

OFFICIAL STATEMENT DATED MARCH 20, 2019

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

THE DISTRICT HAS NOT DESIGNATED THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—NOT QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS" HEREIN.

NEW ISSUE-Book-Entry-Only

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

\$2,720,000

NEWPORT MUNICIPAL UTILITY DISTRICT

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

UNLIMITED TAX REFUNDING BONDS SERIES 2019

The bonds described above (the "Bonds") are obligations solely of Newport Municipal Utility District (the "District") and are not obligations of the State of Texas, Harris County or any entity other than the District.

Interest Accrues:

Due: April 1, as shown on inside cover

Current Interest Bonds – April 1, 2019

Premium Compound Interest Bonds - Date of Delivery

The Current Interest Bonds and the Premium Compound Interest Bonds (collectively, the "Bonds") will be issued in fully registered form only. The Current Interest Bonds will be issued in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. Principal of the Current Interest Bonds will be payable at stated maturity or earlier redemption. Interest on the Current Interest Bonds accrues from April 1, 2019, and is payable on October 1, 2019, and on each April 1 and October 1 thereafter until the earlier of stated maturity or prior redemption. The Current Interest Bonds maturing on and after April 1, 2026 are subject to redemption prior to their maturity dates on April 1, 2025 or any date thereafter. The Premium Compound Interest Bonds will be issued in the denomination of \$5,000 maturity amounts, or integral multiples thereof, including both principal and interest. Interest on the Premium Compound Interest Bonds will accrete from the date of delivery and will be compounded semiannually on October 1 and April 1 of each year commencing October 1, 2019. Compounded interest and principal on the Premium Compound Interest Bonds will be paid only at maturity. The Premium Compound Interest Bonds are not subject to redemption prior to maturity. See "APPENDIX C— Accreted Values of Premium Compound Interest Bonds" for accreted value thereof on each compounding date through maturity. Interest on the Bonds accrues on the basis of a 360 day year comprised of twelve 30 day months.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "THE BONDS—Book Entry Only System." The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas.



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. See "MUNICIPAL BOND INSURANCE" herein.

See Maturities, Principal Amounts, Maturity Amounts, Interest Rates and Initial Reoffering Yields on the inside cover

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District, all to the extent and subject to the conditions described below. THE BONDS AND THE ISSUANCE THEREOF ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District. Certain other legal matters will be passed upon, on behalf of the Underwriter, by McCall, Parkhurst & Horton L.L.P., Houston, Texas. Delivery of the Bonds through DTC is expected on or about April 25, 2019.

SAMCO CAPITAL MARKETS

**MATURITIES, PRINCIPAL AMOUNTS, MATURITY AMOUNTS,
INTEREST RATES AND INITIAL REOFFERING YIELDS**

\$2,715,000 Current Interest Bonds

<u>Due</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (a)</u>	<u>CUSIP</u> <u>Number (b)</u>	<u>Due</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (a)</u>	<u>CUSIP</u> <u>Number (b)</u>
2020	\$120,000	3.000%	1.810%	652139 FT8	2025	\$290,000	2.000%	2.260%	652139 FY7
2021	250,000	3.000	1.860	652139 FU5	2026	305,000 (c)	2.000	2.420	652139 FZ4
2022	260,000	2.000	1.930	652139 FV3	2027	315,000 (c)	3.000	2.580	652139 GA8
2023	270,000	2.000	2.040	652139 FW1	2028	285,000 (c)	3.000	2.750	652139 GB6
2024	280,000	2.000	2.150	652139 FX9	2029	340,000 (c)	3.000	2.890	652139 GC4

\$5,000 Premium Compound Interest Bonds

<u>Due</u> <u>April 1</u>	<u>Original</u> <u>Principal</u> <u>Amount</u>	<u>Offering Price</u> <u>Per \$5,000</u> <u>Maturity Amount</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (a)</u>	<u>Total</u> <u>Payment at</u> <u>Maturity</u>	<u>Cus ip</u> <u>Numbers (b)</u>
2020	\$5,000	\$208.333	2.020%	\$120,000	652139 GD2

- (a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriter (as herein defined) for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity. Accrued interest on the Current Interest Bonds from April 1, 2019, is to be added to the price.
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Current Interest Bonds maturing on and after April 1, 2026, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on April 1, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, contracts, audits, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas, 77019 upon payment of the costs for duplication thereof.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the condition of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Underwriter of the Bonds, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

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

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the "Underwriter") pursuant to a bond purchase agreement with the District (the "Bond Purchase Agreement") at a price of \$2,810,742.67 (representing the par amount of the Bonds of \$2,720,000.00, plus a net premium of \$5,660.90 on the Current Interest Bonds, plus a premium on the Premium Compound Interest Bonds of \$112,769.20, less an underwriter's discount of \$27,687.43), plus accrued interest. The Underwriter's obligation is to purchase all of the Bonds, if any are purchased. See "PLAN OF FINANCING—Sources and Uses of Funds."

The Underwriter has reviewed the information in this official statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

Prices and Marketability

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information and financial statements contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used only in conjunction with more complete information contained herein.

THE DISTRICT

Description.....Newport Municipal Utility District (the “District”), located in Harris County, Texas, is a political subdivision of the State of Texas. The area comprising the District was originally two municipal utility districts, which were consolidated on August 1, 1998 into one district. The original districts were Harris County Municipal Utility District No. 20 (“MUD 20”), which was created by the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the “Commission”), by an order dated December 13, 1972 and Harris County Municipal Utility District No. 73 (“MUD 73”), which was created by order effective September 23, 1977 of the Texas Water Rights Commission. The District operates pursuant to Chapters 49 and 54, Texas Water Code V.T.C.A., as amended. The District contains approximately 2,350 acres. See “THE DISTRICT.”

LocationThe District is located in northeast Harris County, approximately 23 miles northeast of downtown Houston and two miles northwest of Crosby, Texas, near the southeastern shore of Lake Houston. Access to the District is provided by South Diamondhead Drive, North Diamondhead Drive and Newport Boulevard from FM 2100. The District is located entirely within the extraterritorial jurisdiction of the City of Houston.

Recent Extreme Weather

Events, Hurricane Harvey.....The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to Professional Utility Services, Inc. (the “Operator”), there was no interruption of water and sewer service as a result of Hurricane Harvey, but the District did sustain damage to its wastewater treatment plant and control building, the wastewater treatment plant emergency generator, Water Plant No. 1 booster pump and other facilities. The District Operator on behalf of the District, submitted claims to the District insurance carrier and the District has received \$585,442.52. Any and all damage claims not covered by the District insurance carrier were filed with the Federal Emergency Management Agency (FEMA). As of March 2019 the District has received from FEMA funds in the amount of \$362,404.16. Additional damage claims are pending and being processed through FEMA. The total District expense for damages claimed due to Hurricane Harvey was \$1,131,899.65. The District is currently enrolled in a Federal Mitigation program and is pursuing funds for mitigation planning and projects through FEMA. The District cannot guarantee or represent that it will receive any funds from FEMA, other than funds already received. To the knowledge of the District, approximately 25 homes within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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

Status of Development.....The District began as part of the approximately 5,914 acre Newport Project, development of which began during the 1970's. Approximately 1,488 acres of land within the District have been developed into 4,419 lots in the single family residential subdivisions of Newport Sections 1 through 7, Newport Section 8 (Phase 1), Newport Section 8 Replat 1, Newport Section 8 Replat 3, Newport Section 8, Replat 4, Newport Section 10, Deerpointe Section 1, Oaks of Newport, Section 1, Patio Woods, Seven Oaks North, Seven Oaks South, Villas at Newport, Newport Villas (Newport Section 12), Newport Section 4 reserve Replat, Newport Section 9, Country Club Estates Section 1 and Newport Court. See "STATUS OF DEVELOPMENT IN THE DISTRICT."

As of January 31, 2019, there were 3,719 completed and occupied homes, 85 vacant homes, 57 homes listed in a builder's name, 25 commercial connections, 234 multi-family connections (3 complexes) and 558 vacant lots. Of such 558 vacant lots, some vacant lots are owned by individuals. In some cases, those lots may have homes built on two lots or may be owned by the adjacent homeowner with no intention of building on the lot. Rampart Holding LLC owns 145 lots that are partially developed in Newport, Section 7. Friendswood Development Company owns 74 lots that are partially developed in Newport Section 7.

Approximately 21 acres of land have been developed into the Fairway Port Condominiums, consisting of 76 condominium units, the Newport Village Apartments, consisting of 80 units and the Spring Hill Village Apartments, consisting of 78 apartment units.

International Union of Operating Engineers ("IUOE") owns approximately 228 acres within the District. A dormitory and conference center have been constructed on such site. The development has applied for an exemption from property taxes and received approval from the Appraisal District of a "temporary" property tax exemption for an incomplete improvement under active construction. The Appraisal District will review the exemption application again in 2019.

In addition to residential development, two convenience stores (one of which is currently vacant), a car wash, a kidney dialysis center, a daycare center, a retail strip center and a bank are located in the District on approximately 25 acres of land in the District. A Crosby Volunteer Fire Department fire station and the Harvest Time Church of God, which are tax exempt properties are also located on such 25 acres. A dental office, a gun range and a Emergency Medical Service facility are located in the District, but are not provided service by the District. The District provides water and sewer service to the Newport Elementary School, which is not located in the District. Approximately 83 acres have been developed into the Newport Golf and Conference Center (now known as Stonebridge at Newport), which includes an 18-hole golf course. There are approximately 80 acres which are partially developed with no above-ground improvements. There are approximately 275 acres in the District remaining to be developed. There are approximately 134 acres of recreational land, 12 acres of streets and 6 acres which are used for plant sites and detention areas. See "THE DISTRICT" and "STATUS OF DEVELOPMENT IN THE DISTRICT."

DevelopersRampart Holding LLC ("Rampart Holding LLC"), a Texas limited liability company, owns 145 lots that are partially developed in Newport, Section 7. Rampart also owns approximately 65 acres of undeveloped land and 14 developed single family lots. See "STATUS OF DEVELOPMENT IN THE DISTRICT" and "THE DEVELOPERS."

Newport Seven Land Company L.L.C. ("Newport Seven") has developed Seven Oaks North and Seven Oaks South, consisting of a total of 188 lots on approximately 60 acres of land. See "STATUS OF DEVELOPMENT" and "THE DEVELOPERS—Newport Seven Land Company L.L.C."

Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership d/b/a Friendswood Development Company ("FDC") has developed Villas at Newport, Newport Section 12, Newport Section 8 partial replat No. 1, Newport Section 8 partial replat no. 3, and Newport Section 8 partial replat Section 4. FDC is in the process of developing Newport Section 7 partial replat no. 1.

Newport Pointe, Ltd. ("NP Ltd.") owns 188 acres of land which was annexed into the District in 2008. NP Ltd. has indicated that design has begun on the initial phase of lots on the 188 acres. See "DEFINED AREA."

Newport Court, Ltd. ("NC Ltd.") has developed approximately 26 acres into 68 lots and a 6-acre retail site.

Dunhill Builders, LLC d/b/a DH Homes ("DH Homes") has developed Newport Country Club (Newport Section 4) replat consisting of 15 lots on approximately 10 acres of land.

3PM Development Crosby, LLC d/b/a DH Homes has developed Newport Section 4 partial replat no. 4 into 11 lots on 6.44 acres.

Rochester Enterprises, LLC (“Rochester”) has developed Newport Section 9 consisting of approximately 18 acres into 84 lots. Rochester also owns approximately 12 acres of land in the District, of which approximately 9 acres in Newport Section 10 is being replatted and developed into 46 single family lots. Rochester also owns approximately 6.7 acres of land in the District which is being developed into an extension of Newport Section 6 with approximately 27 single-family residential lots.

Collectively Rampart Holding LLC, Newport Seven, FDC, NP Ltd., NC Ltd., DH Homes and Rochester are defined as the “Developers.”

Defined Area Pursuant to the provisions of Subchapter J of Chapter 54 of the Texas Water Code, as amended, the District is authorized to define areas or designate certain property of the District to pay for improvements, facilities, or services that primarily benefit that area. On May 11, 2017, the District approved the creation of a defined area encompassing approximately 188 acres within the District (the “Defined Area”).

At an election within the Defined Area, held on May 6, 2017, the voters within the Defined Area authorized \$50,000,000 principal amount of unlimited tax bonds to finance water, wastewater and drainage improvements solely within the Defined Area, and for the further purpose of refunding those bonds, the levy of an unlimited tax in payment of such bonds within the Defined Area and the levy of an unlimited operation and maintenance tax for facilities authorized by Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution within the Defined Area.

All land in the Defined Area is owned by Newport Pointe Ltd., and is expected to be developed as a primarily residential development in the Defined Area. To date, no development has occurred. See “THE DEFINED AREA.”

Payment Record The District has previously issued one series of waterworks and sewer system combination unlimited tax and revenue bonds, three series of unlimited tax bonds and five series of unlimited tax and revenue refunding bonds, \$15,810,000 of which remained outstanding as of April 2, 2019, (the “Outstanding Bonds”). The District has never defaulted in the timely payment of any previously issued bonds.

THE BONDS

The Issuer The District, a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”

The Issue Newport Municipal Utility District \$2,720,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”) are issued pursuant to an order (the “Bond Order”) of the District’s Board of Directors. The Current Interest Bonds will be issued as fully registered serial bonds in the aggregate principal amount of \$2,715,000. Interest on the Current Interest Bonds accrues from April 1, 2019, and is payable on October 1, 2019, and on each April 1 and October 1 thereafter until maturity or earlier redemption. The Premium Compound Interest Bonds will be issued as fully registered bonds in the aggregate principal amount of \$5,000 in denominations which result in total amounts due at maturity equal to \$5,000 or integral multiples thereof (including both principal and compounded interest). Interest on the Premium Compound Interest Bonds accretes from the date of delivery and is compounded on April 1 and October 1 of each year until maturity, commencing October 1, 2019. See “THE BONDS” and “APPENDIX C—Accreted Values of Premium Compound Interest Bonds.” See “THE BONDS.”

The Current Interest Bonds maturing on and after April 1, 2026, are subject to redemption, in whole or from time to time in part, at the option of the District, prior to their maturity dates, on April 1, 2025, or any date thereafter. Upon redemption, the Current Interest Bonds will be payable at a price of par plus accrued interest from the most recent interest payment date to the date of the redemption. The Premium Compound Interest Bonds are not subject to redemption prior to maturity. See “THE BONDS.”

Book-Entry-Only System The definitive 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 “THE BONDS—Book-Entry-Only System”.

Use of Proceeds Proceeds from the sale of the Bonds, together with other lawfully available District funds, will be used to refund and defease \$2,720,000 principal amount of the District’s Outstanding Bonds in order to achieve annual and net present value savings in the District’s annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” Bond proceeds will also be used to pay certain costs associated with issuance of the Bonds, including the payment of any insurance premium. See “PLAN OF FINANCING—Refunded Bonds” and “—Sources and Uses of Funds.”

Source of Payment..... Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District described herein and will be further payable from and secured by the pledge of and lien on certain net revenues, if any, from the District’s waterworks and sewer system. The Bonds are obligations of the District and are not obligations of Harris County, the City of Houston, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”

*Municipal Bond Insurance and
Municipal Bond Rating* It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a 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 Build America Mutual Assurance Company (“BAM” or the “Insurer”). The Bonds also have been assigned an underlying credit rating of “A” by S&P without regard to credit enhancement. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE,” and “APPENDIX B.”

*Not Qualified Tax-Exempt
Obligations*..... The Bonds are not designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986. See "TAX MATTERS—Qualified Tax-Exempt Obligations for Financial Institutions."

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

Financial Advisor Masterson Advisors LLC, Houston, Texas.

Underwriter’s Counsel McCall Parkhurst & Horton, L.L.P., Houston, Texas.

Verification Agent Public Finance Partners LLC, Minneapolis, Minnesota.

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

Investment Considerations The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2018 Certified Taxable Assessed Valuation.....	\$594,472,431 (a)
January 1, 2019 Estimated Assessed Valuation	\$630,546,137 (b)
Gross Direct Long-Term Debt Outstanding	\$19,095,000 (c)
Estimated Overlapping Debt	<u>41,580,591 (d)</u>
Gross Direct Long-Term Debt and Estimated Overlapping Debt	60,675,591
Ratios of Gross Direct Long-Term Debt to:	
2018 Certified Taxable Assessed Valuation.....	3.21%
January 1, 2019 Estimated Assessed Valuation	3.03%
Ratios of Gross Direct Long-Term Debt and Overlapping Debt to:	
2018 Certified Taxable Assessed Valuation.....	10.21%
January 1, 2019 Estimated Assessed Valuation	9.62%
Debt Service Fund Balance as of February 21, 2019	\$2,650,018 (e)
Operating Fund Balance as of February 21, 2019	\$5,825,339
Construction Fund Balance as of February 21, 2019.....	\$2,725,733
2018 Debt Service Tax Rate	\$0.28
2018 Maintenance Tax Rate.....	<u>0.31</u>
2018 Total Tax Rate	\$0.59
Average Annual Debt Service Requirement (2019-2041)	\$1,153,803(c,f)
Maximum Annual Debt Service Requirement (2025)	\$1,648,763(c,f)
Tax Rate Required to Pay Average Annual Debt Service (2019-2041) at a 95% Collection Rate Based upon 2018 Certified Taxable Assessed Valuation	\$0.21 /\$100 A.V.
Based upon January 1, 2019 Estimated Taxable Assessed Valuation	\$0.20 /\$100 A.V.
Tax Rate Required to Pay Maximum Annual Debt Service (2025) at a 95% Collection Rate Based upon 2018 Certified Taxable Assessed Valuation	\$0.30 /\$100 A.V.
Based upon January 1, 2019 Estimated Taxable Assessed Valuation.....	\$0.28 /\$100 A.V.
Water and Sewer Connections as of December 6, 2018 (g):	
Completed Homes – Occupied	3,719
Completed Homes – Vacant	85
Homes under construction or in a builder’s name	57
Vacant lots	558
Commercial Connections	25
Apartment Connections (234 apartment units)	3
Estimated 2019 Population.....	13,485 (h)

- (a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “TAXING PROCEDURES.”
- (b) As estimated by the Appraisal District as of January 1, 2019 for informational purposes only. The certified 2018 assessed valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2018 to January 1, 2019. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, this estimate will not be the basis for any tax levy by the District. See “TAXING PROCEDURES.”
- (c) After the issuance of the Bonds.
- (d) See “ESTIMATED OVERLAPPING DEBT STATEMENT.”
- (e) Unaudited. The District is not required to maintain a particular fund balance. In addition to the balances shown, accrued interest on the Current Interest Bonds from their dated date to the date of delivery will be deposited in the Debt Service Fund, and \$12,500 of this balance will be used to redeem and refund the Refunded Bonds.
- (f) See “DEBT SERVICE REQUIREMENTS.”
- (g) See “STATUS OF DEVELOPMENT IN THE DISTRICT.”
- (h) Based upon 3.5 persons per occupied residence and 2 persons per apartment unit.

OFFICIAL STATEMENT

\$2,720,000

NEWPORT MUNICIPAL UTILITY DISTRICT

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

UNLIMITED TAX REFUNDING BONDS, SERIES 2019

This Official Statement provides certain information in connection with the issuance by Newport Municipal Utility District (the "District") of its \$2,720,000 Unlimited Tax Refunding Bonds, Series 2019 (herein defined as the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board") and an election held on May 7, 2005. See "THE BONDS—Authority for Issuance."

This OFFICIAL STATEMENT includes descriptions of, among other things, the Bonds and the Bond Order, and certain other information about the District and the developers in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from the District, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas, 77019 ("Bond Counsel") upon payment of the costs of duplication thereof.

PLAN OF FINANCING

Purpose

The District currently has \$19,095,000 principal amount of its bonds outstanding (the "Outstanding Bonds"). The proceeds of the Bonds, together with legally available funds of the District, will be used to refund and defease portions of the Unlimited Tax Bonds, Series 2009, totaling \$2,720,000 principal amount (the "Refunded Bonds") in order to achieve a net savings in the District's debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See "Sources and Uses of Funds." A total of \$16,375,000 principal amount of the District's Outstanding Bonds will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds"). See "PLAN OF FINANCING—Outstanding Bonds" and "—Sources and Uses of Funds" below.

Outstanding Bonds

The following table lists the original principal amount, the currently outstanding principal amount, the principal amount of the Refunded Bonds and the principal amount of Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding (As of 4/2/19)	Refunded Bonds	Remaining Outstanding Bonds
Unlimited Tax Bonds, Series 2008	\$ 4,685,000	\$ -		\$ -
Unlimited Tax Bonds, Series 2009	3,590,000	2,720,000	\$ 2,720,000	-
WWSS Combination U/L Tax & Revenue Refunding Bonds, Series 2013	5,295,000	3,220,000		3,220,000
WWSS Combination U/L Tax & Revenue Refunding Bonds, Series 2016	3,535,000	3,430,000		3,430,000
Unlimited Tax Bonds, Series 2016A	5,500,000	5,500,000		5,500,000
Unlimited Tax Bonds, Series 2018	4,225,000	4,225,000		4,225,000
Total	\$ 26,830,000	\$ 19,095,000	\$ 2,720,000	\$ 16,375,000
The Bonds				2,720,000
The Bonds and Remaining Outstanding Bonds				\$ 19,095,000

Refunded Bonds

Proceeds of the Bonds, together with other lawfully available funds of the District, will be applied to refund and defease \$2,720,000 principal amount of the Refunded Bonds and to pay certain costs of issuing the Bonds. The principal amounts and maturity dates of the Refunded Bonds are set forth below:

Maturity Date	Series
<u>April 1</u>	<u>2009</u>
2020	\$ 205,000
2021	220,000
2022	235,000
2023	250,000
2024	265,000
2025	280,000
2026	300,000
2027	315,000
2028	295,000
2029	<u>355,000</u>
	\$ 2,720,000

Redemption Date: May 1, 2019

Deposit Account

The Refunded Bonds and the interest due thereon, are to be paid on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as Paying Agent for the Refunded Bonds.

The Bond Order provides that from the proceeds of the sale of the Bonds and other lawfully available District funds, the District will deposit with the Paying Agent for the Refunded Bonds the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Paying Agent for the Refunded Bonds in a segregated deposit account (the “Deposit Account”). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, the Paying Agent for the Refunded Bonds, Bond Counsel, and the Financial Advisor that the monies held by the Paying Agent in the Deposit Account are sufficient to pay, when due, the principal of and interest on the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.” By the deposit of the cash with the Paying Agent for the Refunded Bonds and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior orders of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of so deposited, and the amounts so deposited in the Deposit Account with the Paying Agent will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

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	\$2,720,000.00
Premium Compound Interest Bonds	5,660.90
Net Premium on Current Interest Bonds	112,769.20
Transfer from the District’s Debt Service Fund	<u>12,500.00</u>
Total Sources of Funds	\$2,850,930.10

Uses of Funds:

Deposit with Paying Agent for the Refunded Bonds.....	\$2,730,054.48
Issuance Expenses and Underwriter's Discount ^(a)	<u>120,875.62</u>
Total Uses of Funds	\$2,850,930.10

(a) Includes municipal bond insurance premium.

DEBT SERVICE REQUIREMENTS

The following table sets forth the actual debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$2,720,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2019	\$ 1,612,944	\$ 60,326		\$ 33,700	\$ 33,700	\$ 1,586,318
2020	1,597,741	321,348	\$ 125,000	180,600	305,600	1,581,994
2021	1,612,066	327,423	250,000	60,050	310,050	1,594,694
2022	1,631,461	332,868	260,000	53,700	313,700	1,612,294
2023	1,642,726	337,683	270,000	48,400	318,400	1,623,444
2024	1,654,523	341,735	280,000	42,900	322,900	1,635,688
2025	1,666,440	344,878	290,000	37,200	327,200	1,648,763
2026	1,433,011	351,968	305,000	31,250	336,250	1,417,294
2027	1,434,707	352,973	315,000	23,475	338,475	1,420,209
2028	1,410,301	318,795	285,000	14,475	299,475	1,390,981
2029	1,409,441	363,431	340,000	5,100	345,100	1,391,109
2030	870,294					870,294
2031	873,669					873,669
2032	871,063					871,063
2033	872,403					872,403
2034	872,775					872,775
2035	872,400					872,400
2036	871,338					871,338
2037	874,225					874,225
2038	875,225					875,225
2039	874,388					874,388
2040	448,750					448,750
2041	458,156					458,156
Total	\$ 26,740,046	\$ 3,453,425	\$ 2,720,000	\$ 530,850	\$ 3,250,850	\$ 26,537,471

Maximum Annual Debt Service Requirement (2025) \$1,648,763
Average Annual Debt Service Requirement (2019-2041) \$1,153,803

THE BONDS

General

Following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order of the Board authorizing the issuance and sale of the Bonds. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions, and provisions for the payment of the principal of and interest on the Bonds by the District.

Method of Payment of Principal and Interest

Principal of the Current Interest Bonds, together with principal and interest on the Premium Compound Interest Bonds, is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrars, initially, The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas (the “Paying Agent/Registrar”). Interest on the Current Interest Bonds accrues from April 1, 2019, and is payable on each October 1 and April 1 commencing October 1, 2019, until maturity or earlier redemption. Interest on the Premium Compound Interest Bonds will accrue from the date of delivery and will be compounded semi-annually on April 1 and October 1 of each year commencing October 1, 2019. The Premium Compound Interest Bonds will be issued in principal amounts that result in maturity amounts in \$5,000 denominations or integral multiples thereof, including both principal and interest. See “APPENDIX C—Accreted Values of Premium Compound Interest Bonds” for the accreted value thereof on each compounding date through maturity. The Bonds mature on April 1 in the amounts and years shown on the inside cover page of this Official Statement. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

In the event the Book-Entry-Only System is discontinued, interest on the Bonds will 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.

Book-Entry-Only System

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

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly (“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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the Bond Order. While the Bonds are in the Book-Entry-Only system, Bonds will be registered only in the name of Cede & Co and held by DTC. See "Book-Entry-Only System."

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the book-entry-only system is discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefore a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding. Registered Owners of lost, stolen or destroyed Bonds will be required to pay the District's costs to replace such Bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

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

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

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

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas. In the Bond Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid, and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each Registered Owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Redemption Provisions

The District reserves the right, at its option, to redeem the Current Interest Bonds maturing on or after April 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on April 1, 2025, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. The Premium Compound Interest Bonds are not subject to redemption prior to maturity. If less than all of the Current Interest Bonds are redeemed at any time, the maturities of the Current Interest Bonds to be redeemed will be selected by the District. If less than all the Current Interest Bonds of a certain maturity are to be redeemed, the particular Current Interest Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Current Interest Bonds are in book-entry-only form).

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

Source of Payment

The Bonds, when issued, will constitute valid and binding obligations of the District and are payable as to principal and interest from and are secured by the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy a tax sufficient to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of levy and collection, Paying Agent/Registrar and Appraisal District fees. Tax proceeds, after deduction for collection costs, will be placed in the Debt Service Fund (as defined in the Bond Order) and used solely to pay principal of and interest on the Bonds and the Outstanding Bonds, and on any additional bonds issued by the District payable from taxes which may be levied. See "TAX DATA."

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

Funds

The Bond Order confirms the establishment of the District's Debt Service Fund. The Debt Service Fund is to be kept separate from all other funds of the District and used for payment of debt service on the Bonds, the Remaining Outstanding Bonds, and any of the District's duly authorized additional bonds, together with interest thereon, as such becomes due. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds, the Remaining Outstanding Bonds, and any additional bonds.

Accrued interest on the Bonds will be deposited into the Debt Service Fund upon receipt. Any monies remaining after the deposit into the Escrow Account and payment of issuance costs will be deposited into the Debt Service Fund.

Authority for Issuance

The Bonds are issued pursuant to the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended and City of Houston Ordinance No. 97-416.

Issuance of Additional Debt

The District has \$15,590,000 principal amount of unlimited tax bonds authorized but unissued for purposes of construction and acquisition of water, sanitary sewer and drainage facilities and \$1,410,000 principal amount of unlimited tax bonds authorized but unissued for purposes of construction of recreational facilities. The District may issue its authorized but unissued bonds and any additional tax bonds or combination tax and revenue bonds voted in the future with the approval of the Commission, where applicable.

The District may also issue additional bonds in the Defined Area, subject to the authorization of the Defined Area voters and the approval of the Commission. Defined Area voters have authorized \$50,000,000 in principal amount of unlimited tax bonds for Defined Area projects. See "DEFINED AREA."

The Board is further empowered to borrow money for any lawful purpose and to issue bond anticipation notes, tax anticipation notes, and revenue bonds and notes. The outstanding principal amount of all recreational facility bonds may not exceed an amount equal to one percent of the assessed value of the taxable property in the District.

The District is also authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue bonds payable from taxes for fire-fighting activities, the following actions would be required: (i) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (ii) approval of the master plan and bonds by the Commission; and (iii) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election at this time for such purposes.

The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the District (if authorized by the District's voters and approved by the Commission). Any additional bonds issued by the District may be on a parity with the Bonds. The District expects to issue its Unlimited Tax Bonds, Series 2019A in the approximate amount of \$7,500,000 in the 4th quarter, 2019.

Issuance of additional bonds or other subsequently authorized bonds could affect the investment quality or security of the Bonds. See "INVESTMENT CONSIDERATIONS—Future Debt."

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished as follows: (i) by paying or causing to pay principal and interest due on the Bonds (whether at maturity, redemption or otherwise) in accordance with the terms of the Bonds; (ii) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption; or (iii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, or with a commercial bank or trust company designated in the proceedings authorizing the discharge amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to the investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the "City"), the District must conform to a City consent ordinance. Generally, the District may be annexed by the City 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.

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

Strategic Partnership Agreement

The District is authorized to enter into a strategic partnership agreement with the City to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were to be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District, and could provide for the continuance of the District as a limited district following general purpose annexation by the City, the conversion of a limited purpose annexation to a general purpose annexation within ten years, or the payment of a fee in lieu of annexation to be derived from residential property within the District based on the costs of providing municipal services to the District. Although the City has negotiated and entered into such agreements with several other districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District, although no representation can be made regarding the future likelihood of an agreement or the terms thereof.

Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Amendments

The District has reserved the right to amend the Bond Order without the consent of the Registered Owners as may be required (a) by the provisions of the Bond Order, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission in the Bond Order, or (c) in connection with any other change not to the prejudice of the Registered Owners, but the District may not otherwise amend the terms of the Bonds or of the Bond Order without the consent of the Registered Owners.

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

THE DISTRICT

General

The District, located in Harris County, Texas, is a political subdivision of the State of Texas. The area comprising the District was originally two municipal utility districts, which were consolidated on August 1, 1998 into one district. The original districts were Harris County Municipal Utility District No. 20 (“MUD 20”), which was created by the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the “Commission”), by an order dated December 13, 1972 and Harris County Municipal Utility District No. 73 (“MUD 73”), which was created by order effective September 23, 1977 of the Texas Water Rights Commission. The District operates pursuant to Chapters 49 and 54, Texas Water Code V.T.C.A., as amended. The District contains approximately 2,350 acres.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water; and the collection of solid waste. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District also is empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the City of Houston, the Commission and the voters of the District. The District has the power to contract for peace officers to prevent or abate the commission of certain offenses against the rules of the District and the laws of the State of Texas. Additionally, the District may, subject to certain limitations, develop and finance parks and recreational facilities.

The Commission exercises continuing supervisory jurisdiction over the District. Construction and operation of the District's water, sewer and storm drainage system is subject to the regulatory jurisdiction of the City of Houston and of additional State of Texas agencies. See “THE SYSTEM--Regulation.”

Description and Location

The District is located in northeast Harris County, approximately 23 miles northeast of downtown Houston and two miles northwest of Crosby, Texas, near the southeastern shore of Lake Houston. Access to the District is provided by South Diamondhead Drive, North Diamondhead Drive and Newport Boulevard from FM 2100. The District contains approximately 2,350 acres and is located entirely within the extraterritorial jurisdiction of the City of Houston.

STATUS OF DEVELOPMENT IN THE DISTRICT

Residential Development

The District began as part of the approximately 5,914 acre Newport Project, development of which began during the 1970's. Approximately 1,488 acres of land within the District have been developed into 4,419 lots in the single family residential subdivisions of Newport Sections 1 through 7, Newport Section 8 (Phase 1), Newport Section 8 Replat 1, Newport Section 8 Replat 3, Newport Section 8, Replat 4, Newport Section 10, Deerpointe Section 1, Oaks of Newport, Section 1, Patio Woods, Seven Oaks North, Seven Oaks South, Villas at Newport, Newport Villas (Newport Section 12), Newport Section 4 reserve Replat, Newport Section 9, Country Club Estates, Section 1 and Newport Court.

As of January 31, 2019, there were 3,719 completed and occupied homes, 85 vacant homes, 57 homes listed in a builder's name, 25 commercial connections, 234 multi-family connections (3 complexes) and 558 vacant lots. Of such 558 vacant lots, some vacant lots are owned by individuals. In some cases, those lots may have homes built on two lots or may be owned by the adjacent homeowner with no intention of building on the lot.

Rampart Holding LLC owns 145 lots that are partially developed in Newport, Section 7. Friendswood Development Co owns 74 lots that are partially developed in Newport Section 7.

Homebuilding Program

Lennar Homes, Castlerock Homes and Century Homes are building homes in Newport Section 8, Replats 3 and 4 which average approximately \$246,000 in sales price. LGI Homes is building homes in Newport, Section 9 which average approximately \$215,000 in sales price. DH Homes is building homes in Newport Section 4, partial replats 1 and 4 with sales prices starting at approximately \$300,000. David Weekley Homes is building homes in Newport Court which range in sales price from approximately \$209,000 to approximately \$302,000. There are also custom homebuilders building on individually owned lots.

Other Development

Approximately 21 acres of land have been developed into the Fairway Port Condominiums, consisting of 76 condominium units, the Newport Village Apartments, consisting of 80 units and the Spring Hill Village Apartments, consisting of 78 apartment units.

International Union of Operating Engineers owns approximately 228 acres within the District. A dormitory and conference center have been completed. The development has applied for an exemption from property taxes and received approval from the Appraisal District of a “temporary” property tax exemption for an incomplete improvement under active construction. The Appraisal District will review the exemption application again in 2019.

Two convenience stores (one of which is currently vacant), a car wash, a kidney dialysis center, a daycare center, a retail strip center and a bank are located in the District on approximately 25 acres of land in the District. Also, a dental office, a gun range and a Emergency Medical Service facility are located in the District, but are not provided service by the District. A Crosby Volunteer Fire Department fire station and the Harvest Time Church of God, which are tax exempt properties, are located in the District. The District also provides water and sewer service to the Newport Elementary School, which is not located in the District. Approximately 83 acres have been developed into the Newport Golf and Conference Center (now known as Stonebridge at Newport), which includes an 18-hole golf course.

Undeveloped Acreage

There are approximately 80 acres which have water, sewer and drainage facilities but no above-ground improvements. There are approximately 275 acres in the District remaining to be developed. There are approximately 134 acres of recreational land, 12 acres of streets and 6 acres which are used for plant sites and detention areas.

DEFINED AREA

Pursuant to the provisions of Subchapter J of Chapter 54 of the Texas Water Code, as amended, the District is authorized to define areas or designate certain property of the District to pay for improvements, facilities, or services that primarily benefit that area. On May 11, 2017, the District approved the creation of a defined area encompassing approximately 188 acres within the District (the “Defined Area”).

At an election within the Defined Area, held on May 6, 2017, the voters within the Defined Area authorized \$50,000,000 principal amount of unlimited tax bonds to finance water, wastewater and drainage improvements solely within the Defined Area and for the further purpose of refunding those bonds, the levy of an unlimited tax in payment of such bonds within the Defined Area and the levy of an unlimited operation and maintenance tax for facilities authorized by Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution within the Defined Area.

All land in the Defined Area is owned by Newport Pointe Ltd., and is expected to be developed as a primarily residential development in the Defined Area. Design work has begun on the initial phase of lots.

THE DEVELOPERS

Role of a Developer

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

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

None of the developers is responsible for, liable for, or has made any commitments for payment of the Bonds or other obligations of the District. None of the developers has a legal commitment to the District or owners of the Bonds to continue development of land within the District and each developer may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the financial condition of each of the developers is subject to change at any time.

Collectively Rampart Holding LLC, Newport Seven, FDC, NP Ltd., NC Ltd., DH Homes and Rochester are defined as the “Developers.”

Rampart Holding LLC

Rampart Holding LLC (“Rampart”), a Texas limited liability company, and affiliated entities own 145 partially developed lots that are located in Newport, Section 7. Rampart also owns approximately 65 acres of undeveloped land in the District and 14 developed lots. Rampart is developing 9 single family residential lots in Section 4, Partial Replats 2 and 3 and 2 single family lots in Country Club Estates, Section 1.

Newport Seven Land Company LLC

Newport Seven Land Company L.L.C. (“Newport Seven”) has developed Seven Oaks North and Seven Oaks South which are collectively comprised of 165 lots and 10 reserves on approximately 60 acres. Newport Seven Land Company L.L.C. owns no additional land in the District.

Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership d/b/a Friendswood Development Company (“FDC”)

Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership d/b/a Friendswood Development Company (“FDC”) has developed The Villas at Newport consisting of 44 townhomes on approximately 7 acres of land, Newport Section 12, consisting of 48 lots on approximately 11 acres of land, Newport Section 8 partial replat 1 consisting of 69 lots on approximately 18 acres of land, and Newport Section 8 replat 4 consisting of 43 lots on approximately 20 acres of land. FDC has developed Newport Section 8 partial replat 3 consisting of 39 lots on approximately 12 acres.

Dunhill Builders, LLC d/b/a DH Homes

Dunhill Builders, LLC d/b/a DH Homes has developed Newport Section 4 replat 1 consisting of 15 lots on approximately 10 acres of land. Dunhill Builders, LLC owns no additional land in the District, but is a related entity to 3PM Development Crosby, LLC.

Newport Pointe, Ltd.

Newport Pointe, Ltd. (“NP Ltd.”) owns 188 acres of land, which was annexed into the District in 2008. The general partner of Newport Pointe, Ltd. is Compass Land Holdings, Ltd. NP Ltd. has indicated that design has begun on the initial phase of lots on the 188 acres. All of the 188 acres is contained in the Defined Area. See “DEFINED AREA”.

3PM Development Crosby, LLC d/b/a DH Homes

3PM Development Crosby, LLC d/b/a DH Homes has developed Newport Section 4 Partial Replat 4 with 11 single family residential lots on 6.44 acres.

Newport Court, Ltd.

Newport Court, Ltd. (“NC Ltd.”) has developed approximately 24 acres of land in the District into 68 lots and a 6- acre retail tract. Newport Court, Ltd. owns no additional land in the District. NC Ltd. is a related entity to NP, Ltd.

Rochester Enterprises, LLC

Rochester Enterprises, LLC (“Rochester”) has developed Newport Section 9 which is comprised of approximately 18 acres developed into 84 lots.

Rochester also owns approximately 12 acres of land in the District, of which approximately 9 acres is being developed into 46 single family lots (Newport Section 10). Rochester also owns approximately 6.7 acres which is being developed as an extension of Newport Section 6 with approximately 27 single family lots.

International Union of Operating Engineers (the “IUOE”)

IUOE owns approximately 228 acres within the District. A dormitory and conference center has been constructed on such site. The development has applied for an exemption from property taxes and received approval from the Appraisal District of a “temporary” property tax exemption for an incomplete improvement under active construction. The Appraisal District will review the exemption application again in 2019.

MANAGEMENT OF THE DISTRICT

Directors and Officers

The District is governed by a Board consisting of five directors. The Board has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms, and elections are held in May in even numbered years only. All of the directors either reside or own land within the District. The current members and officers of the Board, along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Margarette Chasteen	President	May 2020
DeLonne L. Johnson	Vice President	May 2022
Deborah Florus	Secretary	May 2022
Earl B. Boykin	Assistant Secretary	May 2022
R. Gary Hasse	Director	May 2020

While the District does not have any employees, it has contracted for certain services as follows:

Tax Appraisal

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

Tax Assessor/Collector

The District's tax assessor/collector is Assessments of the Southwest, Inc. (the "Tax Assessor/Collector").

Bookkeeper

The District contracts with McLennan & Associates, L.P. for bookkeeping services.

Operator

The District contracts with Professional Utility Services, Inc. for operations and maintenance services.

Engineer

IDS Engineering Group recently resigned as the District's Engineer and effective February 21, 2019, Lockwood, Andrews & Newnam, Inc. (the "Engineer") began serving as the District's Engineer.

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the Commission. The District's audited financial statements for the year ended December 31, 2017, were prepared by McCall Gibson Swedlund Barfoot PLLC. See "APPENDIX A" for a copy of the District's December 31, 2017 audited financial statements.

Financial Advisor

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

Bond Counsel/Attorney

The District has engaged Smith, Murdaugh, Little & Bonham, L.L.P. as general counsel to the District and as Bond Counsel in connection with the issuance of the Bonds. The fees for services rendered by the attorneys in their capacity as Bond Counsel are contingent upon the issuance, sale and delivery of the Bonds.

THE SYSTEM

Regulation

According to Lockwood, Andrews & Newnam, Inc., the District's water distribution, wastewater collection, and storm drainage facilities (collectively, the "System") have been designed in accordance with accepted engineering practices and the then current requirements of various agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction of the System was required to be accomplished in accordance with the standards and specifications of such entities and is subject to inspection by each such entity. Operation of the System must be accomplished in accordance with the standards and requirements of such entities. The Commission exercises continuing supervisory authority over the District. Discharge of treated sewage is subject to the regulatory authority of the Commission and the U.S. Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District, Harris County and, in some instances, the Commission. Harris County, the City of Houston, and the Texas Department of Health also exercise regulatory jurisdiction over the System. The regulations and requirements of entities exercising regulatory jurisdiction over the System are subject to further development and revision which, in turn, could require additional expenditures by the District in order to achieve compliance. In particular, additional or revised requirements in connection with any permit for the wastewater treatment plant which provides service to the District beyond the criteria existing at the time of construction of the plant could result in the need to construct additional facilities in the future. The following descriptions are based upon information supplied by Lockwood, Andrews & Newnam, Inc..

Water Supply

The water supply system that currently serves the District includes two water plants and a surface water treatment plant. Water Plant No. 1 has a 1,950 gallon-per-minute ("gpm") well. Water Plant No. 2 has a 1,000 gpm well, which is not currently in service.

The District has booster pump capacity of 6,500 gpm, 1,500,000 gallons of ground storage tank capacity, a 600,000 gallon elevated storage tank and 70,000 gallons of hydropneumatic tank capacity. The design capacity of the surface water treatment plant is 1,700 gpm. The District has entered into a Water Supply Contract with the San Jacinto River Authority, effective as of April 17, 2008 for the purchase of 1,850,000 gallons of untreated surface water per day with the ability to take up to 130% of that amount, if supplies are available.

The District's existing water supply facilities are sufficient to serve the existing and proposed development within the District; however, as described below, because of requirements of the Harris-Galveston Coastal Subsidence District to reduce groundwater usage, the District will be required to expand its surface water treatment plant in the future to maintain the required ground water to surface water production ratios. The District has entered into a Water Supply Agreement with Harris County Municipal Utility District No. 525 ("No. 525") to provide water to No. 525. No. 525 is required to construct a water supply line and related facilities from the District to No. 525. The District is never obligated to provide more than 1,450 ESFCs to No. 525. The District could need to expand the surface water treatment plant earlier than would otherwise be necessary as a result of the Agreement with No. 525.

Subsidence District Requirements

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater 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, which was amended in 2013 (the "2013 Plan"). The District is located partly in Area 2 and partly in Area 3 of regulatory areas as defined by the Subsidence District. Under the 1999 Plan, well owners in Area 2 were required to convert to 80% surface water by 2003, and the District met the deadline. Pursuant to the 2013 Plan, well owners in Area 3 are required to convert to a minimum of 30% surface water by 2010, 60% surface water by 2025 and to 80% surface water by 2035. With existing facilities, the District is capable of producing quantities of surface water necessary to comply with the Plan through the year 2024.

Wastewater Treatment System

The District's wastewater treatment is provided by a wastewater treatment plant with 1,300,000 gallons per day (gpd) capacity, which is sufficient to serve 4,222 equivalent single family connections ("esfc") based on 315 gpd. The District's wastewater treatment plant was damaged significantly during Hurricane Harvey, but has since been repaired. See "INVESTMENT CONSIDERATIONS – Recent Extreme Weather Events: Hurricane Harvey."

Water Distribution and Sanitary Sewer Collection and Drainage System

The District's System includes water, sanitary sewer and drainage facilities to serve the subdivisions and other development described under the section "STATUS OF DEVELOPMENT IN THE DISTRICT."

Recreational Facilities

The District has constructed 2.9 miles of pedestrian trails along Gum Gully with associated amenities, including neighborhood access points, trailheads, parking areas, trail signage, limited security lighting, benches, trash receptacles, and low water crossings. The District has also constructed amenities at three park sites: Park Site 1 on Port O'Call, Park Site 2 on South Diamondhead, and Park Site 3 on Flying Bridge. Each of these park sites includes play courts, playgrounds, swing sets, pedestrian paths, benches, parking areas, pavilions and restrooms. Park Site 1 includes a splash pad. The District voters have not authorized the levy of a maintenance tax to fund on-going maintenance and operating expenses associated with the recreational facilities. The District uses net revenues from its General Fund to fund such expenses.

100-Year Flood Plain

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. The District's drainage system has been designed and constructed to all current standards. According to the District's Engineer, there are approximately 190 acres of land in the District located in the 100-year flood plain, including approximately 68 acres that are located within the designated floodway. Approximately 197 existing homes and the Spring Hill Village Apartments are located on property at least partially within the 100-year flood plain. There are also 86 developed vacant lots, 191 platted, but undeveloped lots and approximately 59 developable, but undeveloped, acres that are at least partially located with the 100-year flood plain. Mitigation has occurred on the land within the flood-plain (but not within the floodway) which has been developed to date.

WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT

General

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. The District does not anticipate that net revenues will ever be used to contribute to the payment of debt service on the Remaining Outstanding Bonds.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements and in the case of financial information for the period ended December 31, 2018, the District's bookkeeping records. Reference is made to such records and statements for further and more complete information.

	UNAUDITED 2018 (a)	Fiscal Year Ended December 31			
		2017	2016	2015	2014
Revenues					
Property Taxes	\$ 1,624,966	\$ 1,605,197	\$ 1,317,974	\$ 853,133	\$ 776,168
Water Service	1,678,969	1,621,087	1,484,487	1,388,247	1,285,762
Wastewater Service	1,764,496	1,695,662	1,546,942	1,446,150	938,604
Base Revenue	-	-	-	-	379,002
Standby Fees	5,392	9,358	8,586	11,246	3,377
Penalty and Interest	93,484	84,440	80,957	80,878	77,929
Tap Connection and Inspection Fees	932,494	679,381	395,900	318,075	471,623
Investment Income	90,003	-	-	-	3,342
Groundwater Credits	243,612	48,978	100,857	56,925	23,700
Miscellaneous Revenues	133,576	167,411	131,953	111,413	114,385
Total Revenues	\$ 6,566,991	\$ 5,911,514	\$ 5,067,656	\$ 4,266,067	\$ 4,073,892
Expenditures					
Professional Fees	\$ 141,333	\$ 159,165	\$ 114,442	\$ 117,492	\$ 86,423
Contracted Services	2,928,194	2,818,264	2,643,622	2,351,326	2,089,310
Purchased Water Service	290,358	276,853	265,081	250,389	229,585
Utilities	211,286	227,994	241,071	231,494	271,373
Repairs and Maintenance	1,271,913	941,839	684,554	450,053	418,805
Other	626,929	1,342,410	713,150	535,570	613,237
Capital Outlay	1,002,048	66,460	-	-	-
Note Principal	2,954	2,710	2,487	2,281	2,093
Note Interest	2,326	2,570	2,794	2,999	3,187
Total Expenditures	\$ 6,477,339	\$ 5,838,265	\$ 4,667,201	\$ 3,941,604	\$ 3,714,013
Revenues Over (Under) Expenditures	\$ 89,652	\$ 73,249	\$ 400,455	\$ 324,463	\$ 359,879
Other Sources (Uses)					
Interfund Transfers In (Out)		\$ -	\$ 28,402	\$ -	\$ -
Total Other Financing Sources	\$ -	\$ -	\$ 28,402	\$ -	\$ -
Fund Balance (Beginning of Year)	\$ 2,800,183	\$ 2,726,934	\$ 2,298,077	\$ 1,973,614	\$ 1,613,735
Fund Balance (End of Year)	\$ 2,889,835	\$ 2,800,183	\$ 2,726,934	\$ 2,298,077	\$ 1,973,614

(a) Unaudited. Provided by the District's bookkeeper.

FINANCIAL STATEMENT

2018 Certified Taxable Assessed Valuation	\$594,472,431	(a)
January 1, 2019 Estimated Assessed Valuation	\$630,546,137	(b)

District Debt

Outstanding Bonds (as of April 2, 2019).....	\$19,095,000	
Estimated Overlapping Debt	\$41,580,591	
Gross Direct Long-Term Debt and Estimated Overlapping Debt.....	\$60,675,591	

Ratios of Gross Debt to:

2018 Certified Taxable Assessed Valuation.....	3.21%	
January 1, 2019 Estimated Assessed Valuation.....	3.03%	

Ratios of Gross Debt and Overlapping Debt to:

2018 Certified Taxable Assessed Valuation.....	10.21%	
January 1, 2019 Estimated Assessed Valuation.....	9.62%	

Area of District – 2,350 Acres
Estimated 2019 population – 13,485 (c)

- (a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “TAXING PROCEDURES.”
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on January 1, 2019. Increases in value that occur between January 1, 2018 and January 1, 2019 will be assessed for purposes of taxation on January 1, 2019.
- (c) Based upon 3.5 persons per occupied residence and 2 persons per apartment unit.

Cash and Investment Balances (unaudited as of February 21, 2019)

Debt Service Fund Balance as of February 21, 2019	\$2,650,018	(a)
Operating Fund Balance as of February 21, 2019	\$5,825,339	
Construction Fund Balance as of February 21, 2019.....	\$2,725,733	

- (a) Under Texas law, the District is not required to maintain a particular fund balance. \$12,500 of this balance will be used to redeem and defease the Refunded Bonds.

Investment Policies and Procedures

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District are invested in short-term obligations of the U.S. Treasury and federal agencies, 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 or intend to purchase long-term securities or derivative products.

ESTIMATED OVERLAPPING DEBT STATEMENT

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service, and the tax burden for operation, maintenance and/or general revenue purposes of these overlapping political subdivisions is not included in these figures. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 2,050,758,022	01/31/2019	0.09%	\$ 2,050,758
Harris County Flood Control District.....	83,075,000	01/31/2019	0.09%	83,075
Harris County Department of Education.....	59,490,000	01/31/2019	0.09%	6,555
Harris County Hospital District.....	6,555,000	01/31/2019	0.09%	59,490
Port of Houston Authority.....	593,754,397	01/31/2019	0.09%	593,754
Crosby Independent School District.....	158,184,986	01/31/2019	24.52%	38,786,958
Total Estimated Overlapping Debt.....				\$ 41,580,591
The District.....	19,095,000 (a)	Current	100.00%	19,095,000
Total Direct and Estimated Overlapping Debt.....				\$ 60,675,591
Direct and Estimated Overlapping Debt as a Percentage of:				
2018 Certified Taxable Assessed Valuation (\$594,200,059).....				3.21%

(a) Includes the Bonds and the Remaining Outstanding Bonds.

Overlapping Taxes for 2018

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

Set forth below are all of the tax rates levied within the District for the 2018 tax year by all taxing jurisdictions, including the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy or charges imposed by entities other than political subdivisions.

	2018 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority.....	\$ 0.635170
Crosby ISD.....	1.650000
Harris County ESD No. 80.....	0.048330
Harris County ESD No. 50.....	0.048500
Total Overlapping Tax Rate.....	<u>\$ 2.382000</u>
The District.....	<u>0.590000</u>
Total Tax Rate.....	\$ 2.972000

TAX DATA

Debt Service Tax

The Board will covenant in the Bond Order to levy and collect, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax which, when added to other funds legally available to the District for payment of the District's outstanding debt obligations, is adequate to provide funds to pay the principal of and interest on the Bonds.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District’s improvements, if such maintenance tax is authorized by the District’s voters. At an election held May 2, 1998, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$1.00 per \$100 assessed valuation and in accordance with the constitution and laws of the state of Texas. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any additional tax bonds which may be issued in the future. The District levied a maintenance tax for 2018 at the rate of \$0.30 per \$100 assessed valuation. See “Tax Rate Distribution” above and “DEFINED AREA.”

Tax Rate Distribution

The following is the distribution of the District's total tax rate between debt service and maintenance taxes for the tax years 2014 through 2018.

	2018	2017	2016	2015	2014
Debt Service	\$0.2800	\$ 0.290	\$ 0.300	\$ 0.335	\$ 0.425
Maintenance and Operations	0.3100	0.300	0.329	0.300	0.215
Total	\$0.5900	\$0.5900	\$0.6290	\$0.6350	\$0.6400

Historical Tax Collections

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. This summary has been prepared for inclusion herein, based upon information from District records. Reference is made to such records for further and more complete information.

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of February 28, 2019 (a)	
				Amount	Percent
2014	\$ 395,768,918	\$0.640	\$ 2,532,921	\$ 2,526,987	99.77%
2015	439,761,917	0.635	2,792,488	2,782,838	99.65%
2016	491,684,626	0.629	3,092,696	3,077,196	99.50%
2017	540,382,917	0.590	3,188,259	3,162,130	99.18%
2018	594,472,431	0.590	3,507,387	3,308,464	94.33%

(a) Unaudited.

Taxes are due October 1 (or when billed, if later) and become delinquent after January 31 of the following year. No split payments are allowed and no discounts are allowed.

Tax Roll Information

The District's certified value as of January 1 of each year is used by the District in establishing its tax rate for the same year. See "TAXING PROCEDURES-- Levy and Collection of Taxes." The following represents the type of property comprising the District's certified tax roll for the years 2014 through 2018. These values may differ slightly from values in other sections of the Official Statement due to different reporting dates.

	2018	2017	2016	2015	2014
Land	\$ 92,173,639	\$ 77,918,851	\$ 71,503,572	\$ 68,446,010	\$ 63,658,200
Improvements	553,826,624	514,733,554	443,544,897	385,926,819	344,800,333
Personal Property	5,600,971	5,823,208	9,371,459	10,583,156	10,060,502
Exemptions	(57,401,175)	(57,863,265)	(32,582,004)	(25,194,068)	(22,767,620)
Total	<u>\$ 594,200,059</u>	<u>\$ 540,612,348</u>	<u>\$ 491,837,924</u>	<u>\$ 439,761,917</u>	<u>\$ 395,751,415</u>

Principal Taxpayers

The following table represents the principal taxpayers for 2018, the type of property, the certified taxable assessed value of such property, and such property's assessed value as a percentage of the District's 2018 Certified Taxable Assessed Valuation of \$594,472,431.

Taxpayer	Type of Property	2018 Certified Taxable Assessed Valuation	% of 2018 Certified Taxable Assessed Valuation
Spring Hill Village Apartments LP	Land & Improvements	\$ 4,228,753	0.71%
LDG Newport Village LP	Land & Improvements	2,820,864	0.47%
Centerpoint Energy Hou Electric	Utilities	2,620,410	0.44%
AWIP LP	Land & Improvements	1,845,804	0.31%
Newport Pointe Ltd.	Land & Improvements	1,841,167	0.31%
Stonebridge At Newport Inc.	Land & Improvements	1,278,554	0.22%
DPC Properties LLC	Land & Improvements	1,132,618	0.19%
Cerberus SFR Holdings LP	Land & Improvements	1,094,565	0.18%
Kavak Family Trust	Land & Improvements	1,027,700	0.17%
Individual	Land & Improvements	1,011,975	0.17%
Total		<u>\$ 18,902,410</u>	<u>3.18%</u>

Tax Exemptions

As discussed in the section titled “TAX PROCEDURES” herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation. For 2019, the District has adopted a \$20,000 exemption for persons who are 65 or older and/or disabled.

Additional Penalties

The District has contracted with Smith, Murdaugh, Little & Bonham, L.L.P. for collection of delinquent taxes. In connection with that contract, the District established an additional penalty of twenty percent (20%) of the tax, penalty and interest to defray the costs of collection. This 20% penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than May 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2018 Certified Taxable Assessed Valuation of \$594,472,431 (see “Tax Roll Information” above) and the Estimated Taxable Assessed Valuation as of June 1, 2018 of \$622,463,719. The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service.

Average Annual Debt Service Requirement (2019-2041)	\$1,153,803
\$0.21 Tax Rate on 2018 Certified Taxable Assessed Valuation @ 95% collections	\$1,185,972
\$0.20 Tax Rate on January 1, 2019 Estimated Taxable Assessed Valuation @ 95% collections	\$1,198,038

Maximum Annual Debt Service Requirement (2025)	\$1,648,763
\$0.30 Tax Rate on 2018 Certified Taxable Assessed Valuation @ 95% collections	\$1,694,246
\$0.28 Tax Rate on January 1, 2019 Estimated Taxable Assessed Valuation @ 95% collections	\$1,677,253

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, the Remaining Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully herein under “THE BONDS—Source of Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See “TAX DATA—Maintenance Tax.”

Tax Code and County-Wide Appraisal District

The Texas Tax Code (the “Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Tax Code are complex and are not fully summarized here.

The Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District has the responsibility for appraising property for all taxing units within Harris County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the “Appraisal Review Board”). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax rolls and tax rate. The District is responsible under current Texas law for the levy and collection of its taxes.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five years or older and of certain disabled persons to the extent deemed advisable by the Board. For tax year 2019, the District has adopted a residential homestead exemption in the amount of \$20,000 for persons age 65 and older and disabled persons. Additionally, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

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

Freeport Goods Exemption and Goods-in-Transit Exemptions: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for the tax year 2011 and prior years, and has taken official action to allow taxation of all such goods-in-transit personal property for the tax year 2012 and subsequent years. In 2019, the District took official action to allow taxation of all such goods in transit located in the Defined Area.

Tax Abatement

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

Valuation of Property for Taxation

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

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

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

Reappraisal of Property

When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are prorated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. Neither Harris County nor the District adopted an order regarding the reappraisal of property in the District.

District and Taxpayer Remedies

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code. The Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement in writing and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

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

Rollback of Operations and Maintenance Tax

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the District's current year's debt service tax rate plus the operations and maintenance tax rate that would impose 1.08 times the amount of operations and maintenance tax imposed by the District in the preceding year on the average residence homestead, disregarding exemptions. The District's debt service tax rate cannot be changed by a rollback election.

District's Rights in the Event of Tax Delinquencies

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

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

INVESTMENT CONSIDERATIONS

General

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

Recent Extreme Weather Events; Hurricane Harvey

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to Professional Utility Services, Inc. (the "Operator"), because the District's Emergency Preparedness Plan was followed, there was no interruption of water and sewer service as a result of Hurricane Harvey, but the District did sustain damage to its wastewater treatment plant and control building, the wastewater treatment plant emergency generator, Water Plant No. 1 booster pump and other facilities. The District Operator on behalf of the District, submitted claims to the District insurance carrier, and the District has received \$585,442.52. Any and all damage claims not covered by the District insurance carrier were filed with the Federal Emergency Management Agency (FEMA). As of March 2019 the District has received from FEMA funds in the amount of \$363,404.16. Additional damage claims are pending and being processed through FEMA. The total District expense for damages claimed due to Hurricane Harvey was \$1,131,899.65. The District is currently enrolled in a Federal Mitigation program and is pursuing funds for mitigation planning and projects through FEMA. The District cannot guarantee or represent that it will receive any funds from FEMA, other than funds already received. To the knowledge of the District, approximately 25 homes within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

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

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

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of commercial tracts and of developed lots which are currently being marketed by the developers for sale to homebuilders for the construction of residences. The market value of such development is related to general economic conditions in the Houston region and the national economy. The demand for commercial tracts and lots and the construction of taxable improvements thereon can be significantly affected by factors such as interest rates, credit availability (see “Credit Markets and Liquidity in the Financial Markets” below), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See “STATUS OF DEVELOPMENT IN THE DISTRICT.”

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 17 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and decline in the nation’s economic condition could adversely affect development and home-building plans in the District and restrain the growth of or reduce the value of the District’s property tax base.

Competition

The demand for and construction of single-family homes in the District, which is 17 miles from downtown Houston, could be affected by competition from other residential developments including other residential developments located in the northeastern portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the developers in the sale of developed lots and of prospective builders in the construction of single-family residential houses within the District is affected by most of commercial and of multi-family properties of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District. The District can give no assurance that building and marketing programs in the District by the developers will be implemented or, if implemented, will be successful.

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2018 Certified Taxable Assessed Valuation is \$594,472,431. See “SELECTED FINANCIAL INFORMATION”. After issuance of the Bonds, the maximum annual debt service requirement will be \$1,648,763 (2025), and the average annual debt service requirement will be \$1,153,803 (2019-2041). Assuming no increase or decrease from the 2018 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.30 and \$0.21 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual and the average annual debt service requirements (see “DEBT SERVICE REQUIREMENTS”), respectively. The Estimated Taxable Assessed Valuation as of January 1, 2019, within the District is \$630,546,137. Assuming no increase or decrease from the Estimated Taxable Assessed Valuation as of January 1, 2019, and a 95% collection rate, tax rates of \$0.28 and \$0.20 per \$100 taxable assessed valuation would be necessary to pay the maximum annual requirement and average annual requirement, respectively. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Remaining Outstanding Bonds based upon the 2018 Certified Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of January 1, 2019, the District can make no representations regarding the future level of assessed valuation within the District. The District makes no representations that over the term of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by property owners. See “TAX DATA—Tax Adequacy for Debt Service.”

Landowners/Developers Obligation to the District

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

Future Debt

The District has reserved in the Bond Order the right to issue obligations other than the Bonds and the Remaining Outstanding Bonds, including tax anticipation notes, bond anticipation notes, and to borrow for any valid corporate purpose. Voters within the District have authorized the issuance of \$30,000,000 principal amount of unlimited tax bonds for purposes of construction and acquisition of water, sanitary sewer and drainage facilities and \$5,000,000 principal amount of unlimited tax bonds for purposes of financing and constructing recreational facilities, of which \$15,590,000 of unlimited tax bonds for purposes of construction and acquisition of water, sanitary sewer and drainage facilities and \$1,410,000 of unlimited tax bonds for purposes of financing and constructing recreational facilities remains authorized but unissued. The future issuance of additional obligations may adversely affect the security for the Bonds and the investment quality and value of the Bonds. The District does not employ any formula with respect to assessed valuation or tax collections and does not otherwise limit the amount of additional bonds or other obligations which may be issued. The issuance of additional unlimited tax bonds (other than refunding bonds), if any, however, is subject to approval by the Commission under guidelines of feasibility established by the Commission. The District expects to issue its Unlimited Tax Bonds, Series 2019A in the approximate amount of \$7,500,000 in the 4th quarter, 2019.

Voters within the Defined Area within the District have authorized the issuance of \$50,000,000 principal amount of unlimited tax bonds for purposes of construction and acquisition of water, sanitary sewer and drainage facilities to serve the Defined Area, all of which remains authorized but unissued. See “THE BONDS—Authority for Issuance and Issuance of Additional Debt” and “THE DISTRICT—General.”

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by an inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by cumbersome, time-consuming and expensive collection procedures or market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see “ESTIMATED OVERLAPPING DEBT STATEMENT”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem homestead and agricultural use property within two years of foreclosure and other types of property within six months after foreclosure). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See “TAXING PROCEDURES—District's Rights in the Event of Tax Delinquencies.”

Registered Owners' Remedies and Bankruptcy Limitations

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

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

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

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

A district may not be forced into bankruptcy involuntarily.

Environmental Regulation and Air Quality

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

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

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

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality (the "TCEQ") may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston Galveston area ("HGB area")—Harris, Galveston, 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.

The HGB area is currently designated as a severe ozone nonattainment area under the the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB area remained subject to continuing severe nonattainment area "anti-backsliding" requirements, despite the fact that HGB area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, EPA approved the TCEQ's "redesignation substitute" for the HGB area under the revoked 1997 Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

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

The HGB area is currently designated as a "moderate" nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more-stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB area is currently designated as a "marginal" nonattainment area under the 2015 Ozone Standard. For purposes of the 2015 Ozone Standard, the HGB area consists of only six counties: 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) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act ("SDWA") and Environmental Protection Agency'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.

In 2015, the EPA and the United States Army Corps of Engineers ("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 expands the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The CWR could have an adverse impact on municipal utility districts, including the District, particularly with respect to jurisdictional wetland determinations, and could increase the size and scope of activities requiring USACE permits. The CWR has been challenged in various jurisdictions, including the Southern District of Texas, and the litigation challenging the CWR is still pending.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of "waters of the United States." In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of "waters of the United States" to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of "waters of the United States." Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nation-wide injunction rendering the rule extending the effective date of the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the States of Texas, Louisiana and Mississippi in 2015 is finally resolved.

On December 11, 2018, the EPA and USACE released the proposed replacement definition of “waters of the United States.” The proposed definition outlines six categories of waters that would be considered “waters of the United States,” including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not “waters of the United States,” such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies will take comment on the proposal for 60 days after publication in the Federal Register. If finalized, the proposed rule would apply nationwide, replacing the patchwork framework for Clean Water Act jurisdiction that has resulted from litigation challenging the CWR.

Due to the pending rulemaking activity and rule challenge litigation, there is significant 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 permitting requirements.

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 and implement 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.

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

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

Neither the District nor the Underwriter have made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. The District has applied for a bond insurance policy (the “Policy”) to guarantee the scheduled payment of principal and interest on the Bonds. If the Policy is issued, investors should be aware of the following investment considerations:

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will 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 Build America Mutual Assurance Company. S&P has also assigned an underlying credit rating of “A” to the Bonds without regard to credit enhancement. An explanation of the rating may be obtained from S&P.

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products 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 December 31, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$526 million, \$113 million and \$414 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 “MUNICIPAL BOND INSURANCE.”

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at buildamerica.com/creditsights/. (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 buildamerica.com/obligor/. 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.

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriter a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied without limitation as to rate or amount upon all taxable property in the District. The District also will furnish the approving legal opinion of Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District ("Bond Counsel"), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from the levy of ad valorem taxes, without legal limit as to rate or amount, upon all taxable property located within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application affecting rights of creditors of political subdivisions such as the District or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's opinion will also state that, as a result of the deposit of cash with the Paying Agent for the Refunded Bonds, firm banking arrangements will have been made for the payment of the Refunded Bonds and that, therefore, the Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor. Bond Counsel will express no opinion with respect to the sufficiency of the security for or marketability of the Bonds.

Legal Review

In its capacity as Bond Counsel, Smith, Murdaugh Little & Bonham, L.L.P. has reviewed the information appearing in this Official Statement under the captions "PLAN OF FINANCING—Refunded Bonds", "—Deposit Account, (but only insofar as such section relates to the legal opinion of Bond Counsel)", "THE BONDS" (except Book-Entry-Only System), "THE DISTRICT—General," "MANAGEMENT OF THE DISTRICT— Bond Counsel/Attorney," "TAXING PROCEDURES," "LEGAL MATTERS—Legal Opinions," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore, such fees are contingent on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds.

No-Litigation Certificate

The District will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

No Material Adverse Change

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

TAX MATTERS

Opinion

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

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

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

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

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

Federal Income Tax Accounting Treatment of Original Discount Bonds

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

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

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

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

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

Federal Income Tax Accounting Treatment of Premium Bonds

The initial public offering price of certain Bonds (the "Premium Bonds") is greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

Collateral Federal Income Tax Consequences

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

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

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

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

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

Future and Proposed Legislation

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

State, Local and Foreign Taxes

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

Not Qualified Tax-Exempt Obligations for Financial Institutions

The Bonds are not designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the funds deposited with the Paying Agent for the payment of the Refunded Bonds; (b) the mathematical computations of yield; and (c) compliance with City of Houston Ordinance No. 97-416.

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District's retained advisors, consultants or legal counsel.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, including the Official Notice of Sale and the Official Bid Form for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein under the caption indicated from the following sources:

the summaries of the Bond Order, District contracts and provisions of state and federal law contained under the captions "THE BONDS (except for "Book-Entry Only System")," "THE DISTRICT--General," "TAXING PROCEDURES," "LEGAL MATTERS" and "TAX MATTERS"—Smith, Murdaugh, Little & Bonham, L.L.P.; "STATUS OF DEVELOPMENT IN THE DISTRICT" and "THE SYSTEM"—Lockwood, Andrews & Newnam, Inc. and Professional Utility Services, Inc.; "SELECTED FINANCIAL INFORMATION," "ESTIMATED OVERLAPPING DEBT STATEMENT" and "TAX DATA"—Harris County Appraisal District, Assessments of the Southwest, Inc., and the Municipal Advisory Council of Texas.

The Financial Advisor to the District has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

Appraisal District: The information contained in this OFFICIAL STATEMENT relating to the 2018 Certified Taxable Assessed Valuation has been provided by the Harris County Appraisal District and has been included herein in reliance upon the authority of such entity as an expert in appraising the values of property in Harris County, including the District.

Tax Assessor/Collector: The information contained in this Official Statement relating to the historical breakdown of the Certified Taxable Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Assessments of the Southwest, Inc., and is included herein in reliance upon the authority of such person as an expert in assessing and collecting taxes.

Engineer: The information contained in this Official Statement relating to engineering and to the description of the District's water and sewer system and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Lockwood, Andrews, and Newnam, Inc., and has been included herein in reliance upon the authority of said firm as an expert in the field of civil engineering.

Auditor: The District's audited financial statements for the year ended December 31, 2017, were prepared by McCall Gibson Swedlund & Barfoot, PLLC and have been included herein as "APPENDIX A." McCall Gibson Swedlund & Barfoot, PLLC has authorized the use of these financial statements in conjunction with the sale of the Bonds as they appear in "APPENDIX A."

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "WATER AND SEWER OPERATIONS" has been provided by McLennan & Associates, L.P. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Operator: The information relating to Facility capacity and production and information relating to the events regarding Hurricane Harvey has been provided by Professional Utility Services, Inc.

Updating the 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, to the other matters described in the OFFICIAL STATEMENT, until the delivery of the Bonds to the Underwriter, or as otherwise required by law. The District assumes no responsibility for supplementing the OFFICIAL STATEMENT thereafter.

Certification of Official Statement

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board makes no other representation as to the accuracy or completeness of the information derived from sources other than the District.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available to the public without charge through its Electronic Municipal Market Access ("EMMA") internet portal at www.emma.msrb.org.

Annual Reports

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "FINANCIAL STATEMENT," "TAX DATA" (except for the subsection entitled "Tax Adequacy for Debt Service"), "THE SYSTEM," and "WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT" (most of which information is contained in the District's annual audit report) and in Appendix A. The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2018.

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

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

Specified Event Notices

The District will provide timely notices of certain events to the MSRB via EMMA, 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 an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or an obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or an obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or an obligated person, any of which reflect financial difficulties. The terms "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

The District has agreed to provide the foregoing information only to the MSRB in an electronic format and accompanied by identifying information as prescribed by the MSRB Board. The MSRB makes the information available to the public without charge through its EMMA internet portal at www.emma.msrb.org.

Limitations and Amendments

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Newport Municipal Utility District as of the date shown on the cover page.

/s/ Margarette Chasteen
President, Board of Directors
Newport Municipal Utility District

ATTEST:

/s/ Deborah Florus
Secretary, Board of Directors
Newport Municipal Utility District

APPENDIX A

District Audited Financial Statements for the fiscal year ended December 31, 2017

The information contained in this appendix includes the Audited Financial Statements of Newport Municipal Utility District and certain supplemental information for the fiscal year ended December 31, 2017.

NEWPORT MUNICIPAL UTILITY DISTRICT
HARRIS COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2017

NEWPORT MUNICIPAL UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2017

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Board of Directors
Newport Municipal Utility District
Harris County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Newport Municipal Utility District (the "District"), as of and for the year ended December 31, 2017, 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 entity'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 December 31, 2017, 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

April 26, 2018

**NEWPORT MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Management's discussion and analysis of Newport Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2017. 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 portion of these statements provides 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 presents information that 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, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**NEWPORT MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI") and other supplementary information. The 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 and deferred inflows of resources by \$6,478,729 as of December 31, 2017. A portion of the District's net position reflects its net investments in capital assets (land and land improvements, construction in progress, equipment, buildings, water and wastewater facilities and parks less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:

**NEWPORT MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2017	2016	Change Positive (Negative)
Current and Other Assets	\$ 10,493,030	\$ 11,349,971	\$ (856,941)
Capital Assets (Net of Accumulated Depreciation)	17,432,087	17,550,123	(118,036)
Total Assets	\$ 27,925,117	\$ 28,900,094	\$ (974,977)
Deferred Outflows of Resources	\$ 579,219	\$ 630,671	\$ (51,452)
Bonds Payable	\$ 17,108,669	\$ 18,009,242	\$ 900,573
Other Liabilities	1,748,489	1,771,998	23,509
Total Liabilities	\$ 18,857,158	\$ 19,781,240	\$ 924,082
Deferred Inflows of Resources	\$ 3,168,449	\$ 3,063,845	\$ (104,604)
Net Position:			
Net Investment in Capital Assets	\$ 2,532,446	\$ 2,847,431	\$ (314,985)
Restricted	1,130,355	1,111,590	18,765
Unrestricted	2,815,928	2,726,659	89,269
Total Net Position	\$ 6,478,729	\$ 6,685,680	\$ (206,951)

The following table provides a summary of the District's operations for the years ended December 31, 2017 and December 31, 2016. The District's net position decreased by \$206,951.

	Summary of Changes in the Statement of Activities		
	2017	2016	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 3,095,357	\$ 2,789,354	\$ 306,003
Charges for Services	4,140,610	3,545,217	595,393
Other Revenues	249,934	240,721	9,213
Total Revenues	\$ 7,485,901	\$ 6,575,292	\$ 910,609
Expenses for Services	7,692,852	6,955,499	(737,353)
Change in Net Position	\$ (206,951)	\$ (380,207)	\$ 173,256
Net Position, Beginning of Year	6,685,680	7,065,887	(380,207)
Net Position, End of Year	\$ 6,478,729	\$ 6,685,680	\$ (206,951)

**NEWPORT MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2017, were \$5,666,213, a decrease of \$968,541 from the prior year.

The General Fund fund balance increased by \$73,249, primarily due to service and tax revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$2,130, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance decreased by \$1,043,920. This net decrease was primarily due to capital outlay for water storage tank rehabilitation and water meter replacement project.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board adopted its 2017 budget at its December 15, 2016 meeting. Actual revenues were \$437,376 more than budgeted revenues primarily due to higher than anticipated service revenues. Actual expenditures were \$958,331 more than budgeted expenditures primarily due to higher than budgeted repairs and maintenance expenditures and contracted services expenditures as a result of the damage caused by Hurricane Harvey.

CAPITAL ASSETS

Capital assets as of December 31, 2017, total \$17,432,087 (net of accumulated depreciation) and include land and land improvements, construction in progress, buildings, equipment, parks and the water and wastewater systems. Construction in progress includes the water tank rehabilitation, South Diamondhead water line extension and water meter replacement projects.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 146,223	\$ 146,223	\$
Construction in Progress	1,010,638	29,130	981,508
Capital Assets, Net of Accumulated Depreciation:			
Equipment	50,418	50,234	184
Buildings	158,838	165,554	(6,716)
Water System	7,391,155	7,818,719	(427,564)
Wastewater System	6,848,614	7,247,332	(398,718)
Parks	1,826,201	2,092,931	(266,730)
Total Net Capital Assets	\$ 17,432,087	\$ 17,550,123	\$ (118,036)

**NEWPORT MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

LONG-TERM DEBT ACTIVITY

At year end, the District had total bond debt payable of \$16,710,000. The changes in the debt position of the District during the fiscal year ended December 31, 2017, are summarized as follows:

Bond Debt Payable, January 1, 2017	\$ 17,565,000
Less: Bond Principal Paid	<u>855,000</u>
Bond Debt Payable, December 31, 2017	<u>\$ 16,710,000</u>

The District's bonds carry an underlying rating of "A" from Standard & Poor's. The District's Series 2008 and 2009 Bonds carry insured Standard & Poor's ratings of "AA" by virtue of bond insurance issued by Financial Security Assurance Inc. and Assured Guaranty Corporation, respectively. The District's Series 2016 Bonds carry an insured rating of "AA" by virtue of bond insurance issued by Municipal Assurance Corp. The above ratings reflect changes through December 31, 2017.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The adopted budget for fiscal year 2018 projects a General Fund fund balance increase of \$295,879.

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 Newport Municipal Utility District, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, TX 77019.

NEWPORT MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2017

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 291,396	\$ 2,124,686
Investments	3,379,062	1,071,078
Receivables:		
Property Taxes	595,558	601,289
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$40,000)	417,354	
Standby Fees	159,532	
Due from Other Funds	1,073,169	
Prepaid Costs	76,187	
Capital Assets:		
Land and Land Improvements		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 5,992,258	\$ 3,797,053
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 5,992,258	\$ 3,797,053

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 6,843	\$ 2,422,925	\$	\$ 2,422,925
1,808,372	6,258,512		6,258,512
	1,196,847		1,196,847
		87,905	87,905
	417,354		417,354
	159,532	(159,532)	
	1,073,169	(1,073,169)	
33,300	109,487		109,487
		146,223	146,223
		1,010,638	1,010,638
		<u>16,275,226</u>	<u>16,275,226</u>
<u>\$ 1,848,515</u>	<u>\$ 11,637,826</u>	<u>\$ 16,287,291</u>	<u>\$ 27,925,117</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 579,219</u>	<u>\$ 579,219</u>
<u>\$ 1,848,515</u>	<u>\$ 11,637,826</u>	<u>\$ 16,866,510</u>	<u>\$ 28,504,336</u>

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

**NEWPORT MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2017**

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 297,357	\$ 9,676
Accrued Interest Payable		
Retainage Payable		
Due to Other Funds		1,047,469
Security Deposits	535,027	
Accrued Interest Payable on Compound Interest Bonds		
Developer Advances	547,495	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
Note Payable, Due Within One Year		
Note Payable, Due After One Year		
TOTAL LIABILITIES	\$ 1,379,879	\$ 1,057,145
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 1,652,664	\$ 1,623,159
Standby Fees	159,532	
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 1,812,196	\$ 1,623,159
FUND BALANCES		
Nonspendable-Prepaid Costs	\$ 76,187	\$
Restricted for Authorized Construction		
Restricted for Debt Service		1,116,749
Unassigned	2,723,996	
TOTAL FUND BALANCES	\$ 2,800,183	\$ 1,116,749
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,992,258	\$ 3,797,053
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 68,335	\$ 375,368	\$	\$ 375,368
		140,085	140,085
5,199	5,199		5,199
25,700	1,073,169	(1,073,169)	
	535,027		535,027
		119,472	119,472
	547,495		547,495
		900,000	900,000
		16,208,669	16,208,669
		2,954	2,954
		22,889	22,889
<u>\$ 99,234</u>	<u>\$ 2,536,258</u>	<u>\$ 16,320,900</u>	<u>\$ 18,857,158</u>
\$	\$ 3,275,823	\$ (107,374)	\$ 3,168,449
	159,532	(159,532)	
<u>\$ -0-</u>	<u>\$ 3,435,355</u>	<u>\$ (266,906)</u>	<u>\$ 3,168,449</u>
\$ 33,300	\$ 109,487	\$ (109,487)	\$
1,715,981	1,715,981	(1,715,981)	
	1,116,749	(1,116,749)	
	2,723,996	(2,723,996)	
<u>\$ 1,749,281</u>	<u>\$ 5,666,213</u>	<u>\$ (5,666,213)</u>	<u>\$ - 0 -</u>
<u>\$ 1,848,515</u>	<u>\$ 11,637,826</u>		
		\$ 2,532,446	\$ 2,532,446
		1,130,355	1,130,355
		2,815,928	2,815,928
		<u>\$ 6,478,729</u>	<u>\$ 6,478,729</u>

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

**NEWPORT MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total Fund Balances - Governmental Funds		\$ 5,666,213
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Deferred charges on refunding bonds are not expenditures of the current period.		579,219
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		17,432,087
Deferred tax revenues and penalty and interest receivable on delinquent taxes for the 2016 and prior tax levies became part of recognized revenue in the governmental activities of the District.		195,279
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	\$ (259,557)	
Bonds Payable	(17,108,669)	
Note Payable	<u>(25,843)</u>	<u>(17,394,069)</u>
Total Net Position - Governmental Activities		<u>\$ 6,478,729</u>

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

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NEWPORT MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property Taxes	\$ 1,605,197	\$ 1,473,609
Water Service	1,621,087	
Wastewater Service	1,695,662	
Standby Fees	9,358	
Penalty and Interest	84,440	49,699
Tap Connection and Inspection Fees	679,381	
Groundwater Credits	48,978	
Miscellaneous Revenues	167,411	11,722
TOTAL REVENUES	<u>\$ 5,911,514</u>	<u>\$ 1,535,030</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 159,165	\$ 16,171
Contracted Services	2,818,264	79,579
Purchased Water Service	276,853	
Utilities	227,994	
Repairs and Maintenance	941,839	
Depreciation		
Other	1,342,410	5,845
Capital Outlay	66,460	
Debt Service:		
Note Principal	2,710	
Note Interest	2,570	
Bond Principal		855,000
Bond Interest		576,305
Bond Issuance Costs		
TOTAL EXPENDITURES/EXPENSES	<u>\$ 5,838,265</u>	<u>\$ 1,532,900</u>
NET CHANGE IN FUND BALANCES	\$ 73,249	\$ 2,130
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION -		
JANUARY 1, 2017	<u>2,726,934</u>	<u>1,114,619</u>
FUND BALANCES/NET POSITION -		
DECEMBER 31, 2017	<u>\$ 2,800,183</u>	<u>\$ 1,116,749</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 3,078,806	\$ 16,551	\$ 3,095,357
	1,621,087		1,621,087
	1,695,662		1,695,662
	9,358		9,358
	134,139	983	135,122
	679,381		679,381
	48,978		48,978
21,823	200,956		200,956
<u>\$ 21,823</u>	<u>\$ 7,468,367</u>	<u>\$ 17,534</u>	<u>\$ 7,485,901</u>
\$ 71,434	\$ 246,770	\$	\$ 246,770
	2,897,843		2,897,843
	276,853		276,853
	227,994		227,994
	941,839		941,839
		1,177,258	1,177,258
31	1,348,286		1,348,286
992,762	1,059,222	(1,059,222)	
	2,710	(2,710)	
	2,570		2,570
	855,000	(855,000)	
	576,305	(4,382)	571,923
1,516	1,516		1,516
<u>\$ 1,065,743</u>	<u>\$ 8,436,908</u>	<u>\$ (744,056)</u>	<u>\$ 7,692,852</u>
\$ (1,043,920)	\$ (968,541)	\$ 968,541	\$
		(206,951)	(206,951)
2,793,201	6,634,754	50,926	6,685,680
<u>\$ 1,749,281</u>	<u>\$ 5,666,213</u>	<u>\$ 812,516</u>	<u>\$ 6,478,729</u>

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

**NEWPORT MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Net Change in Fund Balances - Governmental Funds \$ (968,541)

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

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. 16,551

Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed. 983

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. (1,177,258)

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. 1,059,222

Governmental funds report bond principal payments and note payments as expenditures. However, in the Statement of Net Position, the principal portion of bond and note payments are reported as decreases in long-term liabilities. 857,710

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. This adjustment also includes amortization of bond discount, premium and deferred charges. 4,382

Change in Net Position - Governmental Activities \$ (206,951)

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

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 20 (“District No. 20”) was created by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”), effective December 13, 1972. Harris County Municipal Utility District No. 73 (“District No. 73”) was created by an Order of the Texas Water Rights Commission, presently known as the Commission, effective September 13, 1977. Pursuant to the Texas Water Code, two or more districts governed by the provisions of Chapter 54 may be consolidated to form a single district. The Board of Directors of District No. 20 and District No. 73 agreed to consolidate. Effective May 2, 1998, voters within both districts voted to approve the consolidation into Newport Municipal Utility District (the “District”). Effective August 1, 1998, the District was formed. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on August 26, 1998, and the first bonds of the new district were sold on August 31, 1999.

The District is contiguous to Harris County Municipal Utility District No. 19 (“District No. 19”), which was organized at the inception of the Newport Project to own and operate the regional water supply and distribution and sewage collection and treatment facilities to serve all of the municipal utility districts in the Newport Project. District No. 19 operated in that capacity pursuant to a Water Supply Contract by and among District No. 19, Harris County Municipal Utility District No. 74 (“District No. 74”), District No. 20, District No. 73 and Purcell Co., Inc. (“Purcell”) (a previous developer in the Newport Project) dated May 1, 1978, as amended, and an Amended and Restated Waste Disposal Agreement by and among District No. 19, District No. 74, District No. 20, District No. 73 and Purcell dated September 1, 1980, as amended. District No. 19 owned and operated the central water supply facilities and wastewater treatment facilities for the benefit of other municipal utility districts that in turn provided retail water and wastewater service for all residential and commercial customers in the Newport Project.

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. CREATION OF DISTRICT (Continued)

After the consolidation of District No. 20 and District No. 73, the District became the only municipal utility district providing retail water and wastewater service to all residential and commercial customers in the Newport Project. In an effort to increase efficiency and reduce overall costs of administration of operations and maintenance of the water supply and wastewater treatment systems and facilities by eliminating certain duplicative administrative expenses, the District agreed to assume the rights, powers, duties and property of District No. 19. Pursuant to a Contract for Assignment of Rights, Powers and Duties and Transfer of Property, District No. 19 and the District agreed to transfer to the District all of District No. 19's rights, powers and duties with respect to all of the existing central water supply and wastewater treatment facilities owned and operated by District No. 19, along with any future expansions or replacement of the facilities. The assignment and transfer were effective as of December 31, 1998, and since the effective date, District No. 19 has been inactive. Dissolution of District No. 19 occurred in 2016. Currently, the District operates all water supply and wastewater treatment plants and facilities in the Newport Project.

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 (the "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. The GASB has established 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").

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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 improvement 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.

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.

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Balances.

Governmental Funds

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

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

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

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

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means 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.

Property taxes considered available by the District and included in revenue include the 2016 tax levy collections during the period October 1, 2016 to December 31, 2017, and taxes collected from January 1, 2017 to December 31, 2017, for the 2015 and prior tax levies. The 2017 tax levy has been fully deferred to meet the obligations of the District in the 2018 fiscal year.

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.

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include land and land improvements, construction in progress, equipment, buildings, water and wastewater systems, and parks, 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 acquisition 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. Interest costs, including developer interest, 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. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
Equipment	3-20
Parks	10-35

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

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

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Unassigned: all other spendable amounts in the General Fund.

When 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.

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. BONDS PAYABLE

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2017:

	January 1, 2017	Additions	Retirements	December 31, 2017
Bonds Payable	\$ 17,565,000	\$	\$ 855,000	\$ 16,710,000
Unamortized Discounts	(135,683)		(11,070)	(124,613)
Unamortized Premiums	579,925		56,643	523,282
Bonds Payable, Net	\$ 18,009,242	\$ -0-	\$ 900,573	\$ 17,108,669
		Amount Due Within One Year		\$ 900,000
		Amount Due After One Year		16,208,669
		Bonds Payable, Net		\$ 17,108,669

	Series 2008	Series 2009
Amount Outstanding – December 31, 2017	\$ 500,000	\$ 3,100,000
Interest Rates	5.20% – 5.625%	4.00% – 4.75%
Maturity Dates – Serially Beginning/Ending	April 1, 2018/2019	April 1, 2018/2029
Interest Payment Dates	April 1/ October 1	April 1/ October 1
Callable Dates	April 1, 2018*	April 1, 2019*

* Or any date thereafter, callable at par plus unpaid accrued interest in whole or in part at the option of the District.

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. BONDS PAYABLE (Continued)

	Refunding Series 2013	Series 2016 Refunding		Series 2016A
		Current Interest Bonds	Compound Interest Bonds	
Amount Outstanding – December 31, 2017	\$ 4,110,000	\$ 3,495,000	\$ 5,000	\$ 5,500,000
Interest Rates	2.50% – 3.75%	2.00% – 4.00%	1.75%	2.125% – 3.00%
Maturity Dates – Serially Beginning/Ending	April 1, 2018/2025	April 1, 2018/2019, 2021/2029	April 1, 2020	April 1, 2026/2039
Interest Payment Dates	April 1/ October 1	April 1/ October 1	At Maturity	April 1/ October 1
Callable Dates	April 1, 2020**	April 1, 2024**	Non-Callable***	April 1, 2024**

** Or any date thereafter, callable at par plus unpaid accrued interest in whole or in part at the option of the District. Series 2013 Refunding term bonds due April 1, 2025 are subject to mandatory redemption beginning April 1, 2024. Series 2016A term bonds due April 1, 2031 are subject to mandatory redemption beginning April 1, 2026.

*** The Series 2016 Compound Interest Bonds are non-callable. The par value of these bonds is \$5,000 and the maturity value is \$130,000. Interest on these bonds will be paid at maturity. As of December 31, 2017, the accreted value of these bonds is approximately \$124,472. Accrued interest of \$119,472 has been recorded as a liability in the Statement of Net Position.

As of December 31, 2017, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 900,000	\$ 543,962	\$ 1,443,962
2019	940,000	509,683	1,449,683
2020	855,000	602,804	1,457,804
2021	1,025,000	447,128	1,472,128
2022	1,080,000	411,523	1,491,523
2023-2027	5,510,000	1,427,720	6,937,720
2028-2032	3,185,000	590,268	3,775,268
2033-2037	2,180,000	299,205	2,479,205
2038-2039	1,035,000	31,425	1,066,425
	<u>\$ 16,710,000</u>	<u>\$ 4,863,718</u>	<u>\$ 21,573,718</u>

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. BONDS PAYABLE (Continued)

As of December 31, 2017, the District had authorized but unissued bonds in the amount of \$19,815,000 for water, sewer and drainage facilities and \$1,410,000 for park facilities.

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

During the year ended December 31, 2017, the District levied an ad valorem debt service tax rate of \$0.290 per \$100 of assessed valuation, which resulted in a tax levy of \$1,557,373 on the adjusted taxable valuation of \$537,025,257 for the 2017 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy. The District's tax calendar is as follows:

Levy Date	- October 1, or as soon thereafter as practicable.
Lien Date	- January 1.
Due Date	- Not later than January 31.
Delinquent Date	- February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 4. SIGNIFICANT BOND ORDERS AND LEGAL REQUIREMENTS

The District is required to provide to certain information repositories continuing disclosure of annual financial information and operating data with respect to the District. The information is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the District.

The District has covenanted that it will take 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.

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.

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

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 \$2,422,925 and the bank balance was \$2,828,078. Of the bank balance, \$528,229 was covered by federal depository insurance and the remaining balance was covered by collateral pledged in the name of the District and held in a third-party depository.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2017, as listed below:

GENERAL FUND		\$ 291,396
DEBT SERVICE FUND		2,124,686
CAPITAL PROJECTS FUND		<u>6,843</u>
TOTAL DEPOSITS		<u>\$ 2,422,925</u>

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.

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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 the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

As of December 31, 2017, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 3,379,062	\$ 3,379,062
<u>DEBT SERVICE FUND</u>		
TexPool	1,071,078	1,071,078
<u>CAPITAL PROJECTS FUND</u>		
TexPool	<u>1,808,372</u>	<u>1,808,372</u>
TOTAL INVESTMENTS	<u>\$ 6,258,512</u>	<u>\$ 6,258,512</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2017, the District's investment in TexPool was 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 investment in TexPool 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.

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Restrictions

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

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017:

	January 1, 2017	Increases	Decreases	December 31, 2017
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 146,223	\$	\$	\$ 146,223
Construction in Progress	29,130	981,508		1,010,638
Total Capital Assets Not Being Depreciated	\$ 175,353	\$ 981,508	\$ - 0 -	\$ 1,156,861
Capital Assets Subject to Depreciation				
Equipment	\$ 188,527	\$ 5,304	\$	\$ 193,831
Buildings	193,360			193,360
Water System	14,712,507	5,950		14,718,457
Wastewater System	14,661,093	66,460		14,727,553
Parks	3,295,043			3,295,043
Total Capital Assets Subject to Depreciation	\$ 33,050,530	\$ 77,714	\$ - 0 -	\$ 33,128,244
Accumulated Depreciation				
Equipment	\$ 138,293	\$ 5,120	\$	\$ 143,413
Buildings	27,806	6,716		34,522
Water System	6,893,788	433,514		7,327,302
Wastewater System	7,413,761	465,178		7,878,939
Parks	1,202,112	266,730		1,468,842
Total Accumulated Depreciation	\$ 15,675,760	\$ 1,177,258	\$ - 0 -	\$ 16,853,018
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 17,374,770	\$ (1,099,544)	\$ - 0 -	\$ 16,275,226
Total Capital Assets, Net of Accumulated Depreciation	\$ 17,550,123	\$ (118,036)	\$ - 0 -	\$ 17,432,087

The District has financed drainage facilities which have been conveyed to other entities for maintenance.

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7. MAINTENANCE TAX

At an election held on May 2, 1998, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District’s waterworks and sanitary sewer system and for any other lawful purpose. During the year ended December 31, 2017, the District levied an ad valorem maintenance tax rate of \$0.30 per \$100 of assessed valuation, which resulted in a tax levy of \$1,611,076 on the adjusted taxable valuation of \$537,025,257 for the 2017 tax year.

NOTE 8. AGREEMENT WITH DEVELOPER

On April 25, 1991, the districts that now form the District executed an agreement with Purcell, the Developer within the District at that time. The agreement provided for the purchase of a tract of land to be used for the surface water treatment plant at a price of \$25,000. The districts agreed to provide water on an interim basis up to 24,000,000 gallons a year at a cost of \$0.22 per 1,000 gallons of water used by the Newport Country Club Golf Course.

On June 30, 1999, the District executed a First Amendment to Agreement with Stonebridge Properties Corporation (the “Developer”), as successor in interest to Newport Partners and Purcell. The Developer agreed to fund the cost of the distribution line to provide water from a point of connection to the golf course and obtain approval of the San Jacinto River Authority at no cost to the District. The Developer will have a credit applied against the cost of water supplied to the golf course consisting of the \$25,000 original cost of the land plus compounded interest of \$27,032 from the original contract date to present. Future credits are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 2,954	\$ 2,326	\$ 5,280
2019	3,220	2,060	5,280
2020	3,510	1,770	5,280
2021	3,826	1,454	5,280
2022	4,170	1,110	5,280
2023-2024	8,163	1,061	9,224
	\$ 25,843	\$ 9,781	\$ 35,624

In certain years, the Developer has taken water in amounts that are less than the total yearly credit amount, and in other years, the Developer has taken water in amounts that are more than the total credit amount. The District’s requirement to provide raw water at its cost will terminate at the earlier of the payout schedule listed above or December 31, 2030.

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 9. STANDBY CHARGES

In a prior fiscal year, the District imposed a standby fee on undeveloped property within the District. The District no longer imposes standby fees. The following is a summary of standby fee transactions for the fiscal year ended December 31, 2017.

Standby Fees Receivable – January 1, 2017	\$ 177,209
Less: Current Year Collections	9,358
Less: Adjustments	<u>8,319</u>
Standby Fees Receivable – December 31, 2017	<u>\$ 159,532</u>

NOTE 10. RISK MANAGEMENT

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

NOTE 11. UNREIMBURSED COSTS

The District has executed Water, Sewer and Drainage Improvement Financing and Construction Contracts with Developers within the District. These agreements provide for the Developers to advance funds for the contribution of certain facilities with the agreement that the District will use its best efforts to issue, sell and deliver its bonds on the best available terms as soon as reasonably practical and use the proceeds to reimburse the costs incurred by the Developers. The District will not initiate a sale of bonds to pay the reimbursable costs until the District receives the advice of its financial advisor that two tests are met: 1) the sale of bonds will not necessitate the increase in the District’s debt service tax rate beyond certain set amounts, and 2) the assessed valuation of the project and all taxable improvements constructed would independently support the issuance of bonds in one or more series to pay the Developers. The District will apply certain formulas to determine when the District is obligated to issue bonds for the purpose of reimbursing the Developers. The amount to be reimbursed to the Developers is limited by certain financial tests in the contracts and rules of the Commission and may not be the full amount expended by the Developers on behalf of the District.

NOTE 12. INTERFUND RECEIVABLES AND PAYABLES

As of December 31, 2017, the Debt Service Fund owed the General Fund \$1,047,469 for maintenance tax collections and the Capital Projects Fund owed the General Fund \$25,700 for bond application costs.

NEWPORT MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 13. WATER SUPPLY CONTRACT

On April 17, 2008, the District entered into a Water Supply Contract (“Contract”) with the San Jacinto River Authority (the “Authority”). The Contract states the Authority will provide up to 1,850,000 gallons of untreated surface water per day (“demand quantity”) to the District. The District is obligated to pay the Authority for an average daily quantity equal to the demand quantity, whether actually taken by the District or not, at the applicable rate per 1,000 gallons. The rate as of December 31, 2017, was \$0.41 per 1,000 gallons. During the current fiscal year, the District paid \$276,853 for water purchased in accordance with the Contract. The Contract is in effect for a term of 40 years commencing May 1, 2008.

NOTE 14. WATER SUPPLY AGREEMENT

On November 30, 2017, the District entered into a Water Supply Agreement (“Agreement”) with Harris County Municipal Utility District No. 525 (“HCMUD 525”). The Agreement states HCMUD 525 will construct a water supply line and related facilities from the District to HCMUD 525 allowing the District to serve HCMUD 525 with equivalent single-family connections (“ESFCs”). Per the Agreement, the District shall never be obligated to provide more than 1,450 ESFCs to HCMUD 525. The price to be paid by HCMUD 525 to the District per 1,000 gallons of potable water is a base rate plus the price charged by the Authority to the District for raw water. The initial base rate is \$5.16 effective until December 31, 2018. Subsequently, the base rate is adjusted once each year on January 1 by 100% of the increase in the consumer price index as defined in the Agreement. The Agreement is in effect for a term of 40 years commencing November 30, 2017.

NOTE 15. DEFINED AREA

At an election held on May 6, 2017, the voters of the District approved the establishment of a Defined Area within the District as well as issuance of bonds to benefit the Defined Area in the maximum amount of \$50,000,000 to be used for water, sewer and drainage system improvements and the levy and collection of a tax upon all taxable property within the Defined Area to provide for payment of principal and interest on such bonds. During the year ended December 31, 2017, the District did not levy a tax nor issue bonds related to the Defined Area.

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NEWPORT MUNICIPAL UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017

**NEWPORT MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 1,597,062	\$ 1,605,197	\$ 8,135
Water Service	1,507,670	1,621,087	113,417
Wastewater Service	1,555,726	1,695,662	139,936
Penalty and Interest	82,732	84,440	1,708
Tap Connection and Inspection Fees	528,000	679,381	151,381
Groundwater Credits	70,531	48,978	(21,553)
Miscellaneous Revenues	<u>132,417</u>	<u>176,769</u>	<u>44,352</u>
TOTAL REVENUES	<u>\$ 5,474,138</u>	<u>\$ 5,911,514</u>	<u>\$ 437,376</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 115,400	\$ 159,165	\$ (43,765)
Contracted Services	2,556,494	2,818,264	(261,770)
Purchased Water Service	275,705	276,853	(1,148)
Utilities	243,256	227,994	15,262
Repairs and Maintenance	449,998	941,839	(491,841)
Other	1,239,081	1,347,690	(108,609)
Capital Outlay	<u> </u>	<u>66,460</u>	<u>(66,460)</u>
TOTAL EXPENDITURES	<u>\$ 4,879,934</u>	<u>\$ 5,838,265</u>	<u>\$ (958,331)</u>
NET CHANGE IN FUND BALANCE	\$ 594,204	\$ 73,249	\$ (520,955)
FUND BALANCE - JANUARY 1, 2017	<u>2,726,934</u>	<u>2,726,934</u>	<u> </u>
FUND BALANCE - DECEMBER 31, 2017	<u>\$ 3,321,138</u>	<u>\$ 2,800,183</u>	<u>\$ (520,955)</u>

See accompanying independent auditor's report.

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NEWPORT MUNICIPAL UTILITY DISTRICT
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
DECEMBER 31, 2017

**NEWPORT MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

<u> X </u>	Retail Water	_____	Wholesale Water	<u> X </u>	Drainage
<u> X </u>	Retail Wastewater	_____	Wholesale Wastewater	_____	Irrigation
<u> X </u>	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 approved and effective May 25, 2017.

	<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:	\$ 26.85	4,000	N	\$ 2.80	4,001 and up
WASTEWATER:	\$ 30.15	4,000	N	\$ 2.20	4,001 and up
SURCHARGE:					
Solid Waste/ Garbage	Included in wastewater charges				

District employs winter averaging for wastewater usage?
 X
 Yes No

Total monthly charges per 10,000 gallons usage: Water: \$43.65 Wastewater: \$43.35 Total: \$87.00

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2017**

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	
≤¾"	<u>3,625</u>	<u>3,552</u>	x 1.0	<u>3,552</u>
1"	<u>30</u>	<u>30</u>	x 2.5	<u>75</u>
1½"	<u>4</u>	<u>4</u>	x 5.0	<u>20</u>
2"	<u>15</u>	<u>15</u>	x 8.0	<u>120</u>
3"	<u>3</u>	<u>3</u>	x 15.0	<u>45</u>
4"	<u>2</u>	<u>2</u>	x 25.0	<u>50</u>
6"	<u>2</u>	<u>2</u>	x 50.0	<u>100</u>
8"	<u>3</u>	<u>3</u>	x 80.0	<u>240</u>
10"			x 115.0	
Total Water Connections	<u><u>3,684</u></u>	<u><u>3,611</u></u>		<u><u>4,202</u></u>
Total Wastewater Connections	<u><u>3,628</u></u>	<u><u>3,562</u></u>	x 1.0	<u><u>3,562</u></u>

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

Gallons pumped into system:	337,647,000	Water Accountability Ratio: 92% (Gallons billed/Gallons pumped)
Gallons billed to customers:	309,197,000	
Gallons purchased:	672,250,000*	From: San Jacinto River Authority

* Represents the take-or-pay amount from the San Jacinto River Authority

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

** The District no longer assesses standby fees, but is still collecting fees due from prior years.

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ 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.

NEWPORT MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2017

PROFESSIONAL FEES:	
Auditing	\$ 17,600
Engineering	36,051
Legal	105,514
TOTAL PROFESSIONAL FEES	<u>\$ 159,165</u>
PURCHASED WATER SERVICE	<u>\$ 276,853</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 28,988
Operations and Billing	2,302,767
TOTAL CONTRACTED SERVICES	<u>\$ 2,331,755</u>
UTILITIES:	
Electricity	\$ 214,145
Telephone	13,849
TOTAL UTILITIES	<u>\$ 227,994</u>
REPAIRS AND MAINTENANCE	<u>\$ 941,839</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 27,300
Election Costs	660
Insurance	35,837
Office Supplies and Postage	662
Payroll Administration	1,628
Payroll Taxes	2,089
Travel and Meetings	1,653
Other	9,945
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 85,553</u>
CAPITAL OUTLAY	<u>\$ 66,460</u>
TAP CONNECTIONS	<u>\$ 285,424</u>
SOLID WASTE DISPOSAL	<u>\$ 486,509</u>
OTHER EXPENDITURES:	
Chemicals	\$ 153,019
Monitoring and Testing	34,100
Laboratory Fees	15,457
Permit Fees	23,190
Reconnection Fees	65,130
Hurricane Harvey Costs	604,090
Regulatory Assessment	16,016
Sludge Hauling	43,117
Other	17,314
TOTAL OTHER EXPENDITURES	<u>\$ 971,433</u>
DEBT SERVICE:	
Note Principal	\$ 2,710
Note Interest	2,570
TOTAL DEBT SERVICE	<u>\$ 5,280</u>
TOTAL EXPENDITURES	<u>\$ 5,838,265</u>

See accompanying independent auditor's report.

NEWPORT MUNICIPAL UTILITY DISTRICT
INVESTMENTS
DECEMBER 31, 2017

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 3,379,062	\$ -0-
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 1,071,078	\$ -0-
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 1,808,372	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 6,258,512</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

NEWPORT MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2017

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JANUARY 1, 2017	\$	610,918	\$	594,265
Adjustments to Beginning				
Balance		<u>15,957</u>	\$	<u>15,120</u>
		\$ 626,875	\$	609,385
Original 2017 Tax Levy	\$	1,476,509	\$	1,427,292
Adjustment to 2017 Tax Levy		<u>134,567</u>	<u>1,611,076</u>	<u>130,081</u>
			<u>1,557,373</u>	
TOTAL TO BE				
ACCOUNTED FOR		\$ 2,237,951		\$ 2,166,758
TAX COLLECTIONS:				
Prior Years	\$	585,286	\$	543,599
Current Year		<u>1,057,107</u>	<u>1,642,393</u>	<u>1,021,870</u>
			<u>1,565,469</u>	
TAXES RECEIVABLE -				
DECEMBER 31, 2017		<u>\$ 595,558</u>		<u>\$ 601,289</u>
TAXES RECEIVABLE BY				
YEAR:				
2017	\$	553,969	\$	535,503
2016		22,686		20,687
2015		6,631		7,404
2014		3,021		5,971
2013		2,330		4,605
2012		1,543		3,050
2011		1,457		2,880
2010		1,168		2,478
2009		946		2,327
2008 and Prior		<u>1,807</u>		<u>16,384</u>
TOTAL	\$	<u>595,558</u>	\$	<u>601,289</u>

See accompanying independent auditor's report.

NEWPORT MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PROPERTY VALUATIONS:				
Land	\$ 72,840,019	\$ 69,479,944	\$ 65,525,556	\$ 63,347,903
Improvements	487,975,726	439,859,024	383,797,757	343,607,858
Personal Property	5,023,214	6,413,170	9,390,262	9,674,247
Exemptions	<u>(28,813,702)</u>	<u>(28,654,185)</u>	<u>(22,792,138)</u>	<u>(21,890,688)</u>
TOTAL PROPERTY VALUATIONS	<u><u>\$ 537,025,257</u></u>	<u><u>\$ 487,097,953</u></u>	<u><u>\$ 435,921,437</u></u>	<u><u>\$ 394,739,320</u></u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.290	\$ 0.300	\$ 0.335	\$ 0.425
Maintenance	<u>0.300</u>	<u>0.329</u>	<u>0.300</u>	<u>0.215</u>
TOTAL TAX RATES PER \$100 VALUATION	<u><u>\$ 0.590</u></u>	<u><u>\$ 0.629</u></u>	<u><u>\$ 0.635</u></u>	<u><u>\$ 0.640</u></u>
ADJUSTED TAX LEVY*	<u><u>\$ 3,168,449</u></u>	<u><u>\$ 3,063,845</u></u>	<u><u>\$ 2,768,553</u></u>	<u><u>\$ 2,526,710</u></u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u><u>65.61 %</u></u>	<u><u>98.58 %</u></u>	<u><u>99.49 %</u></u>	<u><u>99.64 %</u></u>

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$1.00 per \$100 of assessed valuation approved by voters on May 2, 1998.

See accompanying independent auditor's report.

NEWPORT MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

S E R I E S - 2 0 0 8

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2018	\$ 245,000	\$ 20,151	\$ 265,151
2019	255,000	6,630	261,630
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
	<u>\$ 500,000</u>	<u>\$ 26,781</u>	<u>\$ 526,781</u>

See accompanying independent auditor's report.

NEWPORT MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

S E R I E S - 2 0 0 9

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2018	\$ 185,000	\$ 132,543	\$ 317,543
2019	195,000	124,747	319,747
2020	205,000	116,348	321,348
2021	220,000	107,422	327,422
2022	235,000	97,867	332,867
2023	250,000	87,683	337,683
2024	265,000	76,735	341,735
2025	280,000	64,877	344,877
2026	300,000	51,968	351,968
2027	315,000	37,973	352,973
2028	295,000	23,795	318,795
2029	355,000	8,432	363,432
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
	<u>\$ 3,100,000</u>	<u>\$ 930,390</u>	<u>\$ 4,030,390</u>

See accompanying independent auditor's report.

NEWPORT MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

SERIES - 2013 REFUNDING

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2018	\$ 435,000	\$ 129,887	\$ 564,887
2019	455,000	117,625	572,625
2020	475,000	103,675	578,675
2021	495,000	89,125	584,125
2022	520,000	72,600	592,600
2023	550,000	53,875	603,875
2024	575,000	33,469	608,469
2025	605,000	11,344	616,344
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
	<u>\$ 4,110,000</u>	<u>\$ 611,600</u>	<u>\$ 4,721,600</u>

See accompanying independent auditor's report.

NEWPORT MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

S E R I E S - 2 0 1 6 R E F U N D I N G

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2018	\$ 35,000	\$ 126,700	\$ 161,700
2019	35,000	126,000	161,000
2020	175,000	248,100	423,100
2021	310,000	115,900	425,900
2022	325,000	106,375	431,375
2023	330,000	96,550	426,550
2024	345,000	84,700	429,700
2025	360,000	70,600	430,600
2026	375,000	55,900	430,900
2027	385,000	40,700	425,700
2028	405,000	24,900	429,900
2029	420,000	8,400	428,400
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
	<u>\$ 3,500,000</u>	<u>\$ 1,104,825</u>	<u>\$ 4,604,825</u>

See accompanying independent auditor's report.

NEWPORT MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

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

Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2018	\$	\$ 134,681	\$ 134,681
2019		134,681	134,681
2020		134,681	134,681
2021		134,681	134,681
2022		134,681	134,681
2023		134,681	134,681
2024		134,681	134,681
2025		134,681	134,681
2026	280,000	131,706	411,706
2027	295,000	125,597	420,597
2028	310,000	119,169	429,169
2029	325,000	112,422	437,422
2030	340,000	105,356	445,356
2031	360,000	97,919	457,919
2032	375,000	89,875	464,875
2033	395,000	80,966	475,966
2034	415,000	71,088	486,088
2035	435,000	60,463	495,463
2036	455,000	49,338	504,338
2037	480,000	37,350	517,350
2038	505,000	23,475	528,475
2039	530,000	7,950	537,950
	<u>\$ 5,500,000</u>	<u>\$ 2,190,122</u>	<u>\$ 7,690,122</u>

See accompanying independent auditor's report.

NEWPORT MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2017

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2018	\$ 900,000	\$ 543,962	\$ 1,443,962
2019	940,000	509,683	1,449,683
2020	855,000	602,804	1,457,804
2021	1,025,000	447,128	1,472,128
2022	1,080,000	411,523	1,491,523
2023	1,130,000	372,789	1,502,789
2024	1,185,000	329,585	1,514,585
2025	1,245,000	281,502	1,526,502
2026	955,000	239,574	1,194,574
2027	995,000	204,270	1,199,270
2028	1,010,000	167,864	1,177,864
2029	1,100,000	129,254	1,229,254
2030	340,000	105,356	445,356
2031	360,000	97,919	457,919
2032	375,000	89,875	464,875
2033	395,000	80,966	475,966
2034	415,000	71,088	486,088
2035	435,000	60,463	495,463
2036	455,000	49,338	504,338
2037	480,000	37,350	517,350
2038	505,000	23,475	528,475
2039	530,000	7,950	537,950
	<u>\$ 16,710,000</u>	<u>\$ 4,863,718</u>	<u>\$ 21,573,718</u>

See accompanying independent auditor's report.

NEWPORT MUNICIPAL UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED DECEMBER 31, 2017

Description	Original Bonds Issued	Bonds Outstanding January 1, 2017	
Newport Municipal Utility District Unlimited Tax Bonds - Series 2008	\$ 4,685,000	\$ 730,000	
Newport Municipal Utility District Unlimited Tax Bonds - Series 2009	3,590,000	3,275,000	
Newport Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2013	5,295,000	4,525,000	
Newport Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2016	3,535,000	3,535,000	
Newport Municipal Utility District Unlimited Tax Bonds - Series 2016A	<u>5,500,000</u>	<u>5,500,000</u>	
TOTAL	<u>\$ 22,605,000</u>	<u>\$ 17,565,000</u>	
Bond Authority:	<u>Tax Bonds</u>	<u>Refunding Bonds</u>	<u>Park Bonds</u>
Amount Authorized by Voters	\$ 59,150,000	\$	\$ 5,000,000
Amount Issued	<u>39,335,000</u>	<u> </u>	<u>3,590,000</u>
Remaining to be Issued	<u>\$ 19,815,000</u>	<u>\$ *</u>	<u>\$ 1,410,000</u>
Debt Service Fund cash and investment balances as of December 31, 2017:		<u>\$ 3,195,764</u>	
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 980,624</u>	

See Note 3 for interest rate, interest payment dates and maturity dates.

* 1 1/2 times bonds outstanding.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding December 31, 2017</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 230,000	\$ 33,510	\$ 500,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	175,000	139,742	3,100,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	415,000	139,475	4,110,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	35,000	127,400	3,500,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
		<u>136,178</u>	<u>5,500,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ - 0 -</u>	<u>\$ 855,000</u>	<u>\$ 576,305</u>	<u>\$ 16,710,000</u>	

See accompanying independent auditor's report.

NEWPORT MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2017	2016	2015
REVENUES			
Property Taxes	\$ 1,605,197	\$ 1,317,974	\$ 853,133
Water Service	1,621,087	1,484,487	1,388,247
Wastewater Service	1,695,662	1,546,942	1,446,150
Base Revenue			
Standby Fees	9,358	8,586	11,246
Penalty and Interest	84,440	80,957	80,878
Tap Connection and Inspection Fees	679,381	395,900	318,075
Groundwater Credits	48,978	100,857	56,925
Miscellaneous Revenues	167,411	131,953	111,413
TOTAL REVENUES	\$ 5,911,514	\$ 5,067,656	\$ 4,266,067
EXPENDITURES			
Professional Fees	\$ 159,165	\$ 114,442	\$ 117,492
Contracted Services	2,818,264	2,643,622	2,351,326
Purchased Water Service	276,853	265,081	250,389
Utilities	227,994	241,071	231,494
Repairs and Maintenance	941,839	684,554	450,053
Other	1,342,410	713,150	535,570
Capital Outlay	66,460		
Note Principal	2,710	2,487	2,281
Note Interest	2,570	2,794	2,999
TOTAL EXPENDITURES	\$ 5,838,265	\$ 4,667,201	\$ 3,941,604
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 73,249	\$ 400,455	\$ 324,463
OTHER FINANCING SOURCES (USES)			
Transfer In (Out)	\$ - 0 -	\$ 28,402	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ 73,249	\$ 428,857	\$ 324,463
BEGINNING FUND BALANCE	2,726,934	2,298,077	1,973,614
ENDING FUND BALANCE	\$ 2,800,183	\$ 2,726,934	\$ 2,298,077

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2014	2013	2017	2016	2015	2014	2013
\$ 776,168	\$ 778,481	27.2 %	26.0 %	20.0 %	19.0 %	21.6 %
1,285,762	1,526,266	27.4	29.3	32.5	31.6	42.6
938,604	481,634	28.7	30.5	33.9	23.0	13.4
379,002	390,115				9.3	10.9
3,377	7,423	0.2	0.2	0.3	0.1	0.2
77,929	73,554	1.4	1.6	1.9	1.9	2.1
471,623	120,350	11.5	7.8	7.5	11.6	3.4
23,700	28,320	0.8	2.0	1.3	0.6	0.8
117,727	180,054	2.8	2.6	2.6	2.9	5.0
<u>\$ 4,073,892</u>	<u>\$ 3,586,197</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 86,423	\$ 89,483	2.7 %	2.4 %	2.8 %	2.1 %	2.5 %
2,089,310	2,055,037	47.7	52.2	55.1	51.3	57.3
229,585	213,447	4.7	5.2	5.9	5.6	6.0
271,373	262,647	3.9	4.8	5.4	6.7	7.3
418,805	446,922	15.9	13.5	10.5	10.3	12.5
613,237	510,833	22.7	14.2	12.6	15.1	14.2
	78,207	1.1				2.2
2,093	1,920			0.1	0.1	0.1
3,187	3,360		0.1	0.1	0.1	0.1
<u>\$ 3,714,013</u>	<u>\$ 3,661,856</u>	<u>98.7 %</u>	<u>92.4 %</u>	<u>92.5 %</u>	<u>91.3 %</u>	<u>102.2 %</u>
<u>\$ 359,879</u>	<u>\$ (75,659)</u>	<u>1.3 %</u>	<u>7.6 %</u>	<u>7.5 %</u>	<u>8.7 %</u>	<u>(2.2) %</u>
<u>\$ - 0 -</u>	<u>\$ (13,176)</u>					
\$ 359,879	\$ (88,835)					
<u>1,613,735</u>	<u>1,702,570</u>					
<u>\$ 1,973,614</u>	<u>\$ 1,613,735</u>					

See accompanying independent auditor's report.

NEWPORT MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2017	2016	2015
REVENUES			
Property Taxes	\$ 1,473,609	\$ 1,505,111	\$ 1,706,309
Penalty and Interest	49,699	68,068	69,350
Miscellaneous Revenues	<u>11,722</u>	<u>4,873</u>	<u>1,781</u>
TOTAL REVENUES	<u>\$ 1,535,030</u>	<u>\$ 1,578,052</u>	<u>\$ 1,777,440</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 98,095	\$ 82,517	\$ 100,940
Debt Service Principal	855,000	780,000	1,080,000
Debt Service Interest and Fees	579,805	498,145	630,730
Bond Issuance Costs		148,804	
Payment to Refunded Bond Escrow Agent			
TOTAL EXPENDITURES	<u>\$ 1,532,900</u>	<u>\$ 1,509,466</u>	<u>\$ 1,811,670</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 2,130</u>	<u>\$ 68,586</u>	<u>\$ (34,230)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of Refunding Bonds	\$	\$ 3,535,000	\$
Payment to Refunded Bond Escrow Agent		(3,864,167)	
Bond Premium		<u>479,999</u>	
TOTAL OTHER FINANCING SOURCES, NET	<u>\$ - 0 -</u>	<u>\$ 150,832</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 2,130	\$ 219,418	\$ (34,230)
BEGINNING FUND BALANCE	<u>1,114,619</u>	<u>895,201</u>	<u>929,431</u>
ENDING FUND BALANCE	<u>\$ 1,116,749</u>	<u>\$ 1,114,619</u>	<u>\$ 895,201</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>3,611</u>	<u>3,400</u>	<u>3,219</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>3,562</u>	<u>3,354</u>	<u>3,196</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
<u>2014</u>	<u>2013</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$ 1,545,265	\$ 1,559,261	96.0 %	95.4 %	96.0 %	97.0 %	96.6 %
47,960	53,713	3.2	4.3	3.9	3.0	3.3
455	1,178	0.8	0.3	0.1		0.1
<u>\$ 1,593,680</u>	<u>\$ 1,614,152</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 91,859	\$ 93,549	6.4 %	5.2 %	5.7 %	5.8 %	5.8 %
1,130,000	1,070,000	55.7	49.5	60.8	70.9	66.3
605,421	570,001	37.8	31.6	35.5	38.0	35.3
	185,931		9.4			11.5
	96,000					5.9
<u>\$ 1,827,280</u>	<u>\$ 2,015,481</u>	<u>99.9 %</u>	<u>95.7 %</u>	<u>102.0 %</u>	<u>114.7 %</u>	<u>124.8 %</u>
<u>\$ (233,600)</u>	<u>\$ (401,329)</u>	<u>0.1 %</u>	<u>4.3 %</u>	<u>(2.0) %</u>	<u>(14.7) %</u>	<u>(24.8) %</u>
\$	\$ 5,295,000					
	(5,511,556)					
	403,928					
<u>\$ - 0 -</u>	<u>\$ 187,372</u>					
\$ (233,600)	\$ (213,957)					
1,163,031	1,376,988					
<u>\$ 929,431</u>	<u>\$ 1,163,031</u>					
3,096	3,000					
<u>3,099</u>	<u>3,018</u>					

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2017**

District Mailing Address - Newport Municipal Utility District
c/o Smith, Murdaugh, Little & Bonham, L.L.P.
2727 Allen Parkway, Suite 1100
Houston, TX 77019

District Telephone Number - (713) 652-6500

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended December 31, 2017	Expense Reimbursements for the year ended December 31, 2017	Title
Gary Hasse	05/16 05/20 (Elected)	\$ 6,600	\$ -0-	President
Don Cox	05/14 05/18 (Elected)	\$ 4,500	\$ -0-	Vice President
Margarette Chasteen	05/16 05/20 (Elected)	\$ 6,150	\$ -0-	Secretary
David Guidry	10/16 05/18 (Appointed)	\$ 4,800	\$ 37	Assistant Secretary
Jim Hembree	05/14 05/18 (Elected)	\$ 5,250	\$ 1,616	Director

Notes: No Director 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 (TWC Sections 36.054 and 49.054):
January 6, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 23, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2017**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2017</u>	<u>Title</u>
Smith, Murdaugh, Little & Bonham, L.L.P.	08/01/98	\$ 155,075	General Counsel/ Delinquent Tax Attorney
		\$ 15,168	
McCall Gibson Swedlund Barfoot PLLC	12/15/99	\$ 18,000	Auditor
McLennan & Associates	03/24/04	\$ 29,100	Bookkeeper
ARKK Engineers, LLC	06/24/13	\$ 212,470	Engineer
FirstSouthwest, a Division of Hilltop Securities Inc.	10/23/02	\$ -0-	Financial Advisor
Jorge Diaz	01/26/17	\$ -0-	Investment Officer
Professional Utility Services, Inc.	08/01/98	\$ 3,400,745	Operator
Thomas Lee, RTA	08/01/98	\$ 52,947	Tax Assessor/ Collector

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

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

APPENDIX C

Accreted Values of Premium Compound Interest Bonds

	CAB Bond	
	04/01/2020	
	2.02%	
	<hr/>	
4/25/2019	\$	4,907.05
10/1/2019		4,950.00
4/1/2020		5,000.00