

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

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	8-11
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	12
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	13-14
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	15
NOTES TO THE FINANCIAL STATEMENTS	16-30
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	32
SUPPLEMENTARY INFORMATION – REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	34-36
GENERAL FUND EXPENDITURES	37
INVESTMENTS	38
TAXES LEVIED AND RECEIVABLE	39-40
LONG-TERM DEBT SERVICE REQUIREMENTS	41-46
CHANGES IN LONG-TERM BOND DEBT	47-48
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	49-52
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	53-54

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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

9600 Great Hills Trail
Suite 150W
Austin, Texas 78759
(512) 610-2209
www.mgsbpllc.com

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.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 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**

	<u>General Fund</u>	<u>Debt Service Fund</u>
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	<u>\$ 1,379,879</u>	<u>\$ 1,057,145</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 1,652,664	\$ 1,623,159
Standby Fees	159,532	
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,812,196</u>	<u>\$ 1,623,159</u>
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	<u>\$ 2,800,183</u>	<u>\$ 1,116,749</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 5,992,258</u>	<u>\$ 3,797,053</u>
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.

THIS PAGE INTENTIONALLY LEFT BLANK

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
	<u>\$ 25,843</u>	<u>\$ 9,781</u>	<u>\$ 35,624</u>

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.

THIS PAGE INTENTIONALLY LEFT BLANK

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.

THIS PAGE INTENTIONALLY LEFT BLANK

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.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
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? _____ _____
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

S E R I E S - 2 0 1 3 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	\$ 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

SERIES - 2016 REFUNDING

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				
2014	2013	2017	2016	2015	2014	2013
\$ 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>
\$ (233,600)	\$ (401,329)	0.1 %	4.3 %	(2.0) %	(14.7) %	(24.8) %
\$	\$ 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.

