

OFFICIAL STATEMENT OCTOBER 28, 2021

IN THE OPINION OF SPECIAL TAX COUNSEL, BASED UPON AN ANALYSIS OF EXISTING LAWS, REGULATIONS, RULINGS AND COURT DECISIONS, AND ASSUMING, AMONG OTHER MATTERS, THE ACCURACY OF CERTAIN REPRESENTATIONS AND COMPLIANCE WITH CERTAIN COVENANTS, INTEREST ON THE BONDS IS EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX. BOND COUNSEL EXPRESSES NO OPINION REGARDING ANY OTHER TAX CONSEQUENCES RELATED TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. SEE "TAX MATTERS" HEREIN.

The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions" herein.

NEW ISSUE—BOOK-ENTRY ONLY
CUSIP No. 866907

**RATINGS: Underlying "A3" Moody's
 Insured "AA" (stable outlook) S&P**

See "MUNICIPAL BOND RATING" and "BOND INSURANCE" herein

\$8,465,000

SUNBELT FRESH WATER SUPPLY DISTRICT
 (A political subdivision of the State of Texas, located in Harris County, Texas)
WATERWORKS & SEWER SYSTEM REVENUE REFUNDING BONDS
SERIES 2021

Dated: December 1, 2021

Due: December 1 (as shown below)

Interest on the Bonds (the "Bonds" or the "Series 2021 Refunding Bonds") will accrue from December 1, 2021, and will be payable on December 1 and June 1 of each year, commencing December 1, 2022. The definitive Bonds 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. 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 owners thereof. Principal of, premium, if any, 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 "BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS."

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



<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield to Maturity(a)</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield to Maturity(a)</u>
\$330,000	2022	3.00%	0.32%	\$590,000	2030	3.00%	1.67%
\$470,000	2023	3.00%	0.46%	\$605,000	2031 (b)	3.00%	1.79%
\$490,000	2024	3.00%	0.61%	\$625,000	2032 (b)	3.00%	1.87%
\$505,000	2025	3.00%	0.81%	\$640,000	2033 (b)	3.00%	1.95%
\$525,000	2026	3.00%	1.02%	\$660,000	2034 (b)	3.00%	1.98%
\$535,000	2027	3.00%	1.22%	\$675,000	2035 (b)	2.25%	2.25%
\$555,000	2028	3.00%	1.39%	\$690,000	2036 (b)	3.00%	2.04%
\$570,000	2029	3.00%	1.53%				

- (a) The initial reoffering yields are established by and are the sole responsibility of the Underwriters (hereinafter defined) and may be subsequently changed.
- (b) The Bonds maturing on or after December 1, 2031, are subject to redemption in whole or from time to time in part, at the option of the District (herein defined), on December 1, 2030, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If fewer than all of the Bonds are redeemed, the Bonds to be redeemed shall be selected, on behalf of the District, by the Paying Agent/Registrar, in its capacity as Registrar, by lot or other customary method, in integral multiples of \$5,000 in any one maturity. See "THE BONDS—Optional Redemption of the Bonds."

The proceeds of the Bonds will be used by Sunbelt Fresh Water Supply District (the "District"), together with certain legally available funds of the District, to refund certain of the District's outstanding bonds and to pay certain costs associated with the issuance of the Bonds. See "PLAN OF FINANCING." The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the Net Revenues (as defined herein) of the District's waterworks and sewer system (the "System"). See "THE BONDS – Source of and Security for Payment." 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. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, or the City of Houston, is pledged to the payment of the principal of or interest on the Bonds. **The Bonds are subject to certain risk factors described under the caption "RISK FACTORS."**

The Bonds are offered when, as and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Radcliffe Bobbitt Adams Polley PLLC, Houston, Texas, Bond Counsel. Certain Legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe, Houston, Texas, Special Tax Counsel. Certain other matters will be passed upon for the Underwriters by Allen Boone Humphries Robinson LLP, Houston, Texas as Underwriters' Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about December 15, 2021.

SAMCO CAPITAL

RBC CAPITAL MARKETS

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, resolutions, contracts, audited financial statements, and engineering and other related reports set forth in this Official Statement are made subject to 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, upon payment of duplication costs.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or that they will realize. Any information and expressions of opinion herein contained are subject to change and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof.

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

SALE AND DISTRIBUTION OF THE BONDS

The Bonds are being purchased by SAMCO Capital Markets, Inc. and RBC Capital Markets, LLC (collectively, the “Underwriters”) pursuant to a proposal submitted to the District at a price of \$9,094,601.50 which represents the principal amount of the Bonds \$8,465,000.00 plus an original issue premium of \$682,931.00 less an Underwriters’ discount of \$53,329.50 plus accrued interest on the Bonds from the Dated Date to the date of delivery. Such price produces a net effective interest rate of 1.972106%.

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

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriters on or before the date of delivery of the Bonds stating the prices at which a substantial number of the Bonds of each maturity have been sold to the public. For this purpose, the term “public” shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriters regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds after their initial sale by the District. Information concerning reoffering yields or prices is the responsibility of the Underwriters.

THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS 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 UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission (“SEC”) under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. This disclaimer of responsibility for registration or qualification

for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12

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

Annual Reports

The information to be updated with respect to the District includes all quantitative financial information and operating data of the District of the general type included in this Official Statement included under the headings “DISTRICT FINANCIAL/OPERATING INFORMATION” and “APPENDIX A” (Audited Financial Statements of the District). The District will update and provide this information within six (6) months after the end of each of its fiscal years ending in or after 2022. The District will provide the updated information to EMMA. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “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, the District shall provide unaudited financial statements for the applicable fiscal year to each EMMA 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 is June 30. Accordingly, it must provide updated information by December 31 in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will notify EMMA of the change.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District; (13) consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreements 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 the financial obligation of the District, any of which reflect financial difficulties. The term “financial obligation” when used in this paragraph shall have the meaning ascribed to it under the Rule. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves, liquidity enhancement, the pledge of property (other than Net Revenues of the System) to secure payment of the Bonds, or appointment of a trustee. Further, with respect to the Bonds, there are no “obligated persons” within the meaning of the Rule other than the District. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from EMMA

The District has agreed to provide the foregoing updated information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB at: <https://emma.msrb.org/>.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of

its continuing disclosure agreement, or from any statement made pursuant to its agreement, although holders and Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the Outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such 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 Underwriters from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five (5) years, the District has complied in all material respects with its continuing disclosure agreements previously made in accordance with SEC Rule 15c2-12.

MUNICIPAL BOND RATING

In connection with the sale of the Bonds the District has made application to Moody's Investor Services, Inc. ("Moody's") which assigned the underlying rating of "A3" (stable outlook) on the Bonds based upon the District's underlying credit without bond insurance. The underlying rating of the District to be released by Moody's will be maintained by Moody's. An explanation of the significance of such rating may be obtained from Moody's. The rating reflects only the view of Moody's, and the District makes no representation as to the appropriateness of such rating. The District can make no assurance that the Moody's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by Moody's if, in the judgment of Moody's, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

S&P is expected to assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by BAM. The District can make no assurance that S&P's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE."

BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM. The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to

buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2021 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$488.6 million, \$165.5 million and \$323.1 million, respectively.

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

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

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

BAM GreenStar Bonds

The Bonds have been designated BAM GreenStar Bonds because BAM has determined that the use of bond proceeds by the Issuer as described in this Official Statement and in any additional information obtained by BAM aligns with one of the Green Bond Principles ("GBPs") developed by the International Capital Markets Association ("ICMA"). The GBPs were developed by the ICMA with the goal of establishing universally accepted guidelines for the issuance of green bonds, and one of the key requirements addresses the use of proceeds. BAM has been identified by the ICMA as an observer organization that is active in the field of green and/or social or sustainability finance and as a Climate Bond Initiative approved verifier. The GreenStar Credit Profile prepared by BAM for the Bonds will identify which of the following GBP categories applies to the Bonds:

- renewable energy
- energy efficiency
- pollution prevention and control
- environmentally sustainable management of living natural resources and land use
- terrestrial and aquatic biodiversity
- clean transportation
- climate change adaptation
- sustainable water and wastewater management
- green buildings

Each of the GBPs correlates to one of the following UN Sustainable Development Goals which will also be included in the GreenStar Credit Profile for the Bonds:

- clean water and sanitation
- affordable and clean energy
- sustainable cities and communities
- industry innovation and infrastructure
- responsible consumption and production
- climate action
- life below water
- life on land

The Issuer makes no representation regarding the applicability of or suitability of the GreenStar designation. The term "GreenStar" is neither defined in, nor related to, the security documents relating to the Bonds. The GreenStar designation is solely for identification purposes and is not intended to provide or imply that the owners of the Bonds are entitled to any security other than that described in this official statement. The Issuer is under no contractual or other legal obligation to ensure compliance with any legal or other principles relating to "GreenStar" designation. The Issuer has made no commitment to provide ongoing reporting or information regarding the designation or compliance with the GBPs.

The BAM GreenStar designation is based upon an assessment by BAM at the time of the issuance of the Bonds and such designation by BAM reflects only the views of BAM. BAM does not charge a fee in connection with the designation, does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. The designation is provided on an "AS IS" basis and is based on BAM's own investigation, studies, assumptions, and criteria using its reasonable best efforts. In issuing its GreenStar designation, BAM has assumed and relied upon the accuracy and completeness of the information made publicly available by the Issuer or that was otherwise made available to BAM. BAM makes no representation or warranty, express or implied, including, but not limited to, the accuracy, results, timeliness, completeness, merchantability or fitness for any particular purpose with respect to the designation. A complete description of BAM GreenStar, and its limitations and terms of use, are available on BAM's website <https://buildamerica.com/greenstar> and <https://buildamerica.com/terms-of-use> and incorporated herein by reference. The BAM GreenStar designation is determined solely by BAM; it has not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for such designation.

BAM's GreenStar designation does not and is not intended to make any representation or give any assurance with respect to any other matter relating to the Bonds and is not a recommendation to any person to purchase, hold, or sell the Bonds. Such labeling does not address the market price, marketability or suitability of these Bonds for a particular investor. There is no assurance that the designation will be retained for any given period of time or that the designation will not be revised, suspended, or withdrawn by BAM if, in its judgment, circumstances so warrant.

Additional Information Available from BAM

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

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

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

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

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

THE BONDS

- Description:** Waterworks & Sewer System Revenue Refunding Bonds, Series 2021, are dated December 1, 2021. The Bonds are fully registered serial bonds maturing on December 1, as reflected on the cover page of this Official Statement. See "THE BONDS."
- Book-Entry-Only System:** The Bonds will be initially registered 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 "BOOK-ENTRY-ONLY SYSTEM."
- Security for the Bonds:** The bonds constitute special obligations of the district, payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the District's Waterworks and Sewer System (see "The Bonds - Security and Source of Payment").
- Redemption Provisions:** The Bonds maturing on or after December 1, 2031 are subject to early redemption, in whole or in part, on December 1, 2030, or on any date thereafter at the option of the District at a price of par plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption."
- Plan of Financing:** Proceeds from the sale of the Bonds will be used to pay bond issuance and administrative expenses and to currently refund certain of the District's outstanding Waterworks and Sewer System Supply Revenue Notes, Series 2011 in order to achieve present value savings in the District's debt service expense. See "PLAN OF FINANCING."
- Legal Opinions:** Radcliffe Bobbitt Adams Polley PLLC, Bond Counsel, Houston, Texas and Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel Houston Texas. See "LEGAL MATTERS" and "TAX MATTERS."
- Payment Record:** The District has never defaulted on the payment of principal or interest on any of its bonds.
- Risk Factors:** The Bonds are subject to certain investment considerations, as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds, including particularly the sections captioned "RISK FACTORS."
- Qualified Tax Exempt Obligations:** The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986 and represents the total amount of tax-exempt bonds (including the Bonds) issued by the District during calendar year 2021 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS – Qualified Tax-Exempt Obligations."
- Municipal Bond Rating:** Moody's has assigned an underlying municipal bond rating of "A3" to this issue of Bonds based upon the District's underlying credit without bond insurance. An explanation of the significance of such rating may be obtained from Moody's. The rating reflects only the view of Moody's and the District makes no representation of the appropriateness of such rating. See "MUNICIPAL BOND RATING."
- Municipal Bond Insurance and Rating:** The scheduled payment of principal of an interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BAM. S&P is expected to assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by BAM. See "BOND INSURANCE" and "APPENDIX B – Specimen Municipal Bond Insurance Policy."
- Authority for Issuance:** 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; Chapters 49 and 54 of the Texas Water Code, as amended; Chapters 1201 and Chapter 1207 of the Texas Government Code, as amended, and City of Houston Ordinance No. 97-416 as amended from time to time.

THE DISTRICT

- Description:** Sunbelt Fresh Water Supply District (the "District") is a political subdivision and municipal corporation of the State of Texas located in Northern Harris County, Texas approximately 15 miles from the central

business district of the City of Houston. The District encompasses approximately 2,360 acres comprised of six noncontiguous subdivisions.

Sunbelt Fresh Water Supply District was created by acts of Commissioners Court of Harris County, Texas effective November 14, 1995. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including without limitation those conferred by chapters 49 and 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate acquire, own and maintain all water and wastewater facilities, improvements and control and diversion of storm water. See "THE DISTRICT – General Description."

Building Development: As of September 1, 2021, the building development in the District included 7,767 complete and occupied homes, 353 commercial connections (including retail strip centers, stand-alone retail establishments, restaurants, nursing homes, office buildings) 22 multifamily complex projects (including 946 apartment units) and 10 public schools/school administration buildings.

Population: Approximately 28,000 (estimated population in the District as of September 1, 2021).

Infectious Disease Outlook (COVID-19): The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. As described herein under "RISK FACTORS – Infectious Disease Outlook (COVID-19)", federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect the operating results of the District. While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of the Pandemic could have an adverse effect on the District's operations and financial condition.

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds less the debt service on the Refunded Notes plus the debt service on the Series 2021 Refunding Bonds.

<u>Year</u>	<u>Existing Debt Service Requirements</u>	<u>Less: Debt Service on Refunded Bonds</u>	<u>Debt Service on the Series 2021 Bonds</u>		<u>Total Debt Service Requirements</u>
			<u>Principal</u>	<u>Interest</u>	
2022	\$1,513,977	\$824,797	\$330,000	\$248,888	\$1,268,068
2023	\$1,642,040	\$829,624	\$470,000	\$238,988	\$1,521,404
2024	\$1,657,233	\$832,848	\$490,000	\$224,888	\$1,539,273
2025	\$1,669,755	\$834,620	\$505,000	\$210,188	\$1,550,323
2026	\$1,674,737	\$839,880	\$525,000	\$195,038	\$1,554,895
2027	\$1,542,416	\$838,613	\$535,000	\$179,288	\$1,418,091
2028	\$1,545,184	\$840,982	\$555,000	\$163,238	\$1,422,440
2029	\$1,545,418	\$841,729	\$570,000	\$146,588	\$1,420,277
2030	\$1,548,138	\$845,803	\$590,000	\$129,488	\$1,421,823
2031	\$1,548,108	\$842,926	\$605,000	\$111,788	\$1,421,970
2032	\$1,545,370	\$843,271	\$625,000	\$93,638	\$1,420,737
2033	\$1,545,236	\$841,883	\$640,000	\$74,888	\$1,418,241
2034	\$1,542,517	\$843,732	\$660,000	\$55,688	\$1,414,473
2035	\$1,546,719	\$843,181	\$675,000	\$35,888	\$1,414,426
2036	\$1,537,571	<u>\$840,160</u>	<u>\$690,000</u>	<u>\$20,700</u>	\$1,408,111
2037	\$695,712				\$695,712
2038	\$693,249				\$693,249
2039	\$410,071				\$410,071
2040	\$407,976				\$407,976
2041	\$410,773				\$410,773
2042	\$413,321				\$413,321
2043	\$415,618				\$415,618
2044	\$412,661				\$412,661
2045	\$414,558				\$414,558
2046	\$411,198				\$411,198
2047	\$412,689				\$412,689
2048	<u>\$408,920</u>				<u>\$408,920</u>
TOTAL	\$29,111,165	\$12,584,049	\$8,465,000	\$2,129,182	\$27,121,298

Maximum Annual Debt Service Requirements (2026)..... \$1,554,895

District's unaudited cash and investment balance as of September 16, 2021.

General Operating Fund	\$4,732,064
Debt Service Fund	\$1,012,678
Debt Service Reserve Fund	\$1,105,822

OFFICIAL STATEMENT

relating to

\$8,465,000

Sunbelt Fresh Water Supply District

(A political subdivision of the State of Texas

located within Harris County, Texas)

WATERWORKS & SEWER SYSTEM REVENUE REFUNDING BONDS

SERIES 2021

INTRODUCTION

This Official Statement provides certain information in connection with the issuance of the \$8,465,000 Sunbelt Fresh Water Supply District Waterworks & Sewer System Revenue Refunding Bonds, Series 2021 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, particularly Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, an order (the "Bond Order") adopted by the Board of Directors of Sunbelt Fresh Water Supply District (the "District"), and an election held within the District.

This Official Statement includes descriptions of the Bonds, the Bond Order and certain information about the District and its financial condition. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Bond Counsel upon payment of duplication costs thereof.

RISK FACTORS

General

The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any other political subdivision of the State of Texas. The bonds constitute special obligations of the District, payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the District's Waterworks and Sewer System. See "THE BONDS – Source of and Security for Payment." The investment quality of the Bonds depends on the ability of the District to collect water and sewer revenues within the District.

Infectious Disease Outlook (COVID-19)

The World Health Organization declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the Texas Governor (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the "disaster declarations"). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas. On March 2, 2021, the Governor issued Executive Order GA-34 whereby he ordered there be no operating limits for any business or other establishment, except in counties experiencing certain hospitalization rates.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Stock values and crude oil prices, in the U.S. and globally, have seen significant fluctuations attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect the operations of the District.

While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available, but are partially as of dates and for periods prior to the economic impact of the Pandemic and measures

instituted to slow it. Accordingly, they are not necessarily indicative of the economic impact of the Pandemic on the District's financial condition.

Marketability

The District has no understanding (other than the initial reoffering yields) with the Underwriters 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 spread between the bid and asked price of more traditional issuers, as such bonds are generally bought, sold or traded in the secondary market.

Registered Owners' Remedies

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 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 may not waive the local government's sovereign immunity from suits for money damages. Even if such sovereign immunity were waived and a judgment against the District for money damages was obtained, the judgment 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. 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.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Specifically, the District may voluntarily file a petition for protection from creditors under the federal bankruptcy laws. During the pendency of the bankruptcy proceedings, the remedy of mandamus would not be available to the Registered Owners unless authorized by a federal bankruptcy judge.

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (a) is generally authorized to file for federal bankruptcy protection by the State law; (b) is insolvent or unable to meet its debts as they mature; (c) desires to effect a plan to adjust such debts; and (d) 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. Under Texas law, the District must obtain the approval of the TCEQ prior to filing bankruptcy. Such law requires that the TCEQ investigate the financial condition of the District and authorize the District to proceed only if the 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, a 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 Owners could potentially and adversely impair the value of the Registered Owners' 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 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 the district.

Approval of the Bonds

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

Economic Factors

The Houston metropolitan area has in the past experienced increased unemployment, business failures and slow absorption of office space. These factors, if they reoccur, could affect the demand for residential homes and hence adversely affect property values in the District. An oversupply of homes, along with a decreased demand in new housing because of general economic conditions or relatively high interest rates, may have an adverse impact on sale prices for homes and, consequently, may materially adversely affect property values and District revenue.

The Houston-area economy may be particularly affected by the oil and natural gas industry, and continued price volatility could adversely affect values of homes in the Houston-area real estate market. The District cannot predict what effect low oil and natural gas prices may have on the Houston-area real estate market.

Potential Effects of Oil Price Volatility on the Houston Area

The recent volatility in oil prices in the U.S. and globally, which at times have led to the lowest such prices in three decades, may lead to adverse conditions in the oil and gas industry, including but not limited to reduced revenues, declines in capital and operating expenditures, business failures, and layoffs of workers. The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the level of economic activity in the Houston area and could negatively affect the operations and revenues of the District.

Future Debt

The District has the right to issue refunding bonds, bond anticipation notes and additional revenue notes without voter approval. To issue additional Net Revenue bonds and/or notes on a parity with the Bonds and the Previously Issued Bonds, the District must meet the requirements of the Bond Order for issuance of such additional parity bonds. See "THE BONDS – Additional Bonds Test". The District's ability to issue bonds and/or notes secured by Net Revenues which are subordinate to the Bonds is not restricted by the Bond Order. The District also has the right to issue unlimited tax or combination tax and System Net Revenue bonds as may hereafter be approved by both the Board and voters of the District. The District has no unlimited tax or combination tax and Net Revenue bonds authorized at this time.

Environmental Regulation

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

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

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

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality (the "TCEQ") may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston-Galveston-Brazoria area ("HGB Area")—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty Counties—has been designated a nonattainment area under 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.

While the EPA has revoked the 1997 Ozone Standards, the 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, the 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 the 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 the EPA's April 2018 request for rehearing of the case. To address the uncertainty created by the *South Coast* court's ruling, the TCEQ developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners adopted the request and maintenance plan for the 1997 one-hour and eight-hour standards on December 12, 2018. On May 16, 2019, the EPA proposed a determination that the HGB Area has met the redesignation criteria and continues to attain the 1997 one-hour and eight-hour standards, the termination of the anti-backsliding obligations, and approval of the proposed maintenance plan.

The HGB Area is currently designated as a "serious" nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2021. 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, with an attainment deadline of August 3, 2021. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

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

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

Pursuant to the federal Safe Drinking Water Act ("SDWA") and the EPA's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, a municipal utility district's provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater 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's stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the "Current Permit") issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"), which authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. If the District's inclusion in the MS4 Permit were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

Operations of utility districts, including the District, are also potentially subject to requirements and restrictions under the CWA regarding the use and alteration of wetland areas that are within the “waters of the United States.” The District must obtain a permit from the United States Army Corps of Engineers (“USACE”) if operations of the District require that wetlands be filled, dredged, or otherwise altered.

In 2015, the EPA and USACE promulgated a rule known as the Clean Water Rule (“CWR”) aimed at redefining “waters of the United States” over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expanded the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The CWR was challenged in numerous jurisdictions, including the Southern District of Texas, causing significant uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction.

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal officially became final on December 23, 2019, but the repeal has itself become the subject of litigation in multiple jurisdictions.

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR became effective June 22, 2020, and is currently the subject of ongoing litigation.

On July 30, 2021, the EPA and USACE announced plans to further revise the definition of “waters of the United States.” On August 30, 2021, the United States District Court for the District of Arizona issued an order vacating the NWPR while the EPA and USACE make plans to replace it. Due to existing and possible future litigation and regulatory action, there remains uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements.

Changes in Tax Legislation

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

Bond Insurance Risk Considerations

If a bond insurance policy is obtained securing principal of and interest on the Bonds, in the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the “Policy”) for such payments. However, in the event of any acceleration of the due date of such principal by reason or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with optional prepayment of the Bonds by the issuer that is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Default of payment of principal of and interest on the Bonds does not accelerate the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies, and the Bond Insurer’s consent may be required in connection with amendments to any applicable bond documents.

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

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claims-paying ability. The Bond Insurer’s financial strength and claims-paying ability are predicated upon a number of factors that could change

over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade, and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description of “BOND INSURANCE” herein.

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

Neither the District nor Underwriters have made independent investigations into the claims-paying ability of the Bond Insurer. No assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of the Bond Insurer, particularly over the life of the investment. See “Bond Insurance” herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

Severe Weather

The District is located approximately 70 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the operations of the District could be negatively impacted. Further, there can be no assurance that a casualty loss to property within the District will be covered by insurance (or that property owners will even carry flood 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 the operations of the District would be adversely affected.

The greater Houston area has experienced multiple storms exceeding a 0.2% probability of occurrence (i.e., “500-year flood” events) since 2015. If the District were to sustain damage to its facilities as a result of such a storm (or any other severe weather event) requiring substantial repair or replacement, or if substantial damage to taxable property within the District were to occur as a result of a severe weather event, the investment security of the Bonds could be adversely affected.

Hurricane Harvey

The Houston area, including the area in and around the District in Harris County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey’s landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. According to the observations of the District’s Operator, the water, sewer, and drainage facilities serving the land within the District did not sustain any significant damage and there was no interruption of water and sewer service to the District’s residents or other property owners within the District. According to the observations of the members of the District’s resident Board of Directors it is not known exactly homes within the District experienced flooding as a result of Hurricane Harvey however it is believed that substantially all of the homes that flooded have been rehabilitated.

Specific Flood Type Risks

The District may be subject to the following flood risks:

Ponding (or Pluvial) Flooding – 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) Flooding – 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.

Harris County and City of Houston Floodplain Regulations

As a direct result of Hurricane Harvey, Harris County and the City of Houston adopted new rules and amended existing regulations relating to minimizing the potential impact of new development on drainage and mitigating flooding risks. The new and amended Harris County regulations took effect on January 1, 2018, and the new and amended City of Houston regulations took effect on September 1, 2018.

The Harris County floodplain regulations govern construction projects in unincorporated Harris County (where the District is currently located) and include regulations governing the elevation of structures in the 100-year and 500-year floodplains. Additionally,

the Harris County regulations govern the minimum finished floor elevations as well as specific foundation construction requirements and windstorm construction requirements for properties located both above and below the 100-year flood elevation.

The City of Houston floodplain regulations govern construction projects in the corporate limits of the City of Houston (where land in the District is not currently located) and include regulations governing the elevation of structures in the 100-year and 500-year floodplains and the elevation of residential additions greater than one-third the footprint of the existing structure and non-residential additions. Additionally, the City of Houston regulations require an improved structure whose new market value exceeds 50% of the market value of the structure prior to the start of improvements meet the new and amended City of Houston regulations.

The new and amended Harris County and City of Houston regulations may have a negative impact on new development in and around the District as well as on the rehabilitation of existing homes impacted by flooding or other natural disasters.

Atlas 14

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries within the Service Area 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 and potentially leaving less developable property within the Service 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.

PLAN OF FINANCING

Purpose

Proceeds of the Series 2021 Refunding Bonds are being used to refund \$8,895,000 principal amount of the Waterworks and Sewer System Supply Revenue Notes, Series 2011 (the "Series 2011 Notes".) The Series 2011 Notes being refunded are referred to herein as the "Refunded Notes." Bond proceeds will provide for the principal and accrued interest on the Refunded Notes from the Dated Date of the Bonds, through the date redemption of the Refunded Notes. Bond proceeds will also be used to pay certain issuance costs of the Bonds. The refunding is being implemented in order to achieve a net present value savings in the District's annual debt service expense.

Outstanding Bonds

The District has previously issued nine (9) series of new money notes and two (2) series of refunding bonds. As of October 1, 2021, the District has \$22,570,000 principal amount of new money notes and refunding bonds outstanding including the new money notes being refunded with the proceeds of the Bonds.

Refunded Notes

Proceeds of the Series 2021 Refunding Bonds are being used to refund the principal amounts and maturity dates of the Refunded Notes as set forth below. The Series 2011 Refunded Notes will be redeemed on December 15, 2021.

	Series 2011 Notes
<u>Year</u>	<u>Principal Amount</u>
2022	\$425,000
2023	\$445,000
2024	\$465,000
2025	\$485,000
2026	\$510,000
2027	\$530,000
2028	\$555,000
2029	\$580,000
2030	\$610,000
2031	\$635,000
2032	\$665,000
2033	\$695,000
2034	\$730,000
2035	\$765,000
2036	<u>\$800,000</u>
TOTAL	\$8,895,000

SOURCES AND USES OF FUNDS

The proceeds derived from the sale of the Bonds, will be applied as follows:

SOURCES OF FUNDS:	
Principal Amount of the Bonds	\$8,465,000.00
Plus Original Issue Premium	\$682,931.00
Plus Accrued Interest	\$9,678.96
Plus District Cash	\$92,000.00
TOTAL SOURCES OF FUNDS	<u>\$9,249,609.96</u>
USES OF FUNDS:	
Deposit to Pay Refunded Bonds	\$8,910,547.64
Issuance Expenses (a)	\$276,053.86
Underwriter's Discount	\$53,329.50
Accrued Interest	\$9,678.96
TOTAL USES OF FUNDS	<u>\$9,249,609.96</u>

(a) Includes municipal bond insurance premium.

THE DISTRICT

General Description

Sunbelt Fresh Water Supply District (the "District") is a political subdivision and municipal corporation of the State of Texas located in Northern Harris County, Texas approximately 15 miles from the central business district of the City of Houston. The District encompasses approximately 2,360 acres comprised of six noncontiguous subdivisions.

Sunbelt Fresh Water Supply District was created by acts of Commissioners Court of Harris County, Texas effective November 14, 1995. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including without limitation those conferred by chapters 49 and 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate acquire, own and maintain all water and wastewater facilities, improvements and control and diversion of storm water.

The Board of Directors of Sunbelt Fresh Water Supply District is comprised of five members who are all registered voters and/or property owners within the District and are elected by qualified voters in the District. The Directors have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability of fiscal matters. The Directors establish rates for water and sewer service. The Board of Directors held its first meeting on November 14, 1995. The activities and the operations of the District are subject to the supervision and review of the Texas Commission on Environmental Quality.

The District uses both operating funds and capital funds. Capital funds are typically generated through bonds. In certain cases, the District has received grants for capital improvements or funded capital improvements from District cash on hand. The Board has authority to obtain loans and grants and occasionally receives funding from local and federal government sources and must comply with the concomitant requirements of these funding source entities. The District does not have taxing authority. All improvements that are financed with loans or bonds are backed by the District's net revenues from water and wastewater operations.

The District generates operating revenues through the sale of water and wastewater treatment to the residents. The income is derived based upon an approval Rate Order that establishes the rates for water and sewer service as well as some selected activities associated with providing such services to customers. The operating budget is structured to balance the yearly operating revenues and the operating expenses of the District's and to provide for the necessary deposits to the District's debt service Fund to allow for the timely payment of interest and principal of the District's outstanding debt from time to time.

Development in the District

As of September 1, 2021, the building development in the District included 7,767 complete and occupied homes, 353 commercial connections (including retail strip centers, stand-alone retail establishments, restaurants, nursing homes, office buildings) 22 multifamily complex projects (including 946 apartment units) and 10 public schools/school administration buildings.

THE SYSTEM

Regulation

The water and wastewater facilities have been designed in accordance with accepted engineering practices and the rules and regulations of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ and its predecessors. According to the Engineer, the design of all such facilities has been approved by all required governmental agencies.

Operation of the District's waterworks and wastewater facilities is subject to regulation by, among others, the United States Environmental Protection Agency, Harris County, the TCEQ and the Texas Department of Health. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

Waterworks System

Sunbelt Fresh Water Supply District currently serves 6 non-contiguous subdivisions with a total of 9,109 connections. The system consists of 12 water wells with a total supply capacity of 5,846 GPM and total storage capacity of 2,687,000 gallons. While the number of wells, total water supply and total storage reflect capacity of the District, not all of the subdivisions are connected and the District's total water supply capacity is not available to all residents. Additional information relative to the System on a subdivision by subdivision basis is provided below:

<u>Subdivision</u>	<u>Number of Wells</u>	<u>Supply Capacity (GPM)</u>	<u>Total Storage (Gals)</u>	<u>Service Pumps (GPM)</u>	<u>Pressure Storage (Gals)</u>	<u>Elevated Storage (Gals)</u>
Woodland Oaks and Oakwood Forest	3	1,413	563,000	4,550	40,000	-
Heather Glen	2	702	252,000	3000	25,000	-
Northline Terrace	2	646	336,000	3000	30,000	-
Oak Glen	2	277	65,000	500	8,000	-
High Meadows – Fairgreen	4 (b)	1,621	982,000	8,370	80,000	-
Oakwilde (a)	<u>3</u>	<u>1186</u>	<u>489,000</u>	<u>4700</u>	<u>50,000</u>	<u>-</u>
	16	5,846	2,687,000	24,120	233,000	-

(a) Includes Westfield Estates Subdivision and Woodsdale and North Houston Heights.

(b) Includes a 500 gpm well that will be drilled in the next 6 months.

The Sunbelt Fresh Water Supply District has approximately 330,894 linear feet of water lines ranging from 2" to 8" and 295 fire hydrants. More detailed information for each of the subdivisions is provided below:

<u>Subdivision</u>	<u>2" (LF)</u>	<u>4" (LF)</u>	<u>6" (LF)</u>	<u>8" (LF)</u>	<u>10" (LF)</u>	<u>12" (LF)</u>	<u>Fire Hydrants</u>
Woodland Oaks and Oakwood Forest	23,816	4,938	27,574	39,372	-	5,430	67
Heather Glen	17,413	409	27,762	17,231	-	-	56
Northline Terrace	24,794	9,593	18,483	8,193	-	-	27
Oak Glen	4,938	-	27,574	-	-	-	2
High Meadows-Fairgreen	51	2,842	46,210	79,231	-	3,962	114
Oakwilde (a)	<u>43,080</u>	<u>11,667</u>	<u>39,397</u>	<u>32,988</u>	<u>7,612</u>	<u>11,396</u>	<u>29</u>
	114,092	29,449	187,000	177,01	7,612	20,788	295

(a) Includes Westfield Estates and Woodsdale Subdivision and North Houston Heights.

Subsidence District Requirements

The District is within the boundaries of Area 3 of the Harris-Galveston Subsidence District (the "Subsidence District"), a political subdivision of the State of Texas which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to annual permits issued by the Subsidence District. On April 14, 1999, the Subsidence District adopted a District Regulatory Plan (the "1999 Plan") to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the 1999 Plan, the District could join with other entities which receives approval from the Subsidence District of a groundwater reduction plan ("GRP"). On September 15, 2005, the District entered into a Groundwater Reduction Plan Agreement (the "GRP Agreement") with the City of Houston (the "City") to become part of the City's GRP. The GRP Agreement provides for a GRP fee assessment based on the District receiving 30% of its water requirements from the City through the year 2016, then 70% from 2017 through 2026, then 80% thereafter. The GRP fee amount is determined by any shortfall in meeting these minimum usage requirements. In addition, to meeting the future GRP usage requirements, the District will most likely need to construct improvements to the District's water supply system which could require issuance of additional bonds and/or notes.

Sewer System

The District has 6 sewer treatment facility sites. More detailed information regarding the current capacity and utilization of the facilities for each subdivision, which are not all interconnected, is detailed below:

<u>Subdivision</u>	<u>Capacity (MGD)</u>	<u>Present Flow (MGD)</u>
Woodland Oaks and Oakwood Forest	0.600	0.217
Heather Glen	0.500	0.335
Northline Terrace	0.450	0.298
High Meadows	0.990	0.332
Fairgreen	0.975	0.240
Oakwilde (a)	<u>0.450</u>	<u>0.330</u>
	3.965	1.752

(a) Includes North Houston Heights Subdivision and a portion of the Mary Frances and Mary Eleanor Subdivisions.

The District currently serves 8,871 sewer connections. More detailed information on the lift stations, linear feet of gravity lines, force mains and manholes for each subdivision is as follows:

<u>Subdivision</u>	<u>Lift Stations</u>	<u>Gravity Lines (LF)</u>	<u>Force Mains</u>	<u>Manholes</u>
Woodland Oaks and Oakwood Forest	-	69,953	-	187
Heather Glen	1	43,990	1,220	161
Northline Terrace	2	48,024	2,448	156
Oak Glen	-	-	-	-
High Meadows-Fairgreen	1	105,719	9,613	353
Oakwilde (a)	<u>3</u>	<u>72,306</u>	<u>4,196</u>	<u>71</u>
	7	339,992	17,477	928

(a) Includes North Houston Heights Subdivision and a portion of the Mary Frances and Mary Eleanor Subdivisions.

MANAGEMENT OF THE DISTRICT

The District is governed by a Board of Directors (the "Board") which has control over and management supervision of all affairs of the District. All of the directors that are registered voters and/or property owners within the District. A directors' election is held within the District in May in even-numbered years. Directors are elected to serve four-year staggered terms. The current members and officers of the Board, along with their titles on the Board, are listed below.

<u>Name</u>	<u>Title</u>	<u>Term Expires June</u>
Nathan J. Wade	President	2022
Sandra C. Brito	Vice President	2024
Sandra Jaramillo	Secretary	2024
Jo Angel Sarmientos	Director	2022
Lynda Powell	Director	2024

The District employs 3 individuals to assist with the management of the District. The District has contracted for utility system operating, bookkeeping, tax assessing and collecting services and annual auditing of its financial statements as follows:

Bookkeeper – The District's Bookkeeper is Governmental Financial Reporting, LLC.

Auditor – The financial statements of the District as of June 30, 2020, and for the year then ended, included in this offering document, have been audited by McCall Gibson Swedland Barfoot PLLC, certified public accounts, as stated in their report appearing herein. See "APPENDIX A." Additionally, the District contracts with McCall Gibson Swedland Barfoot PLLC to review the District's audited financial statements.

Utility System Operator – The System's operator is Municipal Operations Consulting, which currently acts as utility system operator for approximately 115 utility districts.

Engineer – The consulting engineer for the District is A&S Engineering, Inc. (the "Engineer").

Financial Advisor – The GMS Group, L.L.C., serves as Financial Advisor to the District, and is paid an hourly fee for certain work performed for the District and a contingent fee to be computed on each separate issuance of the bonds, if and when such bonds are delivered.

Bond Counsel – Radcliffe Bobbitt Adams Polley PLLC serves as Bond Counsel to the District and as counsel for the District on matters other than the issuance of bonds. Fees paid for the Bond Counsel services will be paid from proceeds of the Bonds; such fees are contingent upon the sale and delivery of such Bonds.

Special Tax Counsel – Orrick, Herrington & Sutcliffe LLP (“Special Tax Counsel”) serve as Special Tax Counsel matters related to the issuance of the Bond. Fees paid to Special Tax counsel will be paid from proceeds of the bonds; such fees are contingent upon the sale and delivery of such Bonds.

DISTRICT INVESTMENT POLICY

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. The District’s goal is to preserve principal and maintain liquidity while securing a competitive yield in its portfolio. Funds of the District are 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.

DISTRICT FINANCIAL/OPERATING INFORMATION

Post Refunding Unaudited Coverage and Fund Balances

Average Annual Principal and Interest Requirements 2022 – 2048.....	\$1,004,493
Coverage of Average Annual Requirements by 6/30/2020 Net Income.....	2.80 x
Maximum Principal and Interest Requirements 2026.....	\$1,554,895
Coverage of Average Annual Requirements by 6/30/2020 Net Income.....	1.81 x
Interest, Sinking Fund and Debt Service Reserve Fund Balance as of 6/30/2021.....	\$1,884,001

General Fund Operating History

As described elsewhere herein, the Bonds are payable from the Net Revenues of the District's System. The information included in the table below relating to the District's water and sewer system operations.

	Fiscal Year End June 30 (a) (b)				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
REVENUES					
Water service	\$2,570,093	\$2,615,386	\$2,491,726	\$2,637,374	\$2,656,801
Wastewater service	\$2,369,116	\$2,410,006	\$2,446,926	\$2,440,539	\$2,420,778
Sanitation service	\$1,263,478	\$1,333,696	\$1,210,521	\$1,180,028	\$1,141,412
Sanitation administration fees	\$179,822	\$206,522	\$250,212	\$275,671	\$119,826
Door hanger revenue	\$85,636	\$135,000	\$124,206	\$130,044	\$139,287
Grant revenue	-	-	-	-	\$715,003
Groundwater reduction plan fee	\$2,003,414	\$1,859,784	\$1,775,502	\$1,554,169	\$1,289,820
Penalty and interest	\$92,782	\$144,392	\$132,045	\$128,846	\$122,912
Tap connection and inspection fees	\$477,774	\$612,221	\$431,255	\$316,336	\$427,831
Investment revenues	\$34,967	\$49,349	\$33,282	\$14,974	\$10,171
Industrial waste sampling/penalty fees	\$86,154	\$91,938	\$85,309	\$84,046	\$88,272
Miscellaneous revenues	\$50,472	\$172,712	\$73,466	\$48,262	\$272,596
TOTAL REVENUES	\$9,213,708	\$9,631,006	\$9,054,450	\$8,810,289	\$9,404,709
EXPENDITURES					
Professional fees	\$420,018	\$382,040	\$364,874	\$361,537	\$344,643
Contracted service	\$2,241,053	\$2,173,477	\$2,093,498	\$2,070,677	\$1,978,794
Purchased water service	\$585,393	\$625,405	\$711,735	\$749,617	\$762,940
Wastewater treatment facility lease	\$110,000	\$120,000	\$110,000	\$237,600	\$277,720
Personnel	\$290,895	\$281,196	\$274,529	\$243,997	\$236,678
Administrative	\$440,922	\$428,805	\$379,083	\$198,905	\$295,258
Utilities	\$395,450	\$398,143	\$487,958	\$465,917	\$486,527
Repairs and maintenance	\$815,543	\$762,514	\$753,893	\$780,301	\$1,079,593
Other	\$1,075,003	\$988,264	\$1,014,930	\$771,606	\$996,932
Debt service principal	\$22,560	\$22,560	\$22,560	\$30,360	\$46,852
Capital outlay	\$281,069	\$966,437	\$731,210	\$1,114,683	\$1,545,878
TOTAL EXPENDITURES	\$6,677,906	\$7,148,841	\$6,944,270	\$7,025,200	\$8,051,815
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$2,535,802	\$2,482,165	\$2,110,180	\$1,785,089	\$1,352,894
OTHER FINANCING SOURCES (USES)					
Transfer In (Out)	<u>(\$1,279,000)</u>	<u>(\$1,866,500)</u>	<u>(\$1,443,601)</u>	<u>(\$2,234,040)</u>	<u>(\$2,260,200)</u>
NET CHANGE IN FUND BALANCE	\$1,256,802	\$615,665	\$666,579	-\$448,951	-\$907,306
BEGINNING FUND BALANCE	\$2,404,438	\$1,788,773	\$1,122,194	\$1,571,145	\$2,478,451
ENDING FUND BALANCE	<u>\$3,661,240</u>	<u>\$2,404,438</u>	<u>\$1,788,773</u>	<u>\$1,122,194</u>	<u>\$1,571,145</u>

(a) Data is taken from District's audited financial statements. See "APPENDIX A."

(b) As of September 16, 2021, the District's General Fund had an unaudited cash and temporary investment balance of approximately \$4,732,064. The General Fund for the fiscal year ending June 30, 2021, experienced unaudited revenues (excluding grant revenues) of approximately \$8,988,300 and operating expenditures (excluding capital outlays) of \$6,316,722. Additionally, the General Fund spent approximately \$17,150,909 on Capital Projects (that was for the most part funded with grant revenues) and transferred \$1,824,840 to the District's Debt Service Fund. For the Fiscal year ending June 30, 2022 the District is budgeting operating revenues of \$7,609,000 and operating expenditures of \$5,861,593. Also, the General Fund budget provides for the transfer of \$1,500,000 to the District's Debt Service Fund.

Historical Water Usage (Gallons)

<u>Fiscal Year</u>	<u>Peak Month Usage</u>	<u>Average Daily Usage</u>	<u>Total Usage</u>
2004	88,011,000	2,635,271	961,874,000
2005	75,813,000	2,110,558	770,354,000
2006	75,086,000	2,554,082	932,240,000
2007	84,950,000	2,618,190	955,638,000
2008	82,968,000	2,687,000	935,787,000
2009	85,587,000	2,470,493	901,730,000
2010	90,785,000	2,479,063	904,858,000
2011	92,410,000	3,080,033	926,158,000
2012	132,044,000	4,401,333	1,020,400,000
2013	82,461,000	2,713,610	976,911,000
2014	82,663,000	2,755,430	1,005,731,950
2015	64,444,000	2,079,528	759,027,900
2016	72,142,000	2,125,068	775,649,909
2017	66,804,000	2,110,740	770,420,000
2018	73,532,000	1,960,452	715,565,000
2019	64,830,000	1,936,986	707,000,000
2020	62,851,000	2,004,074	731,487,000

Ten Largest Water Customers (Gallons) (Year Ended 6/30/2020)

<u>Customer</u>	<u>Nature of Property</u>	<u>Fiscal 2020 Water Usage</u>	<u>% of Total Water Usage</u>	<u>Revenues Received</u>
Rockwood Apartments	Apartments	17,784,000	2.43%	\$210,569.24
National Oilwell	Business	16,497,000	2.26%	\$178,380.78
Aster on Aldine	Apartments	8,356,000	1.14%	\$116,708.52
Capewood Apartments	Apartments	7,545,000	1.03%	\$111,841.11
Pilgrim Place	Retirement Home	5,556,000	0.76%	\$80,693.28
K & L Superwash	Laundromat	4,126,000	0.56%	\$51,274.76
Sanesara Washateria	Washateria	4,772,000	0.65%	\$50,130.13
U Do Washateria	Washateria	3,564,000	0.49%	\$36,524.94
Aldine ISD	School (9th Grade)	1,400,000	0.19%	\$16,191.74
National Oilwell	Business	<u>1,608,000</u>	<u>0.22%</u>	<u>\$10,937.86</u>
Total		71,208,000	9.73%	\$863,252.36

Monthly Residential Water Rates

Basic fee/minimum fee for all residential customers \$14.50 per month

Additional water rates for In-District consumers, except apartments:

<u>Meter Size</u>	<u>Monthly Minimum Charge</u>
5/8" or 3/4"	\$14.50
1"	21.93
1 1/2"	39.07
2"	60.54
3"	110.89
4"	180.55
6"	706.77
8"	1,248.39
10"	1,813.22

Monthly Single Family Water Rates:

<u>Rate per 1,000 Gallons</u>	<u>Usage (Gallons)</u>
\$14.50	First 3,000
\$2.25	3,001 to 8,000
2.85	8,001 to 13,000
3.25	13,001 to 18,000
3.85	18,001 and up

Monthly Apartment Water Rates:

<u>Rate per 1,000 Gallons</u>	<u>Usage (Gallons)</u>
\$14.50	First 3,000
\$3.00	3001 and up

Estimated Historical Annual Wastewater Usage (Gallons)

<u>Fiscal Year</u>	<u>Daily Average</u>	<u>Total Usage</u>
2002	2,486,000	907,390,000
2003	1,911,677	726,962,000
2004	1,822,242	665,372,400
2005	1,650,414	602,401,200
2006	1,485,287	542,130,593
2007	1,739,560	634,937,000
2008	1,755,000	708,000,000
2009	1,734,025	632,919,200
2010	1,795,800	655,467,100
2011	1,666,098	608,125,800
2012	1,597,897	583,232,400
2013	1,503,401	548,741,200
2014	1,627,985	594,214,800
2015	1,823,500	665,579,700
2016	1,771,058	646,436,100
2017	1,731,681	632,063,600
2018	1,743,689	636,446,500
2019	1,862,877	679,950,000
2020	2,004,074	731,487,000

Monthly Sewer Rates

In-District consumers, except apartment sewer rates:

<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Rate per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
\$17.50	3,000	\$2.50	3,001 and up

Apartment Sewer Rates:

<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Rate per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
\$21.70	3,000	\$3.25	3,001 and up

ANNEXATION AND CONSOLIDATION

Annexation by the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston consent ordinance. Generally, the District may be annexed by the City of Houston without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; however, under legislation effective December 1, 2017, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District.

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

Consolidation

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

THE BONDS

General

The Bond Order authorizes the issuance and sale of the Bonds and prescribes terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District. Set forth below is a summary of certain provisions of the Bond Order. Capitalized terms in such summary are used as defined in the Bond Order. Such summary is not a complete description of the entire Bond Order and is qualified in its entirety by reference to the Bond Order, copies of which are available from the District's Bond Counsel upon request.

The Bonds are dated and will bear interest from December 1, 2021, at the per annum rates shown on the cover page hereof. The Bonds are fully registered, serial bonds maturing on December 1 in the years 2022 through 2036, inclusive, in the principal amounts set forth on the cover page hereof. Interest on the Bonds is payable December 1, 2022, and each June 1 and December 1 thereafter until the earlier of maturity or redemption. The Record Date on the Bonds is the 15th day of the calendar month next preceding the interest payment date.

The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount for any one maturity 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. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, 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 beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

In the event that the Book-Entry-Only System is discontinued, interest on the Bonds shall be payable by check on or before each interest payment date, mailed by the Paying Agent/Registrar to the registered owners ("Registered Owners") as shown on the bond register (the "Register") kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

Optional Redemption

The District reserves the right to redeem, prior to maturity the Bonds maturing on December 1, 2031 or after, in whole or in part from time to time, on December 1, 2030, or on any date thereafter, at a price of par plus accrued interest to the date of redemption. If fewer than all of the Bonds are to be redeemed, the particular Bonds to be redeemed will be selected by the District. Notice of each exercise of the right of redemption will be given at least thirty days prior to the date fixed for redemption by mailing written notice by first class mail to each of the Registered Owners (the "Registered Owners") of the Bonds to be redeemed. When Bonds have been called for redemption, they will become due and payable on the redemption date.

Authority for Issuance

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; Chapters 49 and 54 of the Texas Water Code, as amended; Chapters 1201 and Chapter 1207 of the Texas Government Code, as amended, and City of Houston Ordinance No. 97-416. 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.

Security and Source of Payment

The Bonds are special obligations of the District payable, both as to principal and interest, from and secured by a lien on and pledge of the Net Revenues. Net Revenues are defined as the Gross Revenues of the System, less Operation and Maintenance Expenses, plus any additional revenues, income, receipts or other resources, including, without limitation, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter may be pledged to the payment of the Bonds and any additional Bonds.

Reserve Fund

Under the Bond Order, the District is required to maintain separate reserve funds for the Bonds and Notes. The Bond Reserve Fund is required to be maintained in an amount at least equal to the average annual debt service requirements of the outstanding Bonds and Notes and the Bonds.

In connection with the issuance of the Bonds, the District will have a fully funded Required Reserve calculated in an amount equal to the average annual debt service requirements for the Bonds and all outstanding refunding bonds and new money notes.

Pledged Revenues

All of the Net Revenues of the System with the exception of those in excess of the amounts required to establish and maintain the Reserve Fund and Interest and Sinking Fund are irrevocably pledged for the payment of the Bonds and interest thereon. The Bonds and the Previously Issued bonds or notes are equally and ratably secured by a first lien upon the Net Revenues of the System.

Rate Covenant

The District has covenanted in the Order that it will at all times charge and collect rates for services rendered by the System sufficient to pay all operating, maintenance, replacement and improvement expenses, any other costs deductible in determining Net Revenues and to pay interest on and the principal of the Previously Issued bonds and notes, the Bonds and any additional parity bonds and notes, and to establish and maintain the funds provided for in the Order. The District has further covenanted that, if the System should become legally liable for any other indebtedness, it will fix and maintain rates and collect charges for the services of the System sufficient to discharge such indebtedness.

Additional Bonds Test

The District reserves the right to issue additional parity bonds or notes which shall be payable from and secured by a first lien on and pledge of the Net Revenues of the Waterworks and Sewer System, when among other requirements, the Net Revenues for the last complete fiscal year or twelve (12) consecutive calendar month period ending not more than ninety (90) days preceding the adoption of additional bonds or notes shall not have less than 1.25x the average annual debt service requirements after giving effect of the Additional Bonds.

It is specifically provided, however, that in calculating the amount of Net Revenues for the purposes of this subparagraph (iii), if there has been any increase in the rates or charges for services of the District which is then in effect and which has been in effect for at least 60 days prior to the month in which the resolution authorizing the issuance of the proposed Additional Obligations is passed, but which was not in effect during all of the entire period for which the Net Revenues are being calculated (hereinafter referred to as the "entire period") then the certified public accountant, shall determine and certify the amount of Net Revenues as being the total of (i) the actual Net Revenues for the entire period, plus (ii) a sum equal to the aggregate amount by which the actual billings to customers of the District during the entire period would have been increased if such increased rates or charges had been in effect during the entire period.

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner now or hereafter permitted by law. Under current law such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from potential future ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or

instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision or a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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

Funds

The Bond Order confirms the District's Debt Service Fund, which is kept separate from all other funds of the District and used for payment of debt service on the Bonds, the Outstanding Bonds, and any additional bonds which may be issued in the future by the District. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Registrar.

Paying Agent/Registrar

Pursuant to the Bond Order, the initial paying agent and initial registrar with respect to the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The District will maintain at least one Registrar, where the Bonds may be surrendered for transfer and/or for exchange or replacement for other Bonds, and for the purpose of maintaining the Bond Register on behalf of the District. The Registrar is required at all times to be a duly qualified banking corporation or association organized and doing business under the laws of the United States of America, or of any state thereof, and subject to supervision or examination by federal or state banking authorities.

The District reserves the right and authority to change any paying agent/registrar and, upon any such change, the District covenants and agrees in the Bond Order to promptly cause written notice thereof, specifying the name and address of such successor paying agent/registrar, to be sent to each Registered Owner of the Bonds by United States mail, first class, postage prepaid.

Registration and Transfer

In the event the Book-Entry-Only System should be discontinued, the Bonds will be transferable only on the Bond Register kept by the Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the operations office of the Registrar in Dallas, Texas. See "BOOK-ENTRY-ONLY SYSTEM" above for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds. Every Bond presented or surrendered for transfer is required to be duly endorsed, or be accompanied by a written instrument of transfer, in a form satisfactory to the Registrar. Neither the Registrar nor the District is required (1) to transfer or exchange any Bond during the period beginning at the opening of business on a Record Date (defined herein) and ending at the close of business on the next succeeding interest payment date or (2) to transfer or exchange any Bond selected for redemption in whole or in part within thirty calendar days of the redemption date. No service charge will be made for any transfer or exchange, but the District or the Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Lost, Stolen, or Destroyed Bonds

In the event the Book-Entry-Only System is discontinued, the District has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds, or receipt of satisfactory evidence of such destruction, loss, or theft and receipt by the District and the Registrar of security or indemnity as may be required by either of them to keep them harmless. The District will require payment of taxes, governmental charges, and expenses in connection with any such replacement.

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to the Texas Bond Procedures Act, Chapter 1201, Texas Government Code, as amended, and Section 49.186, Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees and (b) legal investments for the public funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a

rating of not less than "A" or its equivalent to be legal investments for such entity's funds. The Bonds are eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State or any political subdivision or public agency of the State and are lawful and sufficient security for those deposits to the extent of their market value. Again, political subdivisions in the State of Texas may impose a requirement that the Bonds have a rating of not less than "A" or its equivalent to be eligible to serve as collateral for their funds.

The District has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The District has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds (which are defined as Securities in this section of the Official Statement) is to be transferred and how the principal of, premium, if any, Maturity Value, and interest on the Securities are to be paid to and credited by DTC while the Securities 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, the Financial Advisor, and the Underwriters believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.

The District and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Securities, 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 Securities), 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 United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Securities. The Securities 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 Securities, each in the aggregate principal amount or Maturity Value, as the case may be, of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities. 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 Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Securities under the DTC system must be made by or through Direct Participants, who will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Securities 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 securities representing their ownership interests in Securities except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor or the Underwriters takes any responsibility for the accuracy thereof. Termination by the District of the DTC Book-Entry-Only System may require consent of DTC Participants under DTC Operational Arrangements.

TAX MATTERS

Tax Exemption

In the opinion of Special Tax Counsel based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial

Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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

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

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

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

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

Qualified Tax-Exempt Obligations

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank-qualified" investments.

LEGAL MATTERS

Legal Opinion

The District will furnish the Underwriters a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including 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 legally binding obligations of the District. The District will also furnish the legal opinions of Radcliffe Bobbitt Adams Polley PLLC ("Bond Counsel") and the legal opinion of Special Tax Counsel to the effect that, based upon an examination of such transcript, the Bonds are legal, valid and binding obligations of the District and to the effect that the interest on the Bonds is exempt from federal income taxation under existing statutes, regulations, published rulings and court decisions. Such opinions express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

The opinion of Bond Counsel is expected to be reproduced on the back panel of the Bonds. The failure to print such legal opinion on any Bond shall not constitute cause for a failure or refusal by the Underwriters to accept delivery of and pay for the Bonds.

Legal Review

Bond Counsel has reviewed the information appearing in the Official Statement under the captions "CONTINUING DISCLOSURE OF INFORMATION – SEC RULE 15c2-12," "THE BONDS," "THE DISTRICT – General," "ANNEXATION AND CONSOLIDATION," "TAX MATTERS," "LEGAL MATTERS," and REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS" solely to determine whether such information fairly summarizes the procedures, documents, and legal matters referred to therein. However, Bond Counsel has not independently verified any of the factual information contained in this Official Statement nor has it investigated the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement in its capacity as Bond Counsel. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein, other than the matters discussed immediately above.

Radcliffe Bobbitt Adams Polley PLLC acts as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

No-Litigation Certificate

On the date of delivery of the Bonds, the District will execute and deliver a certificate to the effect that there is not pending, and to the knowledge of the District, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of revenues for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

The offer and sale of the Bonds have not been registered or qualified 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 qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

OFFICIAL STATEMENT

Sources of Information

The information contained in this Official Statement has been obtained primarily from the District's records, the Engineer and other sources that are believed to be reliable, but no representation is made as to the accuracy or completeness of the information derived from such other sources. The summaries of the statutes, orders, resolutions and engineering and other related reports set forth in the 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.

Consultants

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

Engineer - The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "THE SYSTEM" and certain engineering matters included in "THE DISTRICT - Description" and "THE DISTRICT," have been provided by A&S Engineers, Inc., and have been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

Auditor - The financial statements of the District as of June 30, 2020, and for the year then ended, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot PLLC, certified public accounts, as stated in their report appearing herein. See "APPENDIX A."

Continuing Availability of Financial Information

Pursuant to Texas law, the District has its financial statements prepared in accordance with generally accepted accounting principles and has its financial statements audited by a certified public accountant in accordance with generally accepted auditing standards within 120 days after the close of its fiscal year. The District's audited financial statements are required to be filed with the TCEQ within 135 days after the close of its fiscal year.

The District's financial records and audited financial statements are available for public inspection during regular business hours at the office of the District and copies will be provided on written request, to the extent permitted by law, upon payment of copying charges. Requests for copies should be addressed to the District in care of Radcliffe Bobbitt Adams Polley PLLC, 2929 Allen Parkway, Suite 3450, Houston, Texas 77019-7120.

Certification as to Official Statement

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

Updating of Official Statement

The District will keep the Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information comes to its attention, in the other matters described in the Official Statement, until the delivery of the Bonds. All information with respect to the resale of the Bonds shall be the responsibility of the Underwriters.

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Sunbelt Fresh Water Supply District as of the date shown on the cover page.

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

SUNBELT FRESH WATER SUPPLY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2020

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708
E-Mail: mgsb@mgsbpllc.com

P.O. Box 29584
Austin, Texas 78755-5126
(512) 610-2209
E-Mail: mgsb@mgsbpllc.com
www.mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Sunbelt Fresh Water Supply District
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Sunbelt Fresh Water Supply District (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 June 30, 2020, 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.

Other Matters

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, 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.

Other 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 related 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 PLLC
Certified Public Accountants
Houston, Texas

October 15, 2020

**SUNBELT FRESH WATER SUPPLY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

Management's discussion and analysis of Sunbelt Fresh Water Supply District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Position includes all of the District's assets, liabilities, and 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 fiscal 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, costs and general expenditures. The Debt Service Fund accounts for financial resources restricted, committed or assigned for servicing debt. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**SUNBELT FRESH WATER SUPPLY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

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 Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in the 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"). 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 outflows of resources exceeded liabilities by \$24,793,345 as of June 30, 2020.

A portion of the District's net position reflects its net investment in capital assets (e.g. water 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:

**SUNBELT FRESH WATER SUPPLY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2020</u>	<u>2019</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 23,617,415	\$ 23,607,323	\$ 10,092
Capital Assets (Net of Accumulated Depreciation)	<u>28,826,430</u>	<u>28,033,693</u>	<u>792,737</u>
Total Assets	<u>\$ 52,443,845</u>	<u>\$ 51,641,016</u>	<u>\$ 802,829</u>
Deferred Outflows of Resources	<u>\$ -0-</u>	<u>\$ 3,918</u>	<u>\$ (3,918)</u>
Long -Term Liabilities	\$ 22,520,063	\$ 23,889,824	\$ 1,369,761
Other Liabilities	<u>5,130,437</u>	<u>5,130,800</u>	<u>363</u>
Total Liabilities	<u>\$ 27,650,500</u>	<u>\$ 29,020,624</u>	<u>\$ 1,370,124</u>
Net Position:			
Net Investment in Capital Assets	\$ 19,303,268	\$ 17,623,646	\$ 1,679,622
Restricted	1,828,837	2,596,226	(767,389)
Unrestricted	<u>3,661,240</u>	<u>2,404,438</u>	<u>1,256,802</u>
Total Net Position	<u>\$ 24,793,345</u>	<u>\$ 22,624,310</u>	<u>\$ 2,169,035</u>

The following table provides a summary of the District's operations for the years ending June 30, 2020, and June 30, 2019. The District's net position increased by \$2,169,035.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2020</u>	<u>2019</u>	<u>Change Positive (Negative)</u>
Revenues:			
Charges for Services	\$ 9,042,115	\$ 9,110,485	\$ (68,370)
Other Revenues	<u>1,014,583</u>	<u>2,256,710</u>	<u>(1,242,127)</u>
Total Revenues	<u>\$ 10,056,698</u>	<u>\$ 11,367,195</u>	<u>\$ (1,310,497)</u>
Expenses for Services	<u>7,887,663</u>	<u>8,688,439</u>	<u>800,776</u>
Change in Net Position	\$ 2,169,035	\$ 2,678,756	\$ (509,721)
Net Position, Beginning of Year	<u>22,624,310</u>	<u>19,945,554</u>	<u>2,678,756</u>
Net Position, End of Year	<u>\$ 24,793,345</u>	<u>\$ 22,624,310</u>	<u>\$ 2,169,035</u>

**SUNBELT FRESH WATER SUPPLY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of June 30, 2020, were \$19,919,254, an increase of \$50,293 from the prior year.

The General Fund fund balance increased by \$1,256,802, primarily due to service operation revenues exceeding operating costs, capital outlay, transfers to the Debt Service Fund and transfers to the Capital Projects Fund.

The Debt Service Fund fund balance decreased by \$769,752, primarily due to the structure of the District's outstanding debt service requirements offset by transfers from the General Fund.

The Capital Projects Fund fund balance decreased by \$436,757, primarily due to capital outlay and transfers from the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$182,092 less than budgeted revenues primarily due to lower service revenues and tap and inspection revenues than anticipated. Actual expenditures were \$431,106 more than budgeted expenditures primarily due to higher contracted services, administrative services and repairs and maintenance than anticipated offset by lower utilities than anticipated.

CAPITAL ASSETS

The District's capital assets as of June 30, 2020, amount to \$28,826,430. These capital assets include land, buildings and equipment, as well as the water and wastewater systems. Additional information on the District's capital assets can be found in Note 6 of this report.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2020	2019	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 172,090	\$ 172,090	\$
Construction in Progress	1,613,461	4,199,675	(2,586,214)
Capital Assets, Net of Accumulated Depreciation:			
Water System	10,814,190	9,500,698	1,313,492
Wastewater System	16,041,803	13,992,722	2,049,081
General Assets	184,886	168,508	16,378
Total Net Capital Assets	<u>\$ 28,826,430</u>	<u>\$ 28,033,693</u>	<u>\$ 792,737</u>

**SUNBELT FRESH WATER SUPPLY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

LONG-TERM DEBT

As of June 30, 2020, the District had total bond and note debt payable of \$23,865,000. The changes in the debt position of the District during the fiscal year ended June 30, 2020 are summarized as follows:

Bonds and Notes Payable, July 1, 2019	\$ 25,170,000
Less: Bonds and Notes Principal Paid	<u>1,305,000</u>
Bonds and Notes Payable, June 30, 2020	<u>\$ 23,865,000</u>

The District's Series 2011, Series 2016 Refunding, Series 2016A and Series 2018 revenue bonds and notes are not rated.

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 Sunbelt Fresh Water Supply District, c/o Radcliffe Bobbitt Adams Polley PLLC, 2929 Allen Parkway, Suite 3450, Houston, TX 77019-7120.

**SUNBELT FRESH WATER SUPPLY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2020**

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash	\$ 4,930,772	\$
Investments	1,384,605	1,884,001
Receivables:		
Service Accounts (Net of Allowance for Doubtful Accounts of \$15,418)	945,934	
Due from Other Funds	82,331	7,351
Inventory	13,110	
Prepaid Costs	10,000	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	<u>\$ 7,366,752</u>	<u>\$ 1,891,352</u>

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>
\$ 9,142,729	\$ 14,073,501	\$	\$ 14,073,501
5,306,264	8,574,870		8,574,870
	945,934		945,934
	89,682	(89,682)	
	13,110		13,110
	10,000		10,000
		172,090	172,090
		1,613,461	1,613,461
		<u>27,040,879</u>	<u>27,040,879</u>
<u>\$ 14,448,993</u>	<u>\$ 23,707,097</u>	<u>\$ 28,736,748</u>	<u>\$ 52,443,845</u>

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

SUNBELT FRESH WATER SUPPLY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2020

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 1,092,439	\$
Accrued Interest Payable		
Due to Other Governmental Units	1,304,169	
Retainage Payable	68,130	
Due to Other Funds	7,351	
Customer Deposits	1,233,423	
Long-Term Liabilities:		
Due Within One Year		
Due After One Year		
TOTAL LIABILITIES	\$ 3,705,512	\$ -0-
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 10,000	\$
Inventory	13,110	
Restricted for Authorized Construction		
Restricted for Debt Service		1,891,352
Assigned to 2021 Budget Deficit	685,655	
Unassigned	2,952,475	
TOTAL FUND BALANCES	\$ 3,661,240	\$ 1,891,352
TOTAL LIABILITIES		
 AND FUND BALANCES	\$ 7,366,752	\$ 1,891,352
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.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 1,092,439	\$	\$ 1,092,439
		62,515	62,515
	1,304,169		1,304,169
	68,130		68,130
82,331	89,682	(89,682)	
	1,233,423		1,233,423
		1,369,761	1,369,761
		22,520,063	22,520,063
<u>\$ 82,331</u>	<u>\$ 3,787,843</u>	<u>\$ 23,862,657</u>	<u>\$ 27,650,500</u>
\$	\$ 10,000	\$ (10,000)	\$
	13,110	(13,110)	
14,366,662	14,366,662	(14,366,662)	
	1,891,352	(1,891,352)	
	685,655	(685,655)	
	2,952,475	(2,952,475)	
<u>\$ 14,366,662</u>	<u>\$ 19,919,254</u>	<u>\$ (19,919,254)</u>	<u>\$ - 0 -</u>
<u>\$ 14,448,993</u>	<u>\$ 23,707,097</u>		
		\$ 19,303,268	\$ 19,303,268
		1,828,837	1,828,837
		3,661,240	3,661,240
		<u>\$ 24,793,345</u>	<u>\$ 24,793,345</u>

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

**SUNBELT FRESH WATER SUPPLY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2020**

Total Fund Balances - Governmental Funds \$ 19,919,254

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

Land, construction in progress and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 28,826,430

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	\$ (62,515)	
Payable Within One Year	(1,369,761)	
Payable After One Year	<u>(22,520,063)</u>	<u>(23,952,339)</u>

Total Net Position - Governmental Activities \$ 24,793,345

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

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SUNBELT FRESH WATER SUPPLY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2020

	General Fund	Debt Service Fund
REVENUES		
Water Service	\$ 2,570,093	
Wastewater Service	2,369,116	
Sanitation Revenue	1,263,478	
Sanitation Administration Fees	179,822	
Door Hanger Revenue	85,636	
Groundwater Reduction Plan Fees	2,003,414	
Penalty and Interest	92,782	
Tap Connection and Inspection Fees	477,774	
Investment Revenues	34,967	32,120
Industrial Waste Sampling/Penalty Fees	86,154	
Miscellaneous Revenues	50,472	
TOTAL REVENUES	\$ 9,213,708	\$ 32,120
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 420,018	\$
Contracted Services	2,241,053	2,515
Purchased Water Service	585,393	
Wastewater Treatment Facility Lease	110,000	
Personnel	290,895	
Administrative	440,922	
Utilities	395,450	
Repairs and Maintenance	815,543	
Depreciation		
Other	1,075,003	
Capital Outlay	281,069	
Debt Service:		
Principal	22,560	1,305,000
Interest		764,357
TOTAL EXPENDITURES/EXPENSES	\$ 6,677,906	\$ 2,071,872
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 2,535,802	\$ (2,039,752)
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ (1,279,000)	\$ 1,270,000
NET CHANGE IN FUND BALANCES CHANGE IN NET POSITION	\$ 1,256,802	\$ (769,752)
FUND BALANCES/NET POSITION - JULY 1, 2019	2,404,438	2,661,104
FUND BALANCES/NET POSITION - JUNE 30, 2020	\$ 3,661,240	\$ 1,891,352

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
	\$ 2,570,093		\$ 2,570,093
	2,369,116		2,369,116
	1,263,478		1,263,478
	179,822		179,822
	85,636		85,636
	2,003,414		2,003,414
	92,782		92,782
	477,774		477,774
81,568	148,655		148,655
	86,154		86,154
	50,472	729,302	779,774
<u>\$ 81,568</u>	<u>\$ 9,327,396</u>	<u>\$ 729,302</u>	<u>\$ 10,056,698</u>
\$	\$ 420,018	\$	\$ 420,018
	2,243,568		2,243,568
	585,393		585,393
	110,000		110,000
	290,895		290,895
	440,922		440,922
	395,450		395,450
	815,543	9,800	825,343
		735,159	735,159
	1,075,003		1,075,003
527,325	808,394	(808,394)	
	1,327,560	(1,327,560)	
	764,357	1,555	765,912
<u>\$ 527,325</u>	<u>\$ 9,277,103</u>	<u>\$ (1,389,440)</u>	<u>\$ 7,887,663</u>
<u>\$ (445,757)</u>	<u>\$ 50,293</u>	<u>\$ 2,118,742</u>	<u>\$ 2,169,035</u>
<u>\$ 9,000</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>\$ (436,757)</u>	<u>\$ 50,293</u>	<u>\$ (50,293)</u>	<u>\$</u>
		2,169,035	2,169,035
<u>14,803,419</u>	<u>19,868,961</u>	<u>2,755,349</u>	<u>22,624,310</u>
<u>\$ 14,366,662</u>	<u>\$ 19,919,254</u>	<u>\$ 4,874,091</u>	<u>\$ 24,793,345</u>

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

**SUNBELT FRESH WATER SUPPLY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

Net Change in Fund Balances - Governmental Funds	\$ 50,293
Amounts reported for governmental activities in the Statement of Activities are different because:	
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.	(735,159)
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.	1,527,896
Governmental funds report bond and note principal payments as expenditures. However, in the Statement of Net Position, bond and note principal payments are reported as decreases in long-term liabilities.	1,327,560
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.	(1,555)
Change in Net Position - Governmental Activities	<u>\$ 2,169,035</u>

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

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1. CREATION OF DISTRICT

Sunbelt Fresh Water Supply District (the “District”) was created effective November 14, 1995, by an act of Commissioners Court of Harris County, Texas and operates in accordance with Texas Water Code Chapters 49 and 53. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water, the collection, transportation and treatment of wastewater, and the control and diversion of storm water. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts. The Board of Supervisors held its first meeting on November 14, 1995, and sold its first bonds on June 26, 1996. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

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 or not 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”).

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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 statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance.

Governmental Funds

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

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

Debt Service Fund – To account for financial resources restricted, committed or assigned for servicing debt.

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 collectible 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 collectible 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.

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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 June 30, 2020, the Capital Projects Fund owed the General Fund \$82,331 for capital outlay previously paid from the General Fund and the General Fund owed the Debt Service Fund \$7,351 for bond proceeds deposited in the General Fund for which no bond costs were incurred.

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.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$10,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Buildings are amortized over a period of 40 years. Water and Wastewater facilities are amortized over periods ranging from 10 to 45 years. All other equipment is amortized over periods ranging from 3 to 20 years.

Inventory

Inventory is recorded at the average cost basis. Average cost is calculated on the average cost of each specific item during the fiscal year.

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Pensions

The District has 8 full-time employees. The District and employees of the District make contributions into the social security system. The Internal Revenue Service has determined that Board of Supervisors is considered to be “employees” for federal payroll tax purposes only. The District has a Simple IRA plan which provides matching contributions for employees in the plan.

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:

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.

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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. The District has assigned \$685,655 of its General Fund fund balance to offset a fiscal year 2021 budgeted 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.

NOTE 3. LONG-TERM DEBT

The following is a summary of transactions regarding long-term debt payable for the year ended June 30, 2020:

	July 1, 2019	Additions	Retirements	June 30, 2020
Bonds and Notes Payable	\$ 25,170,000	\$	\$ 1,305,000	\$ 23,865,000
Larkstone Agreement	47,384		22,560	24,824
Total Long-Term Liabilities	<u>\$ 25,217,384</u>	<u>\$ -0-</u>	<u>\$ 1,327,560</u>	<u>\$ 23,889,824</u>
			Amount Due Within One Year	\$ 1,369,761
			Amount Due After One Year	22,520,063
			Total Long-Term Liabilities	<u>\$ 23,889,824</u>

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3. LONG-TERM DEBT (Continued)

	Series 2011	Series 2016 Refunding
Amount Outstanding – June 30, 2020	\$ 9,690,000	\$ 2,155,000
Interest Rates	3.17%-5.02%	1.90%
Maturity Dates - Serially Beginning/Ending	December 1, 2020/2036	December 1, 2020/2026
Interest Payment Dates	December 1/June 1	December 1/June 1
Callable Dates	December 1, 2021	December 1, 2021*
	Series 2016A	Series 2018
Amount Outstanding – June 30, 2020	\$ 3,765,000	\$ 8,255,000
Interest Rates	1.15%-4.12%	0.54%-2.23%
Maturity Dates - Serially Beginning/Ending	December 1, 2020/2038	December 1, 2020/2048
Interest Payment Dates	December 1/June 1	December 1/June 1
Callable Dates	December 1, 2026*	December 1, 2028*

* As a whole or from time to time in part in inverse order of maturity in integral multiples of \$5,000 principal on any date, upon payment of a redemption price equal to the principal amount thereof together with interest, if any, accrued thereon from the most recent interest payment date to the redemption date.

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3. LONG-TERM DEBT (Continued)

As of June 30, 2020, the debt service requirements on the bonds and notes outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2021	\$ 1,355,000	\$ 734,985	\$ 2,089,985
2022	1,105,000	706,884	1,811,884
2023	820,000	683,007	1,503,007
2024	970,000	659,637	1,629,637
2025	1,010,000	633,494	1,643,494
2026-2030	5,195,000	2,699,202	7,894,202
2031-2035	5,890,000	1,726,160	7,616,160
2036-2040	4,190,000	616,447	4,806,447
2041-2045	1,770,000	271,139	2,041,139
2046-2049	1,560,000	70,086	1,630,086
	<u>\$ 23,865,000</u>	<u>\$ 8,801,041</u>	<u>\$ 32,666,041</u>

The revenue bonds and notes are secured by a lien on and pledge of the net revenues to be received from the operation of the District’s waterworks and sanitary sewer system.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders and note resolutions state that the District shall establish and maintain a reserve fund (“Reserve Fund”) in an amount equal to the average annual principal and interest requirements for the notes and all outstanding notes, if any, but if and whenever said Reserve Fund is reduced below said amount, monthly deposits into the Reserve Fund shall be commenced in an amount equal to 1/60 of the full amount then required to be on deposit in the Reserve Fund. The District has established the Reserve Fund and is funding it at the rate specified. At June 30, 2020, the amount required to be funded was \$1,397,551 and the amount actually funded was \$1,884,001.

The bond orders and note resolutions state that the District shall maintain insurance on the system of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business, but considering any governmental immunities to which the District may be entitled.

The bond orders and note resolutions 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.

**SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

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 debt.

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

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 \$14,073,501 and the bank balance was \$14,198,492. Of the bank balance, \$500,000 was covered by federal depository insurance. As of June 30, 2020, the District had deposits of \$7,683,213 exposed to custodial credit risk. The District resolved this custodial credit risk by transferring the balance to a TexSTAR account subsequent to fiscal year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at June 30, 2020, as listed below:

	Cash
GENERAL FUND	\$ 4,930,772
CAPITAL PROJECTS FUND	9,142,729
TOTAL DEPOSITS	\$ 14,073,501

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

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

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

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool. Federated Investors, Inc. manages the daily operations of TexPool 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 investment in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The District invests in TexSTAR, an external public funds investment pools that is not SEC-registered. JPMorgan Investment Management, Inc. provides investment management and FirstSouthwest, a division of Hilltop Securities Inc. provides participant services and marketing under an agreement with the TexSTAR Board of Directors. Custodial, fund accounting and depository services are provided by JP Morgan Chase Bank, NA and/or its subsidiary JP Morgan Investors Services Co. Investments held by TexSTAR are marked to market daily. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pools is the same as the value of pool shares. There are no limitations or restrictions on withdrawals from TexSTAR.

As of June 30, 2020, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 1,384,605	\$ 1,384,605
<u>DEBT SERVICE FUND</u>		
TexPool	1,884,001	1,884,001
<u>CAPITAL PROJECTS FUND</u>		
TexSTAR	<u>5,306,264</u>	<u>5,306,264</u>
TOTAL INVESTMENTS	<u>\$ 8,574,870</u>	<u>\$ 8,574,870</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2020, the District's investments in TexPool and TexSTAR were rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and TexSTAR to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

**SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Restrictions

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

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020:

	July 1, 2019	Increases	Decreases	June 30, 2020
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 172,090	\$	\$	\$ 172,090
Construction in Progress	<u>4,199,675</u>	<u>1,527,896</u>	<u>4,114,110</u>	<u>1,613,461</u>
Total Capital Assets Not Being Depreciated	<u>\$ 4,371,765</u>	<u>\$ 1,527,896</u>	<u>\$ 4,114,110</u>	<u>\$ 1,785,551</u>
Capital Assets Subject to Depreciation				
Water System	\$ 22,224,964	\$ 1,919,138	\$	\$ 24,144,102
Wastewater System	23,311,973	2,156,972		25,468,945
General Assets	<u>619,343</u>	<u>38,000</u>		<u>657,343</u>
Total Capital Assets Subject to Depreciation	<u>\$ 46,156,280</u>	<u>\$ 4,114,110</u>	<u>\$ - 0 -</u>	<u>\$ 50,270,390</u>
Accumulated Depreciation				
Water System	\$ 12,724,266	\$ 605,646	\$	\$ 13,329,912
Wastewater System	9,319,251	107,891		9,427,142
General Assets	<u>450,835</u>	<u>21,622</u>		<u>472,457</u>
Total Accumulated Depreciation	<u>\$ 22,494,352</u>	<u>\$ 735,159</u>	<u>\$ - 0 -</u>	<u>\$ 23,229,511</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 23,661,928</u>	<u>\$ 3,378,951</u>	<u>\$ - 0 -</u>	<u>\$ 27,040,879</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 28,033,693</u>	<u>\$ 4,906,847</u>	<u>\$ 4,114,110</u>	<u>\$ 28,826,430</u>

NOTE 7. MAINTENANCE TAX

The Board of Supervisors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax would be in addition to taxes which the District is authorized to levy for paying principal of and interest of the outstanding bonds, and any tax bonds which may be issued in the future. To date, an election has not been held to authorize a maintenance tax, and thus no maintenance tax has been levied.

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 7. MAINTENANCE TAX

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

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. The District carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide general liability, property, boiler and machinery, workers compensation, auto liability, and public officials liability coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. 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. ESCROW REQUIREMENTS

In compliance with an order of the Texas Water Development Board (the "TWDB"), the District escrowed \$10,440,000 of the Series 2011 Waterworks and Sewer System Revenue Notes proceeds. These funds are to be used to finance construction of wastewater system improvements, including two new wastewater treatment facilities adjacent to the existing Woodland Oaks and Oakwilde wastewater treatment facilities. At closing, the TWDB released \$596,720 from escrow to fund issuance costs. On July 18, 2013, an additional \$877,290 was released from escrow to fund engineering and related costs for the Woodland Oaks Wastewater Treatment Facility and the Oakwilde Wastewater Treatment Facility. On February 3, 2015, the TWDB released \$4,512,200 from escrow for the Woodland Oaks Wastewater Treatment Facility. In September 2019, the TWDB released \$600,935 for engineering and the District submitted a request for change in scope for the remaining \$3,852,855 to fund High Meadows/Fairgreen Water Plant SCADA Installation; Hurlingham Water Plant Improvements; Northline Terrace Water Plant Improvements; Fairgreen Water Plant ground storage tank replacement; matching funds for High Meadows/Fairgreen Sanitary Sewer Rehabilitation; Smoke Testing in Oakwilde, including Mary Ellen/Mary Francis and North Houston Heights; Seven Mile Water Plant half the cost of new water well; Water Distribution System Improvements in Oakwilde; and Marquita Water Plant new water well. The escrowed funds balance at year end is \$3,852,855. On September 3, 2020, subsequent to fiscal year-end, the Texas Water Development Board approved the District's application for a change in scope.

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9. ESCROW REQUIREMENTS (Contiued)

In compliance with an order of the TWDB, the District escrowed \$3,734,050 of the Series 2016A Waterworks and Sewer System Revenue Notes proceeds. These funds are to be used to finance construction of rehabilitation work on approximately 43,435 linear feet of existing sanitary sewer lines and associated manholes and sanitary sewer service connections to serve the Northline Terrace Subdivision and construction of a new water well to serve the Oakwilde Subdivision. At closing, the TWDB released \$116,825 from escrow to fund issuance costs. During a prior fiscal year, the TWDB released \$224,125 for engineering costs. On September 24, 2018, the TWDB released \$2,673,097 from escrow for the Northline Terrace Sanitary Sewer Rehabilitation, leaving an escrowed balance at year-end of \$1,060,953.

NOTE 10. EQUIPMENT LEASES

On June 23, 2010, the District executed an equipment lease for a wastewater treatment facility to treat the average daily flow of 450,000 gallons per day. Monthly lease payments are \$12,875 per month for the first 24 months and \$8,800 per month thereafter. The term of the lease is 24 months with successive 90-day renewals until the District gives a 90-day notice to terminate the lease. On November 20, 2015, a contract amendment called for relocation of the facility from Woodland Oaks to Oakwilde with a one-time cost of \$157,720 and monthly lease payments of \$8,800 per month.

On September 6, 2011, the District executed an equipment lease for a wastewater treatment facility with a minimum capacity of 2,762 cubic feet. Monthly lease payments are \$2,700 per month for the first 24 months and \$1,200 per month thereafter. The term of the lease is 24 months with successive 90-day renewals until the District gives a 90-day notice to terminate the lease. This facility is in Oakwilde.

NOTE 11. LARKSTONE

On June 18, 2002, the District entered into an agreement with Larkstone Building Company and William S. O'Donnell (the "Developers"). The Developers agreed to construct water and sewer utilities within Woodland Oaks subdivision. At the time the District established an agreed upon number of connections within Woodland Oaks, the District agreed to reimburse the Developers \$624,845 for the utilities within the completed sections. The agreed number of connections was established in a prior year and payments to reimburse the Developers commenced for the completed sections. On June 5, 2014, the District consented to the assignment of the Developer's interests to Strathmore Building Company, LP. During the year, the District reimbursed the Developers \$22,560 resulting in a balance of \$24,824. This balance has been reported under Long-Term Debt. See Note 3.

**SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 11. LARKSTONE (Continued)

As of June 30, 2020, the debt service requirements on the Larkstone agreement outstanding were as follows:

Fiscal Year	Principal
2021	\$ 14,761
2022	10,063
	\$ 24,824

**NOTE 12. CITY OF HOUSTON WATER SUPPLY AND GROUNDWATER
REDUCTION PLAN WHOLESALE AGREEMENT**

The District entered into a City of Houston Water Supply and Groundwater Reduction Plan Wholesale Agreement for Regulatory Area 3 of the Harris-Galveston Subsidence District (the “Agreement”) with the City of Houston, Texas (the “City”). Under the terms of the Agreement, the City is responsible for the design, construction and operation of a project to achieve regulatory compliance with the Harris-Galveston Subsidence District’s (the “Subsidence District”) requirements to reduce the total amount of groundwater withdrawn by non-exempt Area 3 pumpers of groundwater from wells. The Subsidence District’s deadlines are as follows: January 2005 for commencement of construction of the initial phase; January 2010 deadline for reduction of groundwater withdrawals such that the City and participants, including the District, have a total withdrawal of groundwater of no more than 70% of overall demand, and subsequent deadlines in 2020 and 2030 for further reduction of groundwater withdrawals. The District began taking water under the Agreement. The City will determine the minimum amount of water to be taken and establish maximum peak rates of flow.

The City has developed a Groundwater Reduction Plan (“GRP”) for itself, the District and all other entities who execute a similar agreement with the City. The GRP is based upon the project to supply treated water from alternative sources and includes a plan for co-permitting all groundwater wells owned or controlled by the other participants in accordance with requirements of the Subsidence District. The City and District agree to cooperate to allow co-permitting of their wells under the Subsidence District’s rules as provided in the GRP. The payment commencement date for the District, under the agreement, is based on the renewal dates of the District’s Subsidence District withdrawal permit on or after 2003 or the date on which delivery of treated water to the District commences if such date is earlier. The payment amount is calculated by formulas which are specified in the Agreement based on whether the District has connected to the project or not, as well as quantity of groundwater pumped by the District, and the base GRP Rate per thousand gallons as set by City ordinance. The term of the Agreement extends until noon on December 31, 2040, unless sooner terminated pursuant to the terms of the Agreement.

SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

**NOTE 12. CITY OF HOUSTON WATER SUPPLY AND GROUNDWATER
REDUCTION PLAN WHOLESALE AGREEMENT (Continued)**

Effective September 2016, the District entered contract supplements for Oakwilde, High Meadows/Fairgreen and Woodland Oaks which specify updated minimum amounts and maximum peak flows. New development, as defined in the supplements, will be assessed an impact fee by the City, currently \$626.50 per Equivalent Single Family Connection (“ESFC”). Purchased water costs totaled \$585,393 during the current fiscal year.

NOTE 13. WATER AND WASTEWATER TREATMENT AGREEMENT

Effective March 15, 2012, the District entered into a Water Supply and Wastewater Treatment Agreement with Skymark Development Company, Inc. (Developer), on behalf of the developer and on behalf of proposed JFK Municipal Utility District (JFK). The District excluded from the District’s jurisdiction tracts of land totaling approximately 144.388 acres. This property, along with other property, would eventually become JFK. The District will sell potable water on a wholesale basis to JFK. The Developer and the District agree to finance, construct, own and operate regional water and wastewater treatment plant facilities.

The District agrees to provide 25 ESFCs of water capacity to JFK upon payment of \$25,000 by the Developer to fund design costs of a waterline extension from the Fairgreen Water Plant to the Cuta Court Water Plant, and upon payment of \$175,000 by the Developer to fund initial construction costs for the waterline extension. The District agrees to provide an additional 25 ESFCs of water capacity to JFK upon payment by the Developer of all costs required for completion of the water line extension, estimated at \$226,000. The District agrees to provide 100 ESFCs of water capacity to JFK upon funding and completion of improvements to the Fairgreen Water Plant, estimated at \$503,125. The District agrees to provide the remaining 100 ESFCs of water capacity to JFK upon payment by the Developer or JFK for shared costs in improvements to Cuta Court Water Plant, estimated at \$157,150. Additional capacity requests may be made according to the terms of the agreement. The District will bill JFK a monthly rate of \$5.00 per 1,000 gallons of water used. The rate may be changed according to the terms of the agreement.

The District and JFK will each construct, operate and maintain a sanitary sewer collection system appropriate for serving the developed areas within their respective boundaries. The District and JFK will each construct, operate and maintain sanitary sewer lines necessary to convey waste to the Fairgreen wastewater treatment and disposal facilities. Legal title to the Fairgreen waste treatment facilities remains with the District.

**SUNBELT FRESH WATER SUPPLY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 13. WATER AND WASTEWATER TREATMENT AGREEMENT (Continued)

The District agrees to allocate 33,333 gallons per day of wastewater treatment capacity in the Fairgreen facilities to JFK upon payment of \$100,000 by the Developer. If the District engineer determines that a new lift station at the Fairgreen Facilities and relocation of an 18” sanitary sewer line is necessary, the District and JFK will jointly fund the estimated cost of \$426,000. Future enlargement of the Fairgreen Facilities may be designed and constructed by one party or jointly according to the terms of the agreement. Ownership interest will be recalculated upon completion of the additional capacity constructed.

The participants and their respective pro-rata share of capacity in the plant are:

	Percentage of Total Capacity
Sunbelt Fresh Water Supply District	88.89%
Harris County Municipal Utility District No. 461	7.69
JFK Municipal Utility District	3.42
	<u>100.00%</u>

The District will operate the facilities. The Developer or JFK will fund its proportionate share of operations and maintenance costs. Fixed costs will be billed based on capacity allocated. Variable costs will be billed based on gallons billed to customers utilizing the Fairgreen facilities. Extraordinary repair costs, capital improvements or modifications to the Fairgreen facilities will be paid based on each district’s proportionate share of ownership.

Effective August 16, 2017, the land within JFK was annexed into Harris County MUD No. 461. As a result, JFK’s obligations under the agreement have been assigned to Harris County MUD No. 461.

NOTE 14. UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. As a result, economic uncertainties have arisen which could have an impact on the operations of the District. The District is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty, as the potential financial impact of this pandemic is unknown at this time.

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SUNBELT FRESH WATER SUPPLY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2020

**SUNBELT FRESH WATER SUPPLY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Water Service	\$ 2,577,000	\$ 2,570,093	\$ (6,907)
Wastewater Service	2,472,000	2,369,116	(102,884)
Sanitation Service	1,381,000	1,263,478	(117,522)
Sanitation Administration Fees	262,500	179,822	(82,678)
Door Hanger Revenue	121,300	85,636	(35,664)
Groundwater Reduction Plan Fee	1,807,800	2,003,414	195,614
Penalty and Interest	135,700	92,782	(42,918)
Tap Connection and Inspection Fees	509,900	477,774	(32,126)
Investment Revenues	30,000	34,967	4,967
Industrial Waste Sampling/Penalty Fees	93,000	86,154	(6,846)
Miscellaneous Revenues	5,600	50,472	44,872
TOTAL REVENUES	\$ 9,395,800	\$ 9,213,708	\$ (182,092)
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 489,500	\$ 420,018	\$ 69,482
Contracted Services	2,103,900	2,241,053	(137,153)
Purchased Water Service	641,000	585,393	55,607
Wastewater Treatment Facility Lease	120,000	110,000	10,000
Personnel	262,500	290,895	(28,395)
Administrative Services	316,700	440,922	(124,222)
Utilities	514,025	395,450	118,575
Repairs and Maintenance	771,157	815,543	(44,386)
Other	787,300	1,075,003	(287,703)
Capital Outlay	240,718	281,069	(40,351)
Debt Service Principal		22,560	(22,560)
TOTAL EXPENDITURES	\$ 6,246,800	\$ 6,677,906	\$ (431,106)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 3,149,000	\$ 2,535,802	\$ (613,198)
OTHER FINANCING SOURCES(USES)			
Transfers (Out)	\$ (2,310,000)	\$ (1,279,000)	\$ 1,031,000
NET CHANGE IN FUND BALANCE	\$ 839,000	\$ 1,256,802	\$ 417,802
FUND BALANCE - JULY 1, 2019	2,404,438	2,404,438	
FUND BALANCE - JUNE 30, 2020	\$ 3,243,438	\$ 3,661,240	\$ 417,802

See accompanying independent auditor's report.

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**SUNBELT FRESH WATER SUPPLY DISTRICT
SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

JUNE 30, 2020

**SUNBELT FRESH WATER SUPPLY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2020**

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

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order effective February 27, 2018.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$14.50	3,000	N	\$2.25 \$2.85 \$3.25 \$3.85	3,001 to 8,000 8,001 to 13,000 13,001 to 18,000 18,001 and up
WASTEWATER:	\$17.50	3,000	N	\$2.50	3,001 and up
SURCHARGE:					
Groundwater Reduction Plan Fees	\$3.26 per 1,000 gallons				
Basic Service Fee	\$16.00	N/A	Y		
Commission	.5% actual				
Regulatory Assessments	water and sewer bill				

District employs winter averaging for wastewater usage? X
Yes
No

Total monthly charges per 10,000 gallons usage: Water: \$31.45 Wastewater: \$35.00 Basic Service: \$16.00 Surcharge: \$32.93

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2020**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ ³ / ₄ "	<u>8,279</u>	<u>7,820</u>	x 1.0	<u>7,820</u>
1"	<u>70</u>	<u>70</u>	x 2.5	<u>175</u>
1½"	<u>21</u>	<u>21</u>	x 5.0	<u>105</u>
2"	<u>57</u>	<u>57</u>	x 8.0	<u>456</u>
3"	<u>3</u>	<u>3</u>	x 15.0	<u>45</u>
4"	<u>8</u>	<u>8</u>	x 25.0	<u>200</u>
6"	<u>2</u>	<u>2</u>	x 50.0	<u>100</u>
8"	<u>8</u>	<u>8</u>	x 80.0	<u>640</u>
10"	<u>1</u>	<u>1</u>	x 115.0	<u>115</u>
Total Water Connections	<u><u>8,449</u></u>	<u><u>7,990</u></u>		<u><u>9,656</u></u>
Total Wastewater Connections	<u><u>7,162</u></u>	<u><u>7,162</u></u>	x 1.0	<u><u>7,162</u></u>

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

Gallons pumped into system:	621,287,500	Water Accountability Ratio: 99.5%
		(Gallons billed /Gallons pumped)
Gallons billed to customers:	731,135,000	
Gallons purchased:	113,749,000	From: City of Houston

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2020**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

Does the District have Operation and Maintenance standby fees? Yes No

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

City of Houston, Texas

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ's in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2020**

PERSONNEL EXPENDITURES (Including Benefits)	\$ <u>290,895</u>
PROFESSIONAL FEES:	
Auditing	\$ 24,350
Engineering	205,125
Legal	<u>190,543</u>
TOTAL PROFESSIONAL FEES	\$ <u>420,018</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ <u>585,393</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 37,200
Operations and Billing	995,168
Solid Waste Disposal	1,208,195
Security	<u>490</u>
TOTAL CONTRACTED SERVICES	\$ <u>2,241,053</u>
UTILITIES:	
Electricity	\$ 384,483
Telephone	<u>10,967</u>
TOTAL UTILITIES	\$ <u>395,450</u>
REPAIRS AND MAINTENANCE	\$ <u>815,543</u>
ADMINISTRATIVE EXPENDITURES:	
Bad Debt	\$ 4,669
Director Fees	33,300
Insurance	170,985
Legal Notices	24,555
Office Supplies and Postage	18,437
Travel and Meetings	17,023
Other	<u>171,953</u>
TOTAL ADMINISTRATIVE EXPENDITURES	\$ <u>440,922</u>

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2020**

TOTAL CAPITAL OUTLAY	\$ <u>281,069</u>
TAP CONNECTIONS	\$ <u>252,172</u>
OTHER EXPENDITURES:	
Chemicals	\$ 126,325
Laboratory Fees	171,449
Permit Fees	51,096
Wastewater Treatment Facility Lease	110,000
Inspection Fees	76,535
Mowing	42,807
Sludge Hauling	<u>354,619</u>
TOTAL OTHER EXPENDITURES	\$ <u>932,831</u>
DEBT SERVICE:	
Larkstone Agreement Principal	\$ <u>22,560</u>
TOTAL EXPENDITURES	\$ <u>6,677,906</u>

Number of persons employed by the District: 8 Full-Time -0- Part-Time

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
INVESTMENTS
JUNE 30, 2020**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 1,055,043	\$
TexPool	XXXX0008	Varies	Daily	329,562	
TOTAL GENERAL FUND				<u>\$ 1,384,605</u>	<u>\$ - 0 -</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0007	Varies	Daily	\$ 724,246	\$
TexPool	XXXX0006	Varies	Daily	1,159,755	
TOTAL DEBT SERVICE FUND				<u>\$ 1,884,001</u>	<u>\$ - 0 -</u>
<u>CAPITAL PROJECTS FUND</u>					
TexSTAR	XXXX1110	Varies	Daily	\$ 4,123,947	\$
TexSTAR	XXXX0160	Varies	Daily	1,182,317	
TOTAL CAPITAL PROJECTS FUND				<u>\$ 5,306,264</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u>\$ 8,574,870</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

S E R I E S - 2 0 1 1

Due During Fiscal Years Ending June 30	Principal Due December 1	Interest Due December 1/ June 1	Total
2021	\$ 390,000	\$ 419,627	\$ 809,627
2022	405,000	406,621	811,621
2023	425,000	392,210	817,210
2024	445,000	376,236	821,236
2025	465,000	358,734	823,734
2026	485,000	339,750	824,750
2027	510,000	319,247	829,247
2028	530,000	297,298	827,298
2029	555,000	273,855	828,855
2030	580,000	248,766	828,766
2031	610,000	221,864	831,864
2032	635,000	193,098	828,098
2033	665,000	162,577	827,577
2034	695,000	130,307	825,307
2035	730,000	95,956	825,956
2036	765,000	59,170	824,170
2037	800,000	20,080	820,080
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
	<u>\$ 9,690,000</u>	<u>\$ 4,315,396</u>	<u>\$ 14,005,396</u>

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

SERIES - 2016 REFUNDING

Due During Fiscal Years Ending June 30	Principal Due December 1	Interest Due December 1/ June 1	Total
2021	\$ 940,000	\$ 32,015	\$ 972,015
2022	510,000	18,240	528,240
2023	195,000	11,542	206,542
2024	125,000	8,503	133,503
2025	125,000	6,127	131,127
2026	130,000	3,705	133,705
2027	130,000	1,235	131,235
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
	<u>\$ 2,155,000</u>	<u>\$ 81,367</u>	<u>\$ 2,236,367</u>

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

S E R I E S - 2 0 1 6 A

Due During Fiscal Years Ending June 30	Principal Due December 1	Interest Due December 1/ June 1	Total
2021	\$ 5,000	\$ 122,932	\$ 127,932
2022	150,000	121,816	271,816
2023	150,000	119,423	269,423
2024	150,000	116,604	266,604
2025	170,000	113,176	283,176
2026	180,000	109,067	289,067
2027	185,000	104,504	289,504
2028	195,000	99,376	294,376
2029	200,000	93,547	293,547
2030	205,000	87,136	292,136
2031	210,000	80,192	290,192
2032	220,000	72,653	292,653
2033	225,000	64,564	289,564
2034	235,000	55,971	290,971
2035	240,000	46,886	286,886
2036	250,000	37,304	287,304
2037	255,000	27,241	282,241
2038	265,000	16,723	281,723
2039	275,000	5,665	280,665
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
	<u>\$ 3,765,000</u>	<u>\$ 1,494,780</u>	<u>\$ 5,259,780</u>

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020**

S E R I E S - 2 0 1 8

Due During Fiscal Years Ending June 30	Principal Due December 1	Interest Due December 1/ June 1	Total
2021	\$ 20,000	\$ 160,411	\$ 180,411
2022	40,000	160,207	200,207
2023	50,000	159,832	209,832
2024	250,000	158,294	408,294
2025	250,000	155,457	405,457
2026	255,000	152,224	407,224
2027	260,000	148,591	408,591
2028	260,000	144,626	404,626
2029	265,000	140,398	405,398
2030	270,000	135,877	405,877
2031	275,000	131,067	406,067
2032	280,000	125,988	405,988
2033	285,000	120,662	405,662
2034	290,000	115,098	405,098
2035	295,000	109,277	404,277
2036	305,000	103,170	408,170
2037	310,000	96,820	406,820
2038	315,000	90,257	405,257
2039	320,000	83,494	403,494
2040	330,000	76,523	406,523
2041	335,000	69,374	404,374
2042	345,000	62,047	407,047
2043	355,000	54,469	409,469
2044	365,000	46,640	411,640
2045	370,000	38,609	408,609
2046	380,000	30,378	410,378
2047	385,000	21,944	406,944
2048	395,000	13,304	408,304
2049	400,000	4,460	404,460
	<u>\$ 8,255,000</u>	<u>\$ 2,909,498</u>	<u>\$ 11,164,498</u>

See accompanying independent auditor's report.

SUNBELT FRESH WATER SUPPLY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2020

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2021	\$ 1,355,000	\$ 734,985	\$ 2,089,985
2022	1,105,000	706,884	1,811,884
2023	820,000	683,007	1,503,007
2024	970,000	659,637	1,629,637
2025	1,010,000	633,494	1,643,494
2026	1,050,000	604,746	1,654,746
2027	1,085,000	573,577	1,658,577
2028	985,000	541,300	1,526,300
2029	1,020,000	507,800	1,527,800
2030	1,055,000	471,779	1,526,779
2031	1,095,000	433,123	1,528,123
2032	1,135,000	391,739	1,526,739
2033	1,175,000	347,803	1,522,803
2034	1,220,000	301,376	1,521,376
2035	1,265,000	252,119	1,517,119
2036	1,320,000	199,644	1,519,644
2037	1,365,000	144,141	1,509,141
2038	580,000	106,980	686,980
2039	595,000	89,159	684,159
2040	330,000	76,523	406,523
2041	335,000	69,374	404,374
2042	345,000	62,047	407,047
2043	355,000	54,469	409,469
2044	365,000	46,640	411,640
2045	370,000	38,609	408,609
2046	380,000	30,378	410,378
2047	385,000	21,944	406,944
2048	395,000	13,304	408,304
2049	400,000	4,460	404,460
	<u>\$ 23,865,000</u>	<u>\$ 8,801,041</u>	<u>\$ 32,666,041</u>

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
CHANGE IN LONG-TERM DEBT
FOR THE YEAR ENDED JUNE 30, 2020**

Description	Original Notes Issued	Bonds and Notes Outstanding July 1, 2019
Sunbelt Fresh Water Supply District Waterworks and Sewer System Revenue Notes - Series 2011	\$ 10,440,000	\$ 10,060,000
Sunbelt Fresh Water Supply District Waterworks and Sewer System Revenue Refunding Bonds - Series 2016	4,780,000	3,075,000
Sunbelt Fresh Water Supply District Waterworks and Sewer System Revenue Notes - Series 2016A	4,075,000	3,770,000
Sunbelt Fresh Water Supply District Waterworks and Sewer System Revenue Notes - Series 2018	<u>8,265,000</u>	<u>8,265,000</u>
TOTAL	<u>\$ 27,560,000</u>	<u>\$ 25,170,000</u>
Debt Service Fund cash and investments balances as of June 30, 2020:		<u>\$ 1,884,001</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 1,126,415</u>

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds or Notes Sold</u>	<u>Retirements</u>		<u>Bonds and Notes Outstanding June 30, 2020</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
	\$ 370,000	\$ 431,210	\$ 9,690,000	The Bank of New York Mellon Trust Company, N.A. Dallas, Tx
	920,000	49,685	2,155,000	Branch Banking and Trust Company, N.A. Dallas, TX
	5,000	122,982	3,765,000	Amegy Bank Houston, TX
	<u>10,000</u>	<u>160,480</u>	<u>8,255,000</u>	ZB N.A. Houston, TX
<u>\$ - 0 -</u>	<u>\$ 1,305,000</u>	<u>\$ 764,357</u>	<u>\$ 23,865,000</u>	

See accompanying independent auditor's report.

SUNBELT FRESH WATER SUPPLY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2020	2019	2018
REVENUES			
Water Service	\$ 2,570,093	\$ 2,615,386	\$ 2,491,726
Wastewater Service	2,369,116	2,410,006	2,446,926
Sanitation Service	1,263,478	1,333,696	1,210,521
Sanitation Administration Fees	179,822	206,522	250,212
Door Hanger Revenue	85,636	135,000	124,206
Grant Revenue			
Groundwater Reduction Plan Fee	2,003,414	1,859,784	1,775,502
Penalty and Interest	92,782	144,392	132,045
Tap Connection and Inspection Fees	477,774	612,221	431,255
Investment Revenues	34,967	49,349	33,282
Industrial Waste Sampling/Penalty Fees	86,154	91,938	85,309
Miscellaneous Revenues	50,472	172,712	73,466
TOTAL REVENUES	\$ 9,213,708	\$ 9,631,006	\$ 9,054,450
EXPENDITURES			
Professional Fees	\$ 420,018	\$ 382,040	\$ 364,874
Contracted Services	2,241,053	2,173,477	2,093,498
Purchased Water Service	585,393	625,405	711,735
Wastewater Treatment Facility Lease	110,000	120,000	110,000
Personnel	290,895	281,196	274,529
Administrative	440,922	428,805	379,083
Utilities	395,450	398,143	487,958
Repairs and Maintenance	815,543	762,514	753,893
Other	1,075,003	988,264	1,014,930
Debt Service Principal	22,560	22,560	22,560
Capital Outlay	281,069	966,437	731,210
TOTAL EXPENDITURES	\$ 6,677,906	\$ 7,148,841	\$ 6,944,270
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 2,535,802	\$ 2,482,165	\$ 2,110,180
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$ (1,279,000)	\$ (1,866,500)	\$ (1,443,601)
NET CHANGE IN FUND BALANCE	\$ 1,256,802	\$ 615,665	\$ 666,579
BEGINNING FUND BALANCE	2,404,438	1,788,773	1,122,194
ENDING FUND BALANCE	\$ 3,661,240	\$ 2,404,438	\$ 1,788,773

See accompanying independent auditor's report.

		Percentage of Total Revenue						
<u>2017</u>	<u>2016</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>		
\$ 2,637,374	\$ 2,656,801	28.0 %	27.2 %	27.4 %	29.9 %	28.4 %		
2,440,539	2,420,778	25.7	25.0	27.0	27.7	25.7		
1,180,028	1,141,412	13.7	13.8	13.4	13.4	12.1		
275,671	119,826	2.0	2.1	2.8	3.1	1.3		
130,044	139,287	0.9	1.4	1.4	1.5	1.5		
	715,003					7.6		
1,554,169	1,289,820	21.7	19.3	19.6	17.6	13.7		
128,846	122,912	1.0	1.5	1.5	1.5	1.3		
316,336	427,831	5.2	6.4	4.8	3.6	4.5		
14,974	10,171	0.4	0.5	0.4	0.2	0.1		
84,046	88,272	0.9	1.0	0.9	1.0	0.9		
48,262	272,596	0.5	1.8	0.8	0.5	2.9		
<u>\$ 8,810,289</u>	<u>\$ 9,404,709</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>		
\$ 361,537	\$ 344,643	4.6 %	4.0 %	4.0 %	4.1 %	3.7 %		
2,070,677	1,978,794	24.3	22.6	23.1	23.5	21.0		
749,617	762,940	6.4	6.5	7.9	8.5	8.1		
237,600	277,720	1.2	1.2	1.2	2.7	3.0		
243,997	236,678	3.2	2.9	3.0	2.8	2.5		
198,905	295,258	4.8	4.5	4.2	2.3	3.1		
465,917	486,527	4.3	4.1	5.4	5.3	5.2		
780,301	1,079,593	8.9	7.9	8.3	8.9	11.5		
771,606	996,932	11.7	10.3	11.2	8.8	10.6		
30,360	46,852	0.2	0.2	0.2	0.3	0.5		
1,114,683	1,545,878	3.1	10.0	8.1	12.7	16.4		
<u>\$ 7,025,200</u>	<u>\$ 8,051,815</u>	<u>72.7 %</u>	<u>74.2 %</u>	<u>76.6 %</u>	<u>79.9 %</u>	<u>85.6 %</u>		
<u>\$ 1,785,089</u>	<u>\$ 1,352,894</u>	<u>27.3 %</u>	<u>25.8 %</u>	<u>23.4 %</u>	<u>20.1 %</u>	<u>14.4 %</u>		
\$ (2,234,040)	\$ (2,260,200)							
\$ (448,951)	\$ (907,306)							
<u>1,571,145</u>	<u>2,478,451</u>							
<u>\$ 1,122,194</u>	<u>\$ 1,571,145</u>							

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2020	2019	2018
REVENUES			
Interest on Investments	\$ 32,120	\$ 57,718	\$ 31,750
EXPENDITURES			
Debt Service Principal	\$ 1,305,000	\$ 1,260,000	\$ 1,185,000
Debt Service Interest and Fees	766,872	740,102	654,199
Bond Issuance Costs	_____	_____	_____
TOTAL EXPENDITURES	<u>\$ 2,071,872</u>	<u>\$ 2,000,102</u>	<u>\$ 1,839,199</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (2,039,752)</u>	<u>\$ (1,942,384)</u>	<u>\$ (1,807,449)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 1,270,000	\$ 2,117,500	\$ 1,443,601
Long-Term Debt Issued			
Payment to Refunded Bond Escrow Agent	_____	_____	_____
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 1,270,000</u>	<u>\$ 2,117,500</u>	<u>\$ 1,443,601</u>
NET CHANGE IN FUND BALANCE	\$ (769,752)	\$ 175,116	\$ (363,848)
BEGINNING FUND BALANCE	<u>2,661,104</u>	<u>2,485,988</u>	<u>2,849,836</u>
ENDING FUND BALANCE	<u>\$ 1,891,352</u>	<u>\$ 2,661,104</u>	<u>\$ 2,485,988</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>7,990</u>	<u>7,913</u>	<u>7,899</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>7,162</u>	<u>7,162</u>	<u>7,014</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue						
2017	2016	2020	2019	2018	2017	2016		
\$ 14,093	\$ 4,962	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %		
\$ 1,585,000	\$ 1,495,000	4,062.9 %	2,183.0 %	3,732.3 %	11,246.7 %	30,129.0 %		
662,263	740,462	2,387.5	1,282.3	2,060.5	4,699.2	14,922.7		
	111,978					2,256.7		
\$ 2,247,263	\$ 2,347,440	6,450.4 %	3,465.3 %	5,792.8 %	15,945.9 %	47,308.4 %		
\$ (2,233,170)	\$ (2,342,478)	(6,350.4) %	(3,365.3) %	(5,692.8) %	(15,845.9) %	(47,208.4) %		
\$ 2,234,040	\$ 2,260,200							
224,125	4,780,000							
	(4,660,671)							
\$ 2,458,165	\$ 2,379,529							
\$ 224,995	\$ 37,051							
2,624,841	2,587,790							
\$ 2,849,836	\$ 2,624,841							
8,032	7,994							
7,050	7,060							

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2020**

District Mailing Address - Sunbelt Fresh Water Supply District
410 West Gulf Bank Road
Houston, TX 77037

District Telephone Number - (281) 272-9577

Supervisors	Term of Office (Elected or Appointed)	Fees of Office for the year ended June 30, 2020	Expense Reimbursements for the year ended June 30, 2020	Title
Nathan J. Wade	05/18 05/22 (Elected)	\$ 7,050	\$ 510	President
Sandra C. Brito	04/17 05/20 (Appointed)	\$ 4,800	\$ 1,303	Vice President
Sandra Jaramillo	05/16 05/20 (Elected)	\$ 7,050	\$ 561	Secretary/ Investment Officer
Archie L. Moore	05/16 05/20 (Elected)	\$ 7,500	\$ 696	Assistant Secretary
Jo Angel Sarmientos	05/18 05/22 (Elected)	\$ 6,300	\$ 523	Supervisor

Notes: No Supervisor has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form: November 9, 2018

The limit on Fees of Office that a Supervisor may receive during a fiscal year is \$7,200 as set by Board Resolution on July 17, 2003. Fees of Office are the amounts actually paid to a Supervisor during the District's current fiscal year. One Supervisor was overpaid their fees due to an accounting error. The Supervisor will forego fees in the next fiscal year to repay the overpaid amount.

The election scheduled for May 2, 2020 was postponed to November 3, 2020 due to the pandemic.

See accompanying independent auditor's report.

**SUNBELT FRESH WATER SUPPLY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2020**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended June 30, 2020</u>	<u>Title</u>
Radcliffe Bobbitt Adams Polley PLLC	05/21/97	\$ 217,556 \$ -0-	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	07/18/13	\$ 21,850	Auditor
Governmental Financial Reporting, LLC	02/05	\$ 37,200	Bookkeeper
A & S Engineers, Inc.	03/20/03	\$ 548,115	Engineer
The GMS Group	12/18/06	\$ 1,000	Financial Advisor
Municipal Operations & Consulting	01/02/03	\$ 1,475,535	Operator
Arbitrage Compliance Specialists, Inc.	As needed	\$ 870	Arbitrage Consultant
Key Employees:			
Mary Jane Mendoza		\$ 43,510	Office Manager

See accompanying independent auditor's report.

APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN