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PRELIMINARY OFFICIAL STATEMENT

DATED MARCH 10, 2026

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW, AND INTEREST ON BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS OR CORPORATIONS EXCEPT FOR CERTAIN ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE DISTRICT WILL DESIGNATE THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS - QUALIFIED TAX-EXEMPT OBLIGATIONS" HEREIN.

NEW ISSUE—BOOK ENTRY ONLY

RATING: S&P: "BBB+"

SEE: "MUNICIPAL BOND INSURANCE AND RATING"

\$4,940,000

MEMORIAL HILLS UTILITY DISTRICT

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

UNLIMITED TAX BONDS, SERIES 2026

The bonds described above (the "Bonds") are obligations solely of Memorial Hills Utility District (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 levied, without legal limit as to rate or amount, levied against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

Dated Date: May 1, 2026

Due: April 1, as shown on page 2 hereof

Interest accrues from: Delivery Date

The \$4,940,000 Unlimited Tax Bonds, Series 2026 (the "Bonds") will be issued as current interest bonds, as shown on Page 2 hereof. Interest on the Bonds will accrue from the Delivery Date (as defined below) to the Purchaser (defined herein) and will be payable April 1 and October 1 of each year commencing October 1, 2026, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in the denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, National Association, Dallas, Texas (the "Paying Agent/Registrar").

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. Owners (as defined herein) 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 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 Owners of the Bonds as described herein. See "THE BONDS--BOOK-ENTRY-ONLY SYSTEM."

The District has submitted applications to certain municipal bond insurance companies to have the payment of the principal and interest on the Bonds insured by a municipal bond insurance policy. See "MUNICIPAL BOND INSURANCE AND RATING" and "BOND INSURANCE RISK FACTORS" herein.

**MATURITY SCHEDULE, INTEREST RATES,
INITIAL REOFFERING YIELDS, AND CUSIP NUMBERS**
See Schedule on page 2

The Bonds are offered subject to prior sale, when, as and if issued by the District and accepted by the Purchaser, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel. Delivery of the Bonds is expected through DTC on May 5, 2026 (the "Delivery Date").

BIDS DUE ON THE BONDS TUESDAY, MARCH 31, 2026, AT 10:00 AM, C.D.T.

**MATURITY SCHEDULE, INTEREST RATES,
INITIAL REOFFERING YIELDS AND CUSIP NUMBERS**

CUSIP Prefix: 586017^(b)

\$4,940,000 Bonds

<u>Maturity Amount</u>	<u>Maturity (April 1)^(a)</u>	<u>Interest Rate</u>	<u>Initial Yield^(b)</u>	<u>CUSIP Suffix^(c)</u>	<u>Maturity Amount</u>	<u>Maturity (April 1)^(a)</u>	<u>Interest Rate</u>	<u>Initial Yield^(b)</u>	<u>CUSIP Suffix^(c)</u>
\$ 110,000	2027				\$ 200,000	2040			
115,000	2028				205,000	2041			
120,000	2029				215,000	2042			
125,000	2030				225,000	2043			
130,000	2031				230,000	2044			
140,000	2032				240,000	2045			
145,000	2033				255,000	2046			
155,000	2034				265,000	2047			
160,000	2035				275,000	2048			
170,000	2036				290,000	2049			
175,000	2037				305,000	2050			
185,000	2038				315,000	2051			
190,000	2039								

(Interest to accrue from the Delivery Date)

- (a) The Bonds maturing on and after April 1, 2033 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, in integral multiples of \$5,000, on April 1, 2032, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.
- (b) The initial yield represents the initial offering yield to the public, which has been established by the Purchaser for offers to the public and which may be subsequently changed by the Purchaser and is the sole responsibility of the Purchaser. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date.
- (c) CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Certificates. Neither the City, the Financial Advisor nor the Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research System Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, (the "SEC"), this document constitutes an "official statement" of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted SEC Rule 15c2-12(a)(1).

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, contracts, audits, 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 the District c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas 77019 upon payment of the costs for duplication thereof.

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 condition 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 Purchaser of the Bonds, unless the Purchaser notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

SALE AND DISTRIBUTION OF THE BONDS

AWARD OF THE BONDS

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by _____ (the "Purchaser") bearing the interest rates shown on page 2 hereof, at a price of ___% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of _____% as calculated pursuant to the Notice of Sale and Bidding Instructions and Chapter 1204 Texas Government Code, as amended.

PRICES AND MARKETABILITY

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate, acceptable to Bond Counsel, executed and delivered by the Purchaser on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. Otherwise, the District has no understanding with the Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Purchaser.

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

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

SECURITIES LAWS

No registration statement relating to the offer and sale of the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein 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 will 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.

MUNICIPAL BOND RATING AND INSURANCE

The Bonds have been assigned a rating of "BBB+" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the rating may be obtained from S&P, 55 Water Street, New York, NY 10041. The fee associated with the rating assigned to the Bonds by S&P will be paid by the District; however, the fee associated with ratings provided by other agencies will be at the expense of the Purchaser. See "MUNICIPAL BOND INSURANCE AND RATING" herein.

The District has submitted an application for a municipal bond guarantee insurance policy on the Bonds. The purchase of such insurance, if available, and payment of all associated costs, including the premium charged by the insurer, and fees charged by any rating companies, other than S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), will be at the option and expense of the Purchaser. See "MUNICIPAL BOND INSURANCE AND RATING" and "BOND INSURANCE RISK FACTORS."

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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..... Memorial Hills Utility District (the "District") is a political subdivision of the State of Texas, created by a special act of the 61st Legislature of the State of Texas, Regular Session, 1969, pursuant to Article XVI, Section 59, of the Texas Constitution. The District was converted to a municipal utility district by an order of the Texas Commission on Environmental Quality dated November 12, 2009. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code, as amended.

Location The District is located in northern Harris County approximately 21.4 miles north of downtown Houston. The District lies approximately one and a half miles east of Interstate Highway 45 ("IH 45") along F.M. 1960 and east of the Hardy Toll Road and south of Cypress Creek. The District contains approximately 460.664 acres and is wholly within the boundaries of Aldine Independent School District, Emergency Service District #7 (Fire), Emergency Service District #11 (EMS) and is within the extraterritorial jurisdiction of the City of Houston. See "THE DISTRICT."

Status of Development The existing development within the District consists of 405 single family lots within five subdivision sections containing a total of 105.74 acres. Development of single-family homes began within the District in Memorial Hills Sections One through Four in early 1970 and continued through the mid 1980's. Development of single-family homes within Memorial Heights occurred in the early 2020s. The average value of a home in the District is \$226,377. Currently, within Memorial Hills Sections One through Four and Memorial Heights there are 406 lots upon which 402 houses have been built and 4 vacant lots for single-family residences. Memorial Hills Townhomes are located in section three and consist of 44 townhome units. Also included are the Kelkind Manor Quadruplexes consisting of 72 units situated on approximately 5.683 acres along with the Millcreek Complex Townhomes consisting of 84 townhome units situated on approximately 6.139 acres, Northlake RV Park and Mayfield RV Park totaling 67.126 acres, a community center pool located on 3.128 acres and a fire station for a volunteer fire department on 13.63 acres with plans for expansion. Approximately 75.591 acres have been developed as commercial/retail strip shopping centers. There is active commercial development in the District with plans for several small sites to be added along with a business park. There are approximately 52.220 of developable acres that remain in the District and 131.407 acres of undevelopable acreage. The principal owners of the undeveloped acreage have not submitted preliminary plans for development.

Payment Record..... The District has never defaulted on the debt service payments on its previously issued bonds.

THE BONDS

The Issue..... The \$4,940,000 Unlimited Tax Bonds, Series 2026 (the "Bonds") are issued in part as Bonds maturing on April 1 in the years 2027 through 2051. See "THE BONDS."

Book-Entry-Only..... The Bonds will be registered in the name of, and delivered only to, Cede & Co., the nominee of DTC, pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See "THE BONDS - BOOK-ENTRY-ONLY SYSTEM."

Authority for Issuance At an election held within the District on May 3, 2025, the voters of the District authorized the issuance of a total of \$23,984,000 principal amount of unlimited tax bonds for purposes of acquiring and constructing the District's water, sanitary sewer and drainage system.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended and an order from the Texas Commission on Environment Quality (TCEQ) to approve the issuance. Prior to the delivery of the Bonds, the Attorney General of Texas must pass

upon the legality of the Bonds under Texas law. 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. See "LEGAL MATTERS--LEGAL OPINIONS."

Source of Payment Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limit 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 of Texas or any entity other than the District. See "THE BONDS—SOURCE OF PAYMENT."

Use of Proceeds Proceeds of the Bonds will be used for (i) wastewater system rehabilitation and; (ii) water plant Motor Control Center (MCC) and Control Building. The District will also use a portion of the proceeds to pay costs of issuance associated with the sale of the Bonds. See "PLAN OF FINANCING – ESTIMATED USE AND DISTRIBUTION OF BOND PROCEEDS."

Redemption The District reserves the right, at its option, to redeem Bonds having stated maturities on and after April 1, 2033, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on April 1, 2032, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date of redemption. See "THE BONDS – REDEMPTION PROVISIONS."

Municipal Bond Insurance and Rating The District has submitted an application for a municipal bond guarantee insurance policy on the Bonds. The purchase of such insurance, if available, and payment of all associated costs, including the premium charged by the insurer, and fees charged by any rating companies, other than S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), will be at the option and expense of the Purchaser. S&P has assigned an underlying credit rating of "BBB+" to the Bonds. An explanation of the rating may be obtained from S&P. The fee associated with the S&P rating will be paid by the District. See "MUNICIPAL BOND INSURANCE AND RATING" and "BOND INSURANCE RISK FACTORS."

Qualified Tax-Exempt Obligations The District will designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS-Qualified Tax-Exempt Obligations" herein.

Bond Counsel Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas.

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

Financial Advisor Hilltop Securities Inc., Houston, Texas.

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

Engineer Vogler & Spencer Engineering, Inc., Houston, Texas.

Auditor McCall Gibson Swedlund Barfoot Ellis PLLC, Houston, Texas.

Investment Considerations The purchase and ownership of the Bonds are subject to special investment considerations 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 "INVESTMENT CONSIDERATIONS."

SELECTED FINANCIAL INFORMATION

2025 Taxable Assessed Valuation Include (Certified as of December 2025)	\$ 185,400,002 ^(a)
February 9, 2026 Estimate of Value	\$ 191,559,743 ^(b)
Direct Debt	
Outstanding Bonds (as of February 1, 2026)	\$ 9,785,000
The Bonds	<u>4,940,000</u>
Gross Direct Debt Outstanding	\$ 14,725,000 ^(c)
Estimated Overlapping Debt	\$ 7,329,563 ^(c)
Total Gross Direct Debt and Estimated Overlapping Debt	\$ 22,054,563 ^(d)
Ratios of Gross Direct Debt to:	
2025 Taxable Assessed Valuation	7.94%
Ratio of Gross Direct Debt and Estimated Overlapping Debt to	
2025 Taxable Assessed Valuation	11.90%
Average Annual Debt Service Requirement (2026-2051)	\$ 833,434
Maximum Annual Debt Service Requirement (2047)	\$ 872,869
Tax Rate Required to Pay Average Annual Debt Service (2026-2051) at a 95% Collection Rate	
Based up on 2025 Preliminary Taxable Assessed Valuation (100% of Market Value)	\$ 0.4732
Tax Rate Required to Pay Maximum Annual Debt Service (2047) at a 95% Collection Rate	
Based up on 2025 Preliminary Taxable Assessed Valuation (100% of Market Value)	\$ 0.4956
Debt Service Funds Available as of 3/10/2026	\$ 1,062,941 ^(e)
Operations and Maintenance Funds Available as of 3/10/2026	\$ 1,856,565 ^(e)
2025 District Tax Rate (per \$100 Assessed Valuation)	
Debt Service	\$ 0.2900
Maintenance and Operations	<u>0.3589</u>
Total	\$ 0.6489
Estimated Population	1,313 ^(f)

- (a) As certified by the Harris Central Appraisal District (the "Appraisal District"). Includes \$2,520,000 of uncertified value.
- (b) Provided by the Appraisal District for informational purposes only. Such amount reflects an estimate of the taxable assessed value within the District of February 9, 2026. No tax will be levied on such amount until it is certified.
- (c) See "DEBT AND FINANCIAL INFORMATION—PROJECTED DEBT SERVICE REQUIREMENTS."
- (d) See "DEBT AND FINANCIAL INFORMATION—ESTIMATED OVERLAPPING DEBT."
- (e) Includes tax collections from 2025 Tax Year from October 2025 through January 2026.
- (f) Based upon 2.5 persons per occupied single family residence.

PRELIMINARY OFFICIAL STATEMENT

\$4,940,000

MEMORIAL HILLS UTILITY DISTRICT

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

UNLIMITED TAX BONDS, SERIES 2026

This Official Statement provides certain information in connection with the issuance by Memorial Hills Utility District (the "District") of its \$4,940,000 Unlimited Tax Bonds, Series 2026 (the "Bonds"). The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, Chapters 49 and 54, Texas Water Code, as amended, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board").

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, 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 Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel, 2727 Allen Parkway, Suite 1100, Houston, Texas 77019.

USE OF PROCEEDS

PURPOSE

Proceeds of the Bonds will be used for (i) wastewater system rehabilitation and; (ii) water plant Motor Control Center (MCC) and Control Building. The District will also use a portion of the proceeds to pay costs of issuance associated with the sale of the Bonds. See "PLAN OF FINANCING – Estimated Use and Distribution of Bond Proceeds."

ESTIMATED USE AND DISTRIBUTION OF BOND PROCEEDS

The estimated use and distribution of proceeds of the Bonds:

CONSTRUCTION COSTS

A. Developer Contribution Items

- Total Developer Contribution Items None

B. District Items

- Wastewater System Rehabilitation \$ 1,500,000
- Water Plant MCC and Control Building 2,000,000
- Contingencies (10% of Items 1-2) 350,000
- Engineering (Items 1-2) 577,500

Total Construction Costs \$ 4,427,500

NON-CONSTRUCTION COSTS

- Legal Fees \$ 148,200
- Fiscal Agent Fees 93,950
- Bond Discount (3%) 148,200
- Bond Issuance Expenses 49,860
- Bond Application Report Costs 55,000
- Attorney General Fee 4,940
- TCEQ Bond Issuance Fee 12,350

Total Non-Construction Costs \$ 512,500

TOTAL BOND ISSUE REQUIREMENT \$ 4,940,000

THE BONDS

DESCRIPTION

The Bonds will be dated May 1, 2026 (the "Dated Date"). The Bonds will accrue interest from the date of delivery set forth on the cover page hereof (the "Delivery Date") to the Purchaser and such interest is payable on April 1 and October 1 in each year, commencing October 1, 2026, until maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page 2 of this Official Statement, and such interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Interest on the Bonds is payable to the Registered Owner appearing on the bond registration books of the Paying Agent/Registrar on the Record Date (as defined below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the Registered Owner recorded in the bond register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Registered Owner. The principal of the Bonds is payable at maturity or redemption, upon their presentation and surrender to the Paying Agent/Registrar. If the date for the payment of the Maturity Amount, principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

The Bonds will be issued only in fully registered form and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. The Bonds will be issued in denominations of \$5,000 of principal amount or any integral thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.**

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds are to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the book-entry-only system has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

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

DTC, the world's largest 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. Please note that these websites are included herein as active textual references only, and the information contained on (or accessed through) these websites is not incorporated herein and should not be construed as part of this Official Statement.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT

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

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM

In the event that the book-entry-only system is discontinued by DTC or the use of the book-entry-only system is discontinued by the District, printed securities certificates will be issued to the respective Owners and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Order and summarized under caption "Registration and Transfer" below.

METHOD OF PAYMENT OF ORDER AND INTEREST

In the Bond Order, the Board has appointed The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. 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 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 Dallas, 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 record as of the close of business on the last business day of the month 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 Order.

AUTHORITY FOR ISSUANCE

At an election held within the District on May 3, 2025, the voters of the District authorized the issuance of a total of \$23,984,000 principal amount of unlimited tax bonds for purposes of acquiring and constructing the District's water, sanitary sewer and drainage system.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended and an order from the Texas Commission on Environment Quality (TCEQ) to approve the issuance. 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. See "LEGAL MATTERS-LEGAL OPINION."

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, an annual ad valorem tax, without limit as to rate or amount, 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 Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

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

FUNDS

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

REDEMPTION PROVISIONS

The District reserves the right, at its option, to redeem the Bonds maturing on or after April 1, 2033, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on April 1, 2033, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "- BOOK-ENTRY-ONLY SYSTEM."

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if fewer than all the Bonds outstanding 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.

REGISTRATION AND TRANSFER

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall maintain the Register and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Order.

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 Order to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

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

LOST, STOLEN OR DESTROYED BONDS

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

The District or the Paying Agent/Registrar may require the Registered Owner of a mutilated Bond to pay a sum adequate to cover any tax or other governmental charge that may be imposed in connection therewith, including the fees and expenses of the Paying Agent/Registrar. The District or the Paying Agent/Registrar may require the Registered Owner of a lost, apparently destroyed or wrongfully taken Bond, before any replacement Bond is issued, to:

- (1) furnish to the District and the Paying Agent/Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Bond;
- (2) furnish such security or indemnity as may be required by the Paying Agent/Registrar and the District to hold them harmless;
- (3) pay all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Paying Agent/Registrar and the Attorney General of Texas, and any tax or other governmental charge that may be imposed; and
- (4) meet any other reasonable requirements of the District and the Paying Agent/Registrar.

If, after the delivery of a replacement Bond, a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the District and the Paying Agent/Registrar shall be entitled to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the District or the Paying Agent/Registrar in connection therewith.

If any such mutilated, lost, stolen, or destroyed Bond has become or is about to become due and payable, the District in its discretion may, instead of issuing a replacement Bond, authorize the Paying Agent/Registrar to pay such Bond.

Each replacement Bond delivered in accordance with the Bond Order shall be entitled to the benefits and security of the Bond Order to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

REPLACEMENT OF PAYING AGENT/REGISTRAR

The District covenants that at all times while any Bonds are outstanding it will provide a legally qualified bank or trust company organized under the laws of the United States of America or any state to act as Paying Agent/Registrar for the Bonds. The District reserves the right to change the Paying Agent/Registrar for the Bonds on not less than 30 days written notice to the Paying Agent/Registrar, so long as any such notice is effective not less than 60 days prior to the next succeeding date for payment of the principal of or interest on the Bonds. Promptly upon the appointment of any successor Paying Agent/Registrar, the previous Paying Agent/Registrar shall deliver the Register or copies thereof to the new Paying Agent/Registrar, and the new Paying Agent/Registrar shall notify each Owner, by first class mail, postage prepaid, of such change and of the address of the new Paying Agent/Registrar. Each Paying Agent/Registrar hereunder, by acting in that capacity, shall be deemed to have agreed to the applicable provisions of the Bond Order.

ISSUANCE OF ADDITIONAL DEBT

At an election held on May 3, 2025, voters of the District authorized a total of \$23,984,000 principal amount of unlimited tax bonds for the purposes of constructing or acquiring the District's water, sanitary sewer and drainage system (the "System"). Following the issuance of the Bonds, \$19,044,000 principal amount of unlimited tax bonds for the System will remain authorized but unissued.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue 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 Texas Commission on Environmental Quality (the "Commission" or "TCEQ"); and (d) approval of bonds by the Attorney General of Texas. The Board has not considered calling such an election at this time.

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads ("Road Powers"). Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the Commission for Road Powers or calling such an election at this time.

The District may develop and finance with property taxes certain parks and recreational facilities after an election has been successfully held to approve a maintenance tax to support parks and recreational facilities and/or issuance of bonds payable from taxes. The District may issue bonds payable from an ad valorem tax to pay for the development and maintenance of parks and recreational facilities if (i) the District duly adopts a park plan; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, unless the District meets certain financial feasibility requirements under the TCEQ Rules, in which case the District may exceed an amount equal to one percent (1%) but not three percent (3%) or an amount greater than the estimated cost of the park plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; and (v) the bonds are approved by the Attorney General of Texas. The Board has not considered calling such an election at this time. The levy of taxes for any of the above purposes may dilute the security for the Bonds.

ANNEXATION

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston, subject to compliance by the City of Houston with various requirements of chapter 43 of the Texas Local Government Code, as amended. Such requirements may include the requirement that the City of Houston hold an election in the District whereby the qualified voters of the District approve the proposed annexation. If the District is annexed, the City of Houston must assume the District's assets and obligations (including the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. 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 concerning the ability of the City of Houston to make debt service payments should annexation occur. Under the terms of the Strategic Partnership Agreement (as hereinafter described) between the District and the City of Houston, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for as long as such agreement is in effect. See "THE DISTRICT- STRATEGIC PARTNERSHIP AGREEMENT."

CONSOLIDATION

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

REGISTERED OWNERS' REMEDIES

The Bond Order provides that, in addition to all other rights and remedies of any Registered Owners provided by the laws of the State of Texas, in the event the District defaults in the observance or performance of any covenant in the Bond Order including payment when due of the principal of and interest on the Bonds, any Registered Owner may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board or other officers of the District to observe or perform such covenants.

The Bond Order provides no additional remedies to a Registered Owner. Specifically, the Bond Order does not provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District's obligations. Consequently, the remedy of mandamus is a remedy which may have to be enforced from year-to-year by the Registered Owners and may prove time consuming, costly and difficult to enforce.

The Bonds are not secured by an interest in any improvements financed with Bond proceeds or any other property of the District.

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

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 unmatured interest coupons attached to them.

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

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

DEFEASANCE

The District reserves the right to defease the Bonds in any manner now or hereafter permitted by law; including, without limitation Chapter 1207, Texas Government Code, as amended.

Chapter 1207 currently provides that the Bonds may be defeased by a deposit with the Comptroller of Public Accounts of the State of Texas or a Paying Agent of the District which way be invested only in obligations that mature and bear interest payable at times and in amounts sufficient to provide for the scheduled payment or redemption of the Bonds. The deposit may be invested and reinvested in (1) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States, (2) 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 defeasance, are rated as to investment quality by nationally recognized investment rating firm not less than AAA or its equivalent , or (3) 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 defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

There is no assurance that current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

THE DISTRICT

GENERAL

Memorial Hills Utility District (the "District") is a conservation and reclamation district created by a special act of the 61st Legislature of the State of Texas, Regular Session 1969, pursuant to Article XVI, section 59, of the Texas Constitution. The District was converted to a municipal utility district by the Commission by order dated November 12, 2009. The District operates under provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes applicable to municipal utility districts. The District is subject to the continuing supervision of the Commission. The District is located wholly within the boundaries of the Aldine Independent School District and within the exclusive extraterritorial jurisdiction of the City of Houston.

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; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to provide for the collection and disposal of solid waste, to provide street lighting and to establish, operate, and maintain firefighting facilities and/or parks and recreational facilities, independently or with one or more conservation and reclamation districts. Firefighting services are provided to the District by Harris County Emergency Services District #7. Emergency Medical Services are provided to the District by Harris County Emergency Services District #11.

The District contains approximately 460.664 acres of land and is located in the north central portion of Harris County approximately 21.4 miles north of downtown Houston. The District lies approximately one and one half miles east of Interstate Highway 45 ("IH 45") along F.M. 1960 and is east of the Hardy Toll Road and bounded on the north by Cypress Creek.

STRATEGIC PARTNERSHIP AGREEMENT

Effective April 7, 2003, the District entered into a Strategic Partnership Agreement with the City of Houston as authorized by Texas Local Government Code, Chapter 43 (the "SPA"). The SPA provides for a "limited purpose annexation" of that portion of the District developed for retail and commercial purposes for purposes of applying certain City health, safety, planning and zoning ordinances within the District. The portion of the District consisting of residential development is not subject to the SPA. The SPA also provides that the City will not annex the District for "full purposes" (a traditional municipal annexation) for at least thirty (30) years. See "THE BONDS – ANNEXATION."

As a result of the SPA, the City is authorized to impose a one percent (1%) sales and use tax within the portion of the District included in the limited propose annexation. Pursuant to the SPA, the City pays to the District an amount equal to one-half of all sales and use tax revenues generated within such area of the District and received by the City from the Texas Comptroller of Public Accounts (herein defined as the "Sales Tax Revenue"). The Sales Tax Revenue is not pledged to the payment of the Bonds. Pursuant to State law, the District is authorized to use the Sales Tax Revenue generated pursuant to the SPA for any lawful purpose. For the fiscal year ended May 31, 2025, the District received \$202,799 with \$52,678 recorded as receivable pursuant to the SPA.

LAW ENFORCEMENT SERVICES

The District has entered into an interlocal contract with Harris County for supplementary law enforcement services provided by the Harris County Precinct Four Constable's office. The law enforcement program involves two deputies who spend at least 70% of on-duty time on patrol in the District. The deputies patrol the District's utility plant facilities as well as all residential and commercial areas of the District. The law enforcement services provided under the contract are in addition to services normally provided by other law enforcement agencies.

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STATUS OF DEVELOPMENT

The existing development within the District consists of 405 single family lots within five subdivision sections containing a total of 105.74 acres. Development of single-family homes began within the District in Memorial Hills Sections One through Four in early 1970 and continued through the mid 1980's. Development of single-family homes within Memorial Heights occurred in the early 2020s. The average value of a home in the District is \$226,377. Currently, within Memorial Hills Sections One through Four and Memorial Heights there are 406 lots upon which 402 houses have been built and 4 vacant lots for single-family residences. Memorial Hills Townhomes are located in section three and consist of 44 townhome units. Also included are the Kelkind Manor Quadrplexes consisting of 72 units situated on approximately 5.683 acres along with the Millcreek Complex Townhomes consisting of 84 townhome units situated on approximately 6.139 acres, Northlake RV Park and Mayfield RV Park totaling 67.126 acres, a community center pool located on 3.128 acres and a fire station for a volunteer fire department on 13.63 acres with plans for expansion. Approximately 75.591 acres have been developed as commercial/retail strip shopping centers. There is active commercial development in the District with plans for several small sites to be added along with a business park. There are approximately 52.220 of developable acres that remain in the District and 131.407 acres of undevelopable acreage. The principal owners of the undeveloped acreage have not submitted preliminary plans for development.

Section	Type of Development	No. of Lots	Acreage
Memorial Hills, Section One	Single-Family	70	22.500
Memorial Hills, Section Two	Single-Family	96	27.885
Memorial Hills, Section Three	Single-Family	49	11.380
Memorial Hills, Section Four	Single-Family	81	19.885
Memorial Hills, Section Five	Commercial		6.623
Memorial Hills, Section Seven	Commercial		1.317
Memorial Hills Clubhouse	Park/Clubhouse		3.128
Crossroads (Section One)	Commercial		10.951
Crossroads (Section Two)	Commercial		3.724
U-Haul Storage	Commercial		4.836
Various FM 1960 Commercial	Commercial		48.140
Kelkind Manor	Multi-Family		5.683
Northlake RV Park	RV Park		41.208
Aldine Fire Dept	Fire Station		13.630
Memorial Heights	Single-Family	110	24.090
Mayfield RV Park	RV Park		25.9180
Millcreek Complex Townhomes	Multi-Family		6.1390
Total Developed Acreage			277.0370
Remaining Developable Acreage			52.2200
Undevelopable Acreage			
Water Treatment Plant Site			2.3340
Water Plant Site			0.5730
Permanent Flood Plain (HCFCD/HC owned)			128.5000
TOTALS			460.664

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MANAGEMENT OF THE DISTRICT

BOARD OF DIRECTORS

The District is governed by the Board of Directors, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year staggered terms, and elections are held in May in even numbered years only. All of the Directors reside in or own property within the District. The Directors and Officers of the District are listed below:

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>
Karen Large	President	May 2026
Pamela Spencer-Shaw	Vice President	May 2026
Patricia K. Collings	Secretary	May 2028
Vacant	Director	May 2026
Jude Lasserre	Director	May 2028

DISTRICT CONSULTANTS

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

Bond Counsel/Attorney: The District has engaged Smith, Murdaugh, Little & Bonham, L.L.P. as general counsel to the District and as Bond Counsel in connection with the issuance of the District's bonds. The fees of the attorneys in their capacity as Bond Counsel are 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.

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

Auditor: The District's financial statements for the year ending May 31, 2025, were audited by McCall Gibson Swedlund Barfoot Ellis PLLC, Certified Public Accountants.

Engineer: The District's consulting engineer is Vogler & Spencer Engineering, Inc.

Bookkeeper/Administrator: The District contracts with Claudia Redden & Associates, L.L.C. for bookkeeping services.

Tax Appraisal: Land and improvements within the District are appraised for ad valorem taxation purposes by the Harris Central Appraisal District.

Tax Assessor/Collector: The District's tax assessor/collector is Debbie Bessire of Equi-Tax, Inc. (the "Tax Assessor/Collector").

Operator: The District contracts with M. Marlon Ivy & Associates, Inc. for operations and maintenance services.

Disclosure Counsel: The District contracts with McCall, Parkhurst & Horton, for disclosure counsel.

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THE SYSTEM

REGULATION

Construction and operation of the District's water, wastewater and storm drainage systems 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 Commission exercises continuing supervisory authority over the District. Discharge of treated wastewater into Texas waters is also subject to the regulatory authority of the Commission and the United States Environmental Protection Agency ("EPA"). Construction of all water, wastewater and storm drainage facilities is subject to the regulatory authority of Harris County, Texas, the Commission and the EPA.

WATER SUPPLY

The District operates its own water supply plant which contains two active water wells with a capacity of 1,750 gallons per minute ("gpm"), two ground storage tanks with a combined capacity of 346,000 gallons, two pressure tanks with a combined capacity of 30,000 gallons, booster pump capacity of 2,150 gpm and related appurtenant equipment. According to the District's engineer, the water plant has sufficient capacity to serve approximately 1,075 equivalent single-family connections ("ESFCs"). As of July 2025, the District was serving approximately 885 ESFCs. A portion of the proposed bonds will be used for the design and construction of a new Motor Control Center (MCC) and building. The existing MCC and building were constructed in the late 1960's and replacement parts for the MCC are difficult to source. The existing MCC building is undersized for the proposed MCC.

The District has a total of three interconnects for emergency water supply. Two interconnections exist with Timber Lane Utility District and one with Woodcreek Municipal Utility District. The three interconnections are for emergency use only and are normally closed.

In an emergency, any party may utilize an interconnection by giving notice to the providing district and then opening the bypass valve. The receiving district will pay the providing district for water received, including any pumpage fees levied by the North Harris County Regional Water Authority on water delivered through the interconnect.

CONVERSION TO SURFACE WATER

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in areas within the Subsidence District's jurisdiction. In 1999, the Texas legislature created the North Harris County Regional Water Authority (the "Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Harris County (including the area of the District). 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 Authority has entered into a Water Supply Contract with the City of Houston to obtain treated surface water from Houston. The District is included within 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 the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, and charges as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and a rate per 1,000 gallons of surface water, if any, received by the District from the Authority. The District charges its customers 110% of the fee charged to the District for the pumpage of groundwater. 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 cost, and it is expected that the fees agreed by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required to: (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 of \$12.52 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 the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

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 resulting in higher water rates. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the District. 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.

WASTEWATER TREATMENT

The District owns and operates a wastewater treatment facility within the District. The existing facility is permitted to treat 375,000 gallons per day and serve 1,250 ESFCs.

STORM DRAINAGE SYSTEM AND 100 YEAR FLOOD PLAIN

Stormwater runoff from the District is collected through a system of underground storm sewers and open ditches which outfall into Cypress Creek. Cypress Creek converges with Spring Creek, then with the San Jacinto River and flows into Lake Houston and then to Galveston Bay.

According to the most recent Federal Emergency Management Agency (FEMA) Floodplain Maps, dated June 18, 2007, approximately 78.667 acres of land in the District lie within the 100-year floodplain, in addition to the area contained within the drainage facilities. FEMA is in the process of updating the floodplain maps, but the maps are not expected to be approved and effective for several years. It is unknown what effect any revisions will have on the District. The existing and proposed wastewater treatment facility is located within the area of the 100-year floodplain. The facilities are protected with a barrier wall, and in addition the control room and generator are raised with stilts out of the 100-year floodplain.

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. According to the District's Board of Directors there were 174 homes that flooded within the District during Hurricane Harvey. There was no interruption of potable water service to the District as a result of Hurricane Harvey but there was an interruption of sewer service for several days until access could be gained to the plant. The water and drainage facilities serving the District did not sustain any material damage from Hurricane Harvey. See "INVESTMENT CONSIDERATIONS-HURRICANE RISK."

ATLAS 14

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

WATER AND SEWER RATES

Residential Single-Family			
Water Rates*		Sewer Rates	
Gallons	Rates	Gallons	Rates
First 8,000 Gallons	\$12.50 (Minimum)	First 8,000 Gallons	\$25.00 (Minimum)
8,001 to 15,000 Gallons	1.50/M Gallons	8,001 to 99,999 Gallons	1.50/M Gallons
15,001 to 25,000 Gallons	1.75/M Gallons		
25,001 to 99,999 Gallons	2.00/M Gallons		

* North Harris County Regional Water Authority is \$2.60 per 1,000 gallons and is subject to change. The amount charged to District customers is \$2.86 per 1,000 gallons.

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DEBT AND FINANCIAL INFORMATION

ASSESSED VALUATIONS AND FUND BALANCES

2025 Taxable Assessed Valuation Include (Certified as of December 2025)	\$ 185,400,002 ^(a)
February 9, 2026 Estimate of Value	\$ 191,559,743 ^(b)
Direct Debt	
Outstanding Bonds (as of February 1, 2026)	\$ 9,785,000
The Bonds	4,940,000
Gross Direct Debt Outstanding	<u>\$ 14,725,000</u> ^(c)
Estimated Overlapping Debt	\$ 7,329,563 ^(c)
Total Gross Direct Debt and Estimated Overlapping Debt	\$ 22,054,563 ^(d)
Ratios of Gross Direct Debt to:	
2025 Taxable Assessed Valuation	7.94%
Ratio of Gross Direct Debt and Estimated Overlapping Debt to	
2025 Taxable Assessed Valuation	11.90%
Average Annual Debt Service Requirement (2026-2051)	\$ 833,434
Maximum Annual Debt Service Requirement (2047)	\$ 872,869
Tax Rate Required to Pay Average Annual Debt Service (2026-2051) at a 95% Collection Rate	
Based upon 2025 Preliminary Taxable Assessed Valuation (100% of Market Value)	\$ 0.4732
Tax Rate Required to Pay Maximum Annual Debt Service (2047) at a 95% Collection Rate	
Based upon 2025 Preliminary Taxable Assessed Valuation (100% of Market Value)	\$ 0.4956
Debt Service Funds Available as of 3/10/2026	\$ 1,062,941 ^(e)
Operations and Maintenance Funds Available as of 3/10/2026	\$ 1,856,565 ^(e)
2025 District Tax Rate (per \$100 Assessed Valuation)	
Debt Service	\$ 0.2900
Maintenance and Operations	0.3589
Total	<u>\$ 0.6489</u>
Estimated Population	1,313 ^(f)

(a) As certified by the Harris Central Appraisal District (the "Appraisal District"). Includes \$2,520,000 of uncertified value.

(b) Provided by the Appraisal District for informational purposes only. Such amount reflects an estimate of the taxable accessed value within the District of February 9, 2026. No tax will be levied on such amount until it is certified.

(c) See "DEBT AND FINANCIAL INFORMATION—PROJECTED DEBT SERVICE REQUIREMENTS."

(d) See "DEBT AND FINANCIAL INFORMATION—ESTIMATED OVERLAPPING DEBT."

(e) Includes tax collections from 2025 Tax Year from October 2025 through January 2026.

(f) Based upon 2.5 persons per occupied single family residence.

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.

UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

Purpose	Date Authorized	Amount Authorized	Amount	Amount	Unissued Balance
			Previously Issued	Being Issued	
Water, Sanitary Sewer, and Drainage Bonds	5/3/2025	\$ 23,984,000	\$ 0	\$ 4,940,000	\$ 19,044,000

PROJECTED DEBT SERVICE REQUIREMENTS

Year Ended	Outstanding Bonds			The Bonds ^(a)			Total Outstanding Debt
	Principal	Interest	Total	Principal	Interest	Total	
2026	\$ 265,000	\$ 273,000	\$ 538,000		88,938.33	\$ 88,938	\$ 626,938
2027	275,000	264,400	539,400	110,000.00	216,550.00	326,550	865,950
2028	280,000	256,850	536,850	115,000.00	210,925.00	325,925	862,775
2029	290,000	249,100	539,100	120,000.00	205,050.00	325,050	864,150
2030	295,000	241,100	536,100	125,000.00	198,925.00	323,925	860,025
2031	305,000	232,669	537,669	130,000.00	192,550.00	322,550	860,219
2032	315,000	223,925	538,925	140,000.00	185,800.00	325,800	864,725
2033	325,000	214,625	539,625	145,000.00	178,675.00	323,675	863,300
2034	335,000	204,687	539,687	155,000.00	171,175.00	326,175	865,862
2035	345,000	192,887	537,887	160,000.00	163,300.00	323,300	861,187
2036	360,000	180,587	540,587	170,000.00	155,900.00	325,900	866,487
2037	370,000	167,787	537,787	175,000.00	149,000.00	324,000	861,787
2038	385,000	154,587	539,587	185,000.00	141,800.00	326,800	866,387
2039	400,000	140,787	540,787	190,000.00	134,300.00	324,300	865,087
2040	415,000	126,487	541,487	200,000.00	126,500.00	326,500	867,987
2041	430,000	111,587	541,587	205,000.00	118,400.00	323,400	864,987
2042	445,000	95,981	540,981	215,000.00	110,000.00	325,000	865,981
2043	455,000	86,525	541,525	225,000.00	101,200.00	326,200	867,725
2044	465,000	76,856	541,856	230,000.00	91,812.50	321,813	863,669
2045	475,000	66,975	541,975	240,000.00	81,825.00	321,825	863,800
2046	485,000	56,881	541,881	255,000.00	70,987.50	325,988	867,869
2047	500,000	46,575	546,575	265,000.00	59,287.50	324,288	870,863
2048	510,000	35,325	545,325	275,000.00	47,137.50	322,138	867,463
2049	525,000	23,850	548,850	290,000.00	34,425.00	324,425	873,275
2050	535,000	12,038	547,038	305,000.00	21,037.50	326,038	873,075
2051	-	-	-	315,000.00	7,087.50	322,088	322,088
	<u>\$ 9,785,000</u>	<u>\$ 3,736,075</u>	<u>\$ 13,521,075</u>	<u>\$ 4,940,000</u>	<u>\$ 3,262,588</u>	<u>\$ 8,202,588</u>	<u>\$ 21,723,663</u>

(a) Average life of the issue – 15.112 years. Interest on the Bonds has been calculated at an estimated rate for the purpose of illustration.

Average Annual Principal and Interest Requirements.....	\$ 835,525
Maximum Principal and Interest Requirements.....	\$ 873,275

ESTIMATED OVERLAPPING DEBT

The following table indicates the outstanding debt payable from ad valorem taxes of governmental entities within which property in 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 ("Tax Debt") are based upon data obtained from individual jurisdictions or the "Texas Municipal Reports" compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional Tax Debt since the date listed and may have plans to incur significant amounts of additional Tax Debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of 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 Tax Debt or tax levies of any such entities.

Taxing Jurisdiction	Outstanding Bonds as of 12/31/2025	Estimated % Overlapping	Estimated Amount Overlapping
Aldine Independent School District.....	\$ 1,218,970,000	0.51%	\$ 6,216,747
Harris County.....	2,257,734,736	0.02%	451,547
Harris County Department of Education.....	28,960,000	0.02%	5,792
Harris County Flood Control District.....	937,165,000	0.02%	187,433
Harris County Hospital District.....	867,820,000	0.02%	173,564
Lone Star College System.....	434,530,000	0.05%	217,265
Port of Houston Authority.....	386,074,397	0.02%	77,215
Total Estimated Overlapping Debt.....			\$ 7,329,563
District's Total Direct Debt.....			14,725,000
Total Direct and Estimated Overlapping Debt.....			<u>\$ 22,054,563</u>
Total Direct and Estimated Overlapping Debt as a Percentage of:			
2025 Taxable Assessed Valuation of \$185,400,002.....			11.90%
Total Direct and Estimated Overlapping Debt as a Percentage of:			
2026 Estimated Valuation of \$191,559,743.....			11.51%

OVERLAPPING TAXES

Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District tax lien is on a parity with tax liens of other taxing authorities. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see "-ESTIMATED OVERLAPPING DEBT" above), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the tax rates levied for the 2025 tax year by all overlapping taxing jurisdictions and the District. 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.

	2025 Tax Rate Per \$100 Assessed Valuation
Aldine Independent School District.....	\$ 1.034000
Harris County.....	0.380960
Harris County Department of Education.....	0.004725
Harris County Flood Control District.....	0.478100
Harris County Hospital District.....	0.160860
Harris County Toll Road Authority.....	0.000000
Harris County Emergency Services Dist 7.....	0.092752
Harris County Emergency Services Dist 11.....	0.037445
Lone Star College System.....	0.106000
Port of Houston Authority.....	0.006070
Total Overlapping Tax Rate.....	\$ 2.300912
The District.....	0.648860
Total Tax Rate.....	<u>\$ 2.949772</u>

TAX DATA

DEBT SERVICE TAX

The District covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, an annual ad valorem tax, without legal limit as to rate or amount, on all taxable property within the District sufficient to provide funds to pay the principal of and interest on the Bonds. See "-HISTORICAL TAX RATE DISTRIBUTION" and "-TAX ROLL INFORMATION" below.

MAINTENANCE TAX

The District has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District's voters. A maintenance tax election was conducted on August 12, 2000, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$0.60 per \$100 appraised valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See "-DEBT SERVICE TAX" above.

HISTORICAL TAX RATE DISTRIBUTION

	Tax Year				
	2025	2024	2023	2022	2021
Debt Service Tax Rate	\$ 0.2900	\$ 0.3200	\$ 0.3200	\$ 0.4192	\$ 0.4625
Maintenance Tax Rate	0.3589	0.3241	0.3195	0.3283	0.3409
Total Tax Rate	\$ 0.6489	\$ 0.6441	\$ 0.6395	\$ 0.7475	\$ 0.8034

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	Net Taxable Assessed Valuation ^(a)	Tax Rate	Total ^(b) Tax Levy	Current Collections		Total Collections as of 5/31	
				Amount	Percent	Amount	Percent
2020	\$ 112,424,487	\$ 0.8800	\$ 989,742	\$ 927,948	93.76%	\$ 936,442	94.61%
2021	116,971,749	0.8034	939,751	920,686	97.97%	944,355	100.49%
2022	132,458,728	0.7475	979,639	957,688	97.76%	965,288	98.54%
2023	163,079,938	0.6395	1,042,896	1,008,454	96.70%	1,010,241	96.87%
2024	162,289,578 ^(c)	0.6441	1,031,560	1,002,251	97.16%	1,012,357	98.14%
2025	183,202,378 ^(d)	0.6489	1,200,264	1,202,987	92.10%	1,161,078	96.52% ^(e)

- (a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See "-TAX ROLL INFORMATION" below for gross appraised value and exemptions granted by the District.
- (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
- (c) Decrease in value due to reevaluation to multi-residential properties and purchase of land by Harris County Flood Control District.
- (d) Increase primarily reflects continued home building in Memorial Heights and construction of View at Millstone apartment complex.
- (e) Tax Collections as of February 2026.

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TAX ROLL INFORMATION

The District's appraised value as of January 1 of each year is used by the District in establishing its tax rate. The following represents the composition of property comprising the 2021 through 2025 Assessed Valuations. Information in this summary may differ slightly from the assessed valuations shown herein due to differences in dates of data.

Tax Year	Type of Property			Gross Assessed Valuations	Exemptions	Net Assessed Valuations
	Land	Improvements	Personal Property			
2021	\$ 76,138,933	\$ 44,747,942	\$ 7,679,649	\$128,566,524	\$ (11,594,775)	\$ 116,971,749
2022	51,957,689	89,123,533	9,142,505	150,223,727	(17,764,999)	132,458,728
2023	68,847,220	108,172,806	6,881,297	183,901,323	(20,821,385)	163,079,938
2024	67,199,526	111,784,814	10,335,926	189,320,266	(27,030,688)	162,289,578 ^(a)
2025	68,969,342	136,331,354	9,829,603	215,130,299	(29,730,297)	185,400,002 ^(b)

(a) Decrease in value due to reevaluation to multi-residential properties and purchase of land by Harris County Flood Control District.

(b) Increase primarily reflects continued home building in Memorial Heights and construction of View at Millstone apartment complex. Based upon Preliminary Assessed Valuation, subject to change.

PRINCIPAL TAXPAYERS

The following table represents the principal taxpayers, the type of property, the taxable appraised value of such property, and such property's appraised value as a percentage of the District's 2025 Taxable Assessed Valuation of \$183,179,276.

Name of Taxpayer	Nature of Property	2025	% of Total
		Taxable Assessed Valuation	Taxable Assessed Valuation
Starship I-45 League City LLC	Commercial Land	\$ 8,173,144	4.41%
Shomer III Ltd	Shopping Center	7,910,657	4.27%
Real Centry Development LLC	Management Services	6,800,754	3.67%
Plaza Los Amigos LLC	Shopping Center	6,699,094	3.61%
QRV Northlake LLC	Shopping Center	6,361,987	3.43%
Shomer VII Inc	Shopping Center	5,520,000	2.98%
Storage TR Properties LP	Mini-Warehouse	4,845,848	2.61%
Real Century Holdings LLC	Commercial Land	4,796,188	2.59%
Essman Land Development LLC	Commercial Land	4,072,808	2.20%
Drug Store Acquisitions Holding LLC	Shopping Center	2,849,063	1.54%
		<u>\$ 58,029,543</u>	<u>31.30%</u>

TAX ADEQUACY FOR DEBT SERVICE

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2025 Taxable Assessed Valuation of \$183,179,276. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "DEBT AND FINANCIAL INFORMATION—PROJECTED DEBT SERVICE REQUIREMENTS."

Tax Rate Required to Pay Average Annual Debt Service (2026-2051) at a 95% Collection Rate.	\$ 0.4744
Tax Rate Required to Pay Maximum Annual Debt Service (2049) at 95% Collection Rate Requirements	\$ 0.4959

HISTORICAL OPERATIONS OF THE DISTRICT

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate amount, upon all taxable property in the District. Although not pledged to the payment of the Bonds or the Outstanding Bonds, net revenues from operations of the District, if any, are available for any lawful purpose including payment of debt service on the Bonds, the Outstanding Bonds, and any additional bonds issued by the District, at the discretion and upon action of the Board. It is not anticipated that any revenues will be available for the payment of debt services on the Bonds.

The following statement sets forth in condensed form the historical results of operation of the District's General Operating Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statement for the periods ending May 31, 2021 through May 31, 2025 and from the District's bookkeeper for the fiscal year ended May 31, 2025. Reference is made to such statements for further and complete information.

	Fiscal Year Ended May 31,				
	2025	2024	2023	2022	2021
<u>Revenues:</u>					
Property Taxes	\$ 549,971	\$ 504,645	\$ 421,582	\$ 414,336	\$ 373,042
Water Service	193,365	184,846	180,814	179,994	183,753
Wastewater Service	223,881	193,255	178,513	164,865	153,638
Regional Water Authority Fees	176,333	225,542	250,290	245,354	239,536
Penalty and Interest	15,059	20,343	29,828	14,367	10,365
Sales Tax Revenues	202,799	191,219	185,405	167,563	167,122
Tap Connection and Inspection Fees	327,316	228,446	199,968	28,540	39,975
Investment Revenues	112,355	131,229	87,903	2,981	3,182
Miscellaneous Revenues	36,898	37,237	10,050	12,552	13,355
Total Revenues	<u>\$ 1,837,977</u>	<u>\$ 1,716,762</u>	<u>\$ 1,544,353</u>	<u>\$ 1,230,552</u>	<u>\$ 1,183,968</u>
<u>Expenditures:</u>					
Professional Fees	\$ 246,229	\$ 252,981	\$ 216,721	\$ 156,747	\$ 133,608
Contracted Services	817,013	715,395	611,865	518,364	530,405
Utilities	81,880	84,872	57,313	63,642	69,094
Regional Water Authority Assessment	162,759	282,486	217,937	230,299	311,404
Repairs and Maintenance	443,919	374,783	156,616	120,507	214,012
Other	349,298	245,936	235,928	159,659	148,973
Capital Outlay	-	-	22,166	128,516	172,118
Total Expenditures	<u>\$ 2,101,098</u>	<u>\$ 1,956,453</u>	<u>\$ 1,518,546</u>	<u>\$ 1,377,734</u>	<u>\$ 1,579,614</u>
<u>Other Financing Sources (Uses)</u>					
Transfers In (Out)	\$ -	\$ -	\$ -	\$ 84,357	\$ -
Excess Revenues (Expenditures)	\$ (263,121)	\$ (239,691)	\$ 25,807	\$ (62,825)	\$ (395,646)
Fund Balance - Beginning	2,478,732	2,718,423	2,692,616	2,755,441	3,151,087
Fund Balance - Ending	<u>\$ 2,215,611</u>	<u>\$ 2,478,732</u>	<u>\$ 2,718,423</u>	<u>\$ 2,692,616</u>	<u>\$ 2,755,441</u>

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TAXING PROCEDURES

AUTHORITY TO LEVY TAXES

The Board is authorized to levy an, annual ad valorem tax, without legal limit as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, the Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS—FUTURE DEBT") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under "THE BONDS—SOURCE OF PAYMENT." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system. See "TAX DATA—DEBT SERVICE TAX" and "—MAINTENANCE TAX."

PROPERTY TAX CODE AND COUNTY-WIDE APPRAISAL DISTRICT

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Harris Central 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 Harris Central Appraisal Review Board (the "Appraisal Review Board"). The appraisal rolls, as approved by the Appraisal Review Boards, will be used by the District in establishing its tax rolls and tax rate.

PROPERTY SUBJECT TO TAXATION BY THE DISTRICT

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District has adopted an over 65 or disabled exemption of \$10,000 for 2026. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who was entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces who was killed in action, or, (ii) a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by July 1. The District has adopted a homestead exemption of 5% for 2026.

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 Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable

years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit 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, the Port of Houston Authority, Harris County Flood Control District, Harris County Hospital District, Aldine Independent School District, the City of Houston 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. None of the area within the District has been designated a reinvestment zone to date, nor does the District expect any area within the District to be so designated in the foreseeable future.

VALUATION OF PROPERTY FOR TAXATION

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

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.

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.

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. Further, a person who is 65 years of age or older or disabled is entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. 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.

ROLLBACK OF OPERATION AND MAINTENANCE TAX RATE

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, which effectively restricts increases in the District's operation and maintenance tax rates by requiring rollback elections to reduce the operation and maintenance tax component of the District's total tax rate (collectively, the debt service tax rate, maintenance and operations tax rate and contract tax rate are the "total tax rate"). See "TAX DATA—Historical Tax Rate Distribution" for a description of the District's current total tax rate. SB 2 requires a reduction in the operation and maintenance tax component of the District's total tax rate if the District's total tax rate surpasses the thresholds for specific classes of districts in SB 2. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 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 "Low Tax Rate Districts." 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 are classified herein as "Other Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

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

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

Other Districts: Districts that do not meet the classification of a Low Tax Rate District or a Developed District are classified as Other Districts. The qualified voters of these districts, upon the Other District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax rate imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If a rollback election is called and passes, the total tax rate for Other 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 Low Tax Rate District, Developed District or Other District will be made on an annual basis, at the time a district sets its tax rate, beginning with the 2020 tax rate. For 2025, the District was classified as a "Developed District". The District's 2026 status has not yet been designated. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new rollback election calculation.

DISTRICT'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of 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 "DEBT AND FINANCIAL INFORMATION—ESTIMATED 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. 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 six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "INVESTMENT CONSIDERATIONS—TAX COLLECTION, LIMITATIONS AND FORECLOSURE REMEDIES."

REAPPRAISAL OF PROPERTY AFTER DISASTER

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

TAX PAYMENT INSTALLMENTS AFTER DISASTER

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

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INVESTMENT CONSIDERATIONS

GENERAL

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

HURRICANE RISK

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.

According to the District's Board of Directors there were 174 homes that flooded within the District during Hurricane Harvey. There was no interruption of potable water service to the District as a result of Hurricane Harvey but there was an interruption of sewer service for several days until access could be gained to the plant. The water and drainage facilities serving the District did not sustain any material damage from Hurricane Harvey. If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

SPECIFIC FLOOD TYPES

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 drainage systems downstream.

TAX COLLECTIONS LIMITATIONS AND FORECLOSURE REMEDIES

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

REGISTERED OWNERS' REMEDIES AND BANKRUPTCY

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

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

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

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

A district may not be forced into 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. After the issuance of the Bonds, the District will have no authorized but unissued bonds. 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. There are currently no development agreements with regards to any acreage tracts of undeveloped land.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—ISSUANCE OF ADDITIONAL DEBT."

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 area ("HGB area")—Harris, Galveston, Harris, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion ("ppb")) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 ("the 1997 Ozone Standards"); the tighter, 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 ozone nonattainment area under the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB area remained subject to continuing severe nonattainment area "anti-backsliding" requirements, despite the fact that HGB area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, EPA approved the TCEQ's "redesignation substitute" for the HGB area under the revoked 1997 Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for EPA's decision to eliminate the anti-backsliding requirements that had applied in the HGB area under the 1997 Ozone Standard. The court has not responded to EPA's April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court's ruling, the TCEQ has developed a formal request that the HGB area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB area is currently designated as a "moderate" nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. 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 "marginal" nonattainment area under the 2015 Ozone Standard. For purposes of the 2015 Ozone Standard, the HGB area consists of only six counties: Harris, 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), 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. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act ("CWA") and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district's ability to obtain and maintain compliance with TPDES permits.

The District is subject to the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"), which was issued by the TCEQ on August 15, 2024. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required 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. Costs associated with these compliance activities could be substantial in the future. The District has entered into the Stormwater Management Plan Interlocal Cooperation Agreement with the City of Missouri City and other municipal utility districts located within the City of Missouri City for the purpose of compliance with the MS4 Permit. Pursuant to the Agreement, the District is responsible for its pro rata share of the costs associated with MS4 compliance each year.

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 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.

MARKETABILITY OF THE BONDS

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

CONTINUING COMPLIANCE WITH CERTAIN COVENANTS

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure of the District to comply with such covenants on a 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—OPINION."

MUNICIPAL BOND INSURANCE AND RATING

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), has assigned an underlying credit rating of "BBB+" to the Bonds. An explanation of the ratings may be obtained from S&P. The forgoing ratings express only the view of S&P at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. The District can make no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

The District has submitted applications to have the payment of the principal of and interest on the Bonds insured by a municipal bond insurance policy. In the event the Bonds are qualified for municipal bond insurance, and the Purchaser desires to purchase such insurance, the cost will be paid by the Purchaser. Any fees associated with the S&P rating will be paid for by the District; however, the fees associated with any other rating will be paid by the Purchaser. The final Official Statement shall disclose information provided by the insurer relating to any such municipal bond insurance policy.

BOND INSURANCE RISK FACTORS

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

If municipal bond insurance is purchased for the Bonds, in the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments

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

If a Policy is acquired, the long-term ratings on the Bonds will be dependent in part on the financial strength of only such insurer and its claims-paying ability. An insurer's financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of an insurer and the ratings on the Bonds, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Bonds.

The obligations of an insurer under the Policy are contracted obligations and in an event of default by such insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies. None of the District, the Financial Advisor or the Purchaser has made independent investigation into the claims-paying ability of any potential insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential insurer is given.

CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS

In the past, Moody's, S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, and Fitch Ratings (the "Rating Agencies") have downgraded and/or placed on negative watch the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers are possible. 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 any insurer, particularly over the life of the Bonds.

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TAX MATTERS

OPINION

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds," the interest on which would be included as an alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds may be excludable in certain corporations "adjusted financial statement income" determined under Section 56A of the Code to calculate the alternative minimum tax imposed by Section 55 of the Code. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

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

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

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

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

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM BONDS

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

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

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

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

maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond. The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF INTEREST ACCRUED UPON REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

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

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

STATE, LOCAL AND FOREIGN TAXES

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

Section 265(a) of the Internal Revenue Code of 1986, as amended (the "Code") provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt

obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(1)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

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

LEGAL MATTERS

LEGAL OPINIONS

The District will furnish the Purchaser a transcript of certain certified proceedings had incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District. The District also will furnish the approving legal opinion of Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel ("Bond Counsel"), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from ad valorem taxes, without legal limit as to rate or amount, upon all taxable property located within the District and that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds, and except as to certain Registered Owners as described under "TAX MATTERS" below. The opinion of Bond Counsel will be printed on the Bonds; however, errors or omissions in the printing of such legal opinion on the Bonds shall not affect the validity of the Bonds nor constitute cause for the failure or refusal by the Purchaser to accept delivery of and pay for the Bonds. Moreover, the statutes, regulations, rulings, and court decisions as to the excludability of interest on the Bonds from gross income on which such opinions are based are subject to change.

LEGAL REVIEW

In its capacity as Bond Counsel, Smith, Murdaugh, Little & Bonham, L.L.P., has reviewed the information appearing in this Official Statement under the captions "THE BONDS" (except for the information contained in the subheading "BOOK- ENTRY-ONLY-SYSTEM"), "TAXING PROCEDURES," "THE DISTRICT – STRATEGIC PARTNERSHIP AGREEMENT," and - "MANAGEMENT OF THE DISTRICT- DISTRICT CONSULTANTS-BOND COUNSEL/ATTORNEY," "TAX MATTERS" "LEGAL MATTERS - LEGAL OPINIONS," and "CONTINUING DISCLOSURE OF INFORMATION" to determine whether such information fairly summarizes the law referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such party's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Dallas Texas as Disclosure Counsel. The fees of Disclosure Counsel are contingent upon the issuance of the Bonds.

NO-LITIGATION CERTIFICATE

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

questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

NO MATERIAL ADVERSE CHANGE

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

PREPARATION OF OFFICIAL STATEMENT

SOURCES AND COMPILATION OF INFORMATION

The financial data and other information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector, 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

Hilltop Securities Inc. 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, Hilltop Securities Inc. has compiled and edited this Official Statement. The Financial Advisor has provided the following sentence for inclusion in this official statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as 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.

Tax Assessor/Collector: The information contained in this Official Statement relating to the historical breakdown of the District's assessed valuations, principal taxpayers, and certain other data concerning tax rates and collections including particularly such information contained in the section entitled "TAX DATA" has been provided by the Harris County Tax Assessor/Collector 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 matters and to the description of the System and, in particular, that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Vogler & Spencer Engineering, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: The District's financial statements for the year ended May 31, 2025, were audited by McCall Gibson Swedlund Barfoot PLLC. See "APPENDIX A" for a copy of the District's May 31, 2025, 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 Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Purchaser, provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Purchaser, unless the Purchaser notifies the District on or before such date that less than all of the bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

CERTIFICATION OF OFFICIAL STATEMENT

The District, acting by and through its Board in its official capacity and in reliance upon the consultants listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements, and descriptions or any

addenda, supplement and amendment thereto pertaining to the District and its affairs herein 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 such 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 Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds, within the meaning of the Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). 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").

ANNUAL REPORTS

The District will provide certain updated financial information and operating data to the MSRB annually through its EMMA system. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "DEBT AND FINANCIAL INFORMATION," "TAX DATA" and in "APPENDIX A." The District will update and provide this information within six months after the end of each fiscal year ending in and after 2026.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six-month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is May 31. Accordingly, it must provide updated information by November 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES

The District will notify the MSRB through EMMA of any of the following events with respect to the Bonds in a timely manner, and not more than 10 business days after occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of Holders 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, which will occur as described below;
- (13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of 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, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, 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, any of which reflect financial difficulties.

For the purposes of the event identified in (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. For purposes of clauses (15) and (16) in the immediately preceding paragraphs, the Bond Order defines "Financial Obligation" as a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

The District will notify the MSRB through EMMA, in a timely manner, of any failure by the District to provide financial information or operating data by the time required.

AVAILABILITY OF INFORMATION FROM MSRB

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

LIMITATIONS, DISCLAIMERS, AND AMENDMENTS

The District will be obligated to observe and perform its continuing disclosure covenants while it remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the District in any event will give notice of any Bond calls and defeasance that cause the District to be no longer such an "obligated person".

The provisions of this Article are for the sole benefit of the Holders and beneficial owners of the Bonds, and nothing, express or implied, will give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The District undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide and has not undertaken to provide any other information that may be relevant or material to a complete presentation of the financial results, condition, or prospects of the District or the State of Texas or hereby undertake to update any information except as expressly provided. The District does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES WILL THE DISTRICT BE LIABLE TO THE REGISTERED OWNER OR BENEFICIAL OWNER OF ANY BOND ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE DISTRICT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH WILL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the District in observing or performing its obligations will constitute a breach of or default.

The District may amend its continuing disclosure undertaking from time to time to adapt to changed circumstances resulting 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, but only if (1) the provisions, as so amended, would have permitted an Purchaser to purchase or sell Bonds in the primary offering of the Bonds 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 (2) either (a) the Holders of a majority in aggregate principal

amount (or any greater amount required by any other provision of the Bond Order that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a Person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Purchaser from lawfully purchasing the Bonds.

COMPLIANCE WITH PRIOR UNDERTAKINGS

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

MISCELLANEOUS

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

/s/ _____
President, Board of Directors
Memorial Hills Utility District

ATTEST:

/s/ _____
Secretary, Board of Directors
Memorial Hills Utility District

AERIAL PHOTOGRAPH OF THE DISTRICT



Source: Esri, Vantor, Earthstar Geographics, and the GIS User Community

MEMORIAL HILLS UTILITY DISTRICT 460.6645 ACRES



Legend

 Memorial Hills Boundary



APPENDIX A

Financial Statement of the District for the Year Ended May 31, 2025

McCall Gibson Swedlund Barfoot Ellis PLLC

Certified Public Accountants

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Memorial Hills Utility District
Harris County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Memorial Hills Utility District (the "District") as of and for the year ended May 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of May 31, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Directors
Memorial Hills Utility District

Supplementary Information

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

McCall Gibson Swedlund Barfoot Ellis PLLC

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

October 14, 2025

**MEMORIAL HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2025**

Management's discussion and analysis of Memorial Hills Utility District's (the "District") financial performance provides an overview of the District's financial activities for the year ended May 31, 2025. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**MEMORIAL HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2025**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred inflow of resources exceeded liabilities by \$2,504,215 as of May 31, 2025.

A portion of the District's net position reflects its net investment in capital assets (water and wastewater facilities less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water and wastewater services.

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

**MEMORIAL HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2025**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2025	2024	Change Positive (Negative)
Current and Other Assets	\$ 7,280,211	\$ 7,678,223	\$ (398,012)
Capital Assets (Net of Accumulated Depreciation)	5,607,515	5,841,213	(233,698)
Total Assets	\$ 12,887,726	\$ 13,519,436	\$ (631,710)
Deferred Inflows of Resources	\$ 89,966	\$ 95,668	\$ (5,702)
Bonds Payable	\$ 9,852,583	\$ 10,116,866	\$ 264,283
Other Liabilities	620,894	621,067	173
Total Liabilities	\$ 10,473,477	\$ 10,737,933	\$ 264,456
Net Position:			
Net Investment in Capital Assets	\$ (547,157)	\$ (425,525)	\$ (121,632)
Restricted	798,976	787,456	11,520
Unrestricted	2,252,396	2,515,240	(262,844)
Total Net Position	\$ 2,504,215	\$ 2,877,171	\$ (372,956)

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

	Summary of Changes in the Statement of Activities		
	2025	2024	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,102,776	\$ 1,021,768	\$ 81,008
Charges for Services	952,619	866,874	85,745
Other Revenues	566,497	619,303	(52,806)
Total Revenues	\$ 2,621,892	\$ 2,507,945	\$ 113,947
Expenses for Services	2,994,848	2,545,729	(449,119)
Change in Net Position	\$ (372,956)	\$ (37,784)	\$ (335,172)
Net Position, Beginning of Year	2,877,171	2,914,955	(37,784)
Net Position, End of Year	\$ 2,504,215	\$ 2,877,171	\$ (372,956)

**MEMORIAL HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2025**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of May 31, 2025, were \$6,566,585, a decrease of \$398,188 from the prior year.

The General Fund fund balance decreased by \$263,121, primarily due to operating expenditures exceeding service and tax revenues.

The Debt Service Fund fund balance increased by \$10,039, primarily due to the structure of the District's debt service requirements.

The Capital Projects Fund fund balance decreased by \$145,106, primarily due to capital costs and excess interest exceeding interest revenue.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$101,977 more than budgeted and actual expenditures were \$10,278 less than budgeted. This resulted in a positive budget variance of \$112,255. See the budget to actual comparison for additional information.

CAPITAL ASSETS

The District's capital assets as of May 31, 2025, total \$5,607,515 (net of accumulated depreciation). These capital assets include land, as well as the water and wastewater systems.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2025	2024	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 119,540	\$ 119,540	\$
Construction in Progress		205,248	(205,248)
Capital Assets, Net of Accumulated Depreciation:			
Water System	2,062,382	2,174,507	(112,125)
Wastewater System	2,889,702	2,793,570	96,132
Generator	535,891	548,348	(12,457)
Total Net Capital Assets	<u>\$ 5,607,515</u>	<u>\$ 5,841,213</u>	<u>\$ (233,698)</u>

**MEMORIAL HILLS UTILITY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2025**

LONG-TERM DEBT ACTIVITY

At the end of the current year, the District had total bond debt payable of \$9,785,000. The changes in the debt position of the District during the year ended May 31, 2025, are summarized as follows:

Bond Debt Payable, June 1, 2024	\$ 10,045,000
Less: Bond Principal Paid	<u>260,000</u>
Bond Debt Payable, May 31, 2025	<u>\$ 9,785,000</u>

The District Series 2019 Refunding and Series 2020 bonds both carry an underlying rating of “BBB+” and have an insured rating of “AA” by virtue of bond insurance through Assured Guaranty.

CONTACTING THE DISTRICT’S MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Memorial Hills Utility District, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, TX 77019.

MEMORIAL HILLS UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2025

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 142,275	\$ 30,202
Investments	2,238,239	743,927
Receivables:		
Property Taxes	36,785	41,706
Penalty and Interest on Delinquent Taxes		
Service Accounts	102,534	
Due from City of Houston	52,678	
Due from Other Funds	7,997	
Prepaid Costs	52,323	
Land		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 2,632,831	\$ 815,835
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,632,831	\$ 815,835

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 13,328	\$ 185,805	\$	\$ 185,805
3,766,473	6,748,639		6,748,639
	78,491		78,491
		37,500	37,500
	102,534		102,534
	52,678		52,678
	7,997	(7,997)	
	52,323	22,241	74,564
		119,540	119,540
		<u>5,487,975</u>	<u>5,487,975</u>
<u>\$ 3,779,801</u>	<u>\$ 7,228,467</u>	<u>\$ 5,659,259</u>	<u>\$ 12,887,726</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 89,966</u>	<u>\$ 89,966</u>
<u>\$ 3,779,801</u>	<u>\$ 7,228,467</u>	<u>\$ 5,749,225</u>	<u>\$ 12,977,692</u>

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

**MEMORIAL HILLS UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2025**

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 132,360	\$
Accrued Interest Payable		
Due to Other Governmental Units	27,381	
Due to Other Funds		7,997
Due to Taxpayers		862
Security Deposits	220,694	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 380,435	\$ 8,859
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 36,785	\$ 41,706
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 52,323	\$
Restricted for Authorized Construction		
Restricted for Debt Service		765,270
Assigned to 2026 Budget	495,676	
Unassigned	1,667,612	
TOTAL FUND BALANCES	\$ 2,215,611	\$ 765,270
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,632,831	\$ 815,835
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 194,097	\$ 326,457	\$	\$ 326,457
		45,500	45,500
	27,381		27,381
	7,997	(7,997)	
	862		862
	220,694		220,694
		265,000	265,000
		<u>9,587,583</u>	<u>9,587,583</u>
<u>\$ 194,097</u>	<u>\$ 583,391</u>	<u>\$ 9,890,086</u>	<u>\$ 10,473,477</u>
<u>\$ -0-</u>	<u>\$ 78,491</u>	<u>\$ (78,491)</u>	<u>\$ -0-</u>
\$	\$ 52,323	\$ (52,323)	\$
3,585,704	3,585,704	(3,585,704)	
	765,270	(765,270)	
	495,676	(495,676)	
	<u>1,667,612</u>	<u>(1,667,612)</u>	
<u>\$ 3,585,704</u>	<u>\$ 6,566,585</u>	<u>\$ (6,566,585)</u>	<u>\$ - 0 -</u>
<u>\$ 3,779,801</u>	<u>\$ 7,228,467</u>		
		\$ (547,157)	\$ (547,157)
		798,976	798,976
		<u>2,252,396</u>	<u>2,252,396</u>
		<u>\$ 2,504,215</u>	<u>\$ 2,504,215</u>

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

**MEMORIAL HILLS UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MAY 31, 2025**

Total Fund Balances - Governmental Funds \$ 6,566,585

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

Prepaid bond insurance costs in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. 22,241

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 5,607,515

Deferred charges on refunding bonds are recorded as a deferred outflow in the governmental activities and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. 89,966

Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2024 and prior tax levies became part of recognized revenue in the governmental activities of the District. 115,991

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:

Accrued Interest Payable	\$ (45,500)	
Bonds Payable	<u>(9,852,583)</u>	<u>(9,898,083)</u>

Total Net Position - Governmental Activities \$ 2,504,215

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

MEMORIAL HILLS UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2025

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 549,971	\$ 553,309
Water Service	193,365	
Wastewater Service	223,881	
Regional Water Authority Fees	176,333	
Penalty and Interest	15,059	15,820
Sales Tax Revenues	202,799	
Tap Connection and Inspection Fees	327,316	
Investment Revenues	112,355	36,031
Miscellaneous Revenues	36,898	1,679
TOTAL REVENUES	\$ 1,837,977	\$ 606,839
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 246,229	\$ 24,981
Contracted Services	817,013	20,551
Utilities	81,880	
Regional Water Authority Assessment	162,759	
Repairs and Maintenance	443,919	
Depreciation		
Arbitrage Compliance-Excess Interest		
Other	349,298	9,768
Capital Outlay		
Debt Service:		
Bond Principal		260,000
Bond Interest		281,500
TOTAL EXPENDITURES/EXPENSES	\$ 2,101,098	\$ 596,800
NET CHANGE IN FUND BALANCES	\$ (263,121)	\$ 10,039
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JUNE 1, 2024	2,478,732	755,231
FUND BALANCES/NET POSITION - MAY 31, 2025	\$ 2,215,611	\$ 765,270

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$ 1,103,280	\$ (504)	\$ 1,102,776
	193,365		193,365
	223,881		223,881
	176,333		176,333
	30,879	845	31,724
	202,799		202,799
	327,316		327,316
176,735	325,121		325,121
	38,577		38,577
\$ 176,735	\$ 2,621,551	\$ 341	\$ 2,621,892
\$ 3,500	\$ 274,710	\$	\$ 274,710
	837,564		837,564
	81,880		81,880
	162,759		162,759
	443,919		443,919
		271,844	271,844
194,097	194,097		194,097
300	359,366		359,366
123,944	123,944	(38,146)	85,798
	260,000	(260,000)	
	281,500	1,411	282,911
\$ 321,841	\$ 3,019,739	\$ (24,891)	\$ 2,994,848
\$ (145,106)	\$ (398,188)	\$ 398,188	\$
		(372,956)	(372,956)
3,730,810	6,964,773	(4,087,602)	2,877,171
\$ 3,585,704	\$ 6,566,585	\$ (4,062,370)	\$ 2,504,215

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

**MEMORIAL HILLS UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2025**

Net Change in Fund Balances - Governmental Funds	\$ (398,188)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	(504)
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	845
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(271,844)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	38,146
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	260,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	(1,411)
Change in Net Position - Governmental Activities	<u>\$ (372,956)</u>

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

MEMORIAL HILLS UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 1. CREATION OF DISTRICT

Memorial Hills Utility District (the “District”) was created effective May 5, 1969, by a special act of the 61st Legislature of the State of Texas, Regular Session 1969. The District was converted to a municipal utility district by the Texas Commission on Environmental Quality (the “Commission”) by order on November 12, 2009. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation and solid waste collection, and to establish, operate and maintain firefighting facilities and/or parks and recreational facilities. The Board of Directors held its first meeting on July 3, 1969, and the first bonds were sold on December 16, 1969.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

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

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

MEMORIAL HILLS UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental Funds

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

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures.

MEMORIAL HILLS UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds (Continued)

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

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

Basis of Accounting

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

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of May 31, 2025, the Debt Service Fund owed the General Fund \$7,997 for maintenance tax collections.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset.

MEMORIAL HILLS UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$15,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
All Other Equipment	3-20

Budgeting

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

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are wages subject to federal income tax withholding for payroll purposes only.

Measurement Focus

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

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

MEMORIAL HILLS UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. As of May 31, 2025, the District has assigned \$495,676 for the 2026 budget deficit.

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

MEMORIAL HILLS UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 3. LONG-TERM DEBT

	<u>Series 2019 Refunding</u>	<u>Series 2020</u>
Amount Outstanding – May 31, 2025	\$4,180,000	\$5,605,000
Interest Rates	3.00% - 4.00%	2.00% - 4.00%
Maturity Dates – Serially Beginning/Ending	April 1, 2026/2041	April 1, 2026/2050
Interest Payment Dates	October 1/ April 1	October 1/ April 1
Callable Dates	April 1, 2027 *	April 1, 2026 *

* Or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. Series 2019 Refunding term bonds maturing on April 1, 2035, April 1, 2037, April 1, 2039, and April 1, 2041 are subject to mandatory redemption beginning April 1, 2034, April 1, 2036, April 1, 2038, and April 1, 2040, respectively. Series 2020 term bonds maturing April 1, 2029, April 1, 2031, April 1, 2034, April 1, 2037, April 1, 2040, April 1, 2042, April 1, 2046 and April 1, 2050 are subject to mandatory redemption beginning April 1, 2027, April 1, 2030, April 1, 2032, April 1, 2035, April 1, 2038, April 1, 2041, April 1, 2043 and April 1, 2047, respectively.

The following is a summary of transactions regarding long-term liabilities for the year ended May 31, 2025:

	<u>June 1, 2024</u>	<u>Additions</u>	<u>Retirements</u>	<u>May 31, 2025</u>
Bonds Payable	\$ 10,045,000	\$ -0-	\$ 260,000	\$ 9,785,000
Unamortized Premiums	71,866		4,283	67,583
Bonds Payable	<u>\$ 10,116,866</u>	<u>\$ -0-</u>	<u>\$ 264,283</u>	<u>\$ 9,852,583</u>
			Amount Due Within One Year	\$ 265,000
			Amount Due After One Year	<u>9,587,583</u>
			Bonds Payable	<u>\$ 9,852,583</u>

MEMORIAL HILLS UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 3. LONG-TERM DEBT (Continued)

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

Fiscal Year	Principal	Interest	Total
2026	\$ 265,000	\$ 273,000	\$ 538,000
2027	275,000	264,400	539,400
2028	280,000	256,850	536,850
2029	290,000	249,100	539,100
2030	295,000	241,100	536,100
2031-2035	1,625,000	1,068,793	2,693,793
2036-2040	1,930,000	770,238	2,700,238
2041-2045	2,270,000	437,924	2,707,924
2046-2050	2,555,000	174,669	2,729,669
	<u>\$ 9,785,000</u>	<u>\$ 3,736,074</u>	<u>\$ 13,521,074</u>

The District has authorized but unissued bonds of \$23,984,000 which can be issued for the purpose of acquiring or constructing waterworks, sanitary sewer and drainage facilities. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

During the year ended May 31, 2025, the District levied an ad valorem debt service tax rate of \$0.32 per \$100 of assessed valuation, which resulted in a tax levy of \$519,327 on the adjusted taxable valuation of \$162,289,578 for the 2024 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

All property values and exempt status, if any, are determined by the appraisal district. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to each nationally recognized municipal securities information depository and the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

MEMORIAL HILLS UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District’s deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District’s deposits was \$185,805 and the bank balance was \$191,939. The District was not exposed to custodial credit risk at year-end.

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

	Cash
GENERAL FUND	\$ 142,275
DEBT SERVICE FUND	30,202
CAPITAL PROJECTS FUND	13,328
TOTAL DEPOSITS	\$ 185,805

Investments

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

MEMORIAL HILLS UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

The District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2025, the investment rating for TexPool was AAAM. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share positions can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

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

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
TexPool	\$ 2,238,239	\$ 2,238,239	\$	\$	\$
<u>DEBT SERVICE FUND</u>					
TexPool	743,927	743,927			
<u>CAPITAL PROJECTS FUND</u>					
TexPool	<u>3,766,473</u>	<u>3,766,473</u>			
TOTAL INVESTMENTS	\$ <u>6,748,639</u>	\$ <u>6,748,639</u>	\$ <u>- 0 -</u>	\$ <u>- 0 -</u>	\$ <u>- 0 -</u>

Restrictions

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

MEMORIAL HILLS UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended May 31, 2025:

	June 1, 2024	Increases	Decreases	May 31, 2025
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 119,540	\$	\$	\$ 119,540
Construction in Progress	<u>205,248</u>	<u>38,146</u>	<u>243,394</u>	<u></u>
Total Capital Assets Not Being Depreciated	<u>\$ 324,788</u>	<u>\$ 38,146</u>	<u>\$ 243,394</u>	<u>\$ 119,540</u>
Capital Assets Subject to Depreciation				
Water System	\$ 4,404,735	\$ 2,604	\$	\$ 4,407,339
Wastewater System	5,648,632	239,891		5,888,523
Generator	<u>721,978</u>	<u>899</u>		<u>722,877</u>
Total Capital Assets Subject to Depreciation	<u>\$ 10,775,345</u>	<u>\$ 243,394</u>	<u>\$ -0-</u>	<u>\$ 11,018,739</u>
Accumulated Depreciation				
Water System	\$ 2,230,228	\$ 114,729	\$	\$ 2,344,957
Wastewater System	2,855,062	143,759		2,998,821
Generator	<u>173,630</u>	<u>13,356</u>		<u>186,986</u>
Total Accumulated Depreciation	<u>\$ 5,258,920</u>	<u>\$ 271,844</u>	<u>\$ -0-</u>	<u>\$ 5,530,764</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 5,516,425</u>	<u>\$ (28,450)</u>	<u>\$ -0-</u>	<u>\$ 5,487,975</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 5,841,213</u>	<u>\$ 9,696</u>	<u>\$ 243,394</u>	<u>\$ 5,607,515</u>

The District has financed drainage facilities which are being maintained by other entities for maintenance.

NOTE 7. MAINTENANCE TAX

On August 12, 2000, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.60 per \$100 of assessed valuation of property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

During the year ended May 31, 2025, the District levied an ad valorem maintenance tax rate of \$0.3241 per \$100 of assessed valuation, which resulted in a tax levy of \$525,981 on the adjusted taxable valuation of \$162,289,578 for the 2024 tax year.

MEMORIAL HILLS UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 9. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the North Harris County Regional Water Authority (the “Authority”). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 2965 (the “Act”), as passed by the 75th Texas Legislature, in 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority is overseeing that its participants comply with the Harris-Galveston Subsidence District pumpage requirements. The District is required to convert its water supply to surface water over a period of time.

The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions. The fee currently being charged is \$2.60 per 1,000 gallons of water pumped from each well. The District recorded an expenditure of \$162,759 for fees assessed during the current fiscal year.

NOTE 10. STRATEGIC PARTNERSHIP AGREEMENT

Effective April 7, 2003, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas. The agreement provided that in accordance with Subchapter F of the chapter 43 of the Local Government Code and the Act, the City annexed a tract of land defined as the “Tract” for limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the Tract within the boundaries of the District. The district continues to develop, to own, and to operate and maintain a water and wastewater system in the District.

All taxable property within the District is not liable for any present or future debts of the City, and current and future taxes levied by the City are not levied on taxable property within the District. The City’s municipal courts have jurisdiction to adjudicate criminal cases filed under the Planning, Zoning, Health and Safety Ordinances and State laws. Provisions of the Regulatory Plan adopted by the City will be applicable to the District and the Tract of land within the District. The District’s assets, liabilities, indebtedness, and obligations will remain the responsibility of the District during the period of this Agreement.

MEMORIAL HILLS UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2025

NOTE 10. STRATEGIC PARTNERSHIP AGREEMENT (Continued)

The qualified voters of the Tract may vote in the City elections pursuant to Local Government Code. The City is responsible for notifying the voters within the Tract.

The City imposes a Sales and Use Tax within the boundaries of the Tract. The Sales and Use Tax is imposed on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under the future amendments to Chapter 321 of the Tax Code. The City agreed to pay the District an amount equal to one-half of all Sales and Use Tax revenues generated within the boundaries of the Tract. The City agreed to deliver to the District its share of the sales tax receipts within 30 days of the City receiving the funds from the State Comptroller's office.

The City also agreed that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement. The term of this Agreement is 30 years from the effective date. During the current fiscal year, the District recorded sales tax revenue of \$202,799, of which \$52,678 was recorded as receivable at year-end.

NOTE 11. SUBSEQUENT ARBITRAGE ANALYSIS

Subsequent to year-end, on October 7, 2025 the Series 2020 bond yield restriction calculation and arbitrage report was prepared for the 5th year period since the bonds were issued. Treasury Regulations Section 1.148-3(a) provides that the arbitrage that must be rebated is based on the difference between the amount actually earned on non-purpose investments and the amount that would have been earned if those investments had a yield equal to the yield on the bond issue. Excess interest earnings were determined to be due to the IRS. At year-end, \$194,097 has been recorded as payable.

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APPENDIX B

Specimen Municipal Bond Insurance

Municipal Advisory Services
Provided By

