OFFICIAL STATEMENT DATED SEPTEMBER 24, 2026

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

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

NEW ISSUE-Book-Entry-Only

Insured Rating (BAM): S&P "AA" (stable)
See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE"

$7,910,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 540

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

UNLIMITED TAX BONDS
SERIES 2026

The bonds described above (the "Bonds") are obligations solely of Harris County Municipal Utility District No. 540 (the "District") and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS."

Dated Date: October 1, 2026 **Due: March 1, as shown below**
Interest Accrual Date: Date of Delivery (defined below)

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Houston, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from the date of delivery (expected on or about October 27, 2026) (the "Date of Delivery") and is payable each March 1 and September 1, commencing March 1, 2027, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of $5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial Owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such Beneficial Owners. So long as Cede & Co. is the Registered Owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."

BAM BUILD AMERICA MUTUAL

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 "MUNICIPAL BOND INSURANCE" herein.

MATURITY SCHEDULE

Principal Amount	Maturity (March 1)	CUSIP Number (b)	Interest Rate	Initial Reoffering Yield (c)	Principal Amount	Maturity (March 1)	CUSIP Number (b)	Interest Rate	Initial Reoffering Yield (c)
$ 165,000	2028	41430T FE5	7.50 %	4.11 %	$ 230,000	2035 (a)	41430T FM7	6.50 %	4.70 %
170,000	2029	41430T FF2	7.50	4.18	245,000	2036 (a)	41430T FN5	5.00	4.81
180,000	2030	41430T FG0	7.50	4.24	255,000	2037 (a)	41430T FP0	5.00	4.90
190,000	2031	41430T FH8	7.50	4.33	270,000	2038 (a)	41430T FQ8	5.00	5.07
200,000	2032	41430T FJ4	7.50	4.42	280,000	2039 (a)	41430T FR6	5.00	5.18
210,000	2033 (a)	41430T FK1	7.50	4.54	295,000	2040 (a)	41430T FS4	5.00	5.25
220,000	2034 (a)	41430T FL9	7.50	4.61					

$985,000 Term Bonds due March 1, 2043 (a), 41430T FV7 (b), 5.125% Interest Rate, 5.30% Yield (c)
$740,000 Term Bonds due March 1, 2045 (a), 41430T FX3 (b), 5.125% Interest Rate, 5.32% Yield (c)
$820,000 Term Bonds due March 1, 2047 (a), 41430T FZ8 (b), 5.125% Interest Rate, 5.34% Yield (c)
$910,000 Term Bonds due March 1, 2049 (a), 41430T GB0 (b), 5.250% Interest Rate, 5.40% Yield (c)
$1,545,000 Term Bonds due March 1, 2052 (a), 41430T GE4 (b), 5.250% Interest Rate, 5.42% Yield (c)

(a) Bonds maturing on or after March 1, 2033, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on March 1, 2032, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."

(b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter (defined herein) shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve as a substitute for CUSIP Global Services.

(c) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter (defined herein) for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter (defined herein) subject to prior sale, when, as and if issued by the District and accepted by the Underwriter (defined herein), subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. See "LEGAL MATTERS." Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about October 27, 2026, in Houston, Texas.

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, for further information.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this OFFICIAL STATEMENT for any purpose.

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

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this OFFICIAL STATEMENT or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX B—Specimen Municipal Bond Insurance Policy."

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets, Inc. (the "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of 97.1270% of the par value thereof which resulted in a net effective interest rate of 5.483695% as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

Prices and Marketability

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

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

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT

Description.....Harris County Municipal Utility District No. 540 (the "District") is a political subdivision of the State of Texas (the "State"), created by a special act of the 84th Texas Legislature, effective June 18, 2015, and codified as Chapter 7910 of the Texas Special District Local Laws Code ("Chapter 7910"), operating pursuant to Article XVI, Section 59 of the Texas Constitution, Chapter 7910, Chapters 49 and 54 of the Texas Water Code, as amended, and other statutes of the State generally applicable to municipal utility districts. The District consists of approximately 543 acres of land. See "THE DISTRICT."

Location.....The District is located approximately 25 miles west of the central downtown business district of the City of Houston, Texas in Harris County. The District lies wholly within the extraterritorial jurisdiction of the City of Houston and wholly within the boundaries of the Katy Independent School District. The District is bounded on the east and south sides by Stockdick School Road and on the north by Beckendorff Road. Access to the District is provided by the Grand Parkway (Texas State Highway 99) to Beckendorff Road. See "THE DISTRICT—Description and Location" and "AERIAL LOCATION MAP."

The Developers and Principal Landowners.....Century Land Holdings of Texas, LLC ("Century Land") developed the single-family residential community of Aurora on approximately 130 acres within the District. Century Land is a special purpose entity created solely for the purpose of developing land located in Texas. To date, Century Land has developed approximately 130 acres (including detention land and reserves) in the District. Century Land is a Texas limited liability company owned by Century Communities, Inc. ("Century Communities"). Century Communities is a publicly traded corporation, based out of Colorado, whose stock is traded on the New York Stock Exchange under the ticker symbol "CCS." Century Land has completed homebuilding in Aurora and does not currently own any developable acreage in the District.

Cunningham Interest II Ltd., a Texas limited partnership ("Cunningham"), owns approximately 129 undeveloped but developable acres in the District. Construction of trunkline utilities has been completed on approximately 19 acres of commercial tracts in the District, a day care center has been constructed on approximately 4 acres in the District, a gas station and commercial strip center has been constructed on approximately 6 acres, an automotive center has been constructed on approximately 5 acres, and a church (exempt from ad valorem taxation) has been completed on approximately 9 acres in the District. The District is not aware of any taxable improvements to be constructed on such tracts at this time.

MDO-AHV Katy, LLC, a Delaware limited liability company ("AHV Katy"), is a special purpose entity formed by affiliates of American Housing Ventures, LLC ("AHV"), a Delaware limited liability company created solely for the purpose of developing approximately 26 acres in the District as Katy Legacy, a single-family residential rental community. AHV is a privately held, vertically integrated developer, builder and operator with corporate headquarters in San Antonio, Texas specializing in single-family residential and attached rental home communities both throughout Texas and the United States. AHV's subsidiary has completed homebuilding in Katy Legacy. AHV Katy owns the rental homes in Katy Legacy.

Approximately 19 acres of multifamily use property within the District were developed by Prose Peek Road Owner LLC for the Prose Riviana apartment complex.

Black Gold Land Holdings, a Texas limited liability company ("Black Gold"), conveyed land to the District for the District's drainage and detention facilities. Black Gold does not currently own any developable acreage at this time.

Cunningham and Black Gold are collectively referred to herein as the "Developers."

Neither the Developers nor any affiliates are obligated to pay any principal of or interest on the Bonds. See "THE DISTRICT—Status of Development," "THE DEVELOPERS AND PRINCIPAL LANDOWNERS," "TAX DATA—Principal Taxpayers," and "RISK FACTORS—Dependence on Principal Taxpayers and the Developers."

Status of Development.....The District has been developed as the single-family residential community of Aurora, currently consisting of Sections One through Four (509 single-family residential lots on approximately 89 acres). Average home value in the District based on 2026 tax rolls is approximately $320,281. As of August 27, 2026, approximately 509 homes were completed (490 occupied), no homes were under construction or continue to be constructed in the name of Century Land (which is under contract to a homebuyer) and no developed lots were available for home construction. Century Land has constructed amenities and recreational facilities for the residents of Aurora, including a recreation center with an open pavilion, splash pad and playground.

AHV Katy has developed Katy Legacy, a privately gated single-family residential rental community consisting of 177 single-family residential lots on approximately 26 acres. As of August 27, 2026, all 177 rental homes , which are owned by AHV Katy, were completed and turned over to the leasing agent (167 homes occupied). The rental homes in Katy Legacy have an approximate square footage of between 1,494 and 1,890 square feet, and monthly rental rates for homes in Katy Legacy start at $2,200. See "RISK FACTORS—Rental Homes." Recreational amenities for the residents of Katy Legacy include an amenity center with a fitness center, café style workspace, lounge/kitchen, resort-style swimming pool, shaded dog park, pet wash station, shaded BBQ area and fire pit.

In addition to single-family residential development, Prose Riviana, a 370-unit apartment community, has been constructed on approximately 19 acres within the District and according to property management, the apartment community is approximately 44% occupied.

Utilities are also available to serve approximately 18 acres of commercial tracts, a day care center has been constructed on approximately 4 acres in the District, a gas station and commercial strip center has been constructed on approximately 6 acres in the District, an automotive center has been constructed on approximately 5 acres, and an approximate 9-acre church site (exempt from ad valorem taxation). The remainder of the District includes approximately 131 acres of undeveloped but developable acres and approximately 236 acres that are not developable (e.g., public right-of-way, detention, open spaces, easements and utility sites). See "THE DISTRICT—Land Use" and "—Status of Development."

Payment Record.....The District has previously issued four series of unlimited water, sewer and drainage tax bonds totaling $23,085,000 principal amount and one series of unlimited tax road bonds totaling $5,000,000 principal amount, $26,920,000 of which is outstanding as of September 2, 2026 (the "Outstanding Bonds"). The Bonds are the District's fifth issuance of unlimited water, sewer and drainage tax bonds. The District will capitalize $395,500 of interest from Bond proceeds for payment of debt service on the Bonds. The District has never defaulted in the payment of principal and interest on the Outstanding Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS" and "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."

THE BONDS

Description.....$7,910,000 Unlimited Tax Bonds, Series 2026 (the "Bonds") are being issued as fully registered bonds pursuant to a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the District's Board of Directors (the "Board"). The Bonds are scheduled to mature serially on March 1 in the years 2028 through 2040, both inclusive, and as term bonds maturing on March 1 in each of the years 2043, 2045, 2047, 2049, and 2052 (the "Term Bonds"), in the principal amounts and accrue interest at the rates shown on the cover page hereof. Interest on the Bonds accrues from the Date of Delivery and is payable March 1, 2027, and each September 1 and March 1 thereafter, until the earlier of maturity or redemption. The Bonds will be issued in denominations of $5,000 or integral multiples of $5,000 in excess thereof. See "THE BONDS."

Book-Entry-Only System .....The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully- registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM."

Redemption.....Bonds maturing on or after March 1, 2033, are subject to redemption prior to their stated maturity dates in whole, or from time to time in part, at the option of the District on March 1, 2032, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."

Use of Proceeds.....Proceeds of the Bonds will be used to pay for items as shown herein under the heading "USE AND DISTRIBUTION OF BOND PROCEEDS," including to pay certain construction costs and land costs, to pay interest on funds advanced by the Developers on behalf of the District to capitalize $395,500 of interest on the Bonds, and to pay administrative costs, engineering costs, and certain other costs related to the issuance of the Bonds.

Authority for Issuance.....The Bonds are the fifth series of bonds issued out of an aggregate of $215,000,000 principal amount of unlimited tax bonds authorized by the District's voters for water, sewer and drainage purposes and for refunding of such bonds. The Bonds are issued by the District pursuant to the terms and provisions of Article XVI, Section 59 of the Texas Constitution, Chapter 7910, the general laws of the State of Texas, including, without limitation Chapters 49 and 54 of the Texas Water Code, as amended, and other statutes of Texas applicable to municipal utility districts, the Bond Resolution and an order of the Texas Commission on Environmental Quality (the "TCEQ"). See "THE BONDS—Authority for Issuance," "—Issuance of Additional Debt," and "RISK FACTORS—Future Debt."

Source of Payment.....Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Houston, Harris County, the State or any entity other than the District. See "THE BONDS—Source of Payment."

Municipal Bond Rating and Municipal Bond Insurance.....S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") has assigned a municipal bond rating of "AA" (stable outlook) to the Bonds with the understanding that, upon delivery of the Bonds, a municipal bond insurance policy ensuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company ("BAM"). No application has been made to a municipal rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made. An explanation of the rating may be obtained from S&P. See "RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND RATING," "MUNICIPAL BOND INSURANCE" and "APPENDIX B."

Qualified Tax-Exempt Obligations.....The Bonds have been designated as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS—Qualified Tax-Exempt Obligations."

Bond Counsel.....Allen Boone Humphries Robinson LLP, Houston, Texas. See "MANAGEMENT OF THE DISTRICT" and "LEGAL MATTERS."

Financial Advisor.....Masterson Advisors LLC, Houston, Texas.

Disclosure Counsel.....McCall, Parkhurst & Horton L.L.P., Houston, Texas.

Paying Agent/Registrar.....The Bank of New York Mellon Trust Company, N.A., Houston, Texas.

RISK FACTORS

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

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2026 Taxable Assessed Valuation	$256,091,762 (a)
Estimated Taxable Assessed Valuation as of August 1, 2026	$256,522,029 (b)
Gross Direct Debt Outstanding	$34,830,000 (c)
Estimated Overlapping Debt	11,284,744 (d)
Gross Direct Debt and Estimated Overlapping Debt	$46,114,744
Ratios of Gross Direct Debt to:	
2026 Taxable Assessed Valuation	13.60%
Estimated Taxable Assessed Valuation as of August 1, 2026	13.58%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2026 Taxable Assessed Valuation	18.01%
Estimated Taxable Assessed Valuation as of August 1, 2026	17.98%
Debt Service Funds Available:	
Water, Sewer, and Drainage Debt Service Funds Available as of August 27, 2026	$859,382 (e)
Road Debt Service Funds Available as of August 27, 2026	166,968 (f)
Capitalized Interest from Bond Proceeds	395,500 (e)
Total Funds Available for Debt Service	$1,421,850
Capital Projects Fund Available as of August 27, 2026	$ 285,933 (g)
Operating Funds Available as of August 27, 2026	$4,205,445
2025 Debt Service Tax Rate	$0.955 (h)
2025 Maintenance Tax Rate	0.535
2025 Total Tax Rate	$1.490
Anticipated 2026 Debt Service Tax Rate	$1.000
Anticipated 2026 Maintenance Tax Rate	0.490
Anticipated 2026 Total Tax Rate	$1.490 (i)
Average Annual Debt Service (2027-2052)	$2,211,621 (j)
Maximum Annual Debt Service (2028)	$2,761,988 (j)
Tax Rate Required to Pay Average Annual Debt Service (2027-2052) at a 95% Collection Rate	
Based on 2026 Taxable Assessed Valuation	$0.91 (k)
Based on Estimated Taxable Assessed Valuation as of August 1, 2026	$0.91 (k)
Tax Rate Required to Pay Maximum Annual Debt Service (2028) at a 95% Collection Rate	
Based on 2026 Taxable Assessed Valuation	$1.14 (k)
Based on Estimated Taxable Assessed Valuation as of August 1, 2026	$1.14 (k)
Status of Development as of August 27, 2026 (l):	
Aurora:	
Total Single-Family Residential Lots	509
Completed Single-Family Homes (490 Occupied)	509
Single-Family Residential Homes Under Construction or in the name of Century Land	0
Single-Family Residential Lots Available for Home Construction	0
Status of Development as of August 27, 2026 (k):	
Katy Legacy:	
Total Rental Single-Family Lots	177
Total Rental Single-Family Homes Completed	177
Total Rental Single-Family Homes Occupied	167
Total Rental Single-Family Homes Under Construction or in the name of a Homebuilder	0
Estimated Population	2,654(m)

(a) The 2026 Taxable Assessed Valuation shown herein includes $249,656,282 of certified value and $6,435,480 of uncertified value. The uncertified value represents the landowners' opinion of the value; however, such value is subject to change and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Harris Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."

(b) Provided by the Appraisal District for information purposes only. Such amount reflects increases in value occurring between January 1, 2026, and August 1, 2026. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. No taxes will be levied upon such amount until it is certified by the Appraisal District. Increases in value from January 1, 2026 to August 1, 2026, will be certified as of January 1, 2027, and provided for taxation during the third or fourth calendar quarter of 2027. See "RISK FACTORS—Possible Impact on District Tax Rates," and "TAXING PROCEDURES."

(c) The Outstanding Bonds (as herein defined) and the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."

(d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."

(e) The District will capitalize $395,500 of interest from the Bond proceeds and deposit such funds in the Water, Sewer and Drainage Debt Service Fund (as herein defined). Funds in the Water, Sewer and Drainage Debt Service Fund are available to pay debt service on the bonds issued for water, sewer and drainage facilities, including the Bonds, and are not available to pay debt service on bonds issued for road facilities. Neither Texas law nor the Bond Resolution requires the District to maintain any minimum balance in the Debt Service Fund. See "THE BONDS—Funds," and "USE AND DISTRIBUTION OF BOND PROCEEDS."

(f) Funds in the Road Debt Service Fund (as herein defined) are available to pay debt service on bonds issued for road facilities, and are not available to pay debt service on the bonds issued for water, sewer and drainage facilities, including the Bonds. See "THE BONDS—Funds."

(g) Represents surplus capital projects funds, and interest thereon, derived from the Outstanding Bonds. The District will contribute $284,528 of surplus capital projects funds toward the issuance of the Bonds. The Bonds, if, as and when issued, may produce additional surplus funds. Surplus funds for capital projects may be expended for any lawful purpose for which surplus funds may be used, limited, however, to the purposes for which the issue of the Outstanding Bonds which produced the surplus funds were issued. Under certain circumstances, the approval of the TCEQ is required for the use of surplus funds derived from the Outstanding Bonds.

(h) The District levied a 2025 debt service tax rate in the amount of $0.955 per $100 of taxable assessed valuation, of which $0.785 is allocated to Water, Sewer and Drainage Bonds and $0.170 is allocated to Road Bonds. See "TAX DATA—Historical Tax Rate Distribution."

(i) The District authorized publication of its intent to levy a total tax rate of $1.49 per $100 of taxable assessed valuation (consisting of $1.00 for debt service and $0.49 for maintenance and operations). Such tax is expected to be adopted in October 2026 and is subject to change prior to levy. See "TAX DATA—Historical Tax Rate Distribution."

(j) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

(k) See "TAX DATA—Tax Adequacy for Debt Service" and "RISK FACTORS—Possible Impact on District Tax Rates."

(l) See "THE DISTRICT—Land Use" and "—Status of Development."

(m) Based upon 3.5 persons per occupied single-family residence and 2.0 persons per multi-family unit, assumed at 44% occupancy.

OFFICIAL STATEMENT

$7,910,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 540
(A political subdivision of the State of Texas located within Harris County)

UNLIMITED TAX BONDS
SERIES 2026

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Municipal Utility District No. 540 (the "District") of its $7,910,000 Unlimited Tax Bonds, Series 2026 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapter 7910 of the Texas Special District Local Laws Code, ("Chapter 7910"); the general laws of the State of Texas, including, without limitation Chapters 49 and 54 of the Texas Water Code, as amended; and other statutes of the State of Texas applicable to municipal utility districts, an election held within the District, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), and an order of the Texas Commission on Environmental Quality (the "TCEQ," and such order, the "TCEQ Order").

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, Cunningham Interest II Ltd. ("Cunningham"), Black Gold Land Holdings Ltd. ("Black Gold," collectively referred to herein with Cunningham as the "Developers") and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

THE BONDS

Description

The Bonds will be dated October 1, 2026, and accrue interest from the date of delivery (expected on or about October 27, 2026) (the "Date of Delivery"), with interest payable each March 1 and September 1, beginning March 1, 2027 (each an "Interest Payment Date"), and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of $5,000 or any integral multiple of $5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Method of Payment of Principal and Interest

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

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

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

The Bonds are obligations of the District and are not the obligations of the State of Texas (the "State"), Harris County, the City of Houston or any entity other than the District.

Funds

The District maintains a fund entitled the "Water, Sewer and Drainage Debt Service Fund," and the proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund. The District also maintains a Water, Sewer and Drainage capital projects fund account to deposit proceeds from the Bonds and any additional bonds issued for water, sewer and drainage facilities (the "Water, Sewer and Drainage Capital Projects Fund").

The District maintains a road debt service fund that is available for payment of debt service on bonds issued for road facilities (the "Road Debt Service Fund"). It is not available to pay principal or interest on bonds issued for water, sewer and drainage facilities, including the Bonds.

$395,500 of capitalized interest shall be deposited into the Water, Sewer and Drainage Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Water, Sewer and Drainage Capital Projects Fund, to be used for funding certain construction costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Water, Sewer and Drainage Capital Projects Fund will be used as described in the Bond Resolution or ultimately transferred to the Water, Sewer and Drainage Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Redemption Provisions

Mandatory Redemption: The Bonds maturing on March 1 in each of the years 2043, 2045, 2047, 2049, and 2052 (the "Term Bonds") shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the "Mandatory Redemption Date"), on March 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):

$985,000 Bonds Due March 1, 2043		$740,000 Bonds Due March 1, 2045		$820,000 Bonds Due March 1, 2047	
Mandatory Redemption Date	**Principal Amount**	**Mandatory Redemption Date**	**Principal Amount**	**Mandatory Redemption Date**	**Principal Amount**
2041	$ 310,000	2044	$ 360,000	2046	$ 400,000
2042	330,000	2045 (maturity)	380,000	2047 (maturity)	420,000
2043 (maturity)	345,000				

$910,000 Bonds Due March 1, 2049		$1,545,000 Bonds Due March 1, 2052	
Mandatory Redemption Date	**Principal Amount**	**Mandatory Redemption Date**	**Principal Amount**
2048	$ 445,000	2050	$ 490,000
2049 (maturity)	465,000	2051	515,000
		2052 (maturity)	540,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Term Bond to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Term Bond, which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

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

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

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

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

Authority for Issuance

At a bond election held within the District, voters of the District authorized the issuance of $215,000,000 principal amount of unlimited tax bonds for constructing or acquiring water, sewer and drainage facilities and for refunding such bonds. The Bonds are being issued pursuant to such authorization. See "Issuance of Additional Debt" below.

The Bonds are issued by the District pursuant to the terms and provisions of Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including, without limitation, Chapters 49 and 54 of the Texas Water Code, as amended, an election held within the District, an order of the TCEQ approving the issuance of the Bonds, Chapter 7910 of the Texas Special District Local Laws Code, and the Bond Resolution.

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

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

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

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

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

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

Lost, Stolen or Destroyed Bonds

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

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

Replacement of Paying Agent/Registrar

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

Issuance of Additional Debt

The District may issue additional bonds necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT—General." The District's voters authorized the issuance of $215,000,000 principal amount of unlimited tax bonds for constructing or acquiring water, sewer and drainage facilities and for refunding such bonds, $30,000,000 principal amount of unlimited tax bonds for constructing or acquiring parks and recreational facilities and for refunding such bonds, and $35,000,000 principal amount of unlimited tax bonds for constructing road facilities and related improvements and for refunding such bonds. After the issuance of the Bonds and the Outstanding Bonds (as defined herein), $184,005,000 principal amount of bonds authorized for constructing or acquiring water, sewer and drainage facilities and for refunding such bonds, $30,000,000 principal amount of bonds authorized for constructing or acquiring road facilities and for refunding such bonds and all of the authorized bonds for parks and recreation and refundings will remain authorized but unissued.

The District is authorized by statute to construct park and recreational facilities, including the issuing of bonds payable from taxes for such purpose. In addition, the District has prepared a detailed park plan, and the parks and recreational facilities bonds have been authorized by the qualified voters in the District. The principal amount of bonds sold by the District to construct park and recreational facilities is limited to one percent (1%) of the District's certified taxable assessed valuation, unless the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may not exceed an amount greater than three percent (3%) of the value of the taxable property in the District. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park bonds by the TCEQ; and (b) approval of the park bonds by the Attorney General of Texas. At an election held in the District, voters approved $30,000,000 principal amount of unlimited tax bonds for purchasing or constructing park and recreational facilities, all of which are currently authorized but unissued.

The District is also authorized by statute to engage in firefighting activities, including the issuance 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) amendments to the existing City of Houston ordinance specifying the purposes for which the District may issue bonds; (b) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (c) approval of the master plan and issuance of bonds by the TCEQ; and (d) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election to authorize firefighting activities at this time.

Annexation by the City of Houston

Under existing State law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston consent ordinance. Generally, the District may be annexed by the City of Houston without the District's consent, and the City of Houston cannot annex territory within the District unless it annexes the entire District; however, the City of Houston may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City of Houston and the District specifying the procedures for full purpose annexation of all or a portion of the District. The District does not have a strategic partnership agreement with the City of Houston at this time.

If the District is annexed, the City of Houston will assume the District's assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and therefore, the District makes no representation that the City of Houston will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

Consolidation

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

Remedies in Event of Default

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

No Arbitrage

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

The Bond Resolution provides that the District may discharge its obligations to the Registered Owners now or hereafter of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current State law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, 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, (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 the investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning The Depository Trust Company, New York, NY ("DTC") and DTC's book-entry-only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants is on file with DTC.

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by the District and were submitted to the TCEQ in the District's bond application. Non-construction costs are based upon either contract amounts, or estimates of various costs by Pape-Dawson Consulting Engineers, LLC. (the "Engineer") and Masterson Advisors LLC (the "Financial Advisor"). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds, review by the District's auditor and approval by the District's board of directors. Surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ, where required. In the event actual costs exceed previously estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required.

I.	**CONSTRUCTION COSTS**	
	• Land Costs	$ 6,784,995
	• Less: Surplus Construction Funds (a)	(284,528)
	Total Construction Costs	**$ 6,500,467**
II.	**NON-CONSTRUCTION COSTS**	
	• Underwriter's Discount (b)	$ 227,256
	• Capitalized Interest (b)	395,500
	• Developer Interest	58,146
	• Operating Advances	233,179
	Total Non-Construction Costs	**$ 914,081**
III.	**ISSUANCE COSTS AND FEES**	
	• Issuance Costs and Professional Fees	$ 407,723
	• Bond Application Report Cost	50,000
	• State Regulatory Fees	27,685
	• Contingency (b)	10,044
	Total Issuance Costs and Fees	**$ 495,452**
	TOTAL BOND ISSUE	**$ 7,910,000**

(a) The District will contribute $284,528 of surplus capital projects funds toward the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)."

(b) The TCEQ has approved a maximum amount of Underwriter's discount of 3.00% and $395,500 of capitalized interest on the Bonds. Contingency represents the difference between the actual and estimated amount of Underwriter's Discount.

THE DISTRICT

General

The District is a municipal utility district created by a special act of the 84th Texas Legislature, effective June 18, 2015, codified as Chapter 7910. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State pertaining to municipal utility districts, particularly Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and other statutes of the State applicable to municipal utility districts.

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

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation of the District from the City of Houston, within whose extraterritorial jurisdiction the District lies, the District is required to observe certain requirements of the City of Houston which (1) limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, drainage, roads and recreational facilities, (2) require approval by the City of Houston of District construction plans, and (3) permit connections only to single-family lots and commercial or multi-family/commercial platted reserves which have been approved by the Planning Commission of the City of Houston. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM—Regulation."

Description and Location

The District consists of approximately 543 acres of land. The District is located in Harris County approximately 25 miles west of the central downtown business district of the City of Houston, Texas in Harris County. The District lies wholly within the extraterritorial jurisdiction of the City of Houston and wholly within the boundaries of Katy Independent School District. The District is bounded on the east and south sides by Stockdick School Road and on the north by Beckendorff Road. Access to the District is provided by the Grand Parkway (Texas State Highway 99) to Beckendorff Road. See "AERIAL LOCATION MAP."

Land Use

The following table has been provided by the Engineer and represents the current land use within the District. See "SELECTED FINANCIAL INFORMATION (UNAUDITED)" for additional information on the status of development.

Single-Family Residential	Approximate Acres	Number of Lots
Aurora		
Section One	22	116
Section Two	16	86
Section Three	26	153
Section Four	25	154
Subtotal	89	509
Single-Family Rental		
Katy Legacy		
Section One	26	177
Subtotal	115	686
Prose Riviana Apartments	19	370
Commercial Tracts	18	-
Day Care Center	4	-
Gas Station & Strip Center	6	-
Automotive Center	5	-
Church Site (Tax-Exempt)	9	-
Undeveloped Acreage	131	-
Non-Developable (a)	236	-
Total	543	1,056

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

Status of Development

Single-Family Residential: The District has been developed as the single-family residential community of Aurora, currently consisting of Sections One through Four (509 single-family residential lots on approximately 89 acres). Average home value in the District based on 2026 tax rolls is approximately $320,281. As of August 27, 2026, approximately 509 homes were completed (490 occupied), no homes were under construction or continue to be constructed in the name of Century Land (which is under contract to a homebuyer) and no developed lots were available for home construction. Century Land has constructed amenities and recreational facilities for the residents of Aurora that consist of a recreation center with an open pavilion, splash pad and playground.

Commercial Tracts: A day care center has been constructed on approximately 4 acres in the District, a gas station and commercial strip center has been constructed on approximately 6 acres in the District, an automotive center has been constructed on approximately 5 acres, and a church (exempt from ad valorem taxation) has been completed on approximately 9 acres in the District. Construction of trunkline utilities has been completed on approximately 19 acres of commercial tracts in the District. The District is not aware of any taxable improvements to be constructed on such tracts at this time.

Single-Family Rental: AHV Katy has developed Katy Legacy, a privately gated single-family residential rental community consisting of 177 single-family residential lots on approximately 26 acres. As of August 27, 2026, all 177 rental homes were completed, are owned by AHV Katy, and turned over to the leasing agent (167 homes occupied). The rental homes in Katy Legacy have an approximate square footage of between 1,494 and 1,890 square feet and monthly rental rates for homes in Katy Legacy start at approximately $2,200. See "RISK FACTORS—Rental Homes." Recreational amenities for the residents of Katy Legacy include an amenity center with a fitness center, café style workspace, lounge/kitchen, resort-style swimming pool, shaded dog park, pet wash station, shaded BBQ area and fire pit.

Multi-Family Residential: In addition to single-family residential development, Prose Riviana, a 370-unit apartment community, has been constructed on approximately 19 acres within the District and according to property management, the apartment community is approximately 44% occupied.

Future Development

Approximately 131 developable acres of land currently within the District are not yet fully served with water distribution and supply, wastewater collection and treatment, storm drainage facilities or roads. See "RISK FACTORS—Future Debt." The Engineer has stated that under regulatory criteria and current development plans (and excluding any costs of converting to surface water), the remaining authorized but unissued bonds (after issuance of the Bonds) in the aggregate principal amount of $244,005,000 should be sufficient to finance the construction of facilities to complete the District's water, sewer, drainage, roads and recreation system for full development of the District.

THE DEVELOPERS AND PRINCIPAL PROPERTY OWNERS

Role of Developers

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

Prospective Bond purchasers should note that the prior real estate experience of the Developers should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. See "RISK FACTORS."

Obligations of the Developers or Other Property Owners

Neither the Developers, nor any affiliates thereof, have made any commitment to pay debt service on the Bonds, and reference to the financial information of Century Communities in this OFFICIAL STATEMENT should not be construed to suggest otherwise. The District has not obtained any representations from Century Land or Century Communities concerning its publicly available filings or undertaken any review thereof and assumes no responsibility for the information contained therein.

Century Land Holdings of Texas, LLC ("Century Land")

Century Land developed the single-family residential community of Aurora on approximately 130 acres within the District, all of which (including detention land and reserves) have been developed as Aurora, Sections One through Four. See "THE DISTRICT—Status of Development, *Single-Family Residential*." Century Land is a special-purpose entity created solely for the purpose of developing land in projects located in Texas. Century Land is a Texas limited liability company owned by Century Communities, Inc. ("Century Communities"). Century Communities is a publicly traded corporation, based out of Colorado, whose stock is traded on the New York Stock Exchange under the ticker symbol "CCS." Century Communities has completed homebuilding in the District and Century Land does not currently own any developable acreage in the District.

Cunningham Interest II Ltd. ("Cunningham")

Cunningham is a Texas limited partnership that owns approximately 129 undeveloped but developable acres in the District. Construction of trunkline utilities on approximately 19 acres of commercial tracts in the District have been constructed. The District is not aware of any taxable improvements to be constructed on such tracts at this time. A day care center has been constructed on approximately 4 acres in the District, a gas station and commercial strip center has been constructed on approximately 6 acres in the District, an automotive center has been constructed on approximately 5 acres in the District, and a church (exempt from ad valorem taxation) has been completed on approximately 9 acres in the District. See "THE DISTRICT—Status of Development, *Commercial Tracts*," "TAX DATA—Principal Taxpayers," and "RISK FACTORS—Dependence on Principal Taxpayers and the Developers."

MDO-AHV Katy, LLC ("AHV Katy")

AHV Katy is a special purpose entity formed by affiliates of American Housing Ventures LLC ("AHV"), a Delaware limited liability company, created solely for the purpose of developing approximately 26 acres in the District as Katy Legacy, a single-family residential rental community. See "THE DISTRICT—Status of Development, *Single-Family Rental*" and "TAX DATA—Principal Taxpayers." AHV is a privately held, vertically integrated developer, builder and operator with corporate headquarters in San Antonio, Texas that specializing in single-family and attached rental home communities nationally and throughout Texas. AHV's subsidiary has completed homebuilding in Katy Legacy. AHV Katy owns the rental homes in Katy Legacy. See "RISK FACTORS—Dependence on Principal Taxpayers and the Developers."

Black Gold Land Holdings, LLC ("Black Gold")

Black Gold is a Texas limited liability company that conveyed land to the District for the District's drainage and detention facilities. Black Gold does not currently own any developable acreage at this time. See "RISK FACTORS—Dependence on Principal Taxpayers and the Developers."

Prose Peek Road Owner LLC

Prose Peek Road Owner LLC developed approximately 19 acres of multifamily use property within the District served by trunkline utilities for the Prose Riviana apartment complex.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, which consists of five (5) directors (each a "Director," and together, "Directors"), and has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms and elections are held in May in even-numbered years only. None of the Directors reside within the District; however, all of the Directors own land within the District, subject to a note and deed of trust in favor of Century Land. The current members and officers of the Board along with their titles and terms, are listed as follows:

Name	District Board Title	Term Expires
Shawn L. Pachlhofer	President	May 2028
Jennifer Coleman	Vice President	May 2030
Sonia Soto	Secretary	May 2028
Josh Board	Assistant Secretary	May 2030
Monica Aizpurua	Assistant Vice President	May 2030

District Consultants

The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below. See "PREPARATION OF OFFICIAL STATEMENT—Consultants."

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

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

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

Auditor: The financial statements of the District as of April 30, 2026, and for the year then ended, included in this OFFICIAL STATEMENT, have been audited by McGrath & Co., PLLC, certified public accountants ("Auditor"), as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's April 30, 2026 financial statements.

Engineer: The District's consulting engineer is Pape-Dawson Consulting Engineers, LLC ("Engineer").

Bookkeeper: The District has contracted with Myrtle Cruz, Inc. for bookkeeping services (the "Bookkeeper").

Utility System Operator: The operator of the District's internal water and wastewater system is Municipal District Services, LLC. See "THE SYSTEM."

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

Tax Assessor/Collector: The tax assessor/collector for the District is Assessments of the Southwest, Inc.

THE SYSTEM

Wholesale Agreement for Water and Wastewater Service

On April 29, 2021, the District, Century Land, AHV Katy, Cunnningham, and Black Gold Land Holdings of Texas, LLC, entered into a Wholesale Agreement for Water and Wastewater Service (the "Wholesale Agreement") with Quadvest, L.P., a Texas limited partnership, to provide water supply and wastewater treatment capacity to serve up to 1,410 equivalent single-family connections ("ESFCs") in the District (the "Capacity Reservation"). On December 3, 2021, Quadvest, L.P. assigned its rights and obligations under the Wholesale Agreement to Quadvest Wholesale, LLC ("Quadvest"). Under the terms of the Wholesale Agreement, Quadvest is responsible for financing and constructing water supply and wastewater treatment plants (the "Quadvest System") with sufficient capacity to fulfill the Capacity Reservation to provide water and wastewater service to the District. The Quadvest System may be constructed in phases in order to be available as needed by the District in accordance with the District's build-out schedule. The Wholesale Agreement allows Quadvest to expand the Quadvest System to serve customers outside of the boundaries of District. The District is responsible for financing and constructing the facilities to deliver water and wastewater service to customers within the District. The term of the Wholesale Agreement is 50 years and thereafter renews for successive one-year terms, unless ninety (90) days' prior written notice of termination is given.

The Wholesale Agreement provides that at any time subsequent to the connection of 1,800 ESFCs, with a water service ESFC and a sewer service ESFC each being a separate connection, the District may buy out the entire Quadvest System, or the portion providing the Capacity Reservation, upon the terms and price set forth in the Wholesale Agreement.

In exchange for constructing and operating the Quadvest System, Quadvest has received or will receive the following:

(a) Initial Payment – the District made an initial payment of $1,000,000 to Quadvest. Such payment is in addition to the final Capacity Payments (defined below).

(b) Capacity Payments – Quadvest receives $1,150 per platted lot (the "Capacity Payments"). The Capacity Payments are due the earlier of the issuance of District bonds for such Capacity Payments or thirty-six (36) months following the recording of the plat for each section.

Source of Water Supply and Wastewater Treatment

The District obtains water capacity from Quadvest pursuant to the Wholesale Agreement. Quadvest currently provides water supply to the District from Water Plant No. 1, which is operated and maintained by Quadvest. Water Plant No. 1 consists of two (2) water wells providing 978 gallons per minute ("gpm"); two (2) 151,720 gallon ground storage tanks for a total capacity of 303,440 gallons; two (2) hydro-pneumatic tanks with a total capacity of 30,000 gallons; and four (4) booster pumps providing 3,420 gpm of capacity. Water Plant No. 1 is currently serving 950 ESFCs in the District and has the capacity to serve a total of 1,410 ESFCs in the District. Additionally, the District has one emergency water interconnection with Harris County Municipal Utility District No. 171.

The District obtains wastewater capacity from Quadvest through a 120,000 gpm wastewater treatment facility, which is being constructed in phases. The TCEQ issued Quadvest a wastewater discharge permit dated August 17, 2021, authorizing the treatment and disposal from the facility (Texas Pollutant Discharge Elimination System Permit No. WQ001587001), which expired on June 7, 2026. Quadvest submitted the permit renewal application in April 2025 which is currently under review at the TCEQ. The first two phases of the wastewater treatment facility have been completed. The facility is currently serving 950 ESFCs in the District and has the capacity to serve 1,000 ESFCs in the District.

Internal Water Distribution, Wastewater Collection and Storm Drainage Facilities

Internal water distribution, wastewater collection and storm drainage facilities have been constructed by the District to serve 509 single-family residential lots, 177 single-family residential rental lots, a 370 unit multi-family complex, 19 acres of commercial tracts in the District, a day care center on approximately 4 acres in the District, a gas station and commercial strip center on approximately 6 acres in the District, an automotive center on approximately 5 acres in the District, and a church (tax-exempt) on approximately 9 acres in the District. See "THE DISTRICT—Status of Development."

Flood Protection and Drainage

According to the Engineer, the majority of the land within the District currently lies within the 100-year flood plain. The developable areas that are located within the 100-year flood plain have been filled to an elevation outside the 100-year flood plain and removed from the flood plain by a Letter of Map Revision currently under review by the Federal Emergency Management Agency ("FEMA").

According to Century Land, all residents within Aurora have been provided with a final lot elevation that reflects the details included in the Letter of Map Revision discussed above and that further states that the lots have been removed from the 100-year flood plain.

Subsidence and Conversion to Surface Water Supply

The water supply facilities serving the District and owned by Quadvest are within the boundaries of the Harris Galveston Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 2001, the Texas Legislature created the West Harris County Regional Water Authority (the "Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County and a small portion of Fort Bend County. The Quadvest facilities serving the District and the District are located within the boundaries of the Authority. The Authority has entered into a Water Supply Contract with the City of Houston to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District has no wells; however, Quadvest's groundwater well(s) are included within the Authority's GRP.

Quadvest's authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority's GRP. The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by Quadvest for groundwater pumped by Quadvest and rates for the sale of surface water purchased by Quadvest from the Authority), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including Quadvest, to convert from groundwater to surface water. The Authority currently charges Quadvest, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by Quadvest and a rate per 1,000 gallons of surface water purchased by Quadvest from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2035 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period and will affect the water rates charged to its customers in the District.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty per 1,000 gallons, ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total annual water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from Quadvest. If Quadvest failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against Quadvest.

All fees and charges of the Authority are passed through to the District by Quadvest pursuant to the Wholesale Agreement. The District cannot predict the amount or level of fees and charges which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. In addition, conversion to surface water could necessitate improvements to the Quadvest System. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

Regulation

Construction and operation of the District's facilities as they now exist or as they may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District and the District. Discharge of treated sewage into State waters, if any, is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Harris County Drainage District. Harris County and the City of Houston also exercise regulatory jurisdiction over the District and the District Facilities.

According to the Engineer, the District's improvements that will be financed with proceeds of the Bonds and future bond issuances, have been designed and the corresponding plans prepared in accordance with accepted engineering practices and specifications and the approval and permitting requirements of Harris County and the City of Houston. Construction of the District's facilities being financed with the Bonds is subject to inspection by Harris County. Each of the aforementioned agencies exercises continuing jurisdiction over the District and the District's facilities.

Water and Wastewater Operations

The Outstanding Bonds and the Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Nevertheless, net revenues from operations of the District's water and wastewater system, if any, are available for any legal purpose, including the payment of debt service on the Outstanding Bonds and the Bonds, upon Board action. However, it is not anticipated that net revenues will be used or would be sufficient to pay debt service on the Outstanding Bonds and the Bonds.

The following statement sets forth, in condensed form, the General Operating Fund for the District as shown in the District's audited financial statements for the fiscal years ended April 30, 2022 through April 30, 2026. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

	Fiscal Year Ended April 30				
	2026	2025	2024	2023	2022
Revenues:					
Property Taxes	$ 1,239,420	$ 1,432,371	$ 1,131,044	$ 319,869	$ 93,854
Water and Sewer Service	1,202,436	1,135,865	960,724	543,073	9,221
Penalty and Interest	68,148	56,046	34,970	22,526	2,133
Regional Water Authority Fees	272,484	239,591	223,292	98,612	218
Tap Connection & Inspection	46,837	284,371	476,703	602,623	166,206
Investment Earnings	118,105	53,516	6,529	15,929	876
Miscellaneous	579	760	2,215	4,755	-
Total Revenue	$ 2,948,009	$ 3,202,520	$ 2,835,477	$ 1,607,387	$ 272,508
Expenditures:					
Purchased Services	$ 979,025	$ 892,935	$ 837,705	$ 448,151	$ -
Professional Fees	279,226	150,194	180,169	282,837	221,922
Contracted Services	313,182	324,315	384,623	540,954	12,615
Repairs & Maintenance	246,733	245,365	366,017	394,069	-
Utilities	3,371	2,912	2,612	233	-
Administrative	58,919	63,537	41,847	39,220	23,962
Capital Outlay	-	89,935	-	-	-
Other	5,450	3,651	7,003	1,853	-
Total Expenditures	$ 1,885,906	$ 1,772,844	$ 1,819,976	$ 1,707,317	$ 258,499
NET REVENUES	$ 1,062,103	$ 1,429,676	$ 1,015,501	$ (99,930)	$ 14,009
Other Financing Sources (a)	$ -	$ 30,000	$ 49,465	$ -	$ 146,636
General Operating Fund Balance (Beginning of Year)	$ 2,621,044	$ 1,161,368	$ 96,402 (b)	$ (25,869)	$ (186,514)
General Operating Fund Balance (End of Year)	$ 3,683,147	$ 2,621,044	$ 1,161,368	$ (125,799)	$ (25,869)

(a) Includes transfer of construction funds and developer advances.
(b) The District recognized a prior period adjustment in 2024 resulting in a difference between the beginning and ending fund balances of fiscal years 2024 and 2023, respectively.

THE ROAD SYSTEM

The road system serves the residents of the District by providing public access to major thoroughfares and collectors within the Aurora and Katy Legacy developments as well as the surrounding areas. The internal subdivision streets provide access to several collectors including Katy Legacy Drive, Cunningham Falls Trail, and Aurora Prairie Drive. These internal streets and collectors convey the residents of the District to the major thoroughfares of Peek Road and Stockdick School Road and ultimately to State Highway 99 (Grand Parkway). All Roads are either maintained or will be maintained after final acceptance by Harris County.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2026 Taxable Assessed Valuation	$256,091,762 (a)
Estimated Taxable Assessed Valuation as of August 1, 2026	$256,522,029 (b)
Gross Direct Debt Outstanding	$34,830,000 (c)
Estimated Overlapping Debt	11,284,744 (d)
Gross Direct Debt and Estimated Overlapping Debt	$46,114,744
Ratios of Gross Direct Debt to:	
2026 Taxable Assessed Valuation	13.60%
Estimated Taxable Assessed Valuation as of August 1, 2026	13.58%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2026 Taxable Assessed Valuation	18.01%
Estimated Taxable Assessed Valuation as of August 1, 2026	17.98%
Debt Service Funds Available:	
Water, Sewer, and Drainage Debt Service Funds Available as of August 27, 2026	$859,382 (e)
Road Debt Service Funds Available as of August 27, 2026	166,968 (f)
Capitalized Interest from Bond Proceeds	395,500 (e)
Total Funds Available for Debt Service	$1,421,850
Capital Projects Funds Available as of August 27, 2026	$285,933 (g)
Operating Funds Available as of August 27, 2026	$4,205,445
2025 Debt Service Tax Rate	$0.955 (h)
2025 Maintenance Tax Rate	0.535
2025 Total Tax Rate	$1.490
Anticipated 2026 Debt Service Tax Rate	$1.000
Anticipated 2026 Maintenance Tax Rate	0.490
Anticipated 2026 Total Tax Rate	$1.490 (i)

(a) The 2026 Taxable Assessed Valuation shown herein includes $249,656,282 of certified value and $6,435,480 of uncertified value. The uncertified value represents the landowners' opinion of the value; however, such value is subject to change and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Appraisal District. See "TAXING PROCEDURES."

(b) Provided by the Appraisal District for information purposes only. Such amount reflects increases in value occurring between January 1, 2026, and August 1, 2026. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. No taxes will be levied upon such amount until it is certified by the Appraisal District. Increases in value from January 1, 2026 to August 1, 2026, will be certified as of January 1, 2027, and provided for taxation during the third or fourth calendar quarter of 2027. See "RISK FACTORS—Possible Impact on District Tax Rates," and "TAXING PROCEDURES."

(c) The Outstanding Bonds (as herein defined) and the Bonds. See "—Outstanding Bonds" herein.

(d) See "—Estimated Overlapping Debt" herein.

(e) The District will capitalize $395,500 of interest from the Bond proceeds and deposit such funds in the Water, Sewer and Drainage Debt Service Fund (as herein defined). Funds in the Water, Sewer and Drainage Debt Service Fund are available to pay debt service on the bonds issued for water, sewer and drainage facilities, including the Bonds, and are not available to pay debt service on bonds issued for road facilities. Neither Texas law nor the Bond Resolution requires the District to maintain any minimum balance in the Debt Service Fund. See "THE BONDS—Funds," and "USE AND DISTRIBUTION OF BOND PROCEEDS."

(f) Funds in the Road Debt Service Fund (as herein defined) are available to pay debt service on bonds issued for road facilities, and are not available to pay debt service on the bonds issued for water, sewer and drainage facilities, including the Bonds. See "THE BONDS—Funds."

(g) Represents surplus capital projects funds, and interest thereon, derived from the Outstanding Bonds. The District will contribute $284,528 of surplus capital projects funds toward the issuance of the Bonds. The Bonds, if, as and when issued, may produce additional surplus funds. Surplus funds for capital projects may be expended for any lawful purpose for which surplus funds may be used, limited, however, to the purposes for which the issue of the Outstanding Bonds which produced the surplus funds were issued. Under certain circumstances, the approval of the TCEQ is required for the use of surplus funds derived from the Outstanding Bonds.

(h) The District levied a 2025 debt service tax rate in the amount of $0.955 per $100 of taxable assessed valuation, of which $0.785 is allocated to Water, Sewer and Drainage Bonds and $0.170 is allocated to Road Bonds. See "TAX DATA—Historical Tax Rate Distribution."

(i) The District authorized publication of its intent to levy a total tax rate of $1.49 per $100 of taxable assessed valuation (consisting of $1.00 for debt service and $0.49 for maintenance and operations). Such tax is expected to be adopted in October 2026 and is subject to change prior to levy. See "TAX DATA—Historical Tax Rate Distribution."

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third-party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long-term securities or derivative products in the District portfolio.

Outstanding Bonds

The District has previously issued four series of unlimited tax water, sewer and drainage bonds in the principal amount of $23,085,000 and one series of unlimited tax bonds for road facilities in the principal amount of $5,000,000, $26,920,000 of which remains outstanding (the "Outstanding Bonds") as of September 2, 2026.

Series	Original Principal Amount	Outstanding Bonds
2022 (a)	$ 5,000,000	$ 4,715,000
2023	3,060,000	2,670,000
2023A	9,100,000	8,720,000
2024	2,545,000	2,435,000
2024A	8,380,000	8,380,000
Total	$28,085,000	$26,920,000

(a) Unlimited tax road bonds.

Debt Service Requirements

The following sets forth the debt service on the Outstanding Bonds and the Bonds. This schedule does not reflect the fact that the District will capitalize $395,500 of interest from proceeds of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2027	$ 2,200,231.25	$ -	$ 372,943.61	$ 372,943.61	$ 2,573,174.86
2028	2,161,531.25	165,000	435,456.25	600,456.25	2,761,987.50
2029	2,116,681.25	170,000	422,893.75	592,893.75	2,709,575.00
2030	2,070,931.25	180,000	409,768.75	589,768.75	2,660,700.00
2031	2,019,281.25	190,000	395,893.75	585,893.75	2,605,175.00
2032	1,981,456.25	200,000	381,268.75	581,268.75	2,562,725.00
2033	1,945,243.75	210,000	365,893.75	575,893.75	2,521,137.50
2034	1,924,731.25	220,000	349,768.75	569,768.75	2,494,500.00
2035	1,900,831.25	230,000	334,043.75	564,043.75	2,464,875.00
2036	1,880,456.25	245,000	320,443.75	565,443.75	2,445,900.00
2037	1,858,981.25	255,000	307,943.75	562,943.75	2,421,925.00
2038	1,831,031.25	270,000	294,818.75	564,818.75	2,395,850.00
2039	1,806,868.75	280,000	281,068.75	561,068.75	2,367,937.50
2040	1,780,909.38	295,000	266,693.75	561,693.75	2,342,603.13
2041	1,753,293.75	310,000	251,375.00	561,375.00	2,314,668.75
2042	1,734,431.25	330,000	234,975.00	564,975.00	2,299,406.25
2043	1,704,059.38	345,000	217,678.13	562,678.13	2,266,737.50
2044	1,681,984.38	360,000	199,612.50	559,612.50	2,241,596.88
2045	1,658,278.13	380,000	180,650.00	560,650.00	2,218,928.13
2046	1,627,940.63	400,000	160,662.50	560,662.50	2,188,603.13
2047	1,600,690.63	420,000	139,650.00	559,650.00	2,160,340.63
2048	1,576,790.63	445,000	117,206.25	562,206.25	2,138,996.88
2049	1,550,393.75	465,000	93,318.75	558,318.75	2,108,712.50
2050	566,793.75	490,000	68,250.00	558,250.00	1,125,043.75
2051	-	515,000	41,868.75	556,868.75	556,868.75
2052	-	540,000	14,175.00	554,175.00	554,175.00
Total	$ 42,933,821.88	$ 7,910,000	$ 6,658,321.74	$ 14,568,321.74	$ 57,502,143.61

Average Annual Debt Service Requirement (2027-2052).....$2,211,621
Maximum Annual Debt Service Requirement (2028).....$2,761,988

Estimated Overlapping Debt

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping Percent	Overlapping Amount
Harris County (a)	$ 3,080,611,581	8/31/2026	0.030%	$ 924,183
Harris County Flood Control District	1,034,900,000	8/31/2026	0.030%	310,470
Harris County Hospital District	1,644,825,000	8/31/2026	0.030%	493,448
Harris County Department of Education	28,960,000	8/31/2026	0.030%	8,688
Port of Houston Authority	386,074,397	8/31/2026	0.030%	115,822
Katy Independent School District	2,549,225,000	8/31/2026	0.370%	9,432,133
Total Estimated Overlapping Debt				$ 11,284,744
The District	34,830,000 (b)			34,830,000
Total Direct and Estimated Overlapping Debt				$ 46,114,744

Direct and Estimated Overlapping Debt as a Percentage of:

2026 Taxable Assessed Valuation of $256,091,762 ..... 18.01%

Estimated Taxable Assessed Valuation as of August 1, 2026 of $256,522,029 ..... 17.98%

(a) Excludes the Harris County Toll Road Unlimited Tax Bonds in the principal amount of $97,400,000. Historically, Harris County has provided for payment of such debt service from toll road revenues and certain other funds and no ad valorem tax revenue has been required to pay debt service on such bonds.

(b) Includes the Outstanding Bonds and the Bonds.

Overlapping Taxes

Set forth below is a summary of taxes levied for the 2025 tax year by all entities overlapping the District and the District. None of the overlapping entities have levied a tax for the 2026 tax year. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	Tax Rate per $100 of Taxable Assessed Valuation
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority)	$ 0.628930
Waller-Harris County ESD No. 200	0.100000
Katy Independent School District	1.066900
Total Overlapping Tax Rate	$ 1.795830
The District	1.490000 (a)
Total Tax Rate	$ 3.285830

(a) The District authorized publication of its intent to levy a total tax rate of $1.49 per $100 of taxable assessed valuation (consisting of $1.00 for debt service and $0.49 for maintenance and operations). Such tax is expected to be adopted in October 2026 and is subject to change prior to levy. See "TAX DATA—Historical Tax Rate Distribution."

TAX DATA

Debt Service Tax

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

Maintenance and Operations Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District's water, sewer and drainage system and roads, if such a maintenance tax is authorized by the District's voters. A maintenance tax election was conducted November 5, 2019, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed $1.50 per $100 taxable assessed valuation for utility maintenance and $0.25 per $100 of taxable assessed valuation for road maintenance. A maintenance tax is in addition to taxes that the District is authorized to levy for paying principal of and interest on the Bonds. See "Debt Service Tax" above.

Historical Tax Rate Distribution

	Tax Year 2022	Tax Year 2023	Tax Year 2024	Tax Year 2025	Anticipated Tax Year 2026 (c)
Debt Service Tax	$ -	$ 0.480	$ 0.685	$ 0.955 (b)	$ 1.000
Maintenance Tax (a)	1.500	1.020	0.815	0.535	0.490
Total District Tax Rate	$ 1.500	$ 1.500	$ 1.500	$ 1.490	$ 1.490

(a) The District has not levied a tax for road maintenance.
(b) The District levied a 2025 debt service tax rate in the amount of $0.955 per $100 of taxable assessed valuation, of which $0.785 is allocated to Water, Sewer and Drainage Bonds and $0.170 is allocated to Road Bonds.
(c) The District authorized publication of its intent to levy a total tax rate of $1.49 per $100 of taxable assessed valuation (consisting of $1.00 for debt service and $0.49 for maintenance and operations). Such tax is expected to be adopted in October 2026 and is subject to change prior to levy.

Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District's Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See "Tax Roll Information" below.

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections As of July 31, 2026 (a) Amount	Percent
2021	$ 6,766,321	$ 1.50	$ 101,495	$ 101,495	100.00%
2022	23,469,488	1.50	351,238	351,193	99.99%
2023	115,518,612	1.50	1,732,779	1,729,300	99.80%
2024	177,321,175	1.50	2,659,818	2,654,705	99.81%
2025	217,784,268	1.49	3,244,986	3,203,544	98.72%

(a) Unaudited.

Additional Penalties

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

Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate. See "TAXING PROCEDURES—Valuation of Property for Taxation." The following represents the composition of property comprising the 2023 through 2026 Taxable Assessed Valuations. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. Breakdowns of the uncertified portion ($6,435,480) of the 2026 Taxable Assessed Valuation of $256,091,762 and the Estimated Taxable Assessed Valuation as of August 1, 2026, of $256,522,029, are not available.

	2023 Taxable Assessed Valuation	2024 Taxable Assessed Valuation	2025 Taxable Assessed Valuation	2026 Taxable Assessed Valuation
Land	$ 42,566,499	$ 55,740,616	$ 55,905,046	$ 61,898,484
Improvements	76,877,526	129,559,524	167,445,592	197,745,566
Personal Property	7,490,339	7,758,327	9,259,514	8,937,098
Uncertified Value	-	-	-	6,435,480
Gross Assessed Valuation	$ 126,934,364	$ 193,058,467	$ 232,610,152	$ 275,016,628
Exemptions(a)	(11,415,752)	(15,737,292)	(14,825,884)	(18,924,866)
Total	$ 115,518,612	$ 177,321,175	$ 217,784,268	$ 256,091,762

(a) See "TAXING PROCEDURES—Property Subject to Taxation by the District."

Principal Taxpayers

The following table represents the ten principal taxpayers, and the taxable assessed value of such property as a percentage of the certified portion ($249,656,282) of the 2026 Taxable Assessed Valuation of $256,091,762. Accurate principal taxpayer lists related to the uncertified portion ($6,435,480) of the 2026 Taxable Assessed Valuation of $256,091,762 and the Estimated Taxable Assessed Valuation as of August 1, 2026, of $256,522,029, are not available as of the date hereof.

Taxpayer	2026 Certified Taxable Assessed Valuation	% of 2026 Certified Taxable Assessed Valuation
Prose Peek Road Owner LLC (a)	$ 43,749,322	17.52%
MDO-AHV Katy, LLC (a)(b)	36,150,811	14.48%
Ventana Real Estate LLC	4,071,568	1.63%
Warudkars Realty LLC	3,685,613	1.48%
Katy Peek Partners LP	3,049,200	1.22%
Cunningham Interest II Ltd. (a)	2,587,296	1.04%
Lalita LLC	2,346,582	0.94%
P&M Reis Trucking Inc	1,356,512	0.54%
Individual	1,252,130	0.50%
510 SFR TX Operations I LLC	1,063,182	0.43%
Total	$ 99,312,216	39.78%

(a) See "THE DISTRICT—Status of Development," "THE DEVELOPERS AND PRINCIPAL PROPERTY OWNERS" and "RISK FACTORS—Dependence on Principal Taxpayers and the Developers" and "—Certain Tax Exemptions Provided for Affordable Housing."

(b) See "RISK FACTORS—Dependence on Principal Taxpayers and the Developers" and "—Rental Homes."

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per $100 of taxable assessed valuation that would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2026 Taxable Assessed Valuation of $256,091,762 ($249,656,282 of certified value plus $6,435,480 of uncertified value), or the Estimated Taxable Assessed Valuation as of August 1, 2026, of $256,522,029. The calculations contained in the following table merely represent the tax rates required to pay the estimated principal of and interest on the Outstanding Bonds and the Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements" and "RISK FACTORS—Possible Impact on District Tax Rates."

Average Annual Debt Service Requirement (2027-2052)	$2,211,621
$0.91 Tax Rate on 2026 Taxable Assessed Valuation	$2,213,913
$0.91 Tax Rate on Estimated Taxable Assessed Valuation as of August 1, 2026	$2,217,633
Maximum Annual Debt Service Requirement (2028)	$2,761,988
$1.14 Tax Rate on 2026 Taxable Assessed Valuation	$2,773,474
$1.14 Tax Rate on Estimated Taxable Assessed Valuation as of August 1, 2026	$2,778,134

No representation or suggestion is made that the uncertified portion of the 2026 Taxable Assessed Valuation will not be adjusted downward or that the Estimated Taxable Valuation as of August 1, 2026 provided by the Appraisal District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. The Estimated Taxable Assessed Valuation as of August 1, 2026 is provided by the Appraisal District for informational purposes only. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2026 and August 1, 2026, will be certified as of January 1, 2027, and provided for purposes of taxation during the third or fourth calendar quarter of 2027. See "TAXING PROCEDURES."

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, Outstanding Bonds and any additional bonds payable from taxes which the District may hereafter issue and to pay the expenses of assessing and collecting such taxes. See "RISK FACTORS—Future Debt." The District agrees in the Bond Resolution to levy such a tax from year-to-year as described more fully herein under "THE BONDS—Source of Payment." Under State law, the District may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See "TAX DATA—Debt Service Tax" and "—Maintenance and Operations Tax."

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, and mobile homes, are subject to taxation by the District. Principal categories of exempt property include, but are not limited to, property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares, and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; most individually owned automobiles; and intangible personal property. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and of certain disabled persons, and travel trailers, to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans, or certain surviving

dependents of disabled veterans if requested, but only to the maximum extent of $5,000 to $12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to the exemption for the full amount of the residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran is entitled to an exemption for the full value of the veteran's residence homestead to which the disabled veterans' exemption applied including the surviving spouse of a disabled veteran who would have qualified for such exemption if it had been in effect on the date the disabled veteran died. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homesteads in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. See "TAX DATA."

Freeport Goods and Goods-in-Transit Exemptions: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into the State which are destined to be forwarded outside of the State and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into the State for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of the State not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods- in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Harris County may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, and the District, under certain circumstances, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

Valuation of Property for Taxation

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

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

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

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

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month

or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement in writing and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Tax Payment Installments After Disaster

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

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

Rollback of Operation and Maintenance Tax Rate

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

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

Developed Districts: Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Property Tax Code, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus 1.035 times the previous year's operation and maintenance tax rate plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

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

The District: A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis. The District is designated as a Developing District for 2026. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

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

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

Tax Exemption Provided to Lessees of Public Facility Corporations

Chapter 303 of the Texas Local Government Code (the "PFC Act") authorizes cities, counties, school districts, housing authorities and special districts (a "Sponsor") to create a sponsored Public Facility Corporation ("PFC"), to acquire, construct, rehabilitate, renovate, repair, equip, furnish and place in service public facilities. These activities may be financed through certain obligations of either the Sponsor or the PFC. Under the PFC Act, a "public facility" includes any real, personal, or mixed property, or an interest in property devoted or to be devoted to public use, and authorized to be financed under the PFC Act. A public facility, including a leasehold estate in a public facility, that is owned by a PFC is exempt from taxation by the State or a municipality or other political subdivision of the State, including ad valorem and sales taxes levied by such taxing authorities. A leasehold or other possessory interest in the public facility granted by the PFC entitles the user of the public facility to the same exemptions from taxation. An exemption authorized under the PFC Act for a multifamily residential development which is owned by a PFC created by a housing authority which does not have at least 20% of its units reserved for units for which the landlord receives a public housing operating subsidy applies only if (i) the housing authority holds a public hearing to approve the development and (ii) at least 50% of the units in the multifamily residential development are reserved for occupancy by individuals and families earning less than 80% of the area median family income.

RISK FACTORS

General

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

Certain Tax Exemptions Provided for Affordable Housing

A multi-family complex is located within the District. Certain multi-family housing may be exempt from ad valorem taxation by the District pursuant to Chapter 303 of the Texas Local Government Code (the "PFC Act"), Chapter 392 of the Texas Local Government Code (the "Housing Authority Act"), or Chapter 394 of the Texas Local Government Code (the "HFC Act"), if certain conditions are met.

The PFC Act authorizes cities, counties, school districts, housing authorities and special districts (a "Sponsor") to create a sponsored Public Facility Corporation ("PFC") to acquire, construct, rehabilitate, renovate, repair, equip, furnish and place in service public facilities. These activities may be financed through certain obligations of either the Sponsor or the PFC. Under the PFC Act, a "public facility" includes any real, personal, or mixed property, or an interest in property devoted or to be devoted to public use, and authorized to be financed under the PFC Act. A public facility, including a leasehold estate in a public facility, that is owned by a PFC is exempt from taxation by the State or a municipality or other political subdivision of the State, including the District. This exemption applies to both ad valorem and sales taxes levied by such taxing authorities.

Subject to certain restrictions, a leasehold or other possessory interest granted by the PFC to the user of a PFC-owned multifamily residential development entitles that user to this same exemption. A PFC project approved on or after June 18, 2023, does not quality for an exemption with respect to taxes imposed by a conservation and reclamation district providing water, sewer, or drainage services to the development, unless an agreement is entered into with the district concerning payments in lieu of taxation. Projects for which PFC or Sponsor approval was received prior to the effective date of H.B. 2071 are governed by the prior law and are not subject to the same requirements. The District is not aware of any public facilities located within the boundaries of the District that are either owned or leased by a PFC.

The HFC Act provides for the formation of housing finance corporations ("HFCs") by municipalities and counties for the purpose of providing decent, safe, and sanitary housing at affordable prices to residents of local governments. Public property owned by an HFC, including property for which an HFC holds an equitable interest, is exempt from taxes imposed by the state or any political subdivision of the state, including conservation and reclamation districts such as the District, provided certain conditions are met under the HFC Act. This exemption applies to both ad valorem and sales taxes levied by taxing authorities where the qualified project is located. Section 394.904(d) (as added by H.B. 21, 89th Texas Legislature, Regular Session) provides in part that, for property acquired by an HFC after May 28, 2025, such ad valorem tax exemptions do not apply to taxes levied by a conservation or reclamation district created under Section 52, Article III, or Section 59, Article XVI, Texas Constitution, that provides water, sewer, or drainage service to the multifamily residential development owned by the HFC, unless the applicable HFC has entered into a written agreement with the district to make a payment to the district in lieu of taxation, in the amount specified in the agreement. Further, property acquired by an HFC prior to May 28, 2025, may become subject to taxation by a conservation and reclamation district in future tax years unless certain additional requirements are met under the HFC Act. The District is not aware of any public property located within the boundaries of the District that is owned by an HFC.

The Housing Authority Act authorizes cities and counties to create housing authorities to provide safe and sanitary housing for persons of low income within the area of operation of the housing authority. Multi-family property owned by a housing authority, including property for which a housing authority holds an equitable interest, is exempt from all taxes and special assessments of a city, county, the state, or another political subdivision, including conservation and reclamation districts such as the District, if certain conditions are met under the Housing Authority Act. The District is aware of one multi-family property located within the boundaries of the District that is in the process of ownership transfer to a housing authority.

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences and single-family residential rental homes that have been constructed by Century Land and AHV Katy, respectively. The market value of such homes and lots is related to general economic conditions in the Houston region and the national economy and those conditions can affect the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could impact such values.

Competition

The demand for single-family homes to rent in the District, which is 25 miles from downtown Houston, could be affected by competition from other rental residential developments and multi-family projects including other similar residential developments located in the western portion of the Houston metropolitan area along the Grand Parkway (Texas State Highway 99). Such homes could represent additional competition for rental homes within the District.

The competitive positions of AHV Katy in the leasing of homes are affected by most of the factors discussed in this section. Such competitive positions directly affects the growth and maintenance of taxable values in the District. The District can give no assurance that rental home marketing programs in the District by AHV Katy will be implemented or, if implemented, will be successful.

Dependence on Principal Taxpayers and the Developers

The ten top taxpayers represent $99,312,216 or 39.78% of the certified portion ($249,656,282) of the 2026 Taxable Assessed Valuation of $256,091,762 within the District as of January 1, 2026. MDO-AHV Katy, LLC (referred to as AHV Katy herein) represented $36,150,811 or 14.48% of such taxable assessed valuation. See "THE DEVELOPERS AND PRINCIPAL LANDOWNERS," "TAX DATA—Principal Taxpayer" and "—Rental Homes" herein. Principal taxpayer lists related to the uncertified portion ($6,435,480) of the 2026 Taxable Assessed Valuation of $256,091,762 or the Estimated Taxable Assessed Valuation as of August 1, 2026, of $256,522,029 are not available. The Estimated Taxable Assessed Valuation as of August 1, 2026, is subject to review and adjustment, and the allocation of assessed valuation among taxpayers in the District will fluctuate as additional development occurs in the District and properties are appraised. The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay taxes in a timely manner, the District may need to levy additional taxes or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Resolution, nor is it required by State law, to maintain any particular balance in its debt service fund or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes could have a material adverse effect upon the District's ability to pay debt service on the Bonds. AHV Katy has developed Katy Legacy as a rental home community. See "—Rental Homes," below for additional considerations associated with rental home communities.

Neither the Developers nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of any information related to any proposed development should not be interpreted as a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developers to implement any plan of development. Furthermore, there is no restriction on any landowner's right to sell land. The District can make no prediction as to the effects that current or future economic conditions or governmental circumstances may have on any plans of the Developers or any other landowners.

Rental Homes

AHV Katy has developed Katy Legacy as a rental home community. As a result it is expected that title to completed lots and homes will remain in AHV Katy or another entity rather than being sold to homebuilders or individual homeowners. This is expected to result in a longer-term concentration of assessed valuation in a single property owner than would ordinarily be experienced in a development where lots and homes are developed and transferred to homebuilders or individual homeowners. Based upon the certified portion ($249,656,282) of the 2026 Taxable Assessed Valuation, approximately 177 of the 509 single-family lots currently being developed in the District are being developed as part of the Katy Legacy rental home community. The allocation of assessed valuation among taxpayers in the District will fluctuate as additional development occurs in the District and properties are appraised. AHV Katy, as the owner of such rental homes, is responsible for the payment of property taxes, maintenance of the homes and landscape maintenance of the joint yards. The ability of AHV Katy or the ultimate owner of the rental homes to lease the rental properties may affect their ability to maintain the properties and the taxable assessed valuation of the properties. Additionally, the failure of AHV Katy or the ultimate owner of the rental homes to make full and timely payments of taxes levied against the rental home property by the District and similar taxing authorities could have a material adverse effect on the District's ability to pay debt service on the Bonds.

Undeveloped Acreage and Vacant Rental Homes

There are approximately 131 acres that have not been fully provided with water distribution, wastewater collection and storm drainage facilities and or paving. In addition, approximately 10 single-family rental homes are available for leasing. The District makes no representation as to when or if development of the undeveloped acreage will occur or to the success of any rental programs. See "THE DISTRICT—Land Use" and "—Status of Development."

Possible Impact on District Tax Rate

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2026 Taxable Assessed Valuation is $256,091,762 ($249,656,282 of which is certified and $6,435,480 of which is uncertified). After issuance of the Bonds, the maximum annual debt service requirement will be $2,761,988 (2028), and the average annual debt service requirement will be $2,211,621 (2027-2052 inclusive). Assuming no increase or decrease from the 2026 Taxable Assessed Valuation of $256,091,762 ($249,656,282 of which is certified and $6,435,480 of which is uncertified), the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of $1.14 and $0.91 per $100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the estimated maximum annual debt service requirement and the estimated average annual debt service requirements, respectively. Assuming no increase or decrease from the Estimated Taxable Assessed Valuation as of August 1, 2026 of $256,522,029, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of $1.14 and $0.91 per $100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the estimated maximum debt service requirement and the estimated average annual debt service requirement, respectively. See FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements" and "TAX DATA—Tax Adequacy for Debt Service." Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Outstanding Bonds based upon the 2026 Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation as of August 1, 2026, the District can make no representations regarding the future level of assessed valuation within the District.

No representation or suggestion is made that the uncertified portion of the 2026 Taxable Assessed Valuation or the Estimated Taxable Valuation as of August 1, 2026 provided by the Appraisal District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. The Estimated Taxable Assessed Valuation is provided by the Appraisal District for informational purposes only. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2026 and August 1, 2026, will be certified as of August 1, 2026, and provided for purposes of taxation during the third or fourth calendar quarter of 2027. See "TAXING PROCEDURES."

Developers' Obligations to the District

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

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 Polyflouroalkyl Substances ("PFAS"), which requires public water systems to perform certain monitoring and remediation measures. Public water systems may be subject to additional PFAS regulation in the future, which could increase the cost of constructing, operating, and maintaining water production and distribution facilities.

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

The 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. The greater Houston area has experienced multiple storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days.

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

Specific Flood Type Risks

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

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

Atlas 14

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

Tax Collections Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by market conditions limiting the proceeds from a foreclosure sale of taxable property and collection procedures. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. The costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See "TAXING PROCEDURES-District's Rights in the Event of Tax Delinquencies."

Registered Owners' Remedies and Bankruptcy Limitations

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

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

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 921-946 ("Chapter 9"). The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

If a petitioning district were allowed to proceed voluntarily under Chapter 9, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating the collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of $215,000,000 principal amount of unlimited tax bonds for constructing or acquiring water, sewer and drainage facilities and for refunding such bonds, $30,000,000 principal amount of unlimited tax bonds for constructing or acquiring parks and recreational facilities and for refunding such bonds, and $35,000,000 principal amount of unlimited tax bonds for constructing road facilities and related improvements and for refunding such bonds has been authorized by voters in the District. After the issuance of the Bonds, $184,005,000 principal amount of bonds authorized for constructing or acquiring water, sewer and drainage facilities and for refunding such bonds, $30,000,000 principal amount of bonds authorized for constructing or acquiring road facilities and for refunding such bonds and all of the authorized bonds for parks and recreation and refundings will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. Such bonds may finance facilities which are not necessarily related to increased taxable values in the District.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue; however, bonds for recreational facilities may not be issued in an amount which exceeds one percent (1%) of the District's taxable value at the time of issuance unless for the issuance of bonds for recreational facilities, the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent (1%) but not greater than three percent (3%) of the value of the taxable property in the District. Future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District.

To date, the Developers and other property owners have advanced certain funds for construction of water, sewer and drainage facilities and roads and related improvements for which it has not been reimbursed. After the reimbursements are made with Bond proceeds, the District will owe approximately $8,378,891 to the Developers and other property owners for water, sewer and drainage facilities and approximately $5,063,989 for road facilities. The District intends to issue additional bonds in order to reimburse the Developers for monies currently owed. The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds to finance water, sewer, drainage and recreational facilities (but not roads) is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. See "THE BONDS—Issuance of Additional Debt."

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

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

Future Legislation

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

Tax Exemption Provided to Lessees of Public Facility Corporations

As described in "TAXING PROCEDURES – Tax Exemption Provided to Lessees of Public Facility Corporations" herein, a multifamily residential development owned or leased by a Public Facility Corporation ("PFC") is exempt from ad valorem taxation by the State and any other political subdivision of the State, including a municipal utility district such as the District. Chapter 303 of the Texas Local Government Code (the "PFC Act") does not require any notice to, or consent by, any taxing jurisdictions that may be impacted by such exemption prior to the exemption being implemented. This tax-exempt lease structure has been utilized by the Houston Housing Authority and other entities for the creation of affordable multifamily apartments in the greater Houston area, both through the development of new apartment projects and the acquisition of existing (and previously taxable) apartment projects. The District is not aware of any public facilities located within the boundaries of the District that are either owned or leased by a PFC. The District makes no representations or predictions regarding whether future public facilities will be created or established within the District's boundaries by the Houston Housing Authority or by any other Sponsor (as defined herein) pursuant to the PFC Act.

Cybersecurity

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The Underwriter has entered into an agreement with Build America Mutual Assurance Company ("BAM" or the "Insurer") for the purchase of a municipal bond insurance policy (the "Policy"). At the time of entering into the agreement, the Insurer was rated "AA" (stable outlook) by S&P. See "MUNICIPAL BOND INSURANCE" and "APPENDIX B."

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

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

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE" for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

LEGAL MATTERS

Legal Proceedings

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

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

Allen Boone Humphries Robinson LLP also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed on for the District by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Disclosure Counsel. The fees of Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

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

No Material Adverse Change

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

No-Litigation Certificate

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

TAX MATTERS

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

Tax Exemption

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

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

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

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

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

Qualified Tax-Exempt Obligations

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

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

Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

Additional Federal Income Tax Considerations

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

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

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

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

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

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

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

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

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

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

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

Tax Legislative Changes

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

MUNICIPAL BOND RATING

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), has assigned a municipal bond rating of "AA" (stable outlook) with the understanding that, upon issuance and delivery of the Bonds, a municipal bond insurance policy ensuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company ("BAM" or the "Insurer"). No application has been made to a municipal rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made. An explanation of the rating may be obtained from S&P. See "RISK FACTORS—Risk Factors Related to Purchase of Municipal Bond Insurance," "MUNICIPAL BOND INSURANCE" and "APPENDIX B—Specimen Municipal Bond Insurance Policy."

The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL 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 B to this OFFICIAL STATEMENT.

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

Build America Mutual Assurance Company

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

The address of the principal executive offices of BAM is: 28 Liberty Street, 59th Floor, New York, New York 10005, its telephone number is: 212-235-2500, and its website is located at: https://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. 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 "MUNICIPAL BOND INSURANCE."

Additional Information Available from BAM

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

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

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The financial data and other information contained in this OFFICIAL STATEMENT has been obtained primarily from the District's records, the Developers, the Engineer, the Tax Assessor/Collector, the Bookkeeper, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under "Certification of OFFICIAL STATEMENT." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this OFFICIAL STATEMENT are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT, including the OFFICIAL NOTICE OF SALE and the OFFICIAL BID FORM for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants. Each consultant has agreed to the use of information provided by such firm.

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

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

Auditor: The financial statements of the District as of April 30, 2026, and for the year then ended, included in this OFFICIAL STATEMENT, have been audited by the District's auditor, McGrath & Co., PLLC, certified public accountants, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's April 30, 2026, financial statements.

Updating the Official Statement

If subsequent to the date of the OFFICIAL STATEMENT, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any material adverse event which causes the OFFICIAL STATEMENT to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the OFFICIAL STATEMENT satisfactory to the Underwriter; provided, however, that the obligation of the District to the Underwriter to so amend or supplement the OFFICIAL STATEMENT will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District in writing on or before such date that the Underwriter retains an unsold balance of the Bonds for sale to the public, in which case the District's obligations hereunder will extend for an additional period of time as provided in SEC Rule 15c2-12 (but not more than the earlier of (i) 90 days after the end of the underwriting period (as described in SEC Rule 15c2-12(f)(2)) or (ii) the time the OFFICIAL STATEMENT is available to any person from the MSRB (as defined herein), but in no case less than 25 days after the end of the underwriting period.

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has 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 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 financial information and operating data annually to the MSRB through its EMMA system. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)," except for "Estimated Overlapping Debt," "TAX DATA," and in APPENDIX A (Independent Auditor's Report and Financial Statements of the District for the Year Ended April 30, 2026). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2027. Any financial statements so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable year to the MSRB within such six-month period and audited financial statements when the audit report becomes available.

The District's current fiscal year end is April 30. Accordingly, it must provide updated information by October 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 MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person , other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person , if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person , any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "obligated person" and "financial obligation" when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the "Rule"). The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through its EMMA system, which is available at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the registered owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered owners and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the past five years, the District has not failed to comply in any material respect with its prior continuing disclosure agreements made in accordance with the Rule.

MISCELLANEOUS

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

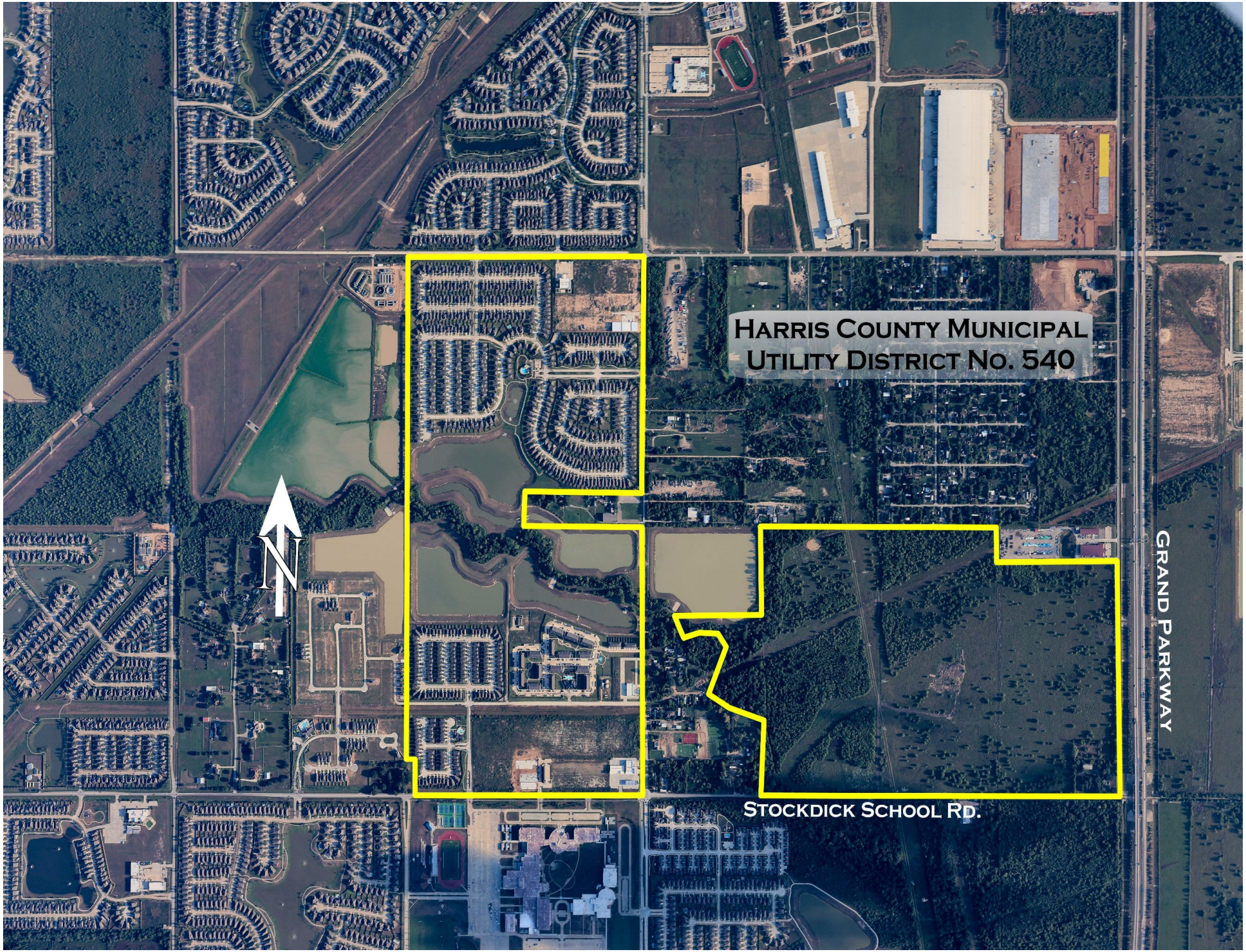
This OFFICIAL STATEMENT was approved by the Board of Directors of Harris County Municipal Utility District No. 540, as of the date shown on the cover page.

/s/ Shawn L. Pachlhofer
President, Board of Directors
Harris County Municipal Utility District No. 540

ATTEST:

/s/ Sonia Soto
Secretary, Board of Directors
Harris County Municipal Utility District No. 540

AERIAL LOCATION MAP
(August 2026)


Harris County Municipal
Utility District No. 540
N
Grand Parkway
Stockdick School Rd.

PHOTOGRAPHS OF THE DISTRICT
(August 2026)

KATY LEGACY

KATY
LEGACY

AURORA
BY CENTURY COMMUNITIES

NOW LEASING
PROSE
RIVIANA

FASTRAC

Christian Brothers Automotive
23140
Christian Brothers
AUTOMOTIVE
WE ACCEPT
EXTENDED WARRANTIES
23140

APPENDIX A

Independent Auditor's Report and Financial Statements of the District for the Year Ended April 30, 2026

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 540

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

April 30, 2026

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McGRATH & CO., PLLC
Certified Public Accountants
2950 North Loop West, Suite 810
Houston, Texas 77092

Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 540
Harris County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 540 (the "District"), as of and for the year ended April 30, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris County Municipal Utility District No. 540, as of April 30, 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied

certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information schedules 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

McGrath & Co, PLLC

Houston, Texas
August 27, 2026

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Management's Discussion and Analysis

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Using this Annual Report

This section of the financial report of Harris County Municipal Utility District No. 540 (the "District") provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended April 30, 2026. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Financial Analysis of the District as a Whole

The District's net position at April 30, 2026, was negative $11,537,332. The District's net position is negative because the District incurs debt to construct road facilities which it conveys to Harris County. A comparative summary of the District's overall financial position, as of April 30, 2026 and 2025, is as follows:

	2026	2025
Current and other assets	$ 7,103,355	$ 5,494,517
Capital assets	32,945,663	33,599,374
Total assets	40,049,018	39,093,891
Current liabilities	1,785,875	1,021,326
Long-term liabilities	49,800,475	50,710,475
Total liabilities	51,586,350	51,731,801
Net position		
Net investment in capital assets	(7,529,018)	(7,053,228)
Restricted	2,217,709	1,669,174
Unrestricted	(6,226,023)	(7,253,856)
Total net position	$ (11,537,332)	$ (12,637,910)

The total net position of the District increased during the current fiscal year by $1,100,578. A comparative summary of the District's *Statement of Activities* for the past two fiscal years is as follows:

	2026	2025
Revenues		
Water and sewer service	$ 1,202,436	$ 1,135,865
Property taxes, penalties and interest	3,341,522	2,817,539
Other	512,551	649,011
Total revenues	5,056,509	4,602,415
Expenses		
Current service operations	1,957,431	1,769,660
Debt interest and fees	1,344,789	1,104,907
Developer interest		1,084,974
Debt issuance costs		874,801
Depreciation and amortization	653,711	653,711
Total expenses	3,955,931	5,488,053
Change in net position before other item	1,100,578	(885,638)
Other item		
Transfers to other governments		(508,329)
Change in net position	1,100,578	(1,393,967)
Net position, beginning of year	(12,637,910)	(11,243,943)
Net position, end of year	$ (11,537,332)	$ (12,637,910)

Financial Analysis of the District's Funds

The District's combined fund balances, as of April 30, 2026, were $6,375,879, which consists of $3,683,147 in the General Fund, $2,391,892 in the Debt Service Fund, and $300,840 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of April 30, 2026 and 2025, is as follows:

	2026	2025
Total assets	$ 4,357,247	$ 3,301,225
Total liabilities	$ 648,316	$ 576,454
Total deferred inflows	25,784	103,727
Total fund balance	3,683,147	2,621,044
Total liabilities, deferred inflows and fund balance	$ 4,357,247	$ 3,301,225

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

	2026	2025
Total revenues	$ 2,948,009	$ 3,202,520
Total expenditures	(1,885,906)	(1,772,844)
Revenues over expenditures	1,062,103	1,429,676
Other changes in fund balance		30,000
Net change in fund balance	$ 1,062,103	$ 1,459,676

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy and the provision of water and sewer services to customers within the District. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. While assessed values in the District increased from the prior year, property tax revenues decreased because the District decreased the maintenance component of the levy.
- Water, sewer, and surface water revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of April 30, 2026 and 2025, is as follows:

	2026	2025
Total assets	$ 2,516,049	$ 1,898,583
Total liabilities	$ 75,531	$ 4,508
Total deferred inflows	48,626	100,602
Total fund balance	2,391,892	1,793,473
Total liabilities, deferred inflows and fund balance	$ 2,516,049	$ 1,898,583

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

	2026	2025
Total revenues	$ 2,226,905	$ 1,279,759
Total expenditures	(1,628,486)	(1,313,223)
Revenues over (under) expenditures	598,419	(33,464)
Other changes in fund balance		497,956
Net change in fund balance	$ 598,419	$ 464,492

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

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of April 30, 2026 and 2025, is as follows:

	2026	2025
Total assets	$ 300,840	$ 294,709
Total liabilities	$ -	$ 463
Total fund balance	300,840	294,246
Total liabilities and fund balance	$ 300,840	$ 294,709

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2026	2025
Total revenues	$ 11,514	$ 8,729
Total expenditures	(4,920)	(9,929,709)
Revenues over (under) expenditures	6,594	(9,920,980)
Other changes in fund balance		10,052,987
Net change in fund balance	$ 6,594	$ 132,007

During the current fiscal year, the District did not have any significant capital asset activity. During the previous fiscal year, the District's capital asset activity was financed with proceeds from the issuance of its Series 2024 and 2024A Unlimited Tax Bonds.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was $147,023 greater than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

Capital Assets

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

Capital assets held by the District at April 30, 2026 and 2025, are summarized as follows:

	2026	2025
Capital assets not being depreciated		
Land and improvements	$ 12,564,043	$ 12,564,043
Capital assets being depreciated/amortized		
Infrastructure	17,147,569	17,147,569
Water and wastewater capacity	1,793,500	1,793,500
Landscaping improvements	3,894,533	3,894,533
	22,835,602	22,835,602
Less accumulated depreciation/amortization		
Infrastructure	(1,592,296)	(1,171,028)
Water and wastewater capacity	(133,981)	(96,265)
Landscaping improvements	(727,705)	(532,978)
	(2,453,982)	(1,800,271)
Depreciable capital assets, net	20,381,620	21,035,331
Capital assets, net	$ 32,945,663	$ 33,599,374

Harris County assumes responsibility (after a one-year maintenance period) for road facilities constructed within the boundaries of the County. Accordingly, these facilities are not considered assets of the District. The estimated value of these assets is recorded as transfers to other governments upon completion of construction.

Long-Term Debt and Related Liabilities

As of April 30, 2026, the District owes approximately $23,080,475 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. As discussed in Note 6, the District has an additional commitment in the amount of $290,000 for a project under construction by its developer. As noted, the District will owe its developer for these projects upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

At April 30, 2026 and 2025, the District had total bonded debt outstanding as shown below:

Series	2026	2025
2022 Road	$ 4,815,000	$ 4,910,000
2023	2,790,000	2,910,000
2023A	9,100,000	9,100,000
2024	2,545,000	2,545,000
2024A	8,380,000	8,380,000
	$ 27,630,000	$ 27,845,000

At April 30, 2026, the District had $191,915,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing, and improving the water, sanitary sewer, and drainage systems within the District and refunding of such bonds; $30,000,000 for parks and recreational facilities and refunding of such bonds; and $30,000,000 for road improvements and the refunding of such bonds.

Property Taxes

The District's property tax base increased approximately $49,107,000 for the 2026 tax year from $217,815,443 to $266,922,507, based on preliminary values. This increase was primarily due to new construction in the District.

Next Year's Budget

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

	2026 Actual	2027 Budget
Total revenues	$ 2,948,009	$ 2,836,239
Total expenditures	(1,885,906)	(2,039,750)
Revenues over expenditures	1,062,103	796,489
Beginning fund balance	2,621,044	3,683,147
Ending fund balance	$ 3,683,147	$ 4,479,636

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Basic Financial Statements

Harris County Municipal Utility District No. 540
Statement of Net Position and Governmental Funds Balance Sheet
April 30, 2026

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	$ 285,985	$ 122,380	$ 7,817	$ 416,182	$ -	$ 416,182
Investments	3,861,023	2,345,043	293,023	6,499,089		6,499,089
Taxes receivable	25,784	48,626		74,410		74,410
Customer service receivables	112,396			112,396		112,396
Interfund receivables	70,781			70,781	(70,781)	
Prepaid items	1,278			1,278		1,278
Capital assets not being depreciated					12,564,043	12,564,043
Capital assets, net					20,381,620	20,381,620
Total Assets	$ 4,357,247	$ 2,516,049	$ 300,840	$ 7,174,136	32,874,882	40,049,018
Liabilities						
Accounts payable	$ 176,313	$ -	$ -	$ 176,313		176,313
Other payables	2,401	4,750		7,151		7,151
Customer deposits	469,602			469,602		469,602
Interfund payables		70,781		70,781	(70,781)	
Accrued interest payable					222,809	222,809
Due to developer					23,080,475	23,080,475
Long-term debt						
Due within one year					910,000	910,000
Due after one year					26,720,000	26,720,000
Total Liabilities	648,316	75,531		723,847	50,862,503	51,586,350
Deferred Inflows of Resources						
Deferred property taxes	25,784	48,626		74,410	(74,410)	
Fund Balances/Net Position						
Fund Balances						
Nonspendable	1,278			1,278	(1,278)	
Restricted		2,391,892	300,840	2,692,732	(2,692,732)	
Unassigned	3,681,869			3,681,869	(3,681,869)	
Total Fund Balances	3,683,147	2,391,892	300,840	6,375,879	(6,375,879)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 4,357,247	$ 2,516,049	$ 300,840	$ 7,174,136		
Net Position						
Net investment in capital assets					(7,529,018)	(7,529,018)
Restricted for debt service					2,217,709	2,217,709
Unrestricted					(6,226,023)	(6,226,023)
Total Net Position					$ (11,537,332)	$ (11,537,332)

See notes to basic financial statements.

Harris County Municipal Utility District No. 540
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended April 30, 2026

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Water service	$ 670,288	$ -	$ -	$ 670,288	$ -	$ 670,288
Sewer service	532,148			532,148		532,148
Property taxes	1,239,420	2,113,068		3,352,488	(113,739)	3,238,749
Penalties and interest	68,148	50,805		118,953	(16,180)	102,773
Regional water authority fees	272,484			272,484		272,484
Tap connection and inspection	46,837			46,837		46,837
Miscellaneous	579			579		579
Investment earnings	118,105	63,032	11,514	192,651		192,651
Total Revenues	2,948,009	2,226,905	11,514	5,186,428	(129,919)	5,056,509
Expenditures/Expenses						
Current service operations						
Purchased services	979,025			979,025		979,025
Professional fees	279,226	22,554	4,200	305,980		305,980
Contracted services	313,182	40,839		354,021		354,021
Repairs and maintenance	246,733			246,733		246,733
Utilities	3,371			3,371		3,371
Administrative	58,919	3,212		62,131		62,131
Other	5,450		720	6,170		6,170
Debt service						
Principal		215,000		215,000	(215,000)	
Interest and fees		1,346,881		1,346,881	(2,092)	1,344,789
Depreciation and amortization					653,711	653,711
Total Expenditures/Expenses	1,885,906	1,628,486	4,920	3,519,312	436,619	3,955,931
Revenues Over Expenditures	1,062,103	598,419	6,594	1,667,116	(1,667,116)	
Change in Net Position					1,100,578	1,100,578
Fund Balance/Net Position						
Beginning of the year	2,621,044	1,793,473	294,246	4,708,763	(17,346,673)	(12,637,910)
End of the year	$ 3,683,147	$ 2,391,892	$ 300,840	$ 6,375,879	$ (17,913,211)	$ (11,537,332)

See notes to basic financial statements.

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Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris County Municipal Utility District No. 540 (the "District") conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB"). The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to Senate Bill No. 1002, 84th Session of the Texas Legislature, Regular Session, dated June 18, 2015, later codified as Chapter 7910, Special District Local Laws Code ("Chapter 7910"), and operates in accordance with Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution, Chapter 7910, and Chapters 49 and 54, Texas Water Code. The Board of Directors held its first meeting on July 26, 2017, and the first bonds were issued on December 15, 2022.

The District's primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District also has the authority to construct parks and recreational facilities and road improvements within the boundaries of the District. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have

many funds; however, governmental financial statements focus on the most important or "major" funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

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

- The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer, and drainage facilities and road improvements.

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

Measurement Focus and Basis of Accounting

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

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

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

Use of Restricted Resources

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

Prepaid Items

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At April 30, 2026, an allowance for uncollectible accounts was not considered necessary.

Unbilled Service Revenues

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided but unbilled at year-end has been included in the accompanying financial statements.

Interfund Activity

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

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost that exceeds the capitalization threshold for the asset class and an estimated useful life in excess of one year. Capital assets that individually are below the capitalization threshold but, in the aggregate, are above the threshold are capitalized. Subsequent replacements of these assets that do not exceed the threshold are not capitalized. The District's capitalization threshold for infrastructure assets is $50,000. The threshold for subscription-based information technology arrangements (SBITAs) is $100,000.

Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of water, wastewater, and drainage facilities, are depreciated (or amortized in the case of intangible assets) using the straight-line method as follows:

Assets	Useful Life
Infrastructure	10-45 years
Water and wastewater capacity	Remaining life of contract
Landscaping improvements	20 years

The District's detention facilities and drainage channels are considered improvements to land and are non-depreciable.

Deferred Inflows and Outflows of Financial Resources

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

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

Net Position – Governmental Activities

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

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

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

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the

extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

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

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

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

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds		$ 6,375,879
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	$ 35,399,645	
Less accumulated depreciation/amortization	(2,453,982)	
		32,945,663
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Accrued interest payable	(222,809)	
Due to developer	(23,080,475)	
Bonds payable	(27,630,000)	
		(50,933,284)
Deferred inflows in the fund statements consist of property taxes receivable that have been levied and are due, but are not available to pay current period expenditures. These amounts are included in revenues in the government-wide statements.		74,410
Total net position - governmental activities		$ (11,537,332)

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

Net change in fund balances - total governmental funds		$ 1,667,116
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes and penalties and interest.		(129,919)
Financial reporting for capital assets varies significantly between the fund statements and the government-wide statements. Reporting at the fund level focuses on the impact of transactions on financial resources (i.e., cash), while reporting at the government-wide level seeks to allocate the cost of the acquisition of capital assets over their useful lives and to measure the economic impact of developer financing of capital assets used by the District or conveyed to other governmental entities. The difference during the current fiscal year are for depreciation and amortization expense.		(653,711)
Financial reporting for long-term obligations varies between the fund statements and the government-wide statements. At the fund level, the focus is on increases and decreases of financial resources as liabilities are acquired and repaid. At the government-wide level, the focus is on measuring and reporting on changes in the District's obligation to repay liabilities in the future. Differences during the current fiscal year are for the following:		
Principal payments	$ 215,000	
Interest expense accrual	2,092	
		217,092
Change in net position of governmental activities		$ 1,100,578

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Investments

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

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

As of April 30, 2026, the District's investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexPool	General	$ 3,861,023		
	Debt Service	2,345,043		
	Capital Projects	293,023		
		$ 6,499,089	AAAm	43 days

TexPool

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seeks to maintain a constant dollar value per share. Accordingly, the fair value of the District's position in TexPool is the same as the value of TexPool shares. Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is executed by 3:30 p.m.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at April 30, 2026, consist of the following:

Receivable Fund	Payable Fund	Amounts	Purpose
General Fund	Debt Service Fund	$ 70,781	Maintenance tax collections not remitted as of year end

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

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended April 30, 2026, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	$ 12,564,043	$ -	$ 12,564,043
Capital assets being depreciated/amortized			
Infrastructure	17,147,569		17,147,569
Water and wastewater capacity	1,793,500		1,793,500
Landscaping improvements	3,894,533		3,894,533
	22,835,602		22,835,602
Less accumulated depreciation/amortization			
Infrastructure	(1,171,028)	(421,268)	(1,592,296)
Water and wastewater capacity	(96,265)	(37,716)	(133,981)
Landscaping improvements	(532,978)	(194,727)	(727,705)
	(1,800,271)	(653,711)	(2,453,982)
Subtotal depreciable capital assets, net	21,035,331	(653,711)	20,381,620
Capital assets, net	$ 33,599,374	$ (653,711)	$ 32,945,663

Depreciation/amortization expense for the current fiscal year was $653,711.

Note 6 – Due to Developers

The amount due to developers at April 30, 2026, is approximately $23,080,475. There was no change in this liability from the prior year.

In addition, the District will owe the developer approximately $290,000 for the construction of the utility extension to serve Cunningham. This project will be reported in the government-wide financial statements upon completion of construction. The exact amount due to the developer is not known until approved by the TCEQ and verified by the District's auditor.

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	$ 27,630,000
Due within one year	$ 910,000

The District's bonds payable at April 30, 2026, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2022 Road	$ 4,815,000	$ 5,000,000	5.00% - 5.50%	September 1, 2024/2049	September 1 March 1	September 1, 2029
2023	2,790,000	3,060,000	4.00% - 6.50%	September 1, 2024/2049	September 1 March 1	September 1, 2029
2023A	9,100,000	9,100,000	4.125% - 6.625%	September 1, 2026/2049	September 1 March 1	September 1, 2030
2024	2,545,000	2,545,000	4.00% - 6.50%	September 1, 2026/2049	September 1 March 1	September 1, 2030
2024A	8,380,000	8,380,000	4.00% - 6.50%	March 1, 2027/2050	September 1 March 1	March 1, 2031
	$ 27,630,000					

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

At April 30, 2026, the District had authorized but unissued bonds in the amount of $191,915,000 for water, sewer, and drainage facilities and refunding of such bonds; $30,000,000 for park and recreational facilities and refunding of such bonds, and $30,000,000 for road facilities and refunding of such bonds.

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

Bonds payable, beginning of year	$ 27,845,000
Bonds retired	(215,000)
Bonds payable, end of year	$ 27,630,000

As of April 30, 2026, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2027	$ 910,000	$ 1,314,293	$ 2,224,293
2028	925,000	1,256,043	2,181,043
2029	945,000	1,196,768	2,141,768
2030	960,000	1,136,468	2,096,468
2031	975,000	1,075,268	2,050,268
2032	985,000	1,018,031	2,003,031
2033	1,000,000	965,931	1,965,931
2034	1,020,000	916,094	1,936,094
2035	1,040,000	872,882	1,912,882
2036	1,065,000	828,294	1,893,294
2037	1,090,000	782,369	1,872,369
2038	1,110,000	735,107	1,845,107
2039	1,135,000	686,707	1,821,707
2040	1,160,000	636,543	1,796,543
2041	1,185,000	584,756	1,769,756
2042	1,215,000	531,569	1,746,569
2043	1,245,000	476,901	1,721,901
2044	1,275,000	420,729	1,695,729
2045	1,310,000	362,839	1,672,839
2046	1,345,000	303,315	1,648,315
2047	1,375,000	242,024	1,617,024
2048	1,410,000	178,947	1,588,947
2049	1,455,000	113,850	1,568,850
2050	1,495,000	46,526	1,541,526
	$ 27,630,000	$ 16,682,254	$ 44,312,254

Note 8 – Property Taxes

On November 5, 2019, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to $1.50 per $100 of assessed value and a rate limited to $0.25 per $100 assessed value for the maintenance of road facilities. The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the Harris Central Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the

related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

Property taxes are collected based on rates adopted in the year of the levy. The District's 2026 fiscal year was financed through the 2025 tax levy, pursuant to which the District levied property taxes of $1.49 per $100 of assessed value, of which $0.535 was allocated to maintenance and operations, $0.17 was allocated to road debt service, and $0.785 was allocated to water, sewer, and drainage debt service. The resulting tax levy was $3,245,450 on the adjusted taxable value of $217,815,443.

Property taxes receivable, at April 30, 2026, consisted of the following:

Current year taxes receivable	$	56,568
Prior years taxes receivable		9,073
		65,641
Penalty and interest receivable		8,769
Property taxes receivable	$	74,410

Note 9 – Wholesale Agreement for Water and Wastewater service

On April 29, 2021, the District, Century Land, AHV Katy, Cunningham, and Black Gold Land Holdings of Texas LLC entered into a Wholesale Agreement for Water and Wastewater Service with Quadvest, LP., a Texas limited partnership (the " Wholesale Agreement") to provide water supply and wastewater treatment capacity to serve up to 1,410 equivalent single-family connections ("ESFCs") in the District (the "Capacity Reservation"). On December 3, 2021, Quadvest, L.P. assigned its rights and obligations under the Wholesale Agreement to Quadvest Wholesale LLC ("Quadvest"). Under the terms of the Wholesale Agreement Quadvest is responsible for financing and constructing water supply and wastewater treatment plants (the "Quadvest System") with sufficient capacity to fulfill the Capacity Reservation to provide water and wastewater service to the District. The Quadvest System may be constructed in phases in order to be available as needed by the District in accordance with the District's build-out schedule. The Wholesale Agreement allows Quadvest to expand the Quadvest System to serve customers outside of the boundaries of District. The District is responsible for financing and constructing the facilities to deliver water and wastewater service to customers within the District. The term of the Wholesale Agreement is 50 years and thereafter renews for successive one-year terms, unless prior ninety (90) days written notice is given.

The Wholesale Agreement provides that at any time subsequent to the connection of 1,800 ESFCs with a water service ESFC and a sewer service ESFC each being a separate connection, the District may buy out the entire Quadvest System, or the portion providing the Capacity Reservation, upon the terms and price set forth in the Wholesale Agreement.

In exchange for constructing and operating the Quadvest System, Quadvest has received or will receive the following:

a) Initial Payment – the District made an initial payment of $1,000,000 to Quadvest. Such payment is in addition to the final Capacity Payments (defined below)

b) Capacity Payments – Quadvest will receive $1,150 per ESFC representing one water ESFC and one wastewater ESFC per residential lot (the "Capacity Payments"). The Capacity Payments are due the earlier of the issuance of District bonds for such Capacity Payments or thirty-six (36) months following the recording of the plat for each section. As of April 30, 2026, the District has made $793,500 in Capacity Payments to Quadvest.

Quadvest is responsible for the meter installation and the design and construction of the interconnect facilities necessary to connect the District to Quadvest's water system. The wholesale water service charge is $3.70 per 1,000 gallons of meter water flow. Quadvest is also responsible for the design and construction of the interconnect facilities necessary to connect the District to Quadvest's wastewater system. The wholesale sewer service charge is $55 equivalent per single-family connections ("ESFC"). Additionally, the District will pay all regulatory fees incurred by Quadvest while providing services to the District. During the current fiscal year, the District paid $979,025 to Quadvest for purchased water and wastewater services.

Note 10 – Regional Water Authority

The District is within the boundaries of the West Harris County Regional Water Authority (the "Authority"), which was created by the Texas Legislature. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Coastal Subsidence District, which regulates groundwater withdrawal.

As of January 1, 2025, the Authority's rates are $3.95 per 1,000 gallons of water pumped from the District's wells and $4.35 for surface water supplied to the District. These rates are subject to future increases. The District charges its customer based on the same rate.

Note 11 – Risk Management

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

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Required Supplementary Information

Harris County Municipal Utility District No. 540
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended April 30, 2026

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Water service	$ 690,000	$ 670,288	$ (19,712)
Sewer service	505,000	532,148	27,148
Property taxes	944,230	1,239,420	295,190
Penalties and interest	37,000	68,148	31,148
Tap connection and inspection	316,600	46,837	(269,763)
Regional water authority fees	245,000	272,484	27,484
Miscellaneous		579	579
Investment earnings	20,000	118,105	98,105
Total Revenues	2,757,830	2,948,009	190,179
Expenditures			
Current service operations			
Purchased services	902,000	979,025	(77,025)
Professional fees	168,000	279,226	(111,226)
Contracted services	384,000	313,182	70,818
Repairs and maintenance	311,000	246,733	64,267
Utilities	3,000	3,371	(371)
Administrative	64,750	58,919	5,831
Other	10,000	5,450	4,550
Total Expenditures	1,842,750	1,885,906	(43,156)
Revenues Over Expenditures	915,080	1,062,103	147,023
Fund Balance			
Beginning of the year	2,621,044	2,621,044	
End of the year	$ 3,536,124	$ 3,683,147	$ 147,023

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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Texas Supplementary Information

Harris County Municipal Utility District No. 540
TSI-1. Services and Rates
April 30, 2026

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

[X]	Retail Water	[ ]	Wholesale Water	[X]	Solid Waste / Garbage	[X]	Drainage
[X]	Retail Wastewater	[ ]	Wholesale Wastewater	[ ]	Flood Control	[X]	Irrigation
[X]	Parks / Recreation	[ ]	Fire Protection	[X]	Roads	[ ]	Security

[X] Participates in joint venture, regional system and/or wastewater service

[ ] Other (Specify): _____

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	Usage Levels		
Water:	$ 69.50	10,000	N	$ 4.18	10,001	to	no limit
Wastewater:	$ 64.50		Y			to	
Surcharge:	$ 3.95	1,000	N	$ 3.95	1,001	to	no limit

District employs winter averaging for wastewater usage? [ ] Yes [X] No

Total charges per 10,000 gallons usage: Water $ 109.00 Wastewater $ 64.50

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	686	670	x 1.0	670
1"	5	5	x 2.5	13
1.5"	1	1	x 5.0	5
2"	14	14	x 8.0	112
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"	1	1	x 80.0	80
10"	3	3	x 115.0	345
Total Water	710	694		1,225
Total Wastewater	701	685	x 1.0	685

See accompanying auditor's report.

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

Gallons purchased: *	69,853,000	Water Accountability Ratio: (Gallons billed & sold / Gallons purchased)
Gallons billed to customers:	68,936,000	98.91%
Gallons sold: **	156,000	

4. Standby Fees (authorized only under TWC Section 49.231):

The district does not have Debt Service standby fees.

The district does have Operation and Maintenance standby fees.

5. Location of District:

Is the District located entirely within one county? Yes [X] No [ ]

County(ies) in which the District is located: Harris County

Is the District located within a city? Entirely [ ] Partly [ ] Not at all [X]

City(ies) in which the District is located:

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely [X] Partly [ ] Not at all [ ]

ETJs in which the District is located: City of Houston

Are Board members appointed by an office outside the district? Yes [ ] No [X]

If Yes, by whom?

*Purchased from Quadvest and Harris County Municipal Utility District No. 171
**Sold to Harris County Municipal Utility District No. 171
See accompanying auditor's report.

Harris County Municipal Utility District No. 540
TSI-2. General Fund Expenditures
For the Year Ended April 30, 2026

Purchased services	$ 979,025
Professional fees	
Legal	96,555
Audit	17,000
Engineering	165,671
	279,226
Contracted services	
Bookkeeping	21,125
Operator	53,352
Garbage collection	214,427
Inspection	24,278
	313,182
Repairs and maintenance	246,733
Utilities	3,371
Administrative	
Directors fees	31,532
Printing and office supplies	12,494
Insurance	6,117
Other	8,776
	58,919
Other	5,450
Total expenditures	$ 1,885,906

See accompanying auditor's report.

Harris County Municipal Utility District No. 540
TSI-3. Investments
April 30, 2026

Fund	Interest Rate	Maturity Date	Balance at End of Year
General			
TexPool	Variable	N/A	$ 3,861,023
Debt Service			
TexPool	Variable	N/A	386,649
TexPool	Variable	N/A	1,958,394
			2,345,043
Capital Projects			
TexPool	Variable	N/A	10,743
TexPool	Variable	N/A	282,280
			293,023
Total - All Funds			$ 6,499,089

See accompanying auditor's report.

Harris County Municipal Utility District No. 540
TSI-4. Taxes Levied and Receivable
April 30, 2026

	Maintenance Taxes	Road Debt Service Taxes	WSD Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	$ 103,727	$ 18,104	$ 57,550	$ 179,381
Adjustments to Prior Year Tax Levy	(3,870)	(687)	(2,146)	(6,703)
Adjusted Receivable	99,857	17,417	55,404	172,678
2025 Original Tax Levy	1,111,950	353,330	1,631,552	3,096,832
Adjustments	53,363	16,956	78,299	148,618
Adjusted Tax Levy	1,165,313	370,286	1,709,851	3,245,450
Total to be accounted for	1,265,170	387,703	1,765,255	3,418,128
Tax collections:				
Current year	1,145,001	363,832	1,680,049	3,188,882
Prior years	94,387	16,464	52,754	163,605
Total Collections	1,239,388	380,296	1,732,803	3,352,487
Taxes Receivable, End of Year	$ 25,782	$ 7,407	$ 32,452	$ 65,641
Taxes Receivable, By Years				
2025	$ 20,312	$ 6,454	$ 29,802	$ 56,568
2024	2,901	516	1,922	5,339
2023	2,474	437	728	3,639
2022	95			95
Taxes Receivable, End of Year	$ 25,782	$ 7,407	$ 32,452	$ 65,641

	2025	2024	2023	2022
Property Valuations:				
Land	$ 63,163,297	$ 62,998,867	$ 49,824,750	$ 32,344,394
Improvements	167,445,592	129,559,524	76,877,526	823,343
Personal Property	2,032,438	500,076	232,088	164,827
Exemptions	(14,825,884)	(15,737,292)	(11,096,734)	(9,863,077)
Total Property Valuations	$ 217,815,443	$ 177,321,175	$ 115,837,630	$ 23,469,487
Tax Rates per $100 Valuation:				
Maintenance tax rate	$ 0.535	$ 0.815	$ 1.02	$ 1.50
Road debt service tax rate	0.170	0.145	0.18	
WSD debt service tax rate	0.785	0.540	0.30	
Total Tax Rates per $100 Valuation	$ 1.490	$ 1.500	$ 1.50	$ 1.50
Adjusted Tax Levy:	$ 3,245,450	$ 2,659,818	$ 1,737,564	$ 352,042
Percentage of Taxes Collected to Taxes Levied **	98.26%	99.80%	99.79%	99.97%

* Maximum Maintenance Tax Rate Approved by Voters: $1.50 on November 5, 2019
* Maximum Road Maintenance Tax Rate Approved by Voters: $0.25 on November 5, 2019
** Calculated as taxes collected for a tax year divided by taxes levied for that tax year.
See accompanying auditor's report.

Harris County Municipal Utility District No. 540
TSI-5. Long-Term Debt Service Requirements
Series 2022 Road--by Years
April 30, 2026

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2027	$ 100,000	$ 249,331	$ 349,331
2028	105,000	244,206	349,206
2029	115,000	238,706	353,706
2030	120,000	232,831	352,831
2031	125,000	226,706	351,706
2032	130,000	220,331	350,331
2033	140,000	213,581	353,581
2034	145,000	206,456	351,456
2035	155,000	198,956	353,956
2036	165,000	190,956	355,956
2037	175,000	182,456	357,456
2038	185,000	173,456	358,456
2039	195,000	163,956	358,956
2040	205,000	153,956	358,956
2041	215,000	143,188	358,188
2042	225,000	131,638	356,638
2043	240,000	119,431	359,431
2044	250,000	106,413	356,413
2045	265,000	92,572	357,572
2046	280,000	77,925	357,925
2047	295,000	62,289	357,289
2048	310,000	45,650	355,650
2049	330,000	28,050	358,050
2050	345,000	9,489	354,489
	$ 4,815,000	$ 3,712,529	$ 8,527,529

See accompanying auditor's report.

Harris County Municipal Utility District No. 540
TSI-5. Long-Term Debt Service Requirements
Series 2023--by Years
April 30, 2026

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2027	$ 120,000	$ 126,681	$ 246,681
2028	120,000	118,881	238,881
2029	120,000	111,081	231,081
2030	120,000	103,281	223,281
2031	120,000	95,481	215,481
2032	120,000	87,981	207,981
2033	115,000	82,081	197,081
2034	115,000	77,481	192,481
2035	115,000	72,881	187,881
2036	115,000	68,281	183,281
2037	115,000	63,681	178,681
2038	115,000	59,081	174,081
2039	115,000	54,481	169,481
2040	115,000	49,881	164,881
2041	115,000	45,281	160,281
2042	115,000	40,681	155,681
2043	115,000	36,083	151,083
2044	115,000	31,410	146,410
2045	115,000	26,666	141,666
2046	115,000	21,922	136,922
2047	115,000	17,107	132,107
2048	115,000	12,219	127,219
2049	115,000	7,332	122,332
2050	115,000	2,444	117,444
	$ 2,790,000	$ 1,412,379	$ 4,202,379

See accompanying auditor's report.

Harris County Municipal Utility District No. 540
TSI-5. Long-Term Debt Service Requirements
Series 2023A--by Years
April 30, 2026

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2027	$ 380,000	$ 443,900	$ 823,900
2028	380,000	418,725	798,725
2029	380,000	393,550	773,550
2030	380,000	368,375	748,375
2031	380,000	343,200	723,200
2032	380,000	321,113	701,113
2033	380,000	302,113	682,113
2034	380,000	284,775	664,775
2035	380,000	268,863	648,863
2036	380,000	252,475	632,475
2037	380,000	235,850	615,850
2038	380,000	218,988	598,988
2039	380,000	201,888	581,888
2040	380,000	184,550	564,550
2041	380,000	166,975	546,975
2042	380,000	149,400	529,400
2043	380,000	131,825	511,825
2044	380,000	114,250	494,250
2045	380,000	96,675	476,675
2046	380,000	79,100	459,100
2047	375,000	61,640	436,640
2048	375,000	44,296	419,296
2049	375,000	26,718	401,718
2050	375,000	8,905	383,905
	$ 9,100,000	$ 5,118,149	$ 14,218,149

See accompanying auditor's report.

Harris County Municipal Utility District No. 540
TSI-5. Long-Term Debt Service Requirements
Series 2024--by Years
April 30, 2026

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2027	$ 110,000	$ 111,975	$ 221,975
2028	110,000	104,825	214,825
2029	110,000	97,675	207,675
2030	110,000	90,525	200,525
2031	110,000	83,375	193,375
2032	105,000	77,700	182,700
2033	105,000	73,500	178,500
2034	105,000	69,300	174,300
2035	105,000	65,100	170,100
2036	105,000	60,900	165,900
2037	105,000	56,700	161,700
2038	105,000	52,500	157,500
2039	105,000	48,300	153,300
2040	105,000	44,100	149,100
2041	105,000	39,900	144,900
2042	105,000	35,700	140,700
2043	105,000	31,500	136,500
2044	105,000	27,300	132,300
2045	105,000	23,100	128,100
2046	105,000	18,900	123,900
2047	105,000	14,700	119,700
2048	105,000	10,500	115,500
2049	105,000	6,300	111,300
2050	105,000	2,100	107,100
	$ 2,545,000	$ 1,246,475	$ 3,791,475

See accompanying auditor's report.

Harris County Municipal Utility District No. 540
TSI-5. Long-Term Debt Service Requirements
Series 2024A--by Years
April 30, 2026

Due During Fiscal Years Ending	Principal Due March 1	Interest Due September 1, March 1	Total
2027	$ 200,000	$ 382,406	$ 582,406
2028	210,000	369,406	579,406
2029	220,000	355,756	575,756
2030	230,000	341,456	571,456
2031	240,000	326,506	566,506
2032	250,000	310,906	560,906
2033	260,000	294,656	554,656
2034	275,000	278,082	553,082
2035	285,000	267,082	552,082
2036	300,000	255,682	555,682
2037	315,000	243,682	558,682
2038	325,000	231,082	556,082
2039	340,000	218,082	558,082
2040	355,000	204,056	559,056
2041	370,000	189,412	559,412
2042	390,000	174,150	564,150
2043	405,000	158,062	563,062
2044	425,000	141,356	566,356
2045	445,000	123,826	568,826
2046	465,000	105,468	570,468
2047	485,000	86,288	571,288
2048	505,000	66,282	571,282
2049	530,000	45,450	575,450
2050	555,000	23,588	578,588
	$ 8,380,000	$ 5,192,722	$ 13,572,722

See accompanying auditor's report.

Harris County Municipal Utility District No. 540
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
April 30, 2026

Due During Fiscal Years Ending	Principal Due September 1, March 1	Interest Due September 1, March 1	Total
2027	$ 910,000	$ 1,314,293	$ 2,224,293
2028	925,000	1,256,043	2,181,043
2029	945,000	1,196,768	2,141,768
2030	960,000	1,136,468	2,096,468
2031	975,000	1,075,268	2,050,268
2032	985,000	1,018,031	2,003,031
2033	1,000,000	965,931	1,965,931
2034	1,020,000	916,094	1,936,094
2035	1,040,000	872,882	1,912,882
2036	1,065,000	828,294	1,893,294
2037	1,090,000	782,369	1,872,369
2038	1,110,000	735,107	1,845,107
2039	1,135,000	686,707	1,821,707
2040	1,160,000	636,543	1,796,543
2041	1,185,000	584,756	1,769,756
2042	1,215,000	531,569	1,746,569
2043	1,245,000	476,901	1,721,901
2044	1,275,000	420,729	1,695,729
2045	1,310,000	362,839	1,672,839
2046	1,345,000	303,315	1,648,315
2047	1,375,000	242,024	1,617,024
2048	1,410,000	178,947	1,588,947
2049	1,455,000	113,850	1,568,850
2050	1,495,000	46,526	1,541,526
	$ 27,630,000	$ 16,682,254	$ 44,312,254

See accompanying auditor's report.

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Harris County Municipal Utility District No. 540
TSI-6. Change in Long-Term Bonded Debt
April 30, 2026

	Bond Issue			
	Series 2022 Road	Series 2023	Series 2023A	Series 2024
Interest rate	5.00% - 5.50%	4.00% - 6.50%	4.125% - 6.625%	4.00% - 6.50%
Dates interest payable	9/1 ; 3/1	9/1 ; 3/1	9/1 ; 3/1	9/1 ; 3/1
Maturity dates	9/1/24 - 9/1/49	9/1/24 - 9/1/49	9/1/26 - 9/1/49	9/1/26 - 9/1/49
Beginning bonds outstanding	$ 4,910,000	$ 2,910,000	$ 9,100,000	$ 2,545,000
Bonds retired	(95,000)	(120,000)		
Ending bonds outstanding	$ 4,815,000	$ 2,790,000	$ 9,100,000	$ 2,545,000
Interest paid during fiscal year	$ 254,206	$ 134,481	$ 456,488	$ 115,550
Paying agent's name and city				
All Series	The Bank of New York Mellon Trust Company, N.A., Houston, Texas			

Bond Authority:	Water, Sewer and Drainage and Refunding Bonds	Parks and Recreational and Refunding Bonds	Road and Refunding Bonds
Amount Authorized by Voters	$ 215,000,000	$ 30,000,000	$ 35,000,000
Amount Issued	(23,085,000)		(5,000,000)
Remaining To Be Issued	$ 191,915,000	$ 30,000,000	$ 30,000,000

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

Debt Service Fund cash and investments balance as of April 30, 2026:	$ 2,467,423
Average annual debt service payment (principal and interest) for remaining term of all debt:	$ 1,846,344

See accompanying auditor's report.

Bond Issue	
Series 2024A	Totals
4.00% - 6.50% 9/1 ; 3/1 3/1/27 - 3/1/50	
$ 8,380,000	$ 27,845,000
	(215,000)
$ 8,380,000	$ 27,630,000
$ 382,406	$ 1,343,131

Harris County Municipal Utility District No. 540
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2026	2025	2024	2023**	2022
Revenues					
Water service	$ 670,288	$ 619,056	$ 549,251	$ 320,525	$ 4,988
Sewer service	532,148	516,809	411,473	222,548	4,233
Property taxes	1,239,420	1,432,371	1,131,044	319,869	93,854
Penalties and interest	68,148	56,046	34,970	22,526	2,133
Regional water authority fees	272,484	239,591	223,292	98,612	218
Tap connection and inspection	46,837	284,371	476,703	602,623	166,206
Miscellaneous	579	760	2,215	4,755	
Investment earnings	118,105	53,516	6,529	15,929	876
Total Revenues	2,948,009	3,202,520	2,835,477	1,607,387	272,508
Expenditures					
Current service operations					
Purchased services	979,025	892,935	837,705	448,151	
Professional fees	279,226	150,194	180,169	282,837	221,922
Contracted services	313,182	324,315	384,623	540,954	12,615
Repairs and maintenance	246,733	245,365	366,017	394,069	
Utilities	3,371	2,912	2,612	233	
Administrative	58,919	63,537	41,847	39,220	23,962
Other	5,450	3,651	7,003	1,853	
Capital outlay		89,935			
Total Expenditures	1,885,906	1,772,844	1,819,976	1,707,317	258,499
Revenues Over (Under) Expenditures	1,062,103	1,429,676	1,015,501	(99,930)	14,009
Other Financing Sources					
Developer advances					146,636
Internal transfers		30,000	49,465		
Net Change in Fund Balance	1,062,103	1,459,676	1,064,966	(99,930)	160,645
Fund Balance, Beginning of the year***	2,621,044	1,161,368	96,402	(25,869)	(186,514)
End of the year	$ 3,683,147	$ 2,621,044	$ 1,161,368	$ (125,799)	$ (25,869)
Total Active Retail Water Connections	694	680	682	451	129
Total Active Retail Wastewater Connections	685	664	671	443	126

*Percentage is negligible
** Water and sewer service restated in fiscal year 2024
***The District recognized a prior period adjustment in 2024 resulting in a difference between the beginning and ending fund balances of fiscal years 2024 and 2023, respectivley
See accompanying auditor's report.

Percent of Fund Total Revenues				
2026	2025	2024	2023**	2022
23%	19%	19%	21%	2%
18%	16%	15%	14%	2%
42%	45%	40%	20%	34%
2%	2%	1%	1%	1%
9%	7%	8%	6%	*
2%	9%	17%	37%	61%
*	*	*	*	
4%	2%	*	1%	*
100%	100%	100%	100%	100%
33%	28%	30%	28%	
9%	5%	6%	18%	81%
11%	10%	14%	34%	5%
8%	8%	13%	25%	
*	*	*	*	
2%	2%	1%	2%	9%
*	*	*	*	
	3%			
63%	56%	64%	107%	95%
37%	44%	36%	(7%)	5%

Harris County Municipal Utility District No. 540
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Four Fiscal Years

	Amounts			
	2026	2025	2024	2023
Revenues				
Property taxes	$ 2,113,068	$ 1,181,678	$ 514,639	$ -
Penalties and interest	50,805	36,037	11,594	
Miscellaneous		20	10	
Investment earnings	63,032	62,024	46,147	8,376
Total Revenues	2,226,905	1,279,759	572,390	8,376
Expenditures				
Tax collection services	66,605	48,933	25,036	
Debt service				
Principal	215,000	240,000		
Interest and fees	1,346,881	1,024,290	445,056	55,117
Total Expenditures	1,628,486	1,313,223	470,092	55,117
Revenues Over (Under) Expenditures	598,419	(33,464)	102,298	(46,741)
Other Financing Sources				
Proceeds from sale of bonds		497,956	751,262	522,162
Net Change in Fund Balance	598,419	464,492	853,560	475,421
Fund Balance, Beginning of the year	1,793,473	1,328,981	475,421	
End of the year	$ 2,391,892	$ 1,793,473	$ 1,328,981	$ 475,421

*Percentage is negligible

See accompanying auditor's report.

Percent of Fund Total Revenues			
2026	2025	2024	2023
95%	92%	90%	
2%	3%	2%	
	*	*	
3%	5%	8%	100%
100%	100%	100%	100%
3%	4%	4%	
10%	19%		
60%	80%	78%	658%
73%	103%	82%	658%
27%	(3%)	18%	(558%)

Harris County Municipal Utility District No. 540
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended April 30, 2026

Complete District Mailing Address:	3200 Southwest Freeway Suite 2600, Houston TX 77027
District Business Telephone Number:	(713) 860-6400
Submission Date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	April 30, 2025
Limit on Fees of Office that a Director may receive during a fiscal year: (Set by Board Resolution -- TWC Section 49.060)	$ 7,200

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse-ments	Title at Year End
Board Members				
Shawn Pachlhofer	5/24 - 5/28	$ 3,664	$ 2,105	President
Jennifer Coleman	5/22 - 5/26	3,978	1,831	Vice President
Sonia Soto	5/24 - 5/28	3,978	2,131	Secretary
Monica Aizpurua	5/22 - 5/26	1,989	97	Assistant Vice President
Josh Board	5/22 - 5/26	4,862	2,902	Assistant Secretary

Consultants		Amounts Paid	
Allen Boone Humphries Robinson LLP	2017	$ 97,057	Attorney
Municipal District Services, LLC	2021	262,523	Operator
Myrtle Cruz, Inc.	2017	23,428	Bookkeeper
Assessments of the Southwest, Inc.	2017	16,968	Tax Collector
Harris Central Appraisal District	Legislation	23,860	Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	2020	22,554	Delinquent Tax Attorney
Pape-Dawson Engineering, Inc	2017	135,722	Engineer
McGrath & Co., PLLC	2021	17,000	Auditor
Masterson Advisors LLC	2018		Financial Advisor

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

See accompanying auditor's report.

APPENDIX B
Specimen Municipal Bond Insurance Policy

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

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

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

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

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

SPECIMEN

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____

Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)

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