

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2008**

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## TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET	9-12
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS	13
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	14-15
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	16
NOTES TO BASIC FINANCIAL STATEMENTS	17-39
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	41
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-SPECIAL REVENUE FUND	42
SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to basic financial statements)	
SERVICES AND RATES	44-46
GENERAL FUND EXPENDITURES	47-48
INVESTMENTS	49
TAXES LEVIED AND RECEIVABLE	50-51
LONG-TERM DEBT SERVICE REQUIREMENTS	52-58
CHANGE IN LONG-TERM BOND DEBT	59-61
COMPARATIVE SCHEDULES OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	62-65
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	66-68



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Board of Directors  
Chimney Hill 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 Chimney Hill Municipal Utility District (the "District"), as of and for the year ended September 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted as promulgated within 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 September 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 8 and the Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and Special Revenue Fund on pages 41 and 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
McCall, Gibson & Company, PLLC  
Certified Public Accountants

January 30, 2009



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Our discussion and analysis of Chimney Hill Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the District's financial statements, which begin on page 9.

**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 Assets and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances. This report also includes 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 first of the government-wide statements is the Statement of Net Assets. This information is found in the Statement of Net Assets column on pages 9 through 12. The Statement of Net Assets is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets 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 government-wide portion of the Statement of Activities on pages 14 and 15 reports how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**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 four (4) governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Special Revenue Fund accounts for financial resources collected and administered for the operation of the wastewater treatment plant. The Debt Service Fund accounts for ad valorem taxes and financial resources accumulated for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources segregated for acquisition or construction of facilities and related costs.

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 (2) 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 Assets on page 13 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 16 explain the differences between the two (2) presentations and assist in understanding the differences between these two perspectives.

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 17 through 39 in this report.

**OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). Budgetary comparison schedules are included as RSI for the General Fund and the Special Revenue Fund.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$1,565,284 as of September 30, 2008.

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

The following is a comparative analysis of government-wide changes in the Statement of Net Assets:

	Summary of Changes in the Statement of Net Assets		
	2008	2007	Change Positive (Negative)
Current and Other Assets	\$ 9,072,734	\$ 7,066,954	\$ 2,005,780
Capital Assets (Net of Accumulated Depreciation)	<u>9,346,086</u>	<u>9,167,809</u>	<u>178,277</u>
Total Assets	<u>\$ 18,418,820</u>	<u>\$ 16,234,763</u>	<u>\$ 2,184,057</u>
Long-Term Liabilities	\$ 18,145,000	\$ 16,875,000	\$(1,270,000)
Other Liabilities	<u>1,839,104</u>	<u>1,503,977</u>	<u>(335,127)</u>
Total Liabilities	<u>\$ 19,984,104</u>	<u>\$ 18,378,977</u>	<u>\$(1,605,127)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ (7,528,396)	\$ (7,869,295)	\$ 340,899
Restricted	3,655,868	3,532,735	123,133
Unrestricted	<u>2,307,244</u>	<u>2,192,346</u>	<u>114,898</u>
Total Net Assets	<u>\$ (1,565,284)</u>	<u>\$ (2,144,214)</u>	<u>\$ 578,930</u>

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

The following table provides a summary of the District's operations for the years ended September 30, 2008, and September 30, 2007. The District increased its net assets by \$578,930, accounting for a 27.0% growth in net assets.

	Summary of Changes in the Statement of Activities		
	2008	2007	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 2,059,653	\$ 2,104,709	\$ (45,056)
Sales Tax Receipts	69,184	60,849	8,335
Charges for Services	1,203,034	1,033,242	169,792
Other Revenues	230,997	315,980	(84,983)
Total Revenues	\$ 3,562,868	\$ 3,514,780	\$ 48,088
Expenses for Services	(2,983,938)	(2,757,751)	(226,187)
Change in Net Assets	\$ 578,930	\$ 757,029	\$ (178,099)
Net Assets, Beginning of Year	(2,144,214)	(2,901,243)	757,029
Net Assets, End of Year	\$ (1,565,284)	\$ (2,144,214)	\$ 578,930

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of the fiscal year ended September 30, 2008, were \$7,772,051, an increase of \$1,587,357 from the prior year.

The General Fund fund balance increased by \$125,428, primarily due to property tax collections and a transfer of surplus funds from the Capital Projects Fund.

The Debt Service Fund fund balance increased by \$148,042, primarily due to a timing difference between tax collections and debt service payments.

The Capital Projects Fund fund balance increased by \$1,313,887, primarily due to the District selling their Series 2008 Bonds. A portion of these proceeds are still on hand at year end.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual excess revenues over expenditures were \$23,274 more than budgeted excess revenues over expenditures due to maintenance tax collections being higher than budgeted. Transfers between funds are not usually budgeted. See budget to actual comparison schedule on page 41.

**CAPITAL ASSETS**

The District's investment in capital assets as of September 30, 2008, amounts to \$9,346,086 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment as well as the water and wastewater systems.

Significant capital asset events during the current fiscal year included the following:

Completion of:

- Elevated Storage Tank Rehabilitation
- Odor Control System at the Wastewater Treatment Plant

Construction in Progress:

- Booster Pump Replacement at Water Plant No. 4
- Ground Storage Tank No. 3 at Water Plant No. 1
- Sanitary Sewer Rehabilitation Planning and Design

Capital Assets at Year-End Net of Accumulated Depreciation

	2008	2007	Net Increase (Decrease)
Capital Assets Not Being Depreciated			
Land	\$ 462,247	\$ 462,247	\$
Construction in Progress	365,811	86,816	278,995
Capital Assets Net of Depreciation			
Water System	810,583	844,943	(34,360)
Wastewater System	2,544,828	2,633,991	(89,163)
Wastewater Treatment Plant	4,255,879	4,301,665	(45,786)
Water Plants	<u>906,738</u>	<u>838,147</u>	<u>68,591</u>
Total Net Capital Assets	<u>\$ 9,346,086</u>	<u>\$ 9,167,809</u>	<u>\$ 178,277</u>

Additional information on the District's capital assets can be found in Note 6 on page 31 of this report.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**LONG-TERM DEBT ACTIVITY**

At the end of the current fiscal year, the District had total bond debt payable of \$18,850,000.

The changes in the debt position of the District during the fiscal year ended September 30, 2008, are summarized as follows:

Bond Debt Payable, October 1, 2007	\$ 17,545,000
Add: Bonds Sold – Series 2008	1,975,000
Less: Bond Principal Paid	<u>670,000</u>
Bond Debt Payable, September 30, 2008	<u>\$ 18,850,000</u>

The District's bonds carry an underlying rating of "BBB" by Standard & Poor's Rating Services ("S&P").

At the time of each issuance, the Series 1997 Bonds and the Series 2000 Bonds were rated "AA" based on a policy issued by Radian Asset Assurance, Inc. ("Radian"). During the current fiscal year, S&P downgraded the rating of Radian to "BBB+". As a result of the downgrade of Radian by S&P, the Bonds were also downgraded accordingly.

At the time of issuance, the Series 2003 Bonds were rated "AAA" by S&P based on a policy issued by Federal Guaranty Insurance Company ("FGIC"). During the current fiscal year, S&P downgraded the rating of FGIC to "BB". As a result of the downgrade of FGIC by S&P, the Bonds were also downgraded accordingly. MBIA entered into a Reinsurance Agreement, effective September 1, 2008, wherein certain maturities of certain bond issues insured by FGIC are subject to the Reinsurance Agreement and are reinsured by MBIA. See the list of specific bonds and cusip numbers at [www.mbia.com](http://www.mbia.com).

At the time of each issuance, the Series 2004 Bonds and the Series 2008 were rated "AAA" by S&P based on a policy issued by Financial Security Assurance, Inc. ("FSA"). There was no change to the rating of these bonds during the current fiscal year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Chimney Hill Municipal Utility District's finances for anyone with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Chimney Hill Municipal Utility District, c/o Coats, Rose, Yale, Ryman & Lee, P.C., 3 Greenway Plaza, Suite 2000, Houston, TX 77046.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET ASSETS AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2008**

	General Fund	Special Revenue Fund
<b>ASSETS</b>		
Cash, Note 5	\$ 50,654	\$ 15,107
Investments, Note 5	2,509,952	
Cash with Paying Agent		
Receivables:		
Property Taxes	26,592	
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$2,000)	110,571	
Accrued Interest	886	
Due from Director	300	
Due from Other Funds, Note 13	9,741	28,760
Due from Other Governmental Units	48,869	4,817
Prepaid Costs	27,872	
Advanced for Regional Wastewater Treatment Plant Operations, Note 9	18,000	
Unamortized Bond Issuance Costs		
Land, Note 6		
Construction in Progress, Note 6		
Capital Assets (Net of Accumulated Depreciation), Note 6		
<b>TOTAL ASSETS</b>	<b>\$ 2,803,437</b>	<b>\$ 48,684</b>

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

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 39,741	\$ 208	\$ 105,710	\$	\$ 105,710
2,685,270	1,831,002	7,026,224		7,026,224
1,130,848		1,130,848		1,130,848
99,699		126,291		126,291
62,532		62,532		62,532
		110,571		110,571
23,961		24,847		24,847
		300		300
		38,501	(38,501)	
		53,686		53,686
250		28,122		28,122
		18,000	(18,000)	
			403,603	403,603
			462,247	462,247
			365,811	365,811
			8,518,028	8,518,028
<u>\$ 4,042,301</u>	<u>\$ 1,831,210</u>	<u>\$ 8,725,632</u>	<u>\$ 9,693,188</u>	<u>\$ 18,418,820</u>

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

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET ASSETS AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2008**

	General Fund	Special Revenue Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 250,917	\$ 28,684
Retainage Payable		
Due to Other Governmental Units	3,296	
Accrued Interest Payable		
Accrued Interest Received at Time of Sale		
Due to Other Funds, Note 13	28,760	
Due to Taxpayers		
Due to Developers	7,580	
Security Deposits	205,640	
Advances from Participants, Note 9		20,000
Deferred Revenues:		
Property Taxes	26,592	
Penalty and Interest on Delinquent Taxes		
Long-Term Liabilities:		
Due Within One Year, Note 3		
Due After One Year, Note 3		
<b>TOTAL LIABILITIES</b>	<b>\$ 522,785</b>	<b>\$ 48,684</b>
<b>FUND BALANCES/NET ASSETS</b>		
<b>FUND BALANCES</b>		
Reserved for Authorized Construction:		
Bond Proceeds	\$	\$
Net Investment Revenues		
Reserved for Debt Service:		
For October 2008 Debt Service		
For Future Debt Service		
Reserved for Prepaid Costs	27,872	
Reserved for Regional Wastewater Treatment Plant Operations, Note 9	18,000	
Unreserved – Undesignated	2,234,780	
<b>TOTAL FUND BALANCES</b>	<b>\$ 2,280,652</b>	<b>\$ -0-</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,803,437</b>	<b>\$ 48,684</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt		
Restricted for:		
Debt Service		
Capital Projects		
Unrestricted		
<b>TOTAL NET ASSETS</b>		

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

Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Assets
\$ 8,861	\$ 167,259	\$ 455,721	\$	\$ 455,721
	29,640	29,640		29,640
		3,296		3,296
			425,847	425,847
4,301		4,301		4,301
9,241	500	38,501	(38,501)	
79		79		79
		7,580		7,580
		205,640		205,640
		20,000	(18,000)	2,000
99,699		126,291	(126,291)	
62,532		62,532	(62,532)	
			705,000	705,000
			18,145,000	18,145,000
<u>\$ 184,713</u>	<u>\$ 197,399</u>	<u>\$ 953,581</u>	<u>\$ 19,030,523</u>	<u>\$ 19,984,104</u>
\$	\$ 1,571,915	\$ 1,571,915	\$ (1,571,915)	\$
	61,896	61,896	(61,896)	
1,130,848		1,130,848	(1,130,848)	
2,726,490		2,726,490	(2,726,490)	
250		28,122	(28,122)	
		18,000	(18,000)	
		2,234,780	(2,234,780)	
<u>\$ 3,857,588</u>	<u>\$ 1,633,811</u>	<u>\$ 7,772,051</u>	<u>\$ (7,772,051)</u>	<u>\$ -0-</u>
<u>\$ 4,042,301</u>	<u>\$ 1,831,210</u>	<u>\$ 8,725,632</u>		
			\$ (7,528,396)	\$ (7,528,396)
			3,593,972	3,593,972
			61,896	61,896
			2,307,244	2,307,244
			<u>\$ (1,565,284)</u>	<u>\$ (1,565,284)</u>

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

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**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2008**

Total Fund Balances – Governmental Funds	\$	7,772,051
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Unamortized bond issuance costs are not financial resources and therefore are not reported as assets in the governmental funds.		403,603
Land used in governmental activities is not a financial resource and therefore is not reported as an asset in the governmental funds.		462,247
Construction in progress is government activities is not a financial resource and therefore is not reported as an asset in the governmental funds.		365,811
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		8,518,028
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported as a liability in the governmental funds.		(425,847)
Deferred tax revenues for the 2007 and prior tax levies became part of recognized revenues in the governmental activities of the District.		126,291
Deferred penalty and interest revenues for the 2007 and prior tax levies became part of recognized revenues in the governmental activities of the District.		62,532
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		
Bonds Payable Within One Year	\$	(705,000)
Bonds Payable After One Year	<u>(18,145,000)</u>	<u>(18,850,000)</u>
Total Net Assets – Governmental Activities	\$	<u>(1,565,284)</u>

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



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	General Fund	Special Revenue Fund
<b>REVENUES</b>		
Property Taxes	\$ 589,418	\$
Sales Tax Receipts, Note 10	69,184	
Water Service	567,646	
Wastewater Service	441,151	583,054
Penalty and Interest	17,560	
Tap Connection and Inspection Fees	38,436	
Investment Revenues	81,458	
Miscellaneous Revenues	43,308	51
<b>TOTAL REVENUES</b>	<b>\$ 1,848,161</b>	<b>\$ 583,105</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 154,425	\$ 7,422
Contracted Services	306,846	46,798
Purchased Water Service, Note 8	323,395	
Purchased Wastewater Service, Note 9	439,973	
Utilities	45,044	154,369
Repairs and Maintenance	239,876	95,130
Depreciation, Note 6		
Other	114,484	159,958
Capital Outlay	114,459	119,428
Debt Service:		
Bond Principal		
Bond Interest		
Bond Issuance Costs		
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 1,738,502</b>	<b>\$ 583,105</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 109,659</b>	<b>\$ -0-</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In (Out), Note 14	\$ 15,769	\$
Long-Term Debt Issued, Note 14		
Discount on Bonds		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 15,769</b>	<b>\$ -0-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<b>\$ 125,428</b>	<b>\$</b>
<b>CHANGE IN NET ASSETS</b>		
<b>FUND BALANCES/NET ASSETS – OCTOBER 1, 2007</b>	<b>2,155,224</b>	
<b>FUND BALANCES/NET ASSETS – SEPTEMBER 30, 2008</b>	<b>\$ 2,280,652</b>	<b>\$ -0-</b>

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

Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
\$ 1,513,701	\$	\$ 2,103,119	\$ (43,466)	\$ 2,059,653
		69,184		69,184
		567,646		567,646
		1,024,205	(554,432)	469,773
64,865		82,425	501	82,926
		38,436		38,436
124,829	24,710	230,997		230,997
894		44,253		44,253
<u>\$ 1,704,289</u>	<u>\$ 24,710</u>	<u>\$ 4,160,265</u>	<u>\$ (597,397)</u>	<u>\$ 3,562,868</u>
\$ 27,405	\$ 18,000	\$ 207,252	\$	\$ 207,252
42,059		395,703		395,703
		323,395		323,395
		439,973	(439,973)	
		199,413		199,413
		335,006		335,006
			387,033	387,033
16,193	37	290,672		290,672
	445,881	679,768	(679,768)	
		670,000	(670,000)	
670,000		800,590	44,874	845,464
800,590		146,886	(146,886)	
<u>\$ 1,556,247</u>	<u>\$ 610,804</u>	<u>\$ 4,488,658</u>	<u>\$ (1,504,720)</u>	<u>\$ 2,983,938</u>
<u>\$ 148,042</u>	<u>\$ (586,094)</u>	<u>\$ (328,393)</u>	<u>\$ 907,323</u>	<u>\$ -0-</u>
\$	\$ (15,769)	\$	\$	\$
	1,975,000	1,975,000	(1,975,000)	
	(59,250)	(59,250)	59,250	
<u>\$ -0-</u>	<u>\$ 1,899,981</u>	<u>\$ 1,915,750</u>	<u>\$ (1,915,750)</u>	<u>\$ -0-</u>
\$ 148,042	\$ 1,313,887	\$ 1,587,357	\$ (1,587,357)	\$
			578,930	578,930
3,709,546	319,924	6,184,694	(8,328,908)	(2,144,214)
<u>\$ 3,857,588</u>	<u>\$ 1,633,811</u>	<u>\$ 7,772,051</u>	<u>\$ (9,337,335)</u>	<u>\$ (1,565,284)</u>

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



**CHIMNEY HILL 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 SEPTEMBER 30, 2008**

Change in Fund Balances - Governmental Funds	\$ 1,587,357
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report property tax revenues when collected. However, in the Statement of Activities, revenues are recorded in the accounting period for which the taxes are levied.	(43,466)
Governmental funds report penalty and interest revenue on tax collections when collected. However, in the Statement of Activities, revenues are recorded when the penalty and interest are assessed.	501
Governmental funds do not account for depreciation. However, in the Statement of Net Assets, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(387,033)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Assets, capital assets are increased by new purchases and the Statement of Activities is not affected.	565,309
Governmental funds report bond principal payments as expenditures. In the Statement of Net Assets, bond principal payments decrease long-term liabilities and the Statement of Activities is not affected.	670,000
Governmental funds report bond interest payments as expenditures in the year paid. However, in the Statement of Activities, interest is accrued on bonds through the fiscal year end and the amortized portion of bond issuance costs is added to bond interest expense.	(44,874)
Governmental funds report bond issuance costs paid out of the Capital Projects Fund as an expenditure. Bond discounts are reported as an other financing use. In the Statement of Net Assets, the bond issuance costs and the bond discount are amortized over the life of the bonds and the amortized portion is recorded as a bond interest expense in the Statement of Activities.	206,136
Governmental funds report bond proceeds as other financing sources. In the government-wide statements, the issuance of long-term debt increase liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	<u>(1,975,000)</u>
Change in Net Assets - Governmental Activities	<u>\$ 578,930</u>

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

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 1. CREATION OF DISTRICT**

Chimney Hill Municipal Utility District, located in Harris County, Texas (the "District"), was created effective September 16, 1976, by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the "Commission"). 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, wastewater service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct and maintain 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 December 17, 1976, and the first bonds were sold on November 17, 1977.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic 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. 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 Governmental Accounting Standards Board has established the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The District was created as an independent municipality. The District does not meet the criteria for inclusion as a component unit of any entity nor does any other entity meet the component unit criteria for inclusion in the District's basic financial statements.

Financial Statement Presentation

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34-Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation (Continued)

GASB Statement No. 34 established standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three (3) components: Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Assets – This component of net assets consists of external constraints placed on the use of net 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 Assets – This component of net assets consists of net assets that do not meet the definition of “Restricted” or “Invested in Capital Assets, Net of Related Debt.”

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 Assets and the Statement of Activities display information about the District as a whole. The District’s Statement of Net Assets 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 Assets 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 Assets.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

The District has four (4) governmental funds and considers these funds to be major funds.

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

Special Revenue Fund - To account for financial resources collected and administered by the District for the operation of the wastewater treatment plant.

Debt Service Fund - To account for ad valorem taxes and financial resources accumulated for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources segregated for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues reported in the governmental funds to be available if they are collectable within sixty (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.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting (Continued)

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

Amounts transferred from one fund to another fund are reported as another financing source or use. 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.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as an expenditure 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 of \$15,000 or more and a useful life of at least two (2) years. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
All Other Equipment	3-20



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts unappropriated budgets for the General Fund and the Special Revenue Fund. The budgets were not amended during the current fiscal year.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that the directors are considered to be “employees” for federal payroll tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Assets 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 assets, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net assets.

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 are included on the Balance Sheet as follows:

Reserved:

To indicate fund equity which is legally segregated for a specific future use.

Unreserved:

Designated - To indicate fund equity for which the District has made tentative plans.

Undesignated - To indicate fund equity which is available for use in future periods.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**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**

	Refunding Series 1997	Series 1998
Amount Outstanding - September 30, 2008	\$ 2,665,000	\$ 1,460,000
Interest Rates	5.25% - 5.50%	5.19% - 5.69%
Maturity Dates – Beginning/Ending	October 1, 2008/2011	October 1, 2008/2017
Interest Payment Dates	October 1/April 1	October 1/April 1
Callable Dates	October 1, 2006*	October 1, 2008**

\* Or any date thereafter, in such manner as the District may determine, callable at par plus unpaid accrued interest, in whole or in part, at the option of the District.

\*\* Or any date thereafter, in whole, or from time to time in part, in inverse order of maturity, at a price equal to the principal amount of the bonds to be redeemed plus accrued interest thereon to the date fixed for redemption.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 3. BONDS PAYABLE (Continued)**

	<u>Series 2000</u>	<u>Series 2003</u>
Amount Outstanding - September 30, 2008	\$ 1,080,000	\$ 7,200,000
Interest Rates	6.00%	4.10% - 5.00%
Maturity Dates – Beginning/Ending	October 1, 2018	October 1, 2015/2023
Interest Payment Dates	October 1/April 1	October 1/April 1
Callable Dates	October 1, 2007*	October 1, 2011*
	<u>Refunding Series 2004</u>	<u>Series 2008</u>
Amount Outstanding - September 30, 2008	\$ 4,470,000	\$ 1,975,000
Interest Rates	3.25% - 4.20%	4.00% - 4.40%
Maturity Dates – Beginning/Ending	October 1, 2008/2017	October 1, 2024/2026
Interest Payment Dates	October 1/April 1	October 1/April 1
Callable Dates	October 1, 2012*	October 15, 2015*

\* Or any date thereafter, in such manner as the District may determine, callable at par plus unpaid accrued interest, in whole or in part, at the option of the District.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 3. BONDS PAYABLE (Continued)**

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2008:

Bond Debt Payable – October 1, 2007		\$ 17,545,000
Add: Bond Sold – Series 2008		1,975,000
Less: Bond Principal Retirement		
Series 1997 Refunding	\$ 605,000	
Series 1998	10,000	
Series 2004 Refunding	<u>55,000</u>	<u>670,000</u>
Bond Debt Payable – September 30, 2008		<u>\$ 18,850,000</u>
Bond Debt Payable –		
Due Within One Year		\$ 705,000
Due After One Year		<u>18,145,000</u>
Bond Debt Payable – September 30, 2008		<u>\$ 18,850,000</u>
Original Bonds Voted		<u>\$ 46,025,000</u>
Original Bonds Approved		<u>\$ 24,400,000</u>
Original Bonds Issued		<u>\$ 24,400,000</u>
Refunding Bonds Voted		<u>\$ 16,100,000</u>
Refunding Bond Authorization Used (Refunding Bonds issued total \$19,685,000)		<u>\$ 10,205,000</u>

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 3. BONDS PAYABLE (Continued)**

As of September 30, 2008, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2009	\$ 705,000	\$ 840,532	\$ 1,545,532
2010	740,000	810,756	1,550,756
2011	780,000	771,480	1,551,480
2012	820,000	729,072	1,549,072
2013	870,000	689,888	1,559,888
2014-2018	4,900,000	2,851,285	7,751,285
2019-2023	6,520,000	1,478,646	7,998,646
2024-2027	<u>3,515,000</u>	<u>236,960</u>	<u>3,751,960</u>
Total	<u>\$ 18,850,000</u>	<u>\$ 8,408,619</u>	<u>\$ 27,258,619</u>

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 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 wastewater system.

During the year ended September 30, 2008, the District levied an ad valorem debt service tax at the rate of \$0.64 per \$100 of assessed valuation, which resulted in a tax levy of \$1,482,903 on the adjusted taxable valuation of \$231,502,851 for the 2007 tax year. The bond resolutions 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 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.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS**

A. The bond resolutions state that any profits realized from or interest accruing on investments shall belong to the fund from which the moneys for such investments were taken; provided, however, that at the discretion of the Board of Directors the profits realized from and interest accruing on investments made from any fund may be transferred to the Debt Service Fund.

B. The bond resolutions state that so long as any of the bonds remain outstanding, the District covenants that it will at all times keep insured such parts of the system as are customarily insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risks, accidents or casualties against which and to the extent insurance is customarily carried by such municipal corporations and political subdivisions; provided, however, that at any time while any contractor engaged in construction work shall be fully responsible therefor, the District shall not be required to carry such insurance.

The District has physical damage coverage of \$8,360,000, general liability coverage with a maximum limit of \$3,000,000 and umbrella liability coverage of \$2,000,000. The District also has boiler and machinery coverage of \$8,360,000, pollution liability of \$3,000,000 aggregate and pollution clean-up and removal coverage of \$25,000.

C. For the \$6,080,000 Series 1997 refunding bond issue funded on June 24, 1997, the \$7,200,000 Series 2003 bond issue funded on April 15, 2003 and the \$4,740,000 Series 2004 refunding bond issue funded on August 12, 2004, 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. The minimum requirement for determination of the rebatable amount is on the 5th year anniversary of each issue.

In compliance with this covenant, the 5<sup>th</sup> year arbitrage rebate reports were completed for the Series 1997 refunding bond issue and the Series 2003 bond issue. It was determined that the District did not have a rebate obligation to the federal government on the Series 1997 bond issue. The District made a yield restriction payment of \$8,454 to the federal government in 2008 on the Series 2003 bond issue.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS**  
(Continued)

- D. The bond resolutions state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to each nationally recognized municipal securities information repository and the state information depository. This information, along with the audited annual financial statements, is to be provided within six (6) months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$2,684,120 and the bank balance was \$2,882,641. Of the bank balance, \$807,429 was covered by federal depository insurance and the balance was collateralized by the pledge of securities held in safekeeping by a third-party institution in the District's name.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Assets at September 30, 2008, as listed below:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
GENERAL FUND	\$ 50,654	\$ 97,483	\$ 148,137
SPECIAL REVENUE FUND	15,107		15,107
DEBT SERVICE FUND	39,741	2,480,927	2,520,668
CAPITAL PROJECTS FUND	<u>208</u>	<u>          </u>	<u>208</u>
TOTAL DEPOSITS	<u>\$ 105,710</u>	<u>\$ 2,578,410</u>	<u>\$ 2,684,120</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.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

All investments are recorded at cost which the district considers to be fair value. The district invests in TexPool and TexSTAR, external investment pools that are not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool. Federated Investors manages the daily operations of TexPool under a contract with the Comptroller. First Southwest Asset Management, Inc. and JPMorgan Chase manage the daily operations of TexSTAR. The fair value of the District's position in each pool is the same as the value of pool shares.

As of September 30, 2008, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years		
		Less Than 1	1-5	6-10
<b>GENERAL FUND</b>				
TexPool	\$ 762,944	\$ 762,944	\$	\$
TexSTAR	1,649,525	1,649,525		
Certificates of Deposit	97,483	97,483		



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

Fund and Investment Type	Fair Value	Maturities in Years		
		Less Than 1	1-5	6-10
<u>DEBT SERVICE FUND -</u>				
TexPool	\$ 202,246	\$ 202,246	\$	\$
TexSTAR	2,097	2,097		
Certificates of Deposit	2,480,927	2,480,927		
<u>CAPITAL PROJECTS FUND -</u>				
TexPool	<u>1,831,002</u>	<u>1,831,002</u>		
<b>TOTAL INVESTMENTS</b>	<u><b>\$ 7,026,224</b></u>	<u><b>\$ 7,026,224</b></u>	<u><b>\$ -0-</b></u>	<u><b>\$ -0-</b></u>

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2008, the District's investments in TexPool and TexSTAR were rated "AAAm" by Standard and Poor's.

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

Restrictions

All cash and investments of the Special Revenue Fund are restricted for the payment of wastewater treatment plant operations.

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.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2008:

	October 1, 2007	Increases	Decreases	September 30, 2008
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 462,247	\$	\$	\$ 462,247
Construction in Progress	<u>86,816</u>	<u>565,310</u>	<u>286,315</u>	<u>365,811</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 549,063</u>	<u>\$ 565,310</u>	<u>\$ 286,315</u>	<u>\$ 828,058</u>
<b>Capital Assets at Historical Cost Subject to Depreciation</b>				
Water System	\$ 1,541,984	\$	\$	\$ 1,541,984
Wastewater System	3,884,392			3,884,392
Wastewater Treatment Plant	5,220,235	156,910		5,377,145
Water Plants	<u>1,972,676</u>	<u>129,405</u>		<u>2,102,081</u>
<b>Total Capital Assets at Historical Cost Subject to Depreciation</b>	<u>\$ 12,619,287</u>	<u>\$ 286,315</u>	<u>\$ -0-</u>	<u>\$ 12,905,602</u>
<b>Less Accumulated Depreciation</b>				
Water System	\$ 697,041	\$ 34,360	\$	\$ 731,401
Wastewater System	1,250,401	89,163		1,339,564
Wastewater Treatment Plant	918,570	202,696		1,121,266
Water Plants	<u>1,134,529</u>	<u>60,814</u>		<u>1,195,343</u>
<b>Total Accumulated Depreciation</b>	<u>\$ 4,000,541</u>	<u>\$ 387,033</u>	<u>\$ -0-</u>	<u>\$ 4,387,574</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 8,618,746</u>	<u>\$ (100,718)</u>	<u>\$ -0-</u>	<u>\$ 8,518,028</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 9,167,809</u>	<u>\$ 464,592</u>	<u>\$ 286,315</u>	<u>\$ 9,346,086</u>

The District has financed drainage facilities which have been conveyed to other entities for maintenance. In addition, the District constructed water supply facilities at an approximate cost of \$1,027,617 to allow for the District to receive water from the City of Houston, see Note 8. Such facilities have been conveyed to the City for operations and maintenance.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 7. MAINTENANCE TAX**

On January 15, 1977, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.25 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 wastewater system. During the year ended September 30, 2008, the District levied an ad valorem maintenance tax at the rate of \$0.25 per \$100 of assessed valuation which resulted in a tax levy of \$579,259 on the adjusted taxable valuation of \$231,502,851 for the 2007 tax year.

**NOTE 8. WATER SUPPLY AGREEMENTS**

Camfield Municipal Utility District

On December 30, 1980, the District executed a water supply agreement with a developer within Camfield Municipal Utility District ("Camfield"). Subsequent to that date, the contract was assigned to Camfield Municipal Utility District and has had four supplemental agreements executed.

The agreements provide for the District to construct a 1,200 gallon-per-minute water well and plant. The District and Camfield agreed to provide their own service lines to connect to the new well and plant. The District owns the plant and site. In accordance with the agreement, Camfield paid the District \$20,000 which was recorded as revenue in a prior year. The District purchased the water plant site from Camfield for \$20,000 which was paid from the Capital Projects Fund.

The District agrees to provide Camfield 50,000 gallons per day of water at a cost of 2 1/4 times the single-family residential rate charged by the District. Camfield agrees to pay a minimum payment of \$900 per month from the date of actual connection to the system. Any excess payment beyond usage shall be carried forward from month to month. Camfield has used all of its excess payments. The term of the agreement is forty (40) years and thereafter from year to year. Either district may terminate the agreement by giving one year written notice; however, if water usage by Camfield falls below 5,000 gallons per day for six out of twelve consecutive months, then either district may terminate the agreement by giving six month's written notice.

During the current fiscal year, the District recorded revenue of \$66,384 for water supplied to Camfield. At September 30, 2008, Camfield owed the District \$31,509 for water supplied under the terms of this agreement.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 8. WATER SUPPLY AGREEMENTS (Continued)**

Spencer Road Public Utility District

On December 20, 1977, the District entered into an emergency water supply contract with Spencer Road Public Utility District ("Spencer Road"). Each district is responsible for one-half of the cost of constructing the interconnect line and one-half of all repairs and maintenance of the connecting valve. Each district is also responsible for maintaining and repairing that part of the facilities within their boundaries. The term of the contract is forty (40) years. The contract was amended on May 13, 2002 to revise the price to be paid for water.

The price to be paid by any party using water under this contract shall be the current rate that the District is paying the City of Houston (COH) plus \$0.25 per 1,000 gallons of water used. If the District has already purchased the minimum monthly quantity from COH at the time the interconnect is opened by Spencer Road or the opening of the interconnect for Spencer Road causes the District to purchase more than the minimum monthly quantity from COH, Spencer Road shall also pay all penalties and surcharges incurred by the District. Each party shall render a bill to the other on or before the nineteenth (19<sup>th</sup>) day of each month for water supplied during the preceding calendar month, as measured by the flow meter installed, and such bill shall be due and payable thirty (30) days after such bill is rendered.

An 8-inch electronic bi-directional flow-meter has been constructed and installed by the District. The District paid \$29,654 for the flow-meter installation, and Spencer Road agrees to pay fifty (50%) percent of the costs, \$14,827. The District is allowing Spencer Road a credit of \$2,485 for costs incurred by Spencer Road for remote meter reading equipment installation. The total agreed upon payment by Spencer Road is \$12,342. Spencer Road shall pay this amount in the form of a flow-meter fee of \$0.75 per 1,000 gallons of water pumped through the flow-meter in addition to the rate agreed to above.

City of Houston, Texas

Effective March 3, 1998, the District entered into a water supply contract with the City of Houston ("COH"). The District was responsible for 58% of the cost of constructing the water main on FM529 and 100% of the cost of the water tap and water main on Mayard Road. COH's share of the project was limited to \$321,000. On March 23, 2001, the District conveyed to COH title to the FM529 water main and the Mayard Road tap and meter. COH is responsible for operating, maintaining, repairing and replacing the facilities conveyed to it. As a result of this contract, the District has achieved more than 80% reduction in its groundwater withdrawals and has opted out of the West Harris County Regional Water Authority.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 8. WATER SUPPLY AGREEMENTS (Continued)**

City of Houston (Continued)

The charge for water shall be in accordance with the rates for contract treated water customers established by COH ordinance. The current rate is \$1.793 per thousand gallons. The District's minimum bill is based upon 0.462 million gallons per day times the number of days in the billing period. COH adds an additional fee to all usage over the minimum bill, determined by multiplying the excess gallons used (expressed in units of one thousand gallons) times a current rate of \$0.582. The District can revise its minimum quantity no more than once each calendar year. The term of the contract is forty (40) years.

During the current fiscal year, the District recorded an expenditure of \$323,395 for water purchased from COH.

Harris County Municipal Utility District No. 130

On May 8, 2002, the District and Harris County Municipal Utility District No. 130 ("District No. 130") entered into an interim and emergency water supply contract. District No. 130 is responsible for constructing and maintaining the interconnect line at its sole cost and expense.

The price to be paid for water during an emergency shall be the greater of (1) \$1.50 per thousand gallons of water delivered, as measured by the flow meter; or (2) \$0.25 per thousand gallons of water delivered plus the cost per thousand gallons paid by the supplying district to purchase water from another entity. In addition, all reasonable costs incurred by the supplying district in implementing the interconnect during an emergency shall be borne by the district receiving water. The term of this portion of the contract is ten (10) years and shall continue for additional one (1) year periods unless terminated by either district by providing sixty (60) days written notice.

The District has agreed to provide District No. 130, on an interim basis, 1.2 million gallons per month. District No. 130 has agreed to pay for the operations, engineering, and legal costs incurred by the District in connection with this request for water service. The price for interim water shall be the current rate being charged by the City of Houston to the District, plus an additional \$0.04 per thousand gallons of water delivered. District No. 130 is obligated to pay the District for a minimum of 1.2 million gallons per month. All water delivered to District No. 130 shall be metered. The initial term of this portion of the contract is five years and shall automatically renew for additional one (1) year periods until March 3, 2038, subject to various termination provisions.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 8. WATER SUPPLY AGREEMENTS (Continued)**

Harris County Municipal Utility District No. 130 (Continued)

On July 1, 2003, the contract was amended and restated to provide for a metered bypass line at the point of delivery, for use during the emergency delivery of water. Each district will pay half the cost of the bypass line construction and bypass meter purchase and installation. Each district will pay half the costs of maintaining the bypass line and bypass meter.

On May 27, 2005, the District approved a letter agreement with District No. 130 whereby the District will terminate the interim water supply provisions. In accordance with Section 4.04 of the contract, termination of the interim water supply provisions during the initial five-year term will not become effective until: (1) the City of Houston agrees to reduce the District's monthly allotment of water purchased pursuant to the contract between the City of Houston and the District or the District agrees to assume District No. 130's monthly allotment, and (2) District No. 130 acquires a permanent water supply through the West Harris County Regional Water Authority (the "Authority") or the Copperfield Consortium. The District has agreed to assume District No. 130's 1.2 million gallons per month allotment under the contract. By letter dated May 1, 2007, District No. 130 notified the District that District No. 130 had acquired a permanent water supply from the Authority; therefore, the interim water supply to District No. 130 has now ceased.

**NOTE 9. WASTE DISPOSAL AGREEMENT**

On April 13, 1984, the District executed a waste disposal agreement with Camfield Municipal Utility District ("Camfield"). On October 12, 1984, a supplemental waste disposal agreement was executed. On May 20, 1988, a second supplemental waste disposal agreement was executed. The agreement allowed the District to construct a 600,000 gallon per day (gpd) wastewater treatment plant on a site designated by Camfield. The agreement gave Camfield the right to acquire capacity of 60,000 gpd in the initial phase of the plant provided that Camfield paid a pro rata share of the costs of design and construction. Camfield and its developer were responsible for all reasonable costs associated with the relocation of the plant site.

On September 11, 1992 a restated waste disposal agreement was executed. This agreement sets forth provisions for the first phase of construction of the plant, future enlargements and amendments to the waste discharge permit held jointly by the parties. This agreement sets aside all prior agreements between the District and Camfield relating to waste disposal. The agreement includes specifications for expansion of the plant by one or both of the parties. The



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 9. WASTE DISPOSAL AGREEMENT (Continued)**

District will operate the plant and hold title for the benefit of the parties. The term of the agreement is forty (40) years.

During fiscal year 1992, the initial phase of the plant was completed at a total cost of \$1,674,966 which included the plant site, engineering, and construction costs. Camfield's 10% share was \$167,497 and the District's 90% share was \$1,507,469. Camfield paid \$167,497 to the District for its pro rata share of the costs.

Amendment No. 1 to the agreement dated October 21, 1993, reduced the ultimate capacity of the plant from 1,500,000 gpd to 900,000 gpd. Amendment No. 2 to the agreement dated May 28, 1999, authorized the transfer of Camfield's interest in the waste discharge permit to the District. The amended permit was approved by the Commission on May 4, 1999. Amendment No. 3 dated June 9, 2000, transferred 10,000 gpd capacity from Camfield to the District. The ultimate capacity of the plant was increased from 900,000 gpd to 1,200,000 gpd. In 1999, the District began the design of the Plant expansion to reach the ultimate capacity. The District is responsible for 100% of the expansion costs. The Plant expansion was completed in November of 2004.

	Current Capacity	Percentage of Ownership
Chimney Hill Municipal Utility District	1,150,000 gpd	95.84%
Camfield Municipal Utility District	50,000	4.16
	1,200,000 gpd	100.00%

The participating districts are billed for operating charges on a monthly basis. The monthly billing to each district is based on the amount of flow to the plant from each district. An operating reserve of \$20,000 has been established by the districts, \$18,000 advanced by the District and \$2,000 advanced by Camfield. During the current year the District recorded expenditures of \$439,973 for purchased wastewater service and \$114,459 for capital outlay under this agreement. Separate financial statements on the wastewater treatment plant can be obtained by contacting Coats, Rose, Yale, Ryman & Lee, P.C. at (713) 651-0111.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 10. STRATEGIC PARTNERSHIP AGREEMENT**

Effective July 11, 2006, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas. The agreement provides that in accordance with Subchapter F of Chapter 43 of the Local Government Code and the Act, the City shall annex a tract of land defined as the "Tract" for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Tract within the boundaries of the District. The District will continue to develop, to own, and to operate and maintain a water, wastewater, and drainage system in the District.

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

After the Tract is annexed for limited purposes by the City, the qualified voters of the Tract may vote in City elections pursuant to Local Government Code. The City is responsible for notifying the voters within the Tract.

The City will impose a Sales and Use Tax within the boundaries of the Tract upon the limited-purpose annexation of the Tract beginning October 1, 2006. The Sales and Use Tax shall be imposed on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under the future amendments to Chapter 321 of the Tax Code. The City agreed to pay to the District an amount equal to one-half of all Sales and Use Tax receipts generated within the boundaries of the Tract. The City agreed to deliver to the District its share of the sales tax receipts within thirty (30) days of the City receiving the funds from the State Comptroller's office. During the current fiscal year, the District recorded sales tax receipts of \$69,184 of which \$17,360 was recorded as receivable at the end of the year.

The City agrees that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement. The term of this Agreement is thirty (30) years from the effective date of the agreement.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 11. ESCROW REQUIREMENTS**

On April 15, 2003, the District closed the sale of its Series 2003 bonds in the amount of \$7,200,000. At that time, the District was required by the Commission to escrow \$1,149,170 for the Water Plant No. 1 improvements and water and wastewater line rehabilitation. On March 30, 2004, the Commission approved the release of \$357,610 for Water Plant No. 1 improvements. On September 24, 2004, the Commission approved the release of \$131,200 for the first stage of its wastewater line rehabilitation project. On March 6, 2006, the Commission approved the release of \$377,660 for wastewater line rehabilitation in Chimney Hill Subdivision, Sections 1, 2, 3, 4 and 5. On January 24, 2008, the Commission approved a change in project scope and the release of \$282,700 for the construction of Ground Storage Tank No. 3 at Water Plant No. 1. No funds remain in escrow as of September 30, 2008.

**NOTE 12. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three (3) fiscal years.

**NOTE 13. INTERFUND PAYABLES AND RECEIVABLES**

Due To	Due From			Totals
	General Fund	Debt Service Fund	Capital Projects Fund	
General Fund:				
Maintenance Tax Collections	\$	\$ 9,241	\$	\$ 9,241
Series 2008 Bond Filing Fee			500	500
Special Revenue Fund:				
Wastewater Services for September	<u>28,760</u>			<u>28,760</u>
	<u>\$ 28,760</u>	<u>\$ 9,241</u>	<u>\$ 500</u>	<u>\$ 38,501</u>



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 14. BOND SALE**

On May 20, 2008, the District closed on the sale of its Series 2008 bonds in the amount of \$1,975,000. Proceeds from the bond sale are to be used to finance the installation of new booster pumps and an associated building, coating of the interior of the District's Elevated Storage Tank and rehabilitation of a portion of the District's wastewater collection system; and pay for bond issuance costs.

During the current fiscal year, the District recorded a transfer of \$15,769 to reimburse the General Fund for engineering fees paid in the prior fiscal year on the Elevated Storage Tank project.

**NOTE 15. USE OF SURPLUS**

On April 27, 2007, the District adopted a resolution authorizing the use of approximately \$104,000 of surplus funds to finance the District's share of the construction costs for odor control improvements at the District's wastewater treatment plant. Under the rules of the Commission, specifically 30 TAC §293.83(c)(B), the District meets the requirements to use surplus funds for this project without further Commission approval. During the prior fiscal year, \$103,124 was transferred to the General Fund for this project. The project was completed during the current fiscal year. The District's share of the completed project was \$156,909.

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**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2008**



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 550,000	\$ 589,418	\$ 39,418
Sales Tax Receipts	60,000	69,184	9,184
Water Service	627,500	567,646	(59,854)
Wastewater Service	379,000	441,151	62,151
Penalty and Interest	15,000	17,560	2,560
Tap Connection and Inspection Fees		38,436	38,436
Investment Revenues	115,000	81,458	(33,542)
Miscellaneous Revenues	<u>43,308</u>	<u>43,308</u>	<u>43,308</u>
<b>TOTAL REVENUES</b>	<b>\$ 1,746,500</b>	<b>\$ 1,848,161</b>	<b>\$ 101,661</b>
<b>EXPENDITURES</b>			
Service Operations:			
Professional Fees	\$ 168,000	\$ 154,425	\$ 13,575
Contracted Services	239,000	306,846	(67,846)
Purchased Water Service	315,000	323,395	(8,395)
Purchased Wastewater Service	441,101	439,973	1,128
Utilities	60,000	45,044	14,956
Repairs and Maintenance	265,000	239,876	25,124
Other	156,245	114,484	41,761
Capital Outlay	<u>114,459</u>	<u>114,459</u>	<u>(114,459)</u>
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,644,346</b>	<b>\$ 1,738,502</b>	<b>\$ (94,156)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 102,154</b>	<b>\$ 109,659</b>	<b>\$ 7,505</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	\$ -0-	\$ 15,769	\$ 15,769
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<b>\$ 102,154</b>	<b>\$ 125,428</b>	<b>\$ 23,274</b>
<b>FUND BALANCE – OCTOBER 1, 2007</b>	<b><u>2,155,224</u></b>	<b><u>2,155,224</u></b>	<b><u>          </u></b>
<b>FUND BALANCE – SEPTEMBER 30, 2008</b>	<b><u>\$ 2,257,378</u></b>	<b><u>\$ 2,280,652</u></b>	<b><u>\$ 23,274</u></b>

The accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
SPECIAL REVENUE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Wastewater Service	\$ 457,100	\$ 583,054	\$ 125,954
Investment Revenue		51	51
<b>TOTAL REVENUES</b>	<u>\$ 457,100</u>	<u>\$ 583,105</u>	<u>\$ 126,005</u>
<b>EXPENDITURES</b>			
Service Operations:			
Professional Fees	\$ 8,600	\$ 7,422	\$ 1,178
Contracted Services	45,000	46,798	(1,798)
Utilities	175,000	154,369	20,631
Repairs and Maintenance	85,000	95,130	(10,130)
Other	143,500	159,958	(16,458)
Capital Outlay		<u>119,428</u>	<u>(119,428)</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 457,100</u>	<u>\$ 583,105</u>	<u>\$ (126,005)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ -0-	\$ -0-	\$ -0-
<b>FUND BALANCE – OCTOBER 1, 2007</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>FUND BALANCE – SEPTEMBER 30, 2008</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

The accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**SUPPLEMENTARY INFORMATION REQUIRED BY THE**  
**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**  
**SEPTEMBER 30, 2008**



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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

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

**2. RETAIL SERVICE PROVIDERS**

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

Based on the rate order effective August 15, 2008.

	<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:	\$ 15.00	6,000	N	\$ 2.50	6,001 to 15,000
				3.00	15,001 to 20,000
				3.50	20,001 to 25,000
				4.00	25,001 and up
WASTEWATER:	\$ 31.20*	10,000	N	\$ 1.25	10,001 to 20,000
				1.75	20,001 and up

**SURCHARGE:**

District employs winter averaging for wastewater usage?

\_\_\_\_\_   X    
Yes            No

Total monthly charges per 10,000 gallons usage: Water: \$25.00 Wastewater: \$31.20 Surcharge: \$ -0- Total: \$56.20

\* The minimum sanitary sewer rate specified above shall be increased to \$31.20 for each single-family residential subdivision according to the following schedule: (1) Westbrook Lakes - April 1, 2008; (2) Chimney Hill 4, 5, 6/Eldridge Meadow - July 1, 2008; and (3) Chimney Hill 1, 2, 3 - October 1, 2008.

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**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>1,666</u>	<u>1,640</u>	x 1.0	<u>1,640</u>
1"	<u>105</u>	<u>105</u>	x 2.5	<u>263</u>
1½"	<u>1</u>	<u>1</u>	x 5.0	<u>5</u>
2"	<u>18</u>	<u>18</u>	x 8.0	<u>144</u>
3"	<u>1</u>	<u>1</u>	x 15.0	<u>15</u>
4"			x 25.0	
6"	<u>1</u>	<u>1</u>	x 50.0	<u>50</u>
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u><u>1,792</u></u>	<u><u>1,766</u></u>		<u><u>2,117</u></u>
Total Wastewater Connections	<u><u>1,784</u></u>	<u><u>1,758</u></u>	x 1.0	<u><u>1,758</u></u>

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

Gallons pumped into system:	10,881,000	Water Accountability Ratio: 97.4% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	168,495,000	
Gallons purchased:	173,119,000	From: City of Houston
Gallons sold:	3,244,000	To: Harris County Municipal Utility District No. 130
Gallons sold:	7,469,000	To: Camfield Municipal Utility District

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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

Does the District have Debt Service standby fees? Yes  No

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes  No

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely  Partly  Not at all

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

Entirely  Partly  Not at all

ETJ's in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes  No

See accompanying independent auditor's report.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

PERSONNEL EXPENDITURES (Including Benefits)	\$ <u>-0-</u>
PROFESSIONAL FEES:	
Auditing	\$ 12,500
Engineering	32,844
Legal	<u>109,081</u>
TOTAL PROFESSIONAL FEES	\$ <u>154,425</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 323,395
Purchased Wastewater Service	<u>439,973</u>
TOTAL PURCHASED SERVICES FOR RESALE	\$ <u>763,368</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 13,150
Operations and Billing	<u>74,350</u>
TOTAL CONTRACTED SERVICES	\$ <u>87,500</u>
UTILITIES -- Electricity	\$ <u>45,044</u>
REPAIRS AND MAINTENANCE	\$ <u>239,876</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 27,600
Dues	550
Election Costs	90
Insurance	13,443
Legal Notices	543
Office Supplies and Postage	26,088
Payroll Taxes	1,612
Travel and Meetings	2,079
Other	<u>14,660</u>
TOTAL ADMINISTRATIVE EXPENDITURES	\$ <u>86,665</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

CAPITAL OUTLAY:	
Capitalized Assets	\$ 114,459
Expenditures not Capitalized	<u>                    </u>
TOTAL CAPITAL OUTLAY	<u>\$ 114,459</u>
TAP CONNECTION EXPENDITURES	<u>\$ 10,949</u>
SOLID WASTE DISPOSAL	<u>\$ 54,259</u>
FIRE FIGHTING	<u>\$ -0-</u>
PARKS AND RECREATION	<u>\$ -0-</u>
SECURITY	<u>\$ 165,087</u>
OTHER EXPENDITURES:	
Chemicals	\$ 3,150
Inspection Fees	83
Laboratory Fees	6,185
Permit Fees	3,157
Regulatory Assessment	<u>4,295</u>
TOTAL OTHER EXPENDITURES	<u>\$ 16,870</u>
TOTAL EXPENDITURES	<u>\$ 1,738,502</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**INVESTMENTS**  
**SEPTEMBER 30, 2008**

<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>
<b><u>GENERAL FUND</u></b>					
TexPool	2565100002	2.4068%	Daily	\$ 762,944	\$
TexSTAR	25651-2222-000	2.2986%	Daily	1,649,525	
Certificate of Deposit	4017836	3.3500%	12/22/08	<u>97,483</u>	<u>886</u>
<b>TOTAL GENERAL FUND</b>				<b>\$ 2,509,952</b>	<b>\$ 886</b>
<b><u>DEBT SERVICE FUND</u></b>					
TexPool	2565100001	2.4068%	Daily	\$ 202,246	\$
TexSTAR	25651-3333-000	2.2986%	Daily	2,097	
Certificate of Deposit	8939167519	2.4500%	10/07/08	95,000	1,122
Certificate of Deposit	3848004	3.1700%	10/06/08	1,500,000	19,150
Certificate of Deposit	1	3.3000%	12/29/08	95,000	782
Certificate of Deposit	3300034725	3.1500%	01/26/09	97,225	537
Certificate of Deposit	3414933	3.2800%	04/13/09	500,000	2,247
Certificate of Deposit	50492	2.5000%	03/23/09	98,702	54
Certificate of Deposit	9161159	3.3000%	03/23/09	<u>95,000</u>	<u>69</u>
<b>TOTAL DEBT SERVICE FUND</b>				<b>\$ 2,685,270</b>	<b>\$ 23,961</b>
<b><u>CAPITAL PROJECTS FUND</u></b>					
TexPool	2565100004	2.4068%	Daily	\$ 1,831,002	\$ -0-
<b>TOTAL - ALL FUNDS</b>				<b>\$ 7,026,224</b>	<b>\$ 24,847</b>

See accompanying independent auditor's report.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Maintenance Tax		Debt Service Tax	
TAXES RECEIVABLE –				
OCTOBER 1, 2007	\$ 37,122		\$ 132,635	
Adjustments to Beginning Balance	<u>(371)</u>	\$ 36,751	<u>(2,137)</u>	\$ 130,498
Original 2007 Tax Roll	\$ 539,178		\$1,380,295	
Adjustment to 2007 Tax Roll	<u>40,081</u>	<u>579,259</u>	<u>102,608</u>	<u>1,482,903</u>
TOTAL TO BE ACCOUNTED FOR		\$ 616,010		\$ 1,613,401
TAX COLLECTIONS:				
Prior Years	\$ 17,812		\$ 50,390	
Current Year	<u>571,606</u>	<u>589,418</u>	<u>1,463,312</u>	<u>1,513,702</u>
TAXES RECEIVABLE --				
SEPTEMBER 30, 2008		<u>\$ 26,592</u>		<u>\$ 99,699</u>
TAXES RECEIVABLE BY YEAR:				
2007		\$ 7,653		\$ 19,591
2006		9,783		26,609
2005		3,300		9,239
2004		3,454		10,087
2003		566		8,381
2002		914		10,588
2001		485		5,614
2000		365		4,413
1999		33		879
1998		39		1,068
1997				874
1996				823
1995				630
1994				635
1993				111
1992				<u>157</u>
TOTAL		<u>\$ 26,592</u>		<u>\$ 99,699</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
PROPERTY VALUATIONS:				
Land	\$ 36,275,672	\$ 32,418,240	\$ 22,543,512	\$ 29,329,840
Improvements	190,305,405	183,245,479	185,941,217	173,523,280
Personal Property	16,386,670	17,773,705	12,607,470	11,051,310
Exemptions	<u>(11,464,896)</u>	<u>(7,876,349)</u>	<u>(3,235,450)</u>	<u>(2,270,550)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 231,502,851</u>	<u>\$ 225,561,075</u>	<u>\$ 217,856,749</u>	<u>\$211,633,880</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.640	\$ 0.680	\$ 0.700	\$ 0.730
Maintenance **	<u>0.250</u>	<u>0.250</u>	<u>0.250</u>	<u>0.250</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.890</u>	<u>\$ 0.930</u>	<u>\$ 0.950</u>	<u>\$ 0.980</u>
ADJUSTED TAX LEVY*	<u>\$ 2,062,162</u>	<u>\$ 2,103,816</u>	<u>\$ 2,073,279</u>	<u>\$ 2,074,022</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>98.68%</u>	<u>98.27%</u>	<u>99.40%</u>	<u>99.34%</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 \$0.25 per \$100 of assessed valuation approved by voters on January 15, 1977.

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2008**

REFUNDING SERIES - 1 9 9 7

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/April 1	Total
2009	\$ 640,000	\$ 127,078	\$ 767,078
2010	595,000	94,288	689,288
2011	705,000	59,087	764,087
2012	725,000	19,938	744,938
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
<b>TOTAL</b>	<u>\$ 2,665,000</u>	<u>\$ 300,391</u>	<u>\$ 2,965,391</u>

See accompanying independent auditor's report.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2008**

SERIES - 1 9 9 8

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/April 1	Total
2009	\$ 10,000	\$ 82,615	\$ 92,615
2010	10,000	82,093	92,093
2011	15,000	81,431	96,431
2012	15,000	80,622	95,622
2013	5,000	80,076	85,076
2014	5,000	79,797	84,797
2015	5,000	79,516	84,516
2016	440,000	66,857	506,857
2017	465,000	41,111	506,111
2018	490,000	13,941	503,941
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
<b>TOTAL</b>	<b><u>\$ 1,460,000</u></b>	<b><u>\$ 688,059</u></b>	<b><u>\$ 2,148,059</u></b>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2008**

SERIES - 2 0 0 0

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/April 1	Total
2009	\$	\$ 64,800	\$ 64,800
2010		64,800	64,800
2011		64,800	64,800
2012		64,800	64,800
2013		64,800	64,800
2014		64,800	64,800
2015		64,800	64,800
2016		64,800	64,800
2017		64,800	64,800
2018		64,800	64,800
2019	1,080,000	32,400	1,112,400
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
<b>TOTAL</b>	<u>\$ 1,080,000</u>	<u>\$ 680,400</u>	<u>\$ 1,760,400</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2008**

S E R I E S - 2 0 0 3

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/April 1	Total
2009	\$	\$ 313,732	\$ 313,732
2010		313,732	313,732
2011		313,732	313,732
2012		313,732	313,732
2013		313,732	313,732
2014		313,733	313,733
2015		313,733	313,733
2016	65,000	312,311	377,311
2017	75,000	309,248	384,248
2018	80,000	305,858	385,858
2019	80,000	302,358	382,358
2020	1,230,000	269,858	1,499,858
2021	1,300,000	212,458	1,512,458
2022	1,375,000	156,933	1,531,933
2023	1,455,000	97,139	1,552,139
2024	1,540,000	33,110	1,573,110
2025			
2026			
2027			
<b>TOTAL</b>	<b><u>\$ 7,200,000</u></b>	<b><u>\$ 4,195,399</u></b>	<b><u>\$ 11,395,399</u></b>

See accompanying independent auditor's report.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2008**

REFUNDING SERIES - 2 0 0 4

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/April 1	Total
2009	\$ 55,000	\$ 177,599	\$ 232,599
2010	135,000	174,343	309,343
2011	60,000	170,930	230,930
2012	80,000	168,480	248,480
2013	865,000	149,780	1,014,780
2014	900,000	114,480	1,014,480
2015	930,000	77,880	1,007,880
2016	465,000	49,980	514,980
2017	480,000	30,840	510,840
2018	500,000	10,500	510,500
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
<b>TOTAL</b>	<u>\$ 4,470,000</u>	<u>\$ 1,124,812</u>	<u>\$ 5,594,812</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2008**

S E R I E S - 2 0 0 8

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/April 1	Total
2009	\$	\$ 74,708	\$ 74,708
2010		81,500	81,500
2011		81,500	81,500
2012		81,500	81,500
2013		81,500	81,500
2014		81,500	81,500
2015		81,500	81,500
2016		81,500	81,500
2017		81,500	81,500
2018		81,500	81,500
2019		81,500	81,500
2020		81,500	81,500
2021		81,500	81,500
2022		81,500	81,500
2023		81,500	81,500
2024		81,500	81,500
2025	625,000	67,750	692,750
2026	660,000	40,800	700,800
2027	690,000	13,800	703,800
<b>TOTAL</b>	<b><u>\$ 1,975,000</u></b>	<b><u>\$ 1,419,558</u></b>	<b><u>\$ 3,394,558</u></b>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2008**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2009	\$ 705,000	\$ 840,532	\$ 1,545,532
2010	740,000	810,756	1,550,756
2011	780,000	771,480	1,551,480
2012	820,000	729,072	1,549,072
2013	870,000	689,888	1,559,888
2014	905,000	654,310	1,559,310
2015	935,000	617,429	1,552,429
2016	970,000	575,448	1,545,448
2017	1,020,000	527,499	1,547,499
2018	1,070,000	476,599	1,546,599
2019	1,160,000	416,258	1,576,258
2020	1,230,000	351,358	1,581,358
2021	1,300,000	293,958	1,593,958
2022	1,375,000	238,433	1,613,433
2023	1,455,000	178,639	1,633,639
2024	1,540,000	114,610	1,654,610
2025	625,000	67,750	692,750
2026	660,000	40,800	700,800
2027	690,000	13,800	703,800
<b>TOTAL</b>	<b><u>\$ 18,850,000</u></b>	<b><u>\$ 8,408,619</u></b>	<b><u>\$ 27,258,619</u></b>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Description	Original Bonds Issued	Bonds Outstanding October 1, 2007
Chimney Hill Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds – Series 1997	\$ 6,080,000	\$ 3,270,000
Chimney Hill Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds – Series 1998	1,520,000	1,470,000
Chimney Hill Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds – Series 2000	2,580,000	1,080,000
Chimney Hill Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds – Series 2003	7,200,000	7,200,000
Chimney Hill Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds – Series 2004	4,740,000	4,525,000
Chimney Hill Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds – Series 2008	<u>1,975,000</u>	<u>                    </u>
<b>TOTAL</b>	<b><u>\$ 24,095,000</u></b>	<b><u>\$ 17,545,000</u></b>

\*

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

See accompanying independent auditor's report.



Current Year Transactions			Bonds Outstanding September 30, 2008	Paying Agent
Bonds Sold	Retirements			
	Principal	Interest		
\$	\$ 605,000	\$ 159,608	\$ 2,665,000	The Bank of New York Mellon Trust Company, N.A. Houston, TX
	10,000	83,132	1,460,000	The Bank of New York Mellon Trust Company, N.A. Houston, TX
		64,800	1,080,000	The Bank of New York Mellon Trust Company, N.A. Houston, TX
		313,733	7,200,000	The Bank of New York Mellon Trust Company, N.A. Houston, TX
	55,000	179,317	4,470,000	The Bank of New York Mellon Trust Company, N.A. Houston, TX
<u>1,975,000</u>			<u>1,975,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ 1,975,000</u>	<u>\$ 670,000</u>	<u>\$ 800,590</u>	<u>\$ 18,850,000</u>	

\* The District has fully retired its Series 1977 bonds in the amount of \$2,165,000, Series 1978 bonds in the amount of \$1,075,000, Series 1981 bonds in the amount of \$1,935,000, Series 1984 bonds in the amount of \$3,065,000, Series 1982 bonds in the amount of \$640,000, Series 1985 bonds in the amount of \$2,245,000, Series 1991 refunding bonds in the amount of \$5,705,000 and Series 1995 refunding bonds in the amount of \$3,160,000.

See accompanying independent auditor's report.

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**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Bond Authority:	<u>Original Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 46,025,000	\$ 16,100,000
Amount Issued	<u>24,400,000</u>	<u>10,205,000</u>
Remaining to be Issued	<u>\$ 21,625,000</u>	<u>\$ 5,895,000</u>
 Debt Service Fund cash, investments and cash with paying agent balances as of September 30, 2008:		 <u>\$ 3,855,859</u>
Average annual debt service payment (principal & interest) for remaining term of all bond debt:		 <u>\$ 1,434,664</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	Amounts		
	2008	2007	2006
<b>REVENUES</b>			
Property Taxes	\$ 589,418	\$ 557,099	\$ 539,766
Sales Tax Receipts	69,184	60,849	
Water Service	567,646	532,408	577,865
Wastewater Service	441,151	345,648	355,281
Penalty and Interest	17,560	13,464	15,305
Tap Connection and Inspection Fees	38,436	2,700	6,885
Investment Revenues	81,458	118,025	91,608
Miscellaneous Revenues	<u>43,308</u>	<u>41,364</u>	<u>41,870</u>
<b>TOTAL REVENUES</b>	<b><u>\$ 1,848,161</u></b>	<b><u>\$ 1,671,557</u></b>	<b><u>\$ 1,628,580</u></b>
<b>EXPENDITURES</b>			
Professional Fees	\$ 154,425	\$ 167,265	\$ 134,265
Contracted Services	306,846	228,608	198,360
Purchased Water Service	323,395	268,835	259,775
Purchased Wastewater Service	439,973	398,970	422,123
Utilities	45,044	50,062	52,142
Repairs and Maintenance	239,876	175,875	162,131
Other	114,484	126,864	126,577
Capital Outlay	<u>114,459</u>	<u>54,716</u>	<u>39,513</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$ 1,738,502</u></b>	<b><u>\$ 1,471,195</u></b>	<b><u>\$ 1,394,886</u></b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b><u>\$ 109,659</u></b>	<b><u>\$ 200,362</u></b>	<b><u>\$ 233,694</u></b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	<u>\$ 15,769</u>	<u>\$ 103,124</u>	<u>\$ -0-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<b><u>\$ 125,428</u></b>	<b><u>\$ 303,486</u></b>	<b><u>\$ 233,694</u></b>
<b>BEGINNING FUND BALANCE</b>	<u>2,155,224</u>	<u>1,851,738</u>	<u>1,618,044</u>
<b>ENDING FUND BALANCE</b>	<b><u>\$ 2,280,652</u></b>	<b><u>\$ 2,155,224</u></b>	<b><u>\$ 1,851,738</u></b>

See accompanying independent auditor's report.



		Percent of Total Revenue				
<u>2005</u>	<u>2004</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 517,964	\$ 137,117	31.9%	33.3%	33.1%	33.0%	12.1%
		3.7	3.6			
573,594	531,748	30.7	31.8	35.6	36.5	47.0
363,807	350,903	23.9	20.7	21.8	23.2	31.0
16,160	15,736	1.0	0.8	0.9	1.0	1.4
13,175	35,761	2.1	0.2	0.4	0.8	3.2
48,197	23,856	4.4	7.1	5.6	3.1	2.1
38,282	36,657	2.3	2.5	2.6	2.4	3.2
<u>\$ 1,571,179</u>	<u>\$ 1,131,778</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
\$ 141,635	\$ 136,908	8.4%	10.0%	8.2%	9.0%	12.1%
204,482	68,327	16.6	13.7	12.2	13.0	6.0
256,424	270,862	17.5	16.1	16.0	16.3	23.9
330,507	294,490	23.8	23.9	25.9	21.0	26.0
48,662	32,318	2.4	3.0	3.2	3.1	2.9
235,471	279,528	13.0	10.5	10.0	15.0	24.7
132,310	136,982	6.2	7.5	7.8	8.4	12.1
		6.2	3.3	2.4		
<u>\$ 1,349,491</u>	<u>\$ 1,219,415</u>	<u>94.1%</u>	<u>88.0%</u>	<u>85.7%</u>	<u>85.8%</u>	<u>107.7%</u>
\$ 221,688	\$ (87,637)	5.9%	12.0%	14.3%	14.2%	(7.7)%
\$ -0-	\$ -0-					
\$ 221,688	\$ (87,637)					
<u>1,396,356</u>	<u>1,483,993</u>					
<u>\$ 1,618,044</u>	<u>\$ 1,396,356</u>					

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2008	2007	2006
<b>REVENUES</b>			
Property Taxes	\$ 1,513,701	\$ 1,515,564	\$ 1,520,502
Penalty and Interest	64,865	67,247	45,722
Investment Revenues	124,829	172,405	138,514
Miscellaneous Revenues	894	1,109	30
<b>TOTAL REVENUES</b>	<b>\$ 1,704,289</b>	<b>\$ 1,756,325</b>	<b>\$ 1,704,768</b>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 82,868	\$ 80,346	\$ 63,022
Payment to Refund Bond Escrow Agent			
Debt Service Interest and Fees	803,379	836,674	869,685
Debt Service Principal	670,000	640,000	605,000
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,556,247</b>	<b>\$ 1,557,020</b>	<b>\$ 1,537,707</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 148,042</b>	<b>\$ 199,305</b>	<b>\$ 167,061</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-Term Debt Issued	\$	\$	\$
Refunding Bonds Issued			
Bond Premium			
Bond Discount			
Payment to Refund Bond Escrow Agent			
Issuance Costs of Refunding Bonds			
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ -0-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<b>\$ 148,042</b>	<b>\$ 199,305</b>	<b>\$ 167,061</b>
<b>BEGINNING FUND BALANCE</b>	<b>3,709,546</b>	<b>3,510,241</b>	<b>3,343,180</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 3,857,588</b>	<b>\$ 3,709,546</b>	<b>\$ 3,510,241</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>1,766</b>	<b>1,750</b>	<b>1,735</b>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>1,758</b>	<b>1,750</b>	<b>1,733</b>

See accompanying independent auditor's report.

		Percent of Total Revenue				
<u>2005</u>	<u>2004</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 1,525,405	\$ 2,024,887	88.8%	86.3%	89.2%	92.4%	96.0%
46,707	35,916	3.8	3.8	2.7	2.8	1.7
79,288	44,917	7.3	9.8	8.1	4.8	2.0
	3,194	0.1	0.1			0.3
<u>\$ 1,651,400</u>	<u>\$ 2,108,914</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
\$ 64,983	\$ 56,408	4.9%	4.6%	3.7%	3.9%	2.7%
	9,000					0.4
827,829	995,899	47.1	47.6	51.0	50.1	47.2
<u>640,000</u>	<u>505,000</u>	<u>39.3</u>	<u>36.4</u>	<u>35.5</u>	<u>38.8</u>	<u>23.9</u>
<u>\$ 1,532,812</u>	<u>\$ 1,566,307</u>	<u>91.3%</u>	<u>88.6%</u>	<u>90.2%</u>	<u>92.8%</u>	<u>74.2%</u>
<u>\$ 118,588</u>	<u>\$ 542,607</u>	<u>8.7%</u>	<u>11.4%</u>	<u>9.8%</u>	<u>7.2%</u>	<u>25.8%</u>
\$	\$					
	4,740,000					
	16,530					
	(59,250)					
	(4,426,114)					
	<u>(254,928)</u>					
<u>\$ -0-</u>	<u>\$ 16,238</u>					
\$ 118,588	\$ 558,845					
<u>3,224,592</u>	<u>2,665,747</u>					
<u>\$ 3,343,180</u>	<u>\$ 3,224,592</u>					
<u>1,738</u>	<u>1,698</u>					
<u>1,737</u>	<u>1,701</u>					

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**SEPTEMBER 30, 2008**

District Mailing Address - Chimney Hill Municipal Utility District  
c/o Coats, Rose, Yale, Ryman & Lee, P.C.  
3 Greenway Plaza, Suite 2000  
Houston, TX 77046

District Telephone Number - (713) 651-0111

<b>Board Members</b>	Term of Office (Elected or Appointed)	Fees of Office for the year ended September 30, 2008	Expense Reimbursements for the year ended September 30, 2008	Title
W. Jay Szinyei	05/08 05/12 (Elected)	\$ 5,100	\$ 159	President
Charley L. Lewis	05/06 05/10 (Elected)	\$ 5,100	\$ 304	Vice President
Kimberly R. McNinch	05/08 05/12 (Elected)	\$ 6,600	\$ 220	Assistant Vice President/ Assistant Secretary/ Treasurer/ Assistant Investment Officer
Camille W. Sowell	05/06 05/10 (Elected)	\$ 6,150	\$ 178	Secretary/ Treasurer/ Investment Officer
Sharon Bills	05/08 05/12 (Elected)	\$ 7,200	\$ 1,019	Assistant Secretary/ Treasurer

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): May 22, 2008.

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 25, 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.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**SEPTEMBER 30, 2008**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2008 District</u>	<u>Fees for the year ended September 30, 2008 Plant</u>	<u>Title</u>
Coats, Rose, Yale, Ryman & Lee, P.C. 3 Greenway Plaza, Suite 2000 Houston, TX 77046	09/01/80	\$ 171,864	\$ 1,861	Attorney/ Bond Counsel
McCall, Gibson & Company, PLLC Certified Public Accountants 13831 Northwest Freeway Suite 610 Houston, TX 77040-5216	08/06/87	\$ 12,750	\$ 2,600	Auditor
Myrtle Cruz, Inc. 1621 Milam, 3 <sup>rd</sup> Floor Houston, TX 77002	08/01/85	\$ 16,421	\$ 2,984	Bookkeeper
Harris County Appraisal District 13013 Northwest Freeway Houston, TX 77040-6305	Legislative Action	\$ 17,029	\$ -0-	Central Appraisal District
Larson & Weisinger P.O. Box 2666 Conroe, TX 77305	02/25/99	\$ 24,342	\$ -0-	Delinquent Tax Attorney
A&S Engineers, Inc. 10377 Stella Link Road Houston, TX 77025-5445	07/30/99	\$ 112,477	\$ 13,342	Engineer

See accompanying independent auditor's report.

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**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2008**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2008 District</u>	<u>Fees for the year ended September 30, 2008 Plant</u>	<u>Title</u>
Rathmann & Associates, L.P. Four Houston Center 1331 Lamar, Suite 1050 Houston, TX 77010	04/09/03	\$ 42,575	\$ -0-	Financial Advisor
Water District Management Company P. O. Box 579 Spring, TX 77383	01/27/89	\$ 357,475	\$ 307,077	Operator
Thomas W. Lee, RTA c/o Assessments of the Southwest P. O. Box 1368 Friendswood, TX 77546	10/01/01	\$ 24,207	\$ -0-	Tax Assessor/ Collector

See accompanying independent auditor's report.