....	13.77 %
: as a percentage of Estimated Valuation at May 15, 2026	11.67 %
Bond Fund Balance estimated as of the Date of Delivery of the Bonds.....	\$ 660,000 (d)
Anticipated 2026 Tax Rate per \$100 of Assessed Valuation	
Debt Service Tax.....	\$ 0.00
Maintenance Tax.....	<u>1.15</u>
Total	\$ 1.15 (e)
2026 Combined District and AWCID Tax Rate per \$100 of Assessed Valuation	
Anticipated District Tax.....	\$ 1.15
AWCID Tax.....	<u>0.30</u>
Total	\$ 1.45 (e)
2027 Anticipated Approximate District Tax Rate per \$100 of Assessed Valuation	
Debt Service Tax.....	\$ 0.68
Maintenance Tax.....	<u>0.47</u>
Total	\$ 1.15 (e)
Percentage of Total Tax Collections (2025 Levy) as of June 30, 2026	100.00 %
Average Annual Debt Service Requirements on the Bonds (2028-2056)	\$ 407,186
Maximum Annual Debt Service Requirement on the Bonds (2028).....	\$ 429,844
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements on the Bonds (2028-2056) at 90% Tax Collections	
Based Upon 2026 Assessed Valuation.....	\$ 0.88
Based Upon Estimated Valuation at May 15, 2026	\$ 0.74

Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual
Debt Service Requirements on the Bonds
(2028) at 90% Tax Collections

Based Upon 2026 Assessed Valuation.....	\$	0.92
Based Upon Estimated Valuation at May 15, 2026	\$	0.78

Number of Single Family Homes as of July 1, 2026 (including 54 homes under
construction)..... 93

- (a) As of January 1, 2026, and comprises the District's 2026 tax roll. All property located in the District is valued on the tax rolls by the Montgomery Central Appraisal District (the "Appraisal District") at 100% of assessed value as of January 1 of each year. The District's tax roll is certified by the Montgomery County Appraisal Review Board (the "Appraisal Review Board"). See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments" and "TAX PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of May 15, 2026, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2025, through May 14, 2026. The ultimate Assessed Valuation of any land and improvements added from January 1, 2025, through December 31, 2025, which will be placed on the District's 2026 tax roll, may vary significantly from such estimate once the Appraisal Review Board certifies the value thereof in 2026. Moreover, the ultimate Assessed Valuation of any land and improvements added from January 1, 2026, through May 14, 2026, which will be placed on the District's 2027 tax roll, may vary significantly from such estimate once the Appraisal Review Board certifies the value thereof in 2027.
- (c) In addition to the roads that the District is financing with proceeds of the Bonds, the District expects to finance the acquisition or construction of components of the System, additional roads and recreational facilities with the proceeds of bonds, if any, to be issued by the District in the future, including its approximately \$5,000,000 Unlimited Tax Bonds, Series 2027, that the District expects to issue in approximately the fourth quarter of 2027. See "RISK FACTORS - Future Debt," "THE BONDS - Issuance of Additional Debt," "USE AND DISTRIBUTION OF BOND PROCEEDS," "FUTURE DEVELOPMENT" and "THE SYSTEM,"
- (d) Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Bond Fund. Represents an estimate of 24 months of capitalized interest on the Bonds (not to exceed \$660,000), to be deposited into the District's sub-account of the Bond Fund created in respect of Road Bonds. The District's initial debt service requirement on the Bonds, consisting of an interest payment thereon, is due on March 1, 2027.
- (e) The District levied a tax rate of \$1.15 per \$100 of Assessed Valuation for 2025, all of which was a maintenance tax. The District anticipates levying the same tax rate for 2026 of \$1.15 per \$100 of Assessed Valuation, all of which is a maintenance tax. The District anticipates levying its first debt service tax in 2027 in connection with the issuance of the Bonds. Such initial debt service tax is expected to be in the approximate amount of \$0.68 per \$100 of Assessed Valuation. The District anticipates levying a maintenance tax of approximately \$0.47 per \$100 of Assessed Valuation in 2027. Therefore, the District's combined total tax for 2027 is expected to be approximately \$1.15 per \$100 of Assessed Valuation. As is described in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2025 tax levies of all units of government which levy taxes against the property located within the District, including the District's 2025 or anticipated 2026 tax rate of \$1.15 per \$100 of Assessed Valuation, is \$3.0331 per \$100 of Assessed Valuation. Such aggregate levy is higher than the aggregate of the tax levies of some municipal utility districts located in the greater Houston metropolitan area, but is within the range of the aggregate tax levies of municipal utility districts in the Houston metropolitan area which are in stages of development comparable with the District. See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments."

\$6,000,000
AUDUBON MUNICIPAL UTILITY DISTRICT NO. 3
UNLIMITED TAX ROAD BONDS
SERIES 2026

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Audubon Municipal Utility District No. 3 (the “District”) of its Unlimited Tax Road Bonds, Series 2026 (the “Bonds”).

There follow in this Official Statement descriptions of the Bonds, and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District upon request and payment of the costs of duplication therefor.

RISK FACTORS

General

The Bonds, which are obligations solely of the District and not of the State of Texas, Montgomery County, Texas, the City of Magnolia, Texas, or any political subdivision or agency other than the District, are secured by the proceeds of an annual ad valorem tax, levied without legal limit as to rate or amount, upon all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends upon the District’s ability to collect from the property owners within the District taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representation that over the life of the Bonds the taxable property within the District will maintain a value sufficient to justify continued payment of taxes by property owners or that there will be a market for any property if the District forecloses on property to enforce its tax lien. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below. Further, the collection of delinquent taxes owed the District, and the enforcement by a Registered Owner of the District’s obligation to collect sufficient taxes may be costly and lengthy processes. See “Tax Collection Limitations” and “Registered Owners’ Remedies and Bankruptcy” below and “THE BONDS - Source and Security for Payment” and - “Remedies in Event of Default.”

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The maintenance of or the potential increase in taxable valuation of the District are directly related to the vitality of the single residential housing industry, and can be significantly affected by factors such as interest rates, construction costs, and consumer demand. A substantial proportion of the assessed valuation of the property located within the District is attributable to the current market value of the single-family lots and residences that have been constructed within the District. The market value of such residences is related to general economic conditions affecting the demand for residences. Demand for lots and residences of this type and the construction of residential dwellings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy costs and availability and the prosperity and demographic characteristics of the urban center toward which the marketing of homes and commercial enterprises is directed. Decreased levels of home construction activity, among other factors, would restrict the growth of property values in the District. Recent changes in federal tax law limiting deductions for ad valorem taxes may adversely affect the demand for housing and the prices thereof. Fluctuations in the price of oil could adversely affect job stability, wages and salaries, thereby negatively affecting the demand for housing (see “Potential Effects of Oil Price Volatility on the Houston Area” below). Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected. Although development in the District has occurred as is described in this Official Statement under the captions “DEVELOPMENT OF THE DISTRICT,” “DEVELOPER” and “BUILDERS,” the District cannot predict the pace or magnitude of any future development or home construction in the District other than that which has occurred to date.

National Economy: The housing and building industry has historically been a cyclical industry, affected by both short-term and long-term interest rates, availability of mortgage and development funds, employment levels and general economic conditions. Although development of the District has occurred as described in this Official Statement under the caption “DEVELOPMENT OF THE DISTRICT,” “DEVELOPER” and “BUILDERS,” the District cannot predict the pace or magnitude of any future development or home construction in the District other than that which has occurred to date. The District cannot predict what impact, if any, a downturn in the local housing markets or in the national housing and financial markets may have on the Houston market generally and the District specifically.

Credit Markets and Liquidity in the Financial Markets: Interest rates and the availability of mortgage and development funding have a direct impact on development, homebuilding and the construction of commercial buildings, particularly short-term interest rates at which developers are able to obtain financing for development costs, at which homebuilders are able to finance the construction of new homes for sale and at which the construction of commercial buildings might be undertaken. Interest rate levels may affect the ability of a developer with undeveloped property to undertake and complete development activities within the District, the ability of homebuilders to initiate the construction of new homes for sale, or the construction of future commercial buildings. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued development and/or construction of future commercial buildings within the District. In addition, since the District is located approximately 40 miles northwest of 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 Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and in real estate and financial markets in the United States could adversely affect development and homebuilding plans or the construction of future commercial buildings in the District and restrain the growth of the District’s property tax base.

Principal Land Owners' Obligations to the District: Century Land Holdings of Texas LLC was the District’s largest taxpayer in 2026 with land the 2026 Assessed Valuation of which was \$7,730,000, or approximately 14.87% of the District’s 2026 tax roll. Perry Homes LLC was the District’s second largest taxpayer in 2026 with land, improvements and personal property the 2026 Assessed Valuation of which was \$6,367,316, or approximately 12.25% of the District’s 2026 tax roll. CW Audubon Two LLC was the District’s third largest taxpayer in 2026 with land the 2026 Assessed Valuation of which was \$5,420,000, or approximately 10.42% of the District’s 2026 tax roll. Therefore, The District’s three largest taxpayers owned property in the District that in 2026 comprised approximately 37.54% of the District’s 2026 tax roll. The District cannot represent that its tax roll will not continue to be concentrated to such a degree in a small number of taxpayers. See “DEVELOPMENT OF THE DISTRICT,” “DEVELOPER,” “BUILDERS,” and “TAX DATA - Principal 2026 Taxpayers.” The ability of any principal taxpayer within the District to make full and timely payments of taxes levied against their property by the District and similar taxing authorities will directly affect the District’s ability to meet its debt service obligations. As is also described under such caption, AMD owns approximately 193.05 acres of land located in the District that are available for future development. It is anticipated that approximately 112.05 of such currently undeveloped acres will be developed as future sections of Heron Run and the remaining 81 of such acres will be developed for commercial purposes. AMD is under no obligation to the District to undertake the development of any of such acres for any particular type of development, according to any timetable, or at all and no home building company, including any of the Builders, has any obligation to the District to construct homes within the District. Moreover, AMD may sell the land that it owns at its sole discretion. Therefore, the District can make no representation whether, or when, any development might occur (nor what type of development might occur) on any of the currently undeveloped land located within the District. See “FUTURE DEVELOPMENT.”

Economic Dependency Upon the Developer: The District has received advances from AMD, the developer of land located within the District (see “DEVELOPER”) that have been deposited into the District’s General Fund and have been utilized, together with other sources of General Fund Revenues, to pay General Fund Expenditures of the District. See “APPENDIX B – INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS.” The District levied its initial maintenance tax of \$1.15 per \$100 of Assessed Valuation in 2025. The District’s maintenance tax is deposited into the General Fund. See “TAX DATA - Maintenance Tax.” Other sources of General Fund Revenues include, among others, Customer Service Revenue, Connection Fees, Sewer Customer Fees, and

Inspection Fees (collectively “General Fund Revenues”). The District anticipates levying the same tax rate for 2026 of \$1.15 per \$100 of Assessed Valuation, all of which is a maintenance tax. As is delineated in “APPENDIX B – INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS,” the District’s annual General Fund Expenditures have been in excess of its General Fund Revenues. The District cannot represent that it will not continue to be dependent upon receiving future operating advances from AMD and any future developer of land within the District, if any, to pay operating costs of the District, until there are sufficient General Fund Revenues to pay such operating expenses. Although AMD is contractually obligated to advance funds to the District to cover the District’s operating costs, the District can make no representation about the probability of receiving future advances, or the amount of such advances, if any, from AMD or any other party.

Maximum Impact on District Tax Rates

The value of the land and improvements currently located within the District will be a major determinant of the ability of the District to collect, and the willingness of District property owners to pay, ad valorem taxes levied by the District. After issuance of the Bonds, the Maximum Annual Debt Service Requirement on the Bonds will be \$429,844 (2028) and the Average Annual Debt Service Requirements will be \$407,186 (2028 through 2056, inclusive). The District’s 2026 Assessed Valuation is \$51,970,892. Assuming no increase to nor decrease from the 2026 Assessed Valuation, no use of funds on hand, and the issuance of no additional bonds by the District, tax rates of \$0.92 and \$0.88 per \$100 of Assessed Valuation at a 90% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively. The District’s Estimated Valuation at May 15, 2026, is \$61,352,720. Assuming no increase to nor decrease from the Estimated Valuation at May 15, 2026, no use of funds on hand, and the issuance of no additional bonds by the District, tax rates of \$0.78 and \$0.74 per \$100 of Assessed Valuation at a 90% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively.

The District levied a tax rate of \$1.15 per \$100 of Assessed Valuation for 2025, all of which was a maintenance tax. The District anticipates levying the same tax rate for 2026 of \$1.15 per \$100 of Assessed Valuation, all of which is a maintenance tax. The District anticipates levying its first debt service tax in 2027 in connection with the issuance of the Bonds. Such initial debt service tax is expected to be in the approximate amount of \$0.68 per \$100 of Assessed Valuation. The District anticipates levying a maintenance tax of approximately \$0.47 per \$100 of Assessed Valuation in 2027. Therefore, the District’s combined total tax for 2027 is expected to be approximately \$1.15 per \$100 of Assessed Valuation. As indicated above, a debt service tax rate of \$0.68 per \$100 of Assessed Valuation will not be sufficient to pay the average annual debt service requirements and the maximum annual debt service requirement, respectively, on the Bonds given taxable values in the District at the level of the Estimated Valuation on May 15, 2026, assuming a tax collection rate of 90%, no use of other available funds, including earnings from the investment of funds held in the District’s Bond Fund, and the issuance of no additional bonds by the District. However, as is stated above under the caption “TAX DATA - Historical Values and Tax Collection History,” the District had collected 100.00% of its tax levy for 2025 as of June 30, 2026. Moreover, the District’s Bond Fund balance is estimated to be \$660,000 as of the Date of Delivery of the Bonds, which represents an estimated twenty-four (24) months of capitalized interest on the Bonds (not to exceed \$660,000). Therefore, the District anticipates being able to pay the maximum and average annual debt service requirements of the Bonds without increasing its debt service levy above the level of the anticipated approximate 2027 debt service levy of \$0.68 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See “TAX PROCEDURES.” Increases in the District’s tax rate to higher levels than the total \$1.15 per \$100 of Assessed Valuation rate which the District levied in 2025 and anticipates levying in 2026 may have an adverse impact upon future development of the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District.

As is enumerated in this Official Statement under the caption “TAX DATA - Estimated Overlapping Taxes,” the aggregate of the 2025 tax levies of all units of government which levy taxes against the property located within the District, plus the 2025 or anticipated 2026 tax of the District, is \$3.0331 per \$100 of Assessed Valuation. Such aggregate levies are higher than the aggregate tax levies of some municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District.

District Tax Levy and Overlapping District Taxes and Functions

The entirety of the District is located within AWCID. AWCID, which covers 2,979.98 acres of land, expects to issue bonds to finance the acquisition or construction of drainage improvements to provide major outfall drainage and drainage facilities to areas which lie within AWCID. The principal of and interest on AWCID bonds will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within AWCID. See “THE SYSTEM – Audubon Water Control and Improvement District.” AWCID levies a tax on the land located within the District, which tax is in addition to the tax levied by the District. AWCID levied a tax of \$0.30 per \$100 of Assessed Valuation in 2025, consisting of debt service and maintenance tax components of \$0.15 and \$0.15, respectively. As stated above under the caption - “Factors Affecting Taxable Values and Tax Payments,” the District’s 2025 or anticipated 2026 tax rate of \$1.15 per \$100 of assessed valuation plus the AWCID 2025 tax rate of \$0.30 per \$100 of assessed valuation totals \$1.45 per \$100 of assessed valuation, and, as is described in this Official Statement under the caption “TAX DATA - Estimated Overlapping Taxes,” the aggregate of the tax levies of all units of government which levy taxes against the property located within the District plus the District’s 2025 or anticipated 2026 tax levy is \$3.0331 per \$100 of Assessed Valuation. Such aggregate levy is higher than the aggregate of the tax levies of some municipal utility districts located in the greater Houston metropolitan area, but is within the range of the aggregate tax levies of municipal utility districts in the Houston metropolitan area which are in stages of development comparable with the District. One must consider the total tax burden of all overlapping jurisdictions imposed upon property located within the District as contrasted with property located in comparable real estate developments to gauge the relative tax burden on property within the District. The tax rate necessary to service the debt issued or to be issued by the District and AWCID, and the tax rates levied by other overlapping jurisdictions, are subject to numerous uncertainties and variables, and thus the District can give no assurance that the composite tax rates imposed by overlapping jurisdictions, plus the District’s tax rate, will be competitive with the tax rates of competing projects. To the extent that the District’s composite tax rates are not competitive with competing developments, the investment quality or security of the Bonds could be adversely affected.

Voters within the Management District, which includes 485.95 acres within the boundaries of the District, have approved the levy of a sales and use tax not to exceed one percent (1%). The Management District has not considered calling an election to authorize the issuance of bonds payable in whole or in part from ad valorem taxes. See “THE DISTRICT – Audubon Management District.”

Tax Collection Limitations

The District’s ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures, (b) a bankruptcy court’s stay of tax collection procedures against a taxpayer, (c) market conditions affecting the marketability of taxable property within the District and limitation of the proceeds from a foreclosure sale of such property, (d) adverse effects on the proceeds of a foreclosure sale resulting from a taxpayer’s limited right to redeem its foreclosed property as set forth below, or (e) insufficient foreclosure bids to satisfy the tax liens of all state and local taxing authorities which have parity liens on the property. 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. Moreover, the value of the property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayers’ right to redeem residential or agricultural use property within two (2) years of foreclosure and all other property within six (6) months of foreclosure. See “TAX PROCEDURES.”

Registered Owners’ Remedies and Bankruptcy

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

The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, a suit seeking the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS - Remedies in Event of Default."

The District may not be placed into bankruptcy involuntarily.

Marketability

The District has no understanding (other than the initial reoffering yields) with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold, or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Future Debt

The District reserved in the Bond Order the right to issue the remaining \$544,413,000 unlimited tax bonds authorized but unissued for waterworks, wastewater and drainage facilities, \$275,329,000 unlimited tax bonds for roads, \$958,570,000 for refunding purposes, and \$132,828,000 unlimited tax bonds for recreational facilities and such additional bonds as may hereafter be approved by the voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining bonds described above for waterworks, wastewater and drainage facilities, roads and recreational facilities which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The issuance of such \$544,413,000 in bonds for waterworks, wastewater and drainage facilities and \$132,828,000 in bonds for recreational facilities is also subject to Texas Commission on Environmental Quality ("TCEQ") authorization.

The District's Engineer currently estimates that the aforementioned \$544,413,000 authorized bonds which remain unissued will be adequate to finance the construction of all water, wastewater, and drainage facilities to provide service to all of the currently undeveloped portions of the District. In addition to the roads that the District is financing with proceeds of the Bonds, the District expects to finance the acquisition or construction of additional components of the System, additional roads and recreational facilities with the proceeds of bonds, if any, to be issued by the District in the future, including its approximately \$5,000,000 Unlimited Tax Bonds, Series 2027, that the District expects to issue in approximately the fourth quarter of 2027. See "THE BONDS - Issuance of Additional Debt" and "USE AND DISTRIBUTION OF BOND PROCEEDS," "FUTURE DEVELOPMENT," and "THE SYSTEM." If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See "THE BONDS - Issuance of Additional Debt."

Continuing Compliance with Certain Covenants

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

Approval of the Bonds

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

Competitive Nature of Houston Housing and Commercial Building Markets

The single-family development and housing and commercial development and building industries in the Houston area are very competitive, and the District can give no assurance that the building programs that are planned by any future home builder(s) will be completed, that commercial buildings will be constructed within the District, or that any development projects other than those that have been heretofore undertaken in the District will be initiated or completed.

The likelihood of the construction of future homes or commercial buildings or the initiation of any new residential or commercial development projects in the District is affected by most of the factors discussed in this section, and such likelihood is directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Environmental Regulations

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

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

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

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

The HGB Area is currently designated as a “severe” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2027. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

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

In order to demonstrate progress toward attainment of the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) for the HGB Area setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB Area. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the HGB Area to reach attainment with the ozone standards by the EPA’s attainment deadlines. These additional controls could have a negative impact on the HGB Area’s economic growth and development.

Water Supply & Discharge Issues. Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) groundwater well permitting and surface water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) wetlands dredge and fill activities. Each of these is addressed below:

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

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

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000) (the “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 District’s stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the “Current Permit”) issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. If the District’s inclusion in the MS4 Permit 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.

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. 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, including the District, has experienced multiple storms exceeding a 0.2% probability (i.e., “500 year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the District’s tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

Specific Flood Type Risks

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.

Potential Effects of Oil Price Volatility on the Houston Area

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

Cybersecurity

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

Increase in Costs of Building Materials

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

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.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the order adopted by the Board of Directors authorizing the issuance of the Bonds (the "Bond Order"), a copy of which is available from Bond Counsel upon payment of the costs of duplication therefor. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

Description

The Bonds will be dated October 1, 2026, with interest payable on March 1, 2027, and on each September 1 and March 1 thereafter (each an "Interest Payment Date"), at the rates set forth on the inside cover page of this Official Statement, until the earlier of maturity or redemption. Interest on the Bonds initially accrues from the date of delivery of the Bonds to the Underwriter thereof, and thereafter, from the most recent Interest Payment Date. An aggregate of \$4,895,000 of the Bonds are issued as serial bonds maturing on September 1 in each of the years 2028 through 2053, both inclusive, in the principal amounts set forth on the inside cover page of this Official Statement. \$1,105,000 of the Bonds are issued as term bonds maturing on September 1, 2056 (the "Term Bonds"). The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry system described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Authority for Issuance

At an election held within the District on May 2, 2020, voters of the District authorized a total of \$281,329,000 in unlimited tax bonds for the purpose of acquiring or constructing road facilities. The Bonds constitute the initial issuance of bonds from such authorization. After the issuance of the Bonds, a total of \$275,329,000 in principal amount of unlimited tax bonds for road facilities will remain authorized but unissued. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article III, Section 52 of the Texas Constitution; Chapter 7974, Special District Local Laws Code; and Chapters 49 and 54 of the Texas Water Code, as amended. At an election held within the District on May 2, 2020, voters in the District also authorized a total of \$544,413,000 in unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and \$132,828,000 in unlimited tax bonds for the purpose of acquiring or constructing recreational facilities. No bonds have been issued from said authorizations. See “Issuance of Additional Debt” and “Financing Recreational Facilities” below.

Source and Security for Payment

The Bonds, and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District (see “TAX PROCEDURES”). Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See “RISK FACTORS.” The Bonds are obligations solely of the District and are not obligations of the City of Magnolia, Montgomery County, the State of Texas, or any political subdivision or entity other than the District.

Funds

The Bond Order establishes the District’s Construction Fund (the “Construction Fund”) and establishes the sub-accounts which are used to separate proceeds from bonds issued to finance road facilities (“Road Bonds”) and bonds issued to finance water, wastewater and storm drainage facilities (“WSD Bonds”). The Bond Order also establishes the District’s Bond Fund (the “Bond Fund”) and establishes the sub-accounts which are used to separate funds received to pay debt service on Road Bonds and WSD Bonds. A portion of the proceeds of the sale of the Bonds will be deposited in the sub-account of the Construction Fund created in respect of Road Bonds. In addition, approximately twenty-four (24) months of capitalized interest (in an amount not to exceed \$660,000) will be deposited into the sub-account of the Bond Fund created in respect of Road Bonds.

The proceeds of all taxes levied, assessed and collected for an on account of the Bonds authorized by the Bond Order shall be deposited, as collected, into the sub-account of the Bonds Fund created in respect of Road Bonds. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and funds in the sub-accounts created in respect of Road Bonds are to be used for payment of debt service on the Bonds and any of the District’s duly authorized additional Road Bonds payable in whole or part from taxes. Amounts on deposit in the sub-accounts of the Bond Fund created in respect of Road Bonds may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds and any additional Road Bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due. Funds otherwise on deposit in the Bond Fund, including funds in a sub-account created in respect of WSD Bonds, will not be allocated to the payment of the Bonds.

Record Date

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

Redemption Provisions

Mandatory Redemption

The Term Bonds shall be redeemed at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District's reserved right of optional redemption, as provided under "Optional Redemption" below):

\$1,105,000 Term Bonds Maturing on September 1, 2056	
<u>Mandatory Redemption Dates</u>	<u>Principal Amount</u>
September 1, 2054	\$350,000
September 1, 2055	370,000
September 1, 2056 (maturity)	385,000

Notice of the mandatory redemption of Term Bonds will be provided at least thirty (30) calendar days prior to the date fixed for redemption, with the particular portions of the Term Bonds to be redeemed to be selected by lot or other customary method in accordance with the procedures of DTC so long as the Bonds are registered in accordance with the Book-Entry-Only System. See "BOOK-ENTRY-ONLY SYSTEM."

Optional Redemption

The District reserves the right, at its option, to redeem the Bonds (including any Term Bonds), maturing on and after September 1, 2032, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2031, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the serial bonds of the same maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by DTC in accordance with its procedures, so long as the Bonds are registered in accordance with the Book-Entry-Only System. See "BOOK-ENTRY-ONLY SYSTEM." If less than all of the entire outstanding principal amount of a Term Bond is to be redeemed, the District will notify the Paying Agent/Registrar of the reductions in the remaining mandatory redemption amounts to result from the optional redemption. Notice of each exercise of the reserved right of optional redemption shall be given at least thirty (30) calendar days prior to the date fixed for redemption, in the manner specified in the Bond Order.

Effects of Redemption

By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds (including any Term 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.

Method of Payment of Principal and Interest

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Houston, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK-ENTRY-ONLY SYSTEM."

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax-exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's (hereinafter defined) income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrars in the State of Texas for the purpose of maintaining the Register on behalf of the District.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrars shall be required to accept the previous Paying Agent / Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrars selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

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's voters have authorized the issuance of a total of \$281,329,000 unlimited tax bonds for the purpose of acquiring or constructing road facilities and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$275,329,000 of unlimited tax bonds authorized but unissued for said improvements and facilities. The District's voters have also authorized a total of \$544,413,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, \$132,828,000 unlimited tax bonds for the purpose of acquiring or constructing recreational facilities, \$544,413,000 unlimited tax bonds for the purpose of refunding outstanding bonds of the District issued for water, sanitary sewer and drainage, \$132,828,000 unlimited tax bonds for the purpose of refunding outstanding bonds of the District issued for recreational facilities and \$281,329,000 unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District issued for road facilities and could authorize

additional amounts. All of such bonds authorized for water, sanitary sewer and drainage facilities, recreational facilities and refunding purposes remain authorized but unissued. See “Financing Recreational Facilities” below. In addition to the roads that the District is financing with proceeds of the Bonds, the District expects to finance the acquisition or construction of components of the System, additional roads and recreational facilities with the proceeds of bonds, if any, to be issued by the District in the future, including its approximately \$5,000,000 Unlimited Tax Bonds, Series 2027, that the District expects to issue in approximately the fourth quarter of 2027. See “RISK FACTORS - Future Debt,” “USE AND DISTRIBUTION OF BOND PROCEEDS,” “FUTURE DEVELOPMENT,” “THE SYSTEM.”

Pursuant to Texas statutory law and the Texas Constitution, at the time of issuance, the total principal amount of bonds or other obligations issued or incurred to finance road projects and payable from ad valorem taxes may not exceed one-fourth of the assessed value of the real property located in the District. The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District’s voters or the amount ultimately issued by the District.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the Texas Commission on Environmental Quality (the “TCEQ”); and (c) approval of bonds by the Attorney General of Texas. The District does not provide fire protection service, and the Board has not considered calling such an election at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Financing Road Facilities

Pursuant to the provisions of the Texas Constitution and Chapter 54 Texas Water Code, as amended, conservation and reclamation districts created pursuant to said Chapter 54 are authorized to develop and finance with property taxes certain road facilities following the granting of road powers by the TCEQ or the Texas Legislature and a successful District election to approve the issuance of road bonds payable from taxes. Road powers were granted to the District by an Act of the 86th Legislature, codified as Chapter 7974 Texas Special District Local Laws Code, and at an election held within the District on May 2, 2020, voters of the District authorized a total of \$281,329,000 unlimited tax bonds for financing and constructing and acquiring road facilities. The Bonds are the initial issuance of bonds from such authorization. See “Issuance of Additional Debt” herein and “INVESTMENT CONSIDERATIONS- Future Debt.”

Issuance of additional bonds for road facilities may dilute the security for the Bonds.

Financing Recreational Facilities

Conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve the issuance of bonds payable from taxes and/or a maintenance tax to support recreational facilities.

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or, in the event the District meets certain conditions, 3% of the value of the taxable property in the District at the time of issuance of the bonds, but in no event in an amount greater than the estimated cost in the plan; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the TCEQ in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

At an election held within the District on May 2, 2020, voters of the District authorized a total of \$132,828,000 unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts.

Issuance of bonds for recreational facilities could dilute the investment security for the Bonds.

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Magnolia (the “City”), the District may be annexed for full purposes by the City, subject to compliance by the City with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Such requirements may include the requirement that the City hold an election in the District whereby the qualified voters of the District approve the proposed annexation. Notwithstanding the preceding sentence, the described election process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of the District.

If the District is annexed, the City must assume the District’s assets and obligations (including the Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and, therefore, the District makes no representation that the City will ever attempt to annex the District for full purposes and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should annexation occur.

Strategic Partnership Agreement

The District is authorized to enter into a strategic partnership agreement with the City to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District, or any portion thereof, were to be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District, and could provide for limitations on the timing of annexation of the District by the City, the continuation of the District as a limited district following general purpose annexation by the City, the conversion of a limited purpose annexation to a general purpose annexation, or the payment of a fee in lieu of annexation to be derived from residential property within the District based on the costs of providing municipal services to the District. Although the District and the City have initiated discussions regarding a possible strategic partnership agreement between them, no representation can be made regarding the future likelihood of an agreement or the terms thereof.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater systems of the district or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other’s bonds, notes and other obligations. If each district assumes the other’s bonds, notes and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other’s bonds, notes and other obligations, each district’s taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, but the District currently has no plans to do so.

Remedies in Event of Default

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

from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Certain traditional legal remedies may also not be available. See “RISK FACTORS - Registered Owners’ Remedies and Bankruptcy.”

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) 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 Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the 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. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

Use of Certain Terms in Other Sections of this Official Statement

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

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“DTC”) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has

been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor takes any responsibility for the accuracy or completeness thereof.

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

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a S&P Global rating of “AA+.” 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 effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

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

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

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

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

USE AND DISTRIBUTION OF BOND PROCEEDS

Proceeds of the sale of the Bonds will be used by the District to (1) make payment to Audubon Magnolia Development, LLC (the "Developer"), the developer of land located within the District, for the cost of acquisition or construction of major thoroughfare and collector roads located within the District, particularly: (a) Heron Run, Sections 1 through 5, and a portion of Sections 6A and 6B, and (b) engineering fees associated with the foregoing projects, materials testing and Stormwater Pollution Prevention Planning; (2) capitalize approximately 24 months of interest on the Bonds; (3) pay interest to the Developer in connection with the foregoing projects; and (4) pay for bond issuance costs, legal fees, fiscal agent's fees, fees to the Attorney General of Texas, and certain financing costs related to the issuance of the Bonds.

Construction Costs	<u>District Share</u>
A. Developer Contribution Items	
1. Audubon Heron Run, Section 1 Paving	\$730,442
2. Audubon Heron Run, Section 2 & 3 Paving	1,376,097
3. Audubon Heron Run, Section 4 Paving	844,312
4. Audubon Heron Run, Section 5 Paving	520,750
5. Audubon Heron Run, Section 6A & 6B Paving	500,334
6. Engineering	337,103
7. Materials Testing	67,071
8. Stormwater Pollution Prevention Plans	<u>87,414</u>

Total Developer Contribution Items	\$4,463,521
TOTAL CONSTRUCTION COSTS	\$4,463,521

Non-Construction Costs

1. Legal Fees	\$ 160,000
2. Financial Advisory Fees	120,000
3. Interest Costs	
a. Developer Interest (a)	353,436
b. Capitalized Interest (b)	660,000
4. Bond Discount	179,474
5. Bond Issuance Costs	42,043
6. Attorney General Fee	6,000
7. Engineering Fee	15,000
8. Contingencies (c)	<u>526</u>
TOTAL NON-CONSTRUCTION COSTS	\$1,536,479
TOTAL BOND ISSUE REQUIREMENT	\$6,000,000

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- (a) Represents interest owed on amounts that have been paid by the Developer on the District's behalf as set forth above. The actual amount of interest owed will be calculated at the lesser of (i) the net effective interest rate borne by the Bonds, or (ii) the interest rate at which the Developer has borrowed funds.
- (b) The District will capitalize an amount (not to exceed \$660,000) approximately equal to the initial 24 months of interest payments from the proceeds of the sale of the Bonds, and will deposit such sum in the sub-account of the Bond Fund created in respect of Road Bonds.
- (c) Represents the difference between the estimated and actual amount of bond discount. The construction costs described above were compiled by the Engineer, based in some cases on the estimated costs of the roads. Non-construction costs are based upon either contract amounts or estimates. In the instance that estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for roads or improvements in aid thereof. However, the District cannot and does not guarantee the sufficiency of funds for such purposes.

THE DISTRICT

General

The District is a municipal utility district created by House Bill No. 1440, Chapter 7974, Special District Local Laws Code, Acts of the 85th Texas Legislature, Regular Session 2017 on May 2, 2020, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, Texas Special District Local Laws Code Chapter 7474, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the extraterritorial jurisdiction of the City, is subject to the continuing supervisory jurisdiction of the TCEQ.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate, and maintain fire-fighting facilities, separately or jointly

with one or more conservation and reclamation districts, municipalities or other political subdivisions after approval by the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and may also, subject to certain limitations, develop and finance roads. See “THE BONDS - Issuance of Additional Debt,” and – “Financing Recreational Facilities.”

The District is required to observe certain requirements of the City of Magnolia which limit the purposes for which the District may sell bonds to finance the acquisition, construction, and improvement of waterworks, wastewater, drainage, recreational, road and fire-fighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Magnolia of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the City of Magnolia and filed in the real property records of Montgomery County. The District is also required to obtain certain TCEQ approvals prior to acquiring, constructing and financing road and fire-fighting facilities, as well as voter approval of the issuance of bonds for said purposes and/or for the purposes of financing recreational facilities. Construction and operation of the District’s drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See “THE SYSTEM.”

Description

The District contains approximately 648.18 acres of land. The District is located entirely within Montgomery County, Texas, and entirely within the extraterritorial jurisdiction of the City of Magnolia, Texas. The District is located entirely within the Magnolia Independent School District. The District is located approximately 40 miles northwest of the central business district of the City of Houston. The District lies southeast of the intersection of State Highway 249 and F.M. 1488. The entire District is located within the boundaries of Audubon Water Control and Improvement District (“AWCID”), an overlapping water control and improvement district which provides major outfall drainage and drainage facilities for approximately 2,979.98 acres of land, and thus all of the land located within the District is subject to taxation by AWCID. See “RISK FACTORS - District Tax Levy and Overlapping District Taxes and Functions” and “APPENDIX A - LOCATION MAP.”

Audubon Management District

The Audubon Management District, formerly known as Montgomery County Management District No. 1 (the “Management District”), was created by an act of the Texas Legislature in 2019 as a special district under Section 59, Article XVI of the Texas Constitution to provide economic development projects and services to the areas of Audubon planned primarily, among other purposes, for commercial development. The Management District encompasses approximately 2,560.1 acres, of which approximately 485.95 acres are within the boundaries of the District. On May 2, 2020, voters authorized the Management District to levy a sales and use tax not to exceed one percent (1%) to finance its projects and services and to levy, assess and collect a maintenance tax not to exceed \$1.50 per \$100 of Assessed Valuation. The Management District has not considered calling an election to authorize the issuance of bonds payable in whole or in part from ad valorem taxes.

In addition, the Management District, on behalf of itself and as the managing district for the District, Audubon Municipal Utility District No. 1 (formerly Montgomery County Municipal Utility District No. 131) (“AMUD1”) Audubon Municipal Utility District No. 2 (formerly Montgomery County Municipal Utility District No. 130) (“AMUD2”), and Audubon Municipal Utility District No. 4 (formerly Montgomery County Municipal Utility District No. 154B) (“AMUD4,” and collectively, the “MUDs”) and AWCID, has entered into an Agreement for the Financing and Construction of Road Improvements (the “Agreement”) with Montgomery County (the “County”). The parties to the Agreement agree to establish a program for the County to finance over time from tax increment revenues and the Management District to develop certain road improvements and improvements in aid thereof to promote economic development in the County, the City, and the area of the Management District.

Management of the District

The District is governed by the Board, consisting of five (5) directors. The Board has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms, and elections are held within the District in May in even numbered years. The current members and officers of the Board, along with their respective terms

of office, are listed below. None of the directors reside within the District. All of the directors own property subject to taxation in the District.

<u>Name</u>	<u>Position</u>	<u>Term Expires in May</u>
Kelly Knake	President	2028
Roberto Nuno	Vice President	2028
Matthew Davis	Secretary	2030
Mark Froehlich	Assistant Secretary	2030
Lawrence Thompson	Assistant Secretary	2028

The District does not have a general manager or any other employee, but has contracted for services, as follows.

Tax Assessor/Collector - The District has engaged Wheeler & Associates, Inc., Houston, Texas, as the District's Tax Assessor/Collector. The Tax Assessor/Collector applies the District's tax rate to appraisal rolls prepared by the Montgomery Central Appraisal District and bills and collects such tax.

Utility System Operator - Municipal Operations & Consulting, Inc. is employed by the District as the general operator of the District's System.

Consulting Engineers - The District has employed the firm of Elevation Land Solutions (the "Engineer"), The Woodlands, Texas, as Consulting Engineer in connection with the overall planning activities and the design of the System.

Bookkeeper - The District has engaged Municipal Accounts & Consulting, L.P. as the District's Bookkeeper.

Auditor - As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audited financial statements are filed with the TCEQ. The financial statements of the District as of February 28, 2026, and for the year then ended, included in this offering document, have been audited by Forvis Mazars LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX B."

Bond Counsel and General Counsel - Schwartz, Page & Harding, L.L.P. ("Bond Counsel") serves as bond counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Schwartz, Page & Harding, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

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

Financial Advisor - The District has engaged Rathmann & Associates, L.P., as financial advisor (the "Financial Advisor") to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds. Rathmann & Associates, L.P. is an independent municipal advisor registered with the United States Securities and Exchange Commission (the "SEC") and the Municipal Securities Rulemaking Board (the "MSRB"). Rathmann & Associates, L.P.'s SEC registration number is 867-00217 and its MSRB registration number is K0161. Rathmann & Associates, L.P.'s SEC registration Forms MA and MA-1's, which constitute Rathmann & Associates, L.P.'s registration filings, may be accessed through <http://www.sec.gov/edgar/searchedgar/companysearch.html>.

AUDUBON DEVELOPMENT

Audubon is an approximately 2,900 acre mixed-use, master planned development located within the extraterritorial jurisdiction of the City. At full buildout, it is estimated that Audubon will contain approximately 4,200 single-family homes, approximately 2,600 multi-family apartment units and approximately 550 acres developed for mixed-use purposes, including, but not limited to retail, office, schools and churches. Audubon's planned amenities will include greenspace, trails, and additional amenities commensurate with other master planned communities in the area. The District is one of four municipal utility districts that serve the Audubon development, including the District, AMUD1, AMUD2 and AMUD4. Development is currently underway in the District, AMUD1 and AMUD2. In addition to the MUDs, AWCID provides major outfall drainage and drainage facilities for the entire Audubon development, and the Audubon Management District provides economic development projects and services to the areas of Audubon planned primarily, among other purposes, for commercial development. See "RISK FACTORS - District Tax Levy and Overlapping District Taxes and Functions," "THE DISTRICT" and "APPENDIX A - LOCATION MAP."

DEVELOPMENT OF THE DISTRICT

As of July 1, 2026, the District contained 93 single-family homes, including 54 homes under construction. According to the District's Engineer, the Developer has completed the development of a total of 707 single-family residential lots (approximately 191.35 total acres) within the District, consisting of the subdivisions platted as Heron Run North, Sections 1 through 10, which is complete with the provision of water distribution, wastewater collection and storm drainage facilities (the "System") and street paving; and a total of 302 single-family residential lots (approximately 68.6 total acres) are currently under development within the District, consisting of the subdivisions platted as Heron Run South, Sections 13 and 14. See "DEVELOPER" below. Century Land Holdings of Texas, LLC, Chesmar Homes, David Weekley Homes, Toll Brothers, Westin Homes, SDH Houston, LLC, EHT of Texas LP, Ravenna Homes LLC, LLC, Drees Custom Homes, L.P. and Perry Homes, LLC (collectively, the "Builders") are currently constructing homes in the District as described below under the caption entitled "BUILDERS."

In addition to the total 191.35 acres within the District that have been developed to date and the 68.6 acres that are currently under development, approximately 193.05 acres of land located in the District that are available for future development have not been developed. It is anticipated that approximately 112.05 of such currently undeveloped acres will be developed as future sections of Heron Run and the remaining 81 of such acres will be developed for commercial purposes. However, the owner of such land that is currently available for future development, which owner is described below under the caption "Developer," is under no legal obligation to the District to develop any of such acreage available for future development according to any specific plan, timetable, or at all. Therefore, the District cannot predict when, or whether, any of such currently undeveloped acreage located within the District might be developed. In addition, Magnolia Independent School District owns approximately 39 acres located within the District on which it is expected to construct a school. The balance of the land that is located within the District is contained within easements, rights-of-way, or is otherwise not available for future development. See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments," "TAX DATA - Principal 2026 Taxpayers," "DEVELOPER," and "FUTURE DEVELOPMENT."

The District is financing its cost of acquiring or constructing roads that serve Heron Run, Sections 1 through 5, and a portion of Sections 6A and 6B with the proceeds of the sale of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS." The District anticipates financing its cost of acquiring or constructing components of the System, additional roads and recreational facilities with the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$5,000,000 Unlimited Tax Bonds, Series 2027, that the District expects to issue in approximately the fourth quarter of 2027. See "RISK FACTORS - Future Debt," "THE BONDS - Issuance of Additional Debt," and "THE SYSTEM."

As of July 1, 2026, the status of home construction in the District was as follows:

	<u>Lots</u>				<u>Homes</u>		
			<u>Under</u>		<u>Under Construction</u>	<u>Completed</u>	
<u>Subdivision</u>	<u>Developed</u>	<u>Acres</u>	<u>Development</u>	<u>Acres</u>			<u>Totals</u>
Heron Run North							
Section 1	63	16.17			1	17	18
Section 2	92	19.14			1	3	4
Section 3	66	10.53			0	1	1
Section 4	86	27.69			3	14	17
Section 5	69	11.58			1	0	1
Section 6	80	2.82			15	4	19
Section 7	104	17.30			2	0	2
Section 8	34	9.42			5	0	5
Section 9	62	22.81			20	0	20
Section 10	51	18.93			6	0	6
Heron Run South							
Section 13			135	33.82			
Section 14			167	31.15			
Totals	707	191.35	302	64.97	54	39	93

DEVELOPER

The developer of the 707 fully developed single-family residential lots located within the District that have been developed as Heron Run North, Sections 1 through 10, and the total 302 single-family residential lots (approximately 68.6 total acres) that are currently under development within the District as Heron Run South, Sections 13 and 14, is Audubon Magnolia Development, LLC, a Texas limited liability company, whose manager is JGI Resources, Inc., a Texas corporation (“AMD” or the “Developer”). AMD is a single-purpose entity created for the purpose of owning and developing the land in Audubon. AMD’s assets consist primarily of the land located in Audubon, including the District, and receivables due from the District for eligible public infrastructure costs. SY Audubon Management, Ltd. is managing the development of Audubon on behalf of AMD. SY Audubon Management, Ltd.’s General Partner is SY ADM, LLC, whose sole member and manager is Sam Yager Incorporated. Sam Yager Incorporated is a Houston-based, mixed-use land development company specializing primarily in single-family residential development. In addition to Audubon, Sam Yager Incorporated has recently managed the development of several other residential development projects including Fulshear Lakes, Harper’s Preserve, City Park, Kings Mill, Summer Lakes, and Lakecrest Forest. AMD owns approximately 193.05 acres of land located in the District that are available for future development that have not been developed. It is anticipated that approximately 112.05 of such currently undeveloped acres will be developed as future sections of Heron Run, and the remaining 81 of such acres will be developed for commercial purposes. However, AMD is under no legal obligation to the District to develop any of such acreage available for future development according to any specific plan, timetable, or at all. Therefore, the District cannot predict when, or whether, any of such currently undeveloped acreage located within the District might be developed. In addition, Magnolia Independent School District owns approximately 39 acres located within the District on which it is expected to construct a school.

BUILDERS

Century Land Holdings of Texas, LLC, Chesmar Homes, David Weekley Homes, Toll Brothers, Westin Homes, SDH Houston, LLC, EHT of Texas LP, Ravenna Homes LLC, LLC, Drees Custom Homes, L.P. and Perry Homes, LLC (collectively, the “Builders”) are currently constructing homes in the District which range from approximately 1,464 to 4,639 square feet in size of living area and in sales price from approximately \$269,990 to \$950,000. The Builders may change the size(s) and the type(s) of homes which they elect to build, and the sales prices thereof, or may suspend building activity altogether, at their sole discretion.

FUTURE DEVELOPMENT

707 single-family residential lots have been developed on an aggregate of approximately 191.35 acres located within the District to date, and 302 single-family residential lots (approximately 68.6 total acres) are currently under development within the District. AMD owns an aggregate of approximately 193.05 acres of land located in the District that are available for future development that have not been developed. It is anticipated that approximately 112.05 of such acres will be developed as future sections of Heron Run and the remaining 81 of such acres will be developed for commercial purposes. See “DEVELOPMENT OF THE DISTRICT.” Since there is no legal commitment on the part of the owner of such currently undeveloped acres located within the District that are available for future development to the District to develop such currently undeveloped acres according to any specific plan, timetable, or at all, the District cannot predict when, or whether, any of such currently undeveloped acres located within the District might be developed. The Magnolia Independent School District owns 39 acres of currently undeveloped land located within the District on which it is expected to construct a school. The balance of the land that is located within the District is contained within easements, rights-of-way, or is otherwise not available for future development. If any undeveloped portion of the District is eventually developed, additions to the District’s water, sanitary sewer and drainage systems and road system required to service such undeveloped acreage may be financed by future issues of the District’s bonds. The District’s Engineer currently estimates that the \$544,413,000 authorized bonds which are currently unissued (see “RISK FACTORS - Future Debt” and “THE BONDS - Issuance of Additional Debt”) are adequate to finance the construction of such facilities to provide service to all of the undeveloped portions of the District and to increase the District’s water supply and wastewater treatment facilities as described below under the caption “THE SYSTEM.”

THE SYSTEM

Regulation

According to the District’s Engineer, the System has been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities, including, among others, the TCEQ, the City, and Montgomery County.

Operation of the System is subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. The total number of equivalent single-family connections (“ESFCs”) estimated at this time for the District upon the full development of its approximately 648.18 acres is 2,261 with a total estimated population of 5,344 people. The following descriptions are based upon an estimate of 3.5 people/connection supplied by the District’s Engineer.

Description

The System presently serves the total of 707 single-family residential lots that have been developed within the District that are described above under the caption “DEVELOPMENT OF THE DISTRICT.” The District anticipates financing its cost of acquiring or constructing components of the System with the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$5,000,000 Unlimited Tax Bonds, Series 2027, that the District expects to issue in approximately the fourth quarter of 2027. See “RISK FACTORS - Future Debt” and “THE BONDS - Issuance of Additional Debt.”

Water Supply and Wastewater Treatment

The District does not own any water supply or sanitary sewer treatment facilities other than as described below. The District receives wholesale water supply and sanitary sewer treatment services from the City. Pursuant to the Wholesale Water Supply and Sanitary Sewer Agreement, as same has been amended and supplemented (the “Service Agreement”) dated January 13, 2015 and amended June 12, 2018, September 19, 2020, and April 12, 2022, among the District, Audubon Municipal Utility District No. 1 (formerly Montgomery County Municipal Utility District No. 131) (“AMUD1”), Audubon Municipal Utility District No. 2 (formerly Montgomery County Municipal Utility District No. 130) (“AMUD2”), and Audubon Municipal Utility District No. 4 (formerly Montgomery County Municipal Utility District No. 154B) (“AMUD4,” and collectively, the “MUDs”), the Management District, AMD and the City, the City

has agreed to provide wholesale water and sanitary sewer services to the MUDs in phases, with the ultimate phase to include water supply and sanitary sewer treatment capacities sufficient to facilitate full development of the property owned by AMD. Pursuant to the terms and conditions of the Service Agreement, the MUDs will, with respect to each of the equivalent single-family connections (ESFCs) beyond the first 200 ESFCs provided to the MUDs, which are provided at no cost to the MUDs, be required to pay wholesale capacity charges to the City: (i) in the amount of \$1,500 and \$3,000 for water and sewer connections, respectively, for the next 400 ESFCs in excess of the first 200 ESFCs requested, and (ii) in the amounts equal to the City's impact fees as set forth in the City's Impact Fee Ordinance as of the date of each subsequent request for ESFCs. The City will bill the parties for water and sewer services provided at a rate equal to the City's water and sanitary sewer rates for each equivalent sized connection inside the corporate limits of the City. However, the parties to the Service Agreement have been in discussions regarding the development plan for Audubon and the City's concerns regarding the City's ability and willingness to timely supply sufficient water and sanitary sewer capacity for the development. While the City is presently required to provide Audubon with 5,250 ESFCs of water and sanitary sewer capacity (with an additional 750 ESFCs required to be provided as of July 20, 2028), such capacity is not dedicated to any specific MUD, such as the District. Accordingly, the District cannot represent that the City will be able to supply sufficient capacity for the District at full development. The MUDs and the Management District are authorized to construct and operate water and wastewater facilities should the City be unable to supply sufficient capacity; however, the construction and operation of such facilities could result in increased costs and delays in providing service. The District cannot represent whether negotiations with the City will successfully resolve the concerns with the Service Agreement or the timeframe for resolution of any such concerns.

On November 21, 2022, the City notified the District in writing that, as of such date, the City's commitments for water supply from the City's water system had exceeded the water supply available from the City's water system. As a result, effective December 16, 2022, the City of Magnolia adopted Ordinance No. O-2022-031 enacting a temporary moratorium for 120 days on the acceptance, authorization, and approvals necessary for the subdivision, site planning, development, and construction in the city limits and extraterritorial jurisdiction, for new projects. Such temporary moratorium was subsequently extended in 120 day increments and expired on December 14, 2025.

With regard to development in the Districts, the Land Use Planning and Cooperation Agreement by and between the Developer and the City, dated effective as of November 8, 2011, as amended, provides that, while subdivision plats for portions of property within the District must be submitted to the City, the regulatory, platting, planning, land use and construction requirements, standards and criteria applicable to the property within the Districts are the regulations, standards and codes of Montgomery County, Texas, governing the development of land. Further, the Memorandum of Understanding by and between the District and the City, dated effective as of December 8, 2020, provides that the City shall have no role in the approval or execution of any subdivision plats for any portion of property within the District and that the City defers its execution and approval of each such plat to Montgomery County such that the County's approval of each such plat constitutes the City's approval of same.

In order to increase capacity in the City's water system, the City has constructed additional water production and supply facilities.

Further, the Districts and the Developer have completed construction of an estimated five hundred gallon per minute water well and associated water treatment and pressure facilities (the "Audubon Well") initially capable of serving 833 ESFCs. The Districts, the Developer and the City entered into a Supplement to Wholesale Water Supply and Sanitary Sewer Agreement, dated effective February 14, 2023 (the "Supplement") pursuant to which the Audubon Well, which will ultimately be owned by the Management District for the benefit of the Districts, has been connected to and supplied water to the City's water system during an initial supply period as provided by the terms and conditions of the Supplement. The Audubon well ceased supplying water to the City's water system upon expiration of the City's temporary building moratorium in December 2025. The Supplement provides that wholesale water supply capacity and services in an amount equal to the water supply capacity provided by the Audubon Well, along with wholesale sanitary sewer treatment capacity and services in the corresponding amount, will be reserved for and provided to the Districts by the City in accordance with the terms and conditions of the Service Agreement. The Supplement also provides that the Management District has the right to utilize the Audubon Well to provide water supply to the Districts during the pendency of any future temporary building moratorium by the City.

The Audubon Well has subsequently been converted into Audubon Water Plant No. 1 and is now capable of serving 1,166 ESFCs. The Management District has also obtained a wastewater discharge permit up to 4.0 million gallons per day for construction of the Audubon Wastewater Treatment Plant in various phases. Phase I of the Audubon Wastewater Treatment Plant is nearing completion and will be capable of serving 1,000 ESFCs.

100-Year Flood Plain

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100 year flood plain have flooded multiple times in the last several years. See “RISK FACTORS - Extreme Weather Events.”

The current acreage within the District is included in FIRM Number 48339C0480G dated August 18, 2014. Approximately 14 acres within the District are located within the 100-year floodplain. Such acreage will remain within the floodplain undeveloped.

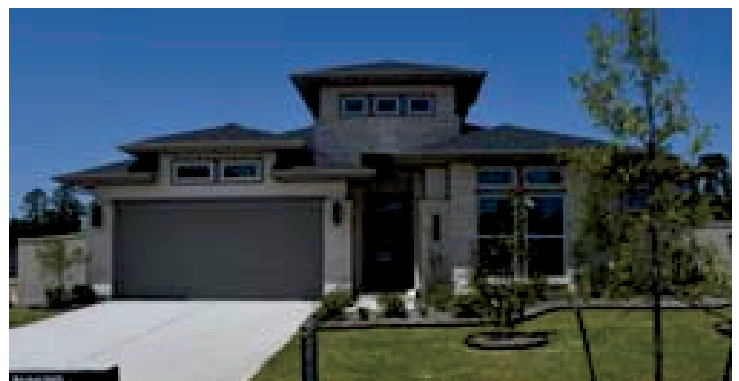
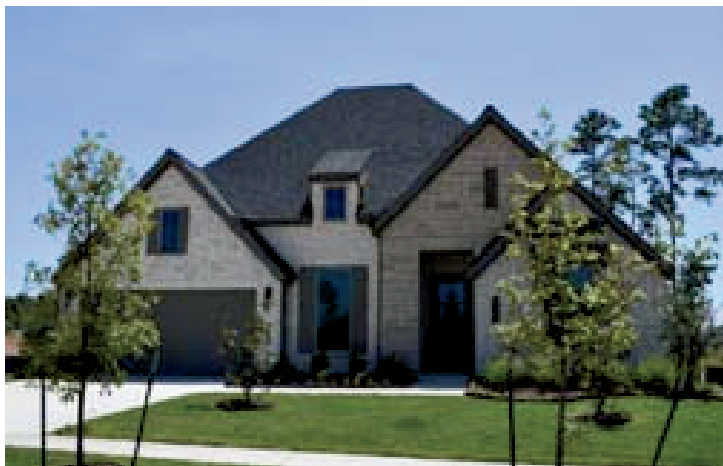
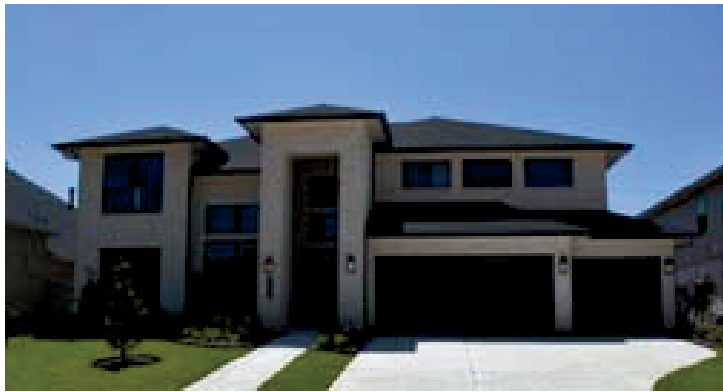
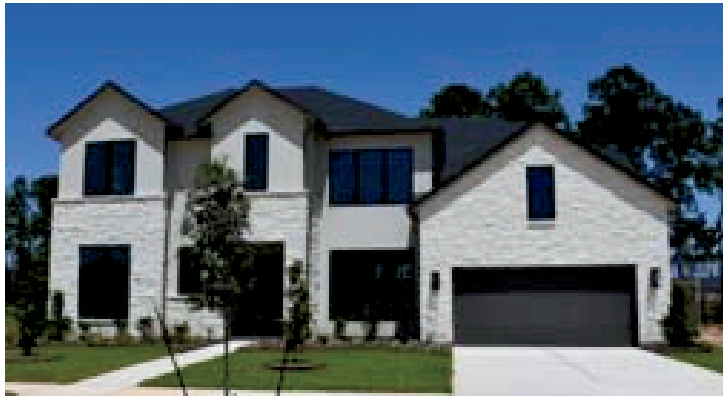
Audubon Water Control and Improvement District

The entirety of the District lies within AWCID. AWCID provides regional outfall drainage and drainage facilities for the District. AWCID, which covers approximately 2,979.98 acres of land, has issued bonds to finance the acquisition or construction of drainage improvements to serve the land which lies within AWCID. The principal of and interest on AWCID bonds is payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within AWCID. See “RISK FACTORS - District Tax Levy and Overlapping District Taxes and Functions.”

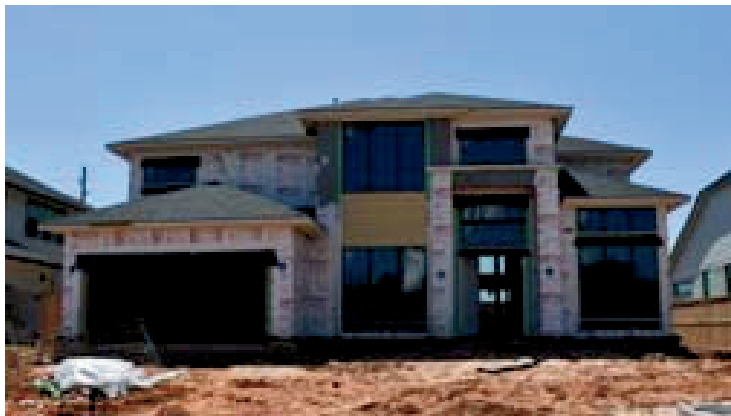
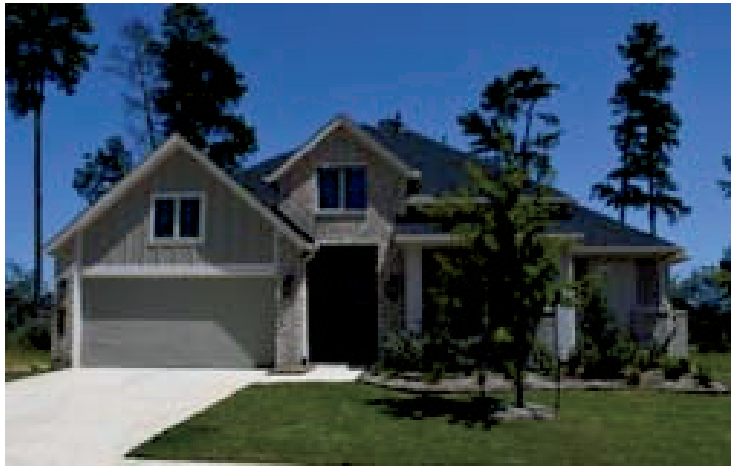
AERIAL PHOTOGRAPH OF THE DISTRICT
(taken August 2026)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken July 2026)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken July 2026)



DISTRICT DEBT

General

The following tables and calculations relate to the Bonds. The District is empowered to incur debt to be paid from revenues raised by taxation against all taxable property located within the District, and various other political subdivisions of government that overlap all or a portion of the District are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of the property within the District.

2026 Assessed Valuation	\$	51,970,892 (a)
(As of January 1, 2026)		
See "TAX DATA" and "TAX PROCEDURES"		
Estimated Valuation at May 15, 2026	\$	61,352,720 (b)
See "TAX DATA" and "TAX PROCEDURES"		
Direct Debt:		
The Bonds	\$	<u>6,000,000</u> (c)
Estimated Overlapping Debt.....	\$	<u>1,157,770</u>
Total Direct and Estimated Overlapping Debt.....	\$	7,157,770
Direct Debt Ratio		
: as a percentage of 2026 Assessed Valuation		11.54 %
: as a percentage of Estimated Valuation at May 15, 2026		9.78 %
Direct and Overlapping Debt Ratio		
: as a percentage of 2026 Assessed Valuation.....		13.77 %
: as a percentage of Estimated Valuation at May 15, 2026		11.67 %
Bond Fund Balance estimated as of the Date of Delivery of the Bonds.....	\$	660,000 (d)
Anticipated 2026 Tax Rate per \$100 of Assessed Valuation		
Debt Service Tax	\$	0.00
Maintenance Tax		<u>1.15</u>
Total	\$	1.15 (e)
2026 Combined District and AWCID Tax Rate per \$100 of Assessed Valuation		
Anticipated District Tax	\$	1.15
AWCID Tax		<u>0.30</u>
Total	\$	1.45 (e)
2027 Anticipated Approximate District Tax Rate per \$100 of Assessed Valuation		
Debt Service Tax	\$	0.68
Maintenance Tax		<u>0.47</u>
Total	\$	1.15 (e)
Percentage of Total Tax Collections (2025 Levy) as of June 30, 2026		100.00 %

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- (a) As of January 1, 2026, and comprises the District's 2026 tax roll. All property located in the District is valued on the tax rolls by the Montgomery Central Appraisal District (the "Appraisal District") at 100% of assessed value as of January 1 of each year. The District's tax roll is certified by the Montgomery County Appraisal Review Board (the "Appraisal Review Board"). See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments" and "TAX PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of May 15, 2026, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2025, through May 14, 2026. The ultimate Assessed Valuation of any land and improvements added from January 1, 2025, through December 31, 2025, which will be placed on the District's 2026 tax roll, may vary significantly from such estimate once the Appraisal Review Board certifies the value thereof in 2026. Moreover, the ultimate Assessed Valuation of any land and improvements added from January 1, 2026, through May 14, 2026, which will be placed on the District's 2027 tax roll, may vary significantly from such estimate once the Appraisal Review Board certifies the value thereof in 2027.
- (c) In addition to the roads that the District is financing with proceeds of the Bonds, the District expects to finance the acquisition or construction of components of the System, additional roads and recreational facilities with the proceeds of bonds, if any, to be issued by the District in the future, including its approximately \$5,000,000 Unlimited Tax Bonds, Series 2027, that the District expects to issue in approximately the fourth quarter of 2027. See "RISK FACTORS - Future Debt," "THE BONDS - Issuance of Additional Debt," "USE AND DISTRIBUTION OF BOND PROCEEDS," "FUTURE DEVELOPMENT" and "THE SYSTEM,"
- (d) Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Bond Fund. Represents an estimate of 24 months of capitalized interest on the Bonds (not to exceed \$660,000), to be deposited into the District's sub-account of the Bond Fund created in respect of Road Bonds. The District's initial debt service requirement on the Bonds, consisting of an interest payment thereon, is due on March 1, 2027.
- (e) The District levied a tax rate of \$1.15 per \$100 of Assessed Valuation for 2025, all of which was a maintenance tax. The District anticipates levying the same tax rate for 2026 of \$1.15 per \$100 of Assessed Valuation, all of which is a maintenance tax. The District anticipates levying its first debt service tax in 2027 in connection with the issuance of the Bonds. Such initial debt service tax is expected to be in the approximate amount of \$0.68 per \$100 of Assessed Valuation. The District anticipates levying a maintenance tax of approximately \$0.47 per \$100 of Assessed Valuation in 2027. Therefore, the District's combined total tax for 2027 is expected to be approximately \$1.15 per \$100 of Assessed Valuation. As is described in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2025 tax levies of all units of government which levy taxes against the property located within the District, including the District's 2025 or anticipated 2026 tax rate of \$1.15 per \$100 of Assessed Valuation, is \$3.0331 per \$100 of Assessed Valuation. Such aggregate levy is higher than the aggregate of the tax levies of some municipal utility districts located in the greater Houston metropolitan area, but is within the range of the aggregate tax levies of municipal utility districts in the Houston metropolitan area which are in stages of development comparable with the District. See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments."

Estimated Direct and Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas, or other available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot presently be determined. 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 payment of their debt, and some are presently levying and collecting such taxes.

<u>Taxing Jurisdiction</u>	<u>Debt as of July 1, 2026</u>	<u>Estimated Overlapping Percent</u>	<u>Amount</u>
Montgomery County	535,450,000	0.00413%	\$22,112
Lone Star College System	342,055,000	0.00131%	4,473
Magnolia Independent School District	250,580,000	0.36459%	913,585
Audubon Water Control & Improvement District*	15,000,000	1.45067%	<u>217,600</u>
Total Estimated Overlapping Debt			\$1,157,770
Total Direct Debt (the Bonds)			<u>6,000,000</u>
Total Direct and Estimated Overlapping Debt			\$7,157,770

Debt Ratios

	<u>% of 2026 Preliminary Valuation</u>	<u>% of Estimated Valuation as of May 15, 2022</u>
Direct Debt.....	11.54%	9.78%
Direct and Estimated Overlapping Debt	13.77%	11.67%

Under Texas law, ad valorem taxes levied by each taxing authority other than the District create a lien that is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administration, and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District has the power to assess, levy, and collect ad valorem taxes for operations and maintenance purposes, and such taxes have been authorized by the duly qualified voters of the District. The District has levied a maintenance tax of \$1.15 per \$100 of Assessed Valuation in 2025. See "TAX DATA - Maintenance Tax."

Debt Service Requirement Schedule

The following schedule sets forth the principal and interest requirements of the Bonds.

Year Ending December 31	Plus: The Bonds		New Total Debt Service
	Principal	Interest	
2027		\$293,918	\$293,918
2028	\$95,000	334,844	429,844
2029	95,000	327,719	422,719
2030	100,000	320,594	420,594
2031	110,000	313,094	423,094
2032	115,000	304,844	419,844
2033	120,000	296,219	416,219
2034	125,000	287,219	412,219
2035	130,000	277,844	407,844
2036	140,000	268,094	408,094
2037	145,000	257,594	402,594
2038	155,000	246,719	401,719
2039	165,000	236,063	401,063
2040	170,000	227,813	397,813
2041	180,000	219,313	399,313
2042	190,000	210,313	400,313
2043	200,000	200,813	400,813
2044	210,000	190,813	400,813
2045	220,000	180,313	400,313
2046	230,000	169,313	399,313
2047	245,000	157,813	402,813
2048	255,000	145,563	400,563
2049	270,000	132,813	402,813
2050	285,000	119,313	404,313
2051	300,000	105,063	405,063
2052	315,000	89,688	404,688
2053	330,000	73,544	403,544
2054	350,000*	56,631	406,631
2055	370,000*	38,694	408,694
2056	385,000*	19,731	404,731
	\$6,000,000	\$6,102,300	\$12,102,300

Average Annual Requirements: (2028-2056)	\$407,186
Maximum Annual Requirement: (2028)	\$429,844

* Represents mandatory sinking fund payments on Term Bonds.

TAX DATA

Debt Service Tax

All taxable property within the District is subject to the assessment, levy and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds (see “TAX PROCEDURES”). The Board of Directors of the District has in its Bond Order covenanted to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds (see “RISK FACTORS” and “THE BONDS”). The District anticipates levying a debt service tax for 2027 at a rate of approximately \$0.68 per \$100 of Assessed Valuation. See “Tax Rate Distribution” below.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for administrative expenses and maintenance of the District’s water, sewer and drainage improvements, and for maintenance of recreational facilities, if such maintenance taxes are authorized by a vote of the District’s electorate. On May 2, 2020, the District voters authorized the levy of a maintenance tax for administrative expenses and maintenance of water, sewer and drainage improvements in the maximum amount of \$1.50 per \$100 of Assessed Valuation. Said tax may be levied in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any parity bonds which may be issued in the future. The District levied a maintenance tax of \$1.15 per \$100 of Assessed Valuation in 2025 for administrative expenses and maintenance of water, sewer and drainage improvements. The District anticipates levying a maintenance tax for 2026 at a rate of \$1.15 per \$100 of Assessed Valuation. See “Tax Rate Distribution” below.

Tax Rate Limitation

Debt Service:	Unlimited (no legal limit as to rate or amount)
Maintenance:	\$1.50 per \$100 Assessed Valuation

Historical Values and Tax Collection History

The following statement of tax collections sets forth in condensed form the historical Assessed Valuation and tax collections of the District. Such summary has been prepared for inclusion herein based upon information obtained from District records. Reference is made to such records, including the District’s annual audited financial statements, for more complete information.

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate^(a)</u>	<u>Adjusted Levy</u>	<u>% Collections</u>	
				<u>Current & Prior Years^(b)</u>	<u>Year Ended 09/30</u>
2025	\$4,510,558	\$1.15 ^(c)	\$51,871	100.00%	2026
2026	51,970,892	1.15 ^(d)	597,665	(d)	2027

(a) Per \$100 of Assessed Valuation.

(b) Such percentages reflect cumulative total collections for each year from the time each respective annual tax was levied through June 30, 2026. The amount of tax collected for each levy on a current basis (by September 30 of the year following each respective annual levy) is not reflected in this statement.

(c) See “Tax Rate Distribution” below.

(d) The District anticipates levying a tax rate for 2026 of \$1.15 per \$100 of Assessed Valuation, all of which is a maintenance tax.

Tax Rate Distribution

	<u>2027 (1)</u>	<u>2026 (2)</u>	<u>2025</u>
Debt Service	\$0.68	\$0.00	\$0.00
Maintenance	<u>0.47</u>	<u>1.15</u>	<u>1.15</u>
Total	\$1.15	\$1.15	\$1.15

(1) Anticipated approximate tax rate.

(2) Anticipated tax rate.

Analysis of Tax Base

The following table illustrates the composition of property located within the District last two years.

	<u>2026</u>		<u>2025</u>	
<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>%</u>	<u>Assessed Valuation</u>	<u>%</u>
Land	\$48,447,674	93.22%	\$4,693,369	104.05%
Improvements	3,667,438	7.06%	50,829	1.13%
Personal Property	330,658	0.64%	0	0.00%
Exemptions	<u>-474,878</u>	<u>-0.91%</u>	<u>-233,640</u>	<u>-5.18%</u>
TOTAL	\$51,970,892	100.00%	\$4,510,558	100.00%

Principal 2026 Taxpayers

Based upon information supplied by the District's Tax Assessor/Collector, the following table lists principal District taxpayers, type of property owned by such taxpayers, and the Assessed Valuation of such property as of January 1, 2026. The information reflects the composition of the Appraisal District's record of property ownership as of January 1, 2026.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation 2026 Tax Roll</u>	<u>% of 2026 Tax Roll</u>
Century Land Holdings Of Texas LLC (a)	Land	\$7,730,000	14.87%
Perry Homes LLC (a)	Land, Improvements and Personal Property	6,367,316	12.25
CW Audubon Two LLC (a)	Land	5,420,000	10.42
Avalon Villas Audubon LLC (a)	Land	5,201,531	10.00
Westin Homes & Properties LP (a)	Land and Improvements	4,158,661	8.00
Audubon Magnolia Development LLC (b)	Land	3,894,901	7.49
EHT Of Texas LP (a)	Land	3,010,000	5.79
Ravenna Homes LLC (a)	Land	2,450,000	4.71
Weekley Homes LLC (a)	Land	2,250,000	4.32
Chesmar Homes LLC (a)	Land	<u>2,240,000</u>	<u>4.31</u>
		\$42,722,409	82.16%

(a) See "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments – Principal Landowners' Obligations to the District" and "BUILDERS."

(b) See "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments – Economic Dependency Upon the Developer." and "DEVELOPER."

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Valuation which would be required to meet certain debt service requirements if no growth in the District's tax base occurs beyond the 2026 Assessed Valuation or the Estimated Valuation at May 15, 2026. The calculations assume collection of 90% of taxes levied, no use of funds on hand, and the sale of no bonds by the District other than the Bonds.

Average Annual Debt Service Requirements (2028-2056)	\$407,186
Tax Rate of \$0.88 on the 2026 Assessed Valuation (\$51,970,892) produces.....	\$411,609
Tax Rate of \$0.74 on the Estimated Valuation at May 15, 2026 (\$61,352,720) produces	\$408,609
Maximum Annual Debt Service Requirement (2028)	\$429,844
Tax Rate of \$0.92 on the 2026 Assessed Valuation (\$51,970,892) produces.....	\$430,319
Tax Rate of \$0.78 on the Estimated Valuation at May 15, 2026 (\$61,352,720) produces	\$430,696

The District levied a tax rate of \$1.15 per \$100 of Assessed Valuation for 2025, all of which was a maintenance tax. The District anticipates levying the same tax rate for 2026 of \$1.15 per \$100 of Assessed Valuation, all of which is a maintenance tax. The District anticipates levying its first debt service tax in 2027 in connection with the issuance of the Bonds. Such initial debt service tax is expected to be in the approximate amount of \$0.68 per \$100 of Assessed Valuation. The District anticipates levying a maintenance tax of approximately \$0.47 per \$100 of Assessed Valuation in 2027. Therefore, the District's combined total tax for 2027 is expected to be approximately \$1.15 per \$100 of Assessed Valuation. As the above table indicates, the 2027 anticipated approximate debt service tax rate of \$0.68 per \$100 of Assessed Valuation will not be sufficient to pay the average annual debt service requirements and the maximum annual debt service requirement on the Bonds given taxable values in the District at the level of the Estimated Valuation at May 15, 2026, assuming a tax collection rate of 90%, no use of other available funds, including earnings from the investment of funds held in the District's Bond Fund, and the issuance of no additional bonds by the District. However, as is stated above under the caption "TAX DATA - Historical Values and Tax Collection History," the District had collected 100.00% of its tax levy for 2025 as of June 30, 2026. Moreover, the District's Bond Fund balance is estimated to be \$660,000 as of the Date of Delivery of the Bonds, which represents an estimated twenty-four (24) months of capitalized interest on the Bonds (not to exceed \$660,000). Therefore, the District anticipates being able to pay the maximum and average annual debt service requirements of the Bonds without increasing its debt service tax levy above the level of the anticipated approximate 2027 debt service tax levy. However, the District can make no representation that the taxable property values in the District will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments" and - "Future Debt" and "TAX PROCEDURES."

Estimated Overlapping Taxes

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all 2025 taxes levied upon property located within the District plus the District's 2025 tax rate. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded indebtedness of the District and of such other jurisdictions (see "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

<u>Taxing Jurisdiction</u>	<u>2025 tax Rate Per \$100 of A.V.</u>
Montgomery County	\$0.3790
Lone Star College System	0.1076
Magnolia Independent School District	0.9595
Audubon Water Control and Improvement District	0.3000
Montgomery County Hospital District	0.0497
Montgomery County Emergency Services District No. 10	0.0873
The District*	<u>1.1500</u>
Total Tax Rate	3.0331

* The District levied a tax rate of \$1.15 per \$100 of Assessed Valuation for 2025, all of which was a maintenance tax. The District anticipates levying the same tax rate for 2026 of \$1.15 per \$100 of Assessed Valuation, all of which is a maintenance tax. The District anticipates levying its first debt service tax in 2027 in connection with the issuance of the Bonds. Such initial debt service tax is expected to be in the approximate amount of \$0.68 per \$100 of Assessed Valuation. The District anticipates levying a maintenance tax of approximately \$0.47 per \$100 of Assessed Valuation in 2027. Therefore, the District's combined total tax for 2027 is expected to be approximately \$1.15 per \$100 of Assessed Valuation..

TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by 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; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District’s preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2025 tax year, the District

has not granted any such exemptions. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$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 an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or (ii) a first responder (as defined under Texas law) who was (i) killed in action, or (ii) fatally injured in the line of duty, is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property, but may choose to exempt same in the future by further official action.

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2026 tax year, the District has not granted a general residential homestead exemption.

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. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the

appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property.

Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by 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 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.

Rollback of Operation and Maintenance Tax Rate

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

Low Tax Rate Districts

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

Developed Districts

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

to certain homestead exemptions, plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Low Tax Rate District and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Low Tax Rate Districts.

Developing Districts

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

The District

A determination as to a district's status as a Low Tax Rate District, Developed District or Developing District will be made by the District's Board of Directors on an annual basis. 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. For the 2026 tax rate year, a determination has been made by the District's Board of Directors that the District is a Developing District.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, under certain circumstances, an election would be required to determine whether to approve the adopted total tax rate. See "Rollback of Operation and Maintenance Tax Rate." The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture 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. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the 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 for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2026, no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

Tax Abatement

The City of Magnolia and Montgomery County may designate all or part of the District as a reinvestment zone, and the District, Montgomery County, and (if it were to annex the area) the City of Magnolia may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only for the items specified in the Texas Property Tax Code. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1, of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units (see "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement"). 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. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law, and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act 12 U.S.C. 1825, as amended. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "RISK FACTORS - Tax Collection Limitations."

LEGAL MATTERS

Legal Opinions

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District 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 District will also furnish the approving legal opinion of Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See "Tax Exemption" below. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. Bond Counsel's opinion will also address the matters described below.

In addition to serving as Bond Counsel, Schwartz, Page & Harding, L.L.P., also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Disclosure Counsel.

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.

Legal Review

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this Official Statement under the captioned sections "THE BONDS," "THE DISTRICT - General," and - "Management of the District - Bond Counsel and General Counsel," "TAX PROCEDURES," and "LEGAL MATTERS" solely to determine whether

such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm'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 of the other information contained herein.

Tax Exemption

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

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

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

Qualified Tax-Exempt Obligations

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."**

Collateral Federal Income Tax Consequences

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, 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, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and individuals allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Interest on the Bonds may be includable in the “adjusted financial statement income” of certain corporations determined under Section 56A of the Code to calculate the alternative minimum tax imposed by Section 55 of the Code.

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

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

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

Under Existing Law, 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 Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See “Tax Exemption” herein for a discussion of certain collateral federal tax consequences.

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

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

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF INTEREST ACCRUED UPON REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

The initial public offering price to be paid for certain maturities of the Bonds is greater than the amount payable on such Bonds at maturity (the “Premium Bonds”). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

NO-LITIGATION CERTIFICATE

The District will furnish to the Underwriters a certificate, dated as of the date of delivery of the Bonds, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or to the knowledge of the District’s certifying officers, threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

NO MATERIAL ADVERSE CHANGE

The obligations of the Underwriter to take up 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 subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented or amended through the date of sale. The rating of the Insurer's creditworthiness by any rating agency does not and will not in any manner affect the District's financial condition, and thus any change to such rating, including a downgrade thereof, at any time, does not and will not constitute a change, material or otherwise, in the District's financial condition, and therefore cannot be a basis for termination by the Underwriter of its obligations to take up and pay for the Bonds.

OFFICIAL STATEMENT

General

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

The financial statements of the District as of February 28, 2026, and for the year then ended, included in this offering document, have been audited by Forvis Mazars LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX B."

Experts

The information contained in the Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled "THE DISTRICT," "DEVELOPMENT OF THE DISTRICT," "FUTURE DEVELOPMENT," and "THE SYSTEM" has been provided by Elevation Land Solutions, The Woodlands, Texas. Such information has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "DISTRICT DEBT" and "TAX DATA" was provided by the Appraisal District and Wheeler & Associates, Inc., Houston, Texas. The District has included certain information herein in reliance upon said firm's authority as an expert in the field of tax assessing and real property appraisal. The District has included certain information herein in reliance upon the Appraisal District's authority as an expert in the field of tax assessing and real property appraisal.

Certification as to Official Statement

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

Updating of Official Statement

If, subsequent to the date of the Official Statement, to and including the date the Underwriter is no longer required to provide an Official Statement to customers who request same pursuant to Rule 15c2-12 of the United States Securities and Exchange Commission (the “SEC”), the District learns, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate upon the earlier of (i) 90 days after the “end of the underwriting period” as defined in SEC Rule 15c2-12 or (ii) the date the Official Statement is filed with the MSRB (hereinafter defined), but in no case less than 25 days after the “end of the underwriting period.”

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the SEC regarding the District’s continuing disclosure obligations because the District has not issued more than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds as required by the exemption. As required by the exemption, in the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the “MSRB”) or any successor to its functions as a repository through its Electronic Municipal Market Access (“EMMA”) system.

Annual Reports

The District will provide certain updated financial information and operating data, which is customarily prepared by the District and publicly available, annually to the MSRB. The financial information and operating data which will be provided with respect to the District is found in “APPENDIX B” Independent Auditor’s Report and Financial Statements. The District will update and provide this information to EMMA within six months after the end of each of its fiscal years ending in or after 2027.

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

The District’s current fiscal year end is the last day of February. Accordingly, it must provide updated information by August 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; 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 determination 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 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 Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

The District has agreed to provide the foregoing information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information filed with the MSRB through its EMMA system at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders 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 to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if 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 SEC Rule 15c2-12, taking into account any amendments or interpretations of such Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Order if the SEC amends or repeals the applicable provisions of such 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

The District has not previously made a continuing disclosure agreement in accordance with SEC Rule 15c2-12 as this is its first issuance of bonds.

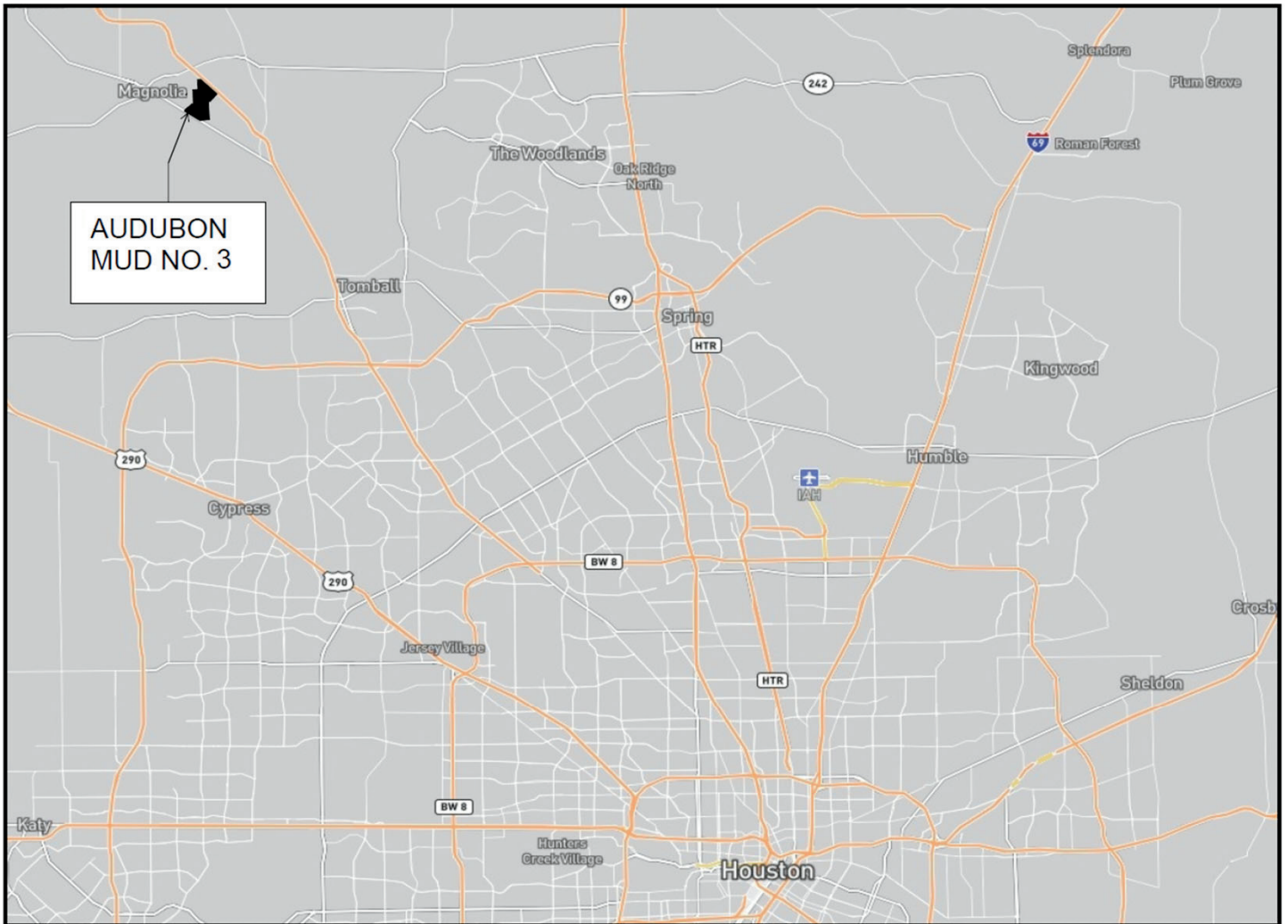
This Official Statement was approved by the Board of Directors of Audubon Municipal Utility District No. 3 as of the date shown on the first page hereof.

/s/ Kelly Knake
President, Board of Directors
Audubon Municipal Utility District No. 3

ATTEST:

/s/ Matthew Davis
Secretary, Board of Directors
Audubon Municipal Utility District No. 3

APPENDIX A
LOCATION MAP



AUDUBON MUNICIPAL UTILITY DISTRICT NO. 3
VICINITY MAP

APPENDIX B

AUDUBON MUNICIPAL UTILITY DISTRICT NO. 3
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
FEBURARY 28, 2026



Audubon Municipal Utility District No. 3 Montgomery County, Texas

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

February 28, 2026



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February 28, 2026

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Independent Auditor's Report

Board of Directors
Audubon Municipal Utility District No. 3
Montgomery County, Texas

Opinions

We have audited the financial statements of the governmental activities and general fund of Audubon Municipal Utility District No. 3 (District), as of and for the year ended February 28, 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 general fund of the District, as of February 28, 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
July 7, 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.

**Audubon Municipal Utility District No. 3
Management's Discussion and Analysis
Year Ended February 28, 2026**

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.

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 current year are summarized as follows, based on the information included in the government-wide financial statements:

Summary of Net Position

Current and other assets	\$ 172,612
Capital assets	<u>22,164,634</u>
Total assets	<u>\$ 22,337,246</u>
Long-term liabilities	\$ 33,390,855
Other liabilities	<u>123,058</u>
Total liabilities	<u>33,513,913</u>
Net position	
Net investment in capital assets	(359,097)
Unrestricted	<u>(10,817,570)</u>
Total net position	<u>\$ (11,176,667)</u>

The total net position of the District decreased by \$10,638,800. The majority of the decrease in net position is related to conveyance of capital assets to another governmental entity for maintenance. Although the District's

**Audubon Municipal Utility District No. 3
Management's Discussion and Analysis
Year Ended February 28, 2026**

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

Revenues	
Property taxes	\$ 51,872
Charges for services	18,749
Other revenues	<u>127,312</u>
Total revenues	<u>197,933</u>
Expenses	
Services	367,769
Depreciation	359,097
Conveyance of capital assets	<u>10,109,867</u>
Total expenses	<u>10,836,733</u>
Change in net position	(10,638,800)
Net position, beginning of year	<u>(537,867)</u>
Net position, end of year	<u><u>\$ (11,176,667)</u></u>

Financial Analysis of the District's Funds

The general fund's fund balance increased by \$73,159 primarily due to property tax revenues, tap connection and inspection fees revenues, and developer advances received exceeding service operations expenditures.

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 professional fees expenditures and developer advances received being greater than anticipated. In addition, property tax revenues, and tap connection and inspection fees revenues and the related tap connection expenditures were not included in the current year budget. The fund balance as of February 28, 2026 was expected to be \$(23,610) and the actual end-of-year fund balance was \$49,549.

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current fiscal year are summarized below:

**Audubon Municipal Utility District No. 3
Management's Discussion and Analysis
Year Ended February 28, 2026**

Capital Assets (Net of Accumulated Depreciation)

Land and improvements	\$ 6,364,370
Water facilities	4,952,090
Wastewater facilities	4,369,393
Drainage facilities	<u>6,478,781</u>
Total capital assets	<u><u>\$ 22,164,634</u></u>

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

Audubon Run Phase 1 detention and mass grading, Audubon Heron Run clearing and grubbing and mass grading, Audubon Heron Run Phase 3 clearing and grubbing, Audubon Heron Run Phase 4 clearing and grubbing, Audubon Landing Drive Phase 2 detention and mass grading	\$ 6,796,746
Water, sewer, and drainage facilities to serve Audubon Heron Run Sections 1, 2, 3, 4, 5, 6A, 6B, and 10	11,492,101
Water, sewer, and drainage facilities to serve Audubon Landing Drive Phases 1 and 2	1,039,108
Water, sewer, and drainage facilities to serve Audubon Crossing Trail Phase 1, Audubon Heron Run Section 7 and offsite sanitary	<u>1,618,735</u>
Total additions to capital assets	<u><u>\$ 20,946,690</u></u>

The developer within the District has constructed facilities on behalf of the District under the terms of the contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Commission, if required. As of February 28, 2026, a liability for developer constructed capital assets of \$32,633,598 was recorded in the government-wide financial statements.

Debt

The changes in the debt position of the District during the fiscal year ended February 28, 2026 are summarized as follows.

Long-term debt payable, beginning of year	\$ 2,091,298
Increases in long-term debt	<u>31,299,557</u>
Long-term debt payable, end of year	<u><u>\$ 33,390,855</u></u>

At February 28, 2026, the District had \$544,413,000 of unlimited tax bonds authorized, but unissued, for the purpose of acquiring, constructing, and improving the water, sanitary sewer, and drainage systems within the District; \$132,828,000 of unlimited tax bonds authorized, but unissued, for the purpose of constructing parks and recreational facilities; and \$281,329,000 of unlimited tax bonds authorized, but unissued, for the purpose of constructing road and paving facilities.

Other Relevant Factors

Contingencies

The developer of the District is constructing water, sewer, drainage, recreational, and road and paving facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these

**Audubon Municipal Utility District No. 3
Management's Discussion and Analysis
Year Ended February 28, 2026**

costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission, if required. The District's engineer has stated that current construction contract amounts are approximately \$18,980,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

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.

Since inception, the developer has advanced \$757,257 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 financial statements.

Audubon Municipal Utility District No. 3
Statement of Net Position and Governmental Fund Balance Sheet
February 28, 2026

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash	\$ 111,926	\$ -	\$ 111,926
Receivables			
Property taxes	5	-	5
Service accounts	20,681	-	20,681
Due from others	40,000	-	40,000
Capital assets (net of accumulated depreciation)			
Land and improvements	-	6,364,370	6,364,370
Infrastructure	-	15,800,264	15,800,264
Total Assets	\$ 172,612	\$ 22,164,634	\$ 22,337,246
Liabilities			
Accounts payable	\$ 61,529	\$ -	\$ 61,529
Customer deposits	28,000	-	28,000
Unearned tap connection fees	33,500	-	33,500
Due to others	29	-	29
Long-term liabilities, due after one year	-	33,390,855	33,390,855
Total Liabilities	123,058	33,390,855	33,513,913
Deferred Inflows of Resources			
Deferred property tax revenues	5	(5)	-
Fund Balance/Net Position			
Unassigned fund balance	49,549	(49,549)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 172,612		
Net position			
Net investment in capital assets		(359,097)	(359,097)
Unrestricted		(10,817,570)	(10,817,570)
Total net position		\$ (11,176,667)	\$ (11,176,667)

Audubon Municipal Utility District No. 3
Statement of Activities and Governmental Fund Revenues,
Expenditures, and Changes in Fund Balance
Year Ended February 28, 2026

	General Fund	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 51,867	\$ 5	\$ 51,872
Water service	7,224	-	7,224
Sewer service	10,716	-	10,716
Regional water fee	809	-	809
Penalty and interest	232	-	232
Tap connection and inspection fees	125,700	-	125,700
Other income	1,380	-	1,380
Total Revenues	197,928	5	197,933
Expenditures/Expenses			
Service operations			
Purchased services	5,735	-	5,735
Regional water authority	568	-	568
Professional fees	178,158	-	178,158
Contracted services	44,839	-	44,839
Repairs and maintenance	25,381	-	25,381
Other expenditures	33,597	-	33,597
Tap connections	79,491	-	79,491
Depreciation	-	359,097	359,097
Conveyance of capital assets	-	10,109,867	10,109,867
Total Expenditures/Expenses	367,769	10,468,964	10,836,733
Deficiency of Revenues Over Expenditures	(169,841)	(10,468,959)	
Other Financing Sources			
Developer advances received	243,000	(243,000)	
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	73,159	(73,159)	
Change in Net Position		(10,638,800)	(10,638,800)
Fund Balance (Deficit)/Net Position			
Beginning of year	(23,610)	-	(537,867)
End of year	\$ 49,549	\$ -	\$ (11,176,667)

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

Audubon Municipal Utility District No. 3 (District) was created as Montgomery County Municipal Utility District No. 154 by House Bill No. 1440 of the 85th Legislature of the State of Texas effective June 30, 2017, in accordance with the provisions of Article III, Section 52, and Article XVI, Section 59, of the Texas Constitution. The name of the District was changed to Audubon Municipal Utility District No. 3 effective March 1, 2023. 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 operate waterworks, wastewater, drainage, parks and recreational, and road and paving facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (Board) consisting of five individuals who are 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 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 fund. 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 fund:

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.

Fund Balance – Governmental Fund

The fund balance for the District's governmental fund 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 fund revenues, expenditures, and changes in fund balance 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 fund to be available if they are collectible within 60 days after year-end. Principal revenue sources considered 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.

Audubon Municipal Utility District No. 3
Notes to Financial Statements
February 28, 2026

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.

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 fund, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended February 28, 2026, include collections during the current period or within 60 days of year-end related to the 2025 and prior years' tax levies.

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 February 28, 2026, the 2025 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which may 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.

Audubon Municipal Utility District No. 3
Notes to Financial Statements
February 28, 2026

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

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

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 bond premiums and discounts 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 Balance

Fund balance 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.

Reconciliation of Government-Wide and Fund Financial Statements

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

Capital assets used in governmental activities are not financial resources and are not reported in the fund financial statements.	\$ 22,164,634
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	5
Long-term debt obligations are not due and payable in the current period and are not reported in the fund financial statements.	<u>(33,390,855)</u>
Adjustment to fund balance to arrive at net position.	<u><u>\$ (11,226,216)</u></u>

Audubon Municipal Utility District No. 3
Notes to Financial Statements
February 28, 2026

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

Change in fund balance.	\$ 73,159
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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 of depreciation expense and conveyed capital assets in the current period.	(10,468,964)
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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.	(243,000)
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Revenues that do not provide current financial resources are not reported as revenues for the funds but are reported as revenues in the statement of activities.	5
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Change in net position of governmental activities.	<u>\$ (10,638,800)</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 February 28, 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.

Audubon Municipal Utility District No. 3
Notes to Financial Statements
February 28, 2026

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

At February 28, 2026, the District had no investments.

Note 3. Capital Assets

A summary of changes in capital assets for the year ended February 28, 2026 is presented as follows.

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable			
Land and improvements	\$ 1,577,041	\$ 4,787,329	\$ 6,364,370
Capital assets, depreciable			
Water production and distribution facilities	-	5,064,638	5,064,638
Wastewater collection and treatment facilities	-	4,468,697	4,468,697
Drainage facilities	-	6,626,026	6,626,026
Total capital assets, depreciable	-	16,159,361	16,159,361
Less accumulated depreciation			
Water production and distribution facilities	-	(112,548)	(112,548)
Wastewater collection and treatment facilities	-	(99,304)	(99,304)
Drainage facilities	-	(147,245)	(147,245)
Total accumulated depreciation	-	(359,097)	(359,097)
Total governmental activities, net	\$ 1,577,041	\$ 20,587,593	\$ 22,164,634

Note 4. Long-Term Liabilities

Changes in long-term liabilities for the year ended February 28, 2026 were as follows:

Governmental Activities	Balances, Beginning of Year	Increases	Balances, End of Year	Amounts Due in One Year
Developer advances	\$ 514,257	\$ 243,000	\$ 757,257	\$ -
Due to developer	1,577,041	31,056,557	32,633,598	-
Total governmental activities long-term liabilities	\$ 2,091,298	\$ 31,299,557	\$ 33,390,855	\$ -

Audubon Municipal Utility District No. 3
Notes to Financial Statements
February 28, 2026

Bonds voted	
Water, sewer, and drainage facilities	\$ 544,413,000
Parks and recreational facilities	132,828,000
Road facilities	281,329,000
Refunding bonds	958,570,000

Due to Developer – Construction

The developer has constructed facilities on behalf of the District under the terms of contracts with the District. The District has agreed to reimburse the developer for these construction costs and interest to the extent approved by the Commission from the proceeds of future bond sales, if required. As of February 28, 2026, a liability for developer-constructed capital assets of \$32,633,598 was recorded in the financial statements.

Note 5. Maintenance Taxes

At an election held May 2, 2020, 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 February 28, 2026, the District levied an ad valorem maintenance tax at the rate of \$1.1500 per \$100 of assessed valuation, which resulted in a tax levy of \$51,872 on the taxable valuation of \$4,510,558 for the 2025 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 6. Contract With City of Magnolia

Effective January 13, 2015, and as amended June 12, 2018 and April 12, 2022, and supplemented September 19, 2020, November 9, 2021, and February 14, 2023, the District, Audubon Municipal Utility District No. 1, Audubon Municipal Utility District No. 2, Audubon Municipal Utility District No. 4, and Audubon Management District (collectively, Districts), Audubon Magnolia Development, LLC (Audubon) and the City of Magnolia (City) entered into a Wholesale Water Supply and Sanitary Sewer Agreement (Service Agreement) to secure wholesale water supply and sanitary sewer collection and treatment services for the benefit of the land within the jurisdictional boundaries of the Districts. Pursuant to the terms and conditions of the Service Agreement, the City will provide wholesale water supply and sanitary sewer treatment capacities to the Districts in phases, with the ultimate phase to include water supply and sanitary sewer treatment capacities sufficient to facilitate full development of the property owned by Audubon. Pursuant to the terms and conditions of the Service Agreement, the Districts will, with respect to each of the equivalent single-family connections (ESFCs) beyond the first 200 ESFCs provided to the Districts, which are provided at no additional cost to the Districts, be required to pay wholesale capacity charges to the City: (i) in the amounts of \$1,500 and \$3,000 for water and sewer connections, respectively, for the next 400 ESFCs in excess of the first 200 ESFCs requested, and (ii) in the amounts equal to the City's impact fees as set forth in the City's Impact Fee Ordinance as of the date of the request for such ESFCs. The City will bill the Districts for water and sewer services provided at a rate equal to the City's water and sanitary sewer rates for each equivalent sized connection inside the corporate limits of the City. For the year ended February 28, 2026, the District incurred costs of \$5,735 for purchased water and sewer services.

In addition, the Service Agreement requires the District to pay surcharges to the City for the San Jacinto River Authority Groundwater Reduction Plan fees and Lone Star Groundwater Conservation District fees. During the year ended February 28, 2026, the District incurred \$568 in fees for groundwater withdrawal.

Note 7. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts in the past three fiscal years.

Note 8. 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.

Since inception, the developer has advanced \$757,257 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 financial statements.

Note 9. Contingencies

The developer of the District is constructing water, sewer, drainage, recreational, and road and paving 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, if required. The District's engineer has stated that current construction contract amounts are approximately \$18,980,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Required Supplementary Information

Audubon Municipal Utility District No. 3
Budgetary Comparison Schedule – General Fund
Year Ended February 28, 2026

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ -	\$ 51,867	\$ 51,867
Water service	-	7,224	7,224
Sewer service	-	10,716	10,716
Regional water fee	-	809	809
Penalty and interest	-	232	232
Tap connection and inspection fees	-	125,700	125,700
Investment income	10	-	(10)
Other income	-	1,380	1,380
Total Revenues	10	197,928	197,918
Expenditures			
Service operations			
Purchased services	-	5,735	(5,735)
Regional water authority	-	568	(568)
Professional fees	90,000	178,158	(88,158)
Contracted services	23,000	44,839	(21,839)
Repairs and maintenance	-	25,381	(25,381)
Other expenditures	27,050	33,597	(6,547)
Tap connections	-	79,491	(79,491)
Total Expenditures	140,050	367,769	(227,719)
Deficiency of Revenues Over Expenditures	(140,040)	(169,841)	(29,801)
Other Financing Sources			
Developer advances received	140,040	243,000	102,960
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	73,159	73,159
Fund Balance (Deficit), Beginning of Year	(23,610)	(23,610)	-
Fund Balance (Deficit), End of Year	\$ (23,610)	\$ 49,549	\$ 73,159

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 not 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

Audubon Municipal Utility District No. 3
Other Schedules Included Within This Report
February 28, 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 10–17
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [] Schedule of Temporary Investments – Not Applicable
- [X] Analysis of Taxes Levied and Receivable
- [] Schedule of Long-Term Debt Service Requirements by Years – Not Applicable
- [] Changes in Long-Term Bonded Debt – Not Applicable
- [X] Schedule of Revenues and Expenditures – General Fund
- [X] Board Members, Key Personnel, and Consultants

Audubon Municipal Utility District No. 3
Schedule of Services and Rates
Year Ended February 28, 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):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels
Water:	\$ 23.10	1,000	N	\$ 4.02	1,001 to No Limit
Wastewater:	\$ 47.45	1,000	N	\$ 3.30	1,001 to No Limit
Regional water fee:	\$ 3.16	1,000	N	\$ 3.16	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	\$ 90.88	Wastewater \$ 77.15

b. Water and wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC*
Unmetered	-	-	x1.0	-
≤ 3/4"	58	52	x1.0	52
1"	1	1	x2.5	3
1 1/2"	-	-	x5.0	-
2"	3	3	x8.0	24
3"	-	-	x15.0	-
4"	-	-	x25.0	-
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	62	56		79
Total wastewater	59	53	x1.0	53

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

Gallons pumped into the system:	264
Gallons billed to customers:	264
Water accountability ratio (gallons billed/gallons pumped):	100.00%

*"ESFC" means equivalent single-family connections

Audubon Municipal Utility District No. 3
Schedule of General Fund Expenditures
Year Ended February 28, 2026

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$	-	
Legal		112,204	
Engineering		65,954	
Financial advisor		-	178,158
Purchased Services for Resale			
Bulk water and wastewater service purchases			5,735
Regional Water Authority			568
Contracted Services			
Bookkeeping		27,589	
General manager		-	
Appraisal district		-	
Tax collector		10,684	
Security		-	
Other contracted services		6,566	44,839
Utilities			-
Repairs and Maintenance			25,381
Administrative Expenditures			
Directors' fees		8,398	
Office supplies		1,868	
Insurance		5,434	
Other administrative expenditures		17,897	33,597
Capital Outlay			
Capitalized assets		-	
Expenditures not capitalized		-	-
Tap Connection Expenditures			79,491
Solid Waste Disposal			-
Fire Fighting			-
Parks and Recreation			-
Debt Service, Contractual Obligations			-
Total Expenditures		\$	<u><u>367,769</u></u>

Audubon Municipal Utility District No. 3
Analysis of Taxes Levied and Receivable
Year Ended February 28, 2026

	<u>Maintenance Taxes</u>
2025 Original Tax Levy	\$ 51,872
Tax collections: Current year	<u>(51,867)</u>
Receivable, End of Year	<u><u>\$ 5</u></u>
 Property Valuations	
Land	\$ 4,693,369
Improvements	50,829
Personal property	-
Exemptions	<u>(233,640)</u>
Total Property Valuations	<u><u>\$ 4,510,558</u></u>
 Tax Rates per \$100 Valuation	
Maintenance tax rates*	<u><u>\$ 1.1500</u></u>
 Tax Levy	<u><u>\$ 51,872</u></u>
 Percent of Taxes Collected to Taxes Levied**	<u><u>99%</u></u>

*Maximum tax rate approved by voters: \$1.50 on May 2, 2020

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

Audubon Municipal Utility District No. 3
Schedule of Revenues and Expenditures – General Fund
Year Ended February 28, 2026

	<u>Amounts</u>	<u>Percent of Fund Total Revenues</u>
General Fund		
Revenues		
Property taxes	\$ 51,867	26.2 %
Water service	7,224	3.6
Sewer service	10,716	5.4
Regional water fee	809	0.4
Penalty and interest	232	0.1
Tap connection and inspection fees	125,700	63.5
Other income	1,380	0.8
	<u>197,928</u>	<u>100.0</u>
Total Revenues		
Expenditures		
Service operations		
Purchased services	5,735	2.9
Regional water authority	568	0.3
Professional fees	178,158	90.0
Contracted services	44,839	22.7
Repairs and maintenance	25,381	12.8
Other expenditures	33,597	16.9
Tap connections	79,491	40.2
	<u>367,769</u>	<u>185.8</u>
Total Expenditures		
Deficiency of Revenues Over Expenditures	(169,841)	<u>(85.8) %</u>
Other Financing Sources		
Developer advances received	243,000	
	<u>243,000</u>	
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources	73,159	
Fund Balance (Deficit), Beginning of Year	(23,610)	
	<u>(23,610)</u>	
Fund Balance, End of Year	\$ 49,549	
	<u>49,549</u>	
Total Active Retail Water Connections	56	
	<u>56</u>	
Total Active Retail Wastewater Connections	53	
	<u>53</u>	

Audubon Municipal Utility District No. 3
Board Members, Key Personnel, and Consultants
Year Ended February 28, 2026

Complete District mailing address:	Audubon Municipal Utility District No. 3 c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 2400 Houston, TX 77056
District business telephone number:	713.623.4531
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	December 16, 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
Kelly Knake	Elected 05/24– 05/28	\$ 1,989	\$ -	President
Roberto Nuno	Elected 05/24– 05/28	1,768	-	Vice President
Matthew Davis	Elected 05/22– 05/26	1,105	-	Secretary
Mark Froehlich	Elected 05/22– 05/26	1,989	-	Assistant Secretary
Lawrence E. Thompson	Appointed 06/25– 05/28	1,547	-	Assistant Secretary

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

Audubon Municipal Utility District No. 3
Board Members, Key Personnel, and Consultants
Year Ended February 28, 2026

(Continued)

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Elevation Land Solutions	03/14/19	\$ 65,954	Engineer
Forvis Mazars, LLP	02/12/26	-	Auditor
Montgomery Central Appraisal District	Legislative Action	-	Appraiser
Municipal Accounts & Consulting, L.P.	04/05/18	28,686	Bookkeeper
Municipal Operations & Consulting, Inc.	05/08/25	117,479	Operator
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	10/10/24	-	Delinquent Tax Attorney
Rathmann & Associates, LP	04/05/18	-	Financial Advisor
Schwartz, Page & Harding, L.L.P.	04/05/18	118,840	General Counsel
Wheeler & Associates, Inc.	04/05/18	12,184	Tax Assessor/ Collector
Investment Officers			
Mark Burton and Ghia Lewis	08/21/18	N/A	Bookkeepers

APPENDIX C

SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

28 Liberty Street, 59th Floor
New York, New York 10005

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

