

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2009**

**MCCALL GIBSON SWEDLUND BARFOOT PLLC**  
Certified Public Accountants



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**HARRIS COUNTY, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**SEPTEMBER 30, 2009**

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# MC CALL GIBSON SWEDLUND BARFOOT PLLC

*Certified Public Accountants*

13100 Wortham Center Drive

Suite 235

Houston, Texas 77065-5610

(713) 462-0341

Fax (713) 462-2708

E-Mail: [mgsb@mgsbpllc.com](mailto:mgsb@mgsbpllc.com)

7801 N. Capital of Texas Hwy.

Suite 350

Austin, Texas 78731-1169

(512) 418-2358

Fax: (512) 340-0604

[www.mgsbpllc.com](http://www.mgsbpllc.com)

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, 2009, 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, 2009, 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.

*Member of*

*American Institute of Certified Public Accountants  
Texas Society of Certified Public Accountants*

Board of Directors  
Chimney Hill Municipal Utility District

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 Swedlund Barfoot PLLC  
Certified Public Accountants

January 22, 2010

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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, 2009. 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 (2) 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, 2009**

**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 (2) 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, 2009**

**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 \$1,363,300 as of September 30, 2009.

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:

	<u>Summary of Changes in the Statement of Net Assets</u>		
	<u>2009</u>	<u>2008</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 8,864,418	\$ 9,072,734	\$ (208,316)
Capital Assets (Net of Accumulated Depreciation)	<u>9,107,212</u>	<u>9,346,086</u>	<u>(238,874)</u>
Total Assets	<u>\$ 17,971,630</u>	<u>\$ 18,418,820</u>	<u>\$ (447,190)</u>
Long-Term Liabilities	\$ 17,510,000	\$ 18,145,000	\$ 635,000
Other Liabilities	<u>1,824,930</u>	<u>1,839,104</u>	<u>14,174</u>
Total Liabilities	<u>\$ 19,334,930</u>	<u>\$ 19,984,104</u>	<u>\$ 649,174</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ (7,195,636)	\$ (7,528,396)	\$ 332,760
Restricted	3,652,717	3,655,868	(3,151)
Unrestricted	<u>2,179,619</u>	<u>2,307,244</u>	<u>(127,625)</u>
Total Net Assets	<u>\$ (1,363,300)</u>	<u>\$ (1,565,284)</u>	<u>\$ 201,984</u>

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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

The following table provides a summary of the District's operations for the years ended September 30, 2009, and September 30, 2008. The District's net assets increased by \$201,984, accounting for a 12.9% growth in net assets.

	Summary of Changes in the Statement of Activities		
	2009	2008	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 2,046,281	\$ 2,059,653	\$ (13,372)
Sales Tax Receipts	59,187	69,184	(9,997)
Charges for Services	1,506,746	1,203,034	303,712
Grant Revenues	29,542		29,542
Other Revenues	148,892	230,997	(82,105)
Total Revenues	\$ 3,790,648	\$ 3,562,868	\$ 227,780
Expenses for Services	(3,588,664)	(2,983,938)	(604,726)
Change in Net Assets	\$ 201,984	\$ 578,930	\$ (376,946)
Net Assets, Beginning of Year	(1,565,284)	(2,144,214)	578,930
Net Assets, End of Year	\$ (1,363,300)	\$ (1,565,284)	\$ 201,984

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

The District's combined fund balances as of the fiscal year ended September 30, 2009, were \$7,424,929, a decrease of \$347,122 from the prior year.

The General Fund fund balance decreased by \$135,506, primarily due to a one-time catch up of prior, unbilled professional fees.

The Debt Service Fund fund balance decreased by \$143,766, primarily due to a timing difference between tax collections and debt service payments.

The Capital Projects Fund fund balance decreased by \$67,850, primarily due expenditures for capital outlay from prior bond issues.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$80,469 more than budgeted revenues. Actual expenditures were \$304,634 more than budgeted expenditures. See budget to actual comparison schedule on page 41.

**CAPITAL ASSETS**

The District's investment in capital assets as of September 30, 2009, amounts to \$9,107,212 (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:

- Ground Storage Tank No. 3 at Water Plant No. 1

Construction in Progress:

- Booster Pump Replacement at Water Plant No. 1
- Sanitary Sewer Rehabilitation Planning and Design
- GIS System
- Buildings at Water Plants No. 1 and No. 2

Capital Assets at Year-End Net of Accumulated Depreciation

	2009	2008	Net Increase (Decrease)
Capital Assets Not Being Depreciated			
Land	\$ 462,247	\$ 462,247	\$
Construction in Progress	95,138	365,811	(270,673)
Capital Assets Net of Depreciation	776,317	810,583	(34,266)
Water System	2,455,909	2,544,828	(88,919)
Wastewater System	4,051,051	4,255,879	(204,828)
Wastewater Treatment Plant	1,266,550	906,738	359,812
Water Plants			
Total Net Capital Assets	<u>\$ 9,107,212</u>	<u>\$ 9,346,086</u>	<u>\$ (238,874)</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, 2009**

**LONG-TERM DEBT ACTIVITY**

At the end of the current fiscal year, the District had total bond debt payable of \$18,250,000.

The changes in the debt position of the District during the fiscal year ended September 30, 2009, are summarized as follows:

Bond Debt Payable, October 1, 2008	\$ 18,850,000
Add: Series 2009 Refunding Bonds	3,335,000
Less: Bonds Refunded	3,230,000
Less: Bond Principal Paid	<u>705,000</u>
Bond Debt Payable, September 30, 2009	<u>\$ 18,250,000</u>

At the beginning of the current fiscal year, the District's bonds carried an underlying rating of "BBB" by Standard and Poor's Ratings Services ("S&P"). During the current fiscal year, S&P upgraded the underlying rating to "A-".

At the beginning of the current fiscal year, the Series 1997 Bonds and the Series 2000 Bonds had an insured rating of "BBB+" based on a policy issued by Radian Asset Assurance, Inc. ("Radian"). During the current fiscal year, S&P withdrew its rating of Radian.

At the beginning of the current fiscal year, the Series 2003 Bonds had an insured rating of "BB" by S&P based on a policy issued by Federal Guaranty Insurance Company ("FGIC"). During the current fiscal year, all of the FGIC transactions were reinsured by National Public Finance Guaranty Corporation. At September 30, 2009, the bonds carried an insured rating of "A-".

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

At the time of issuance, the Series 2009 Bonds were rated "AAA" by S&P based on a policy issued by Assured Guaranty Corporation. There was no change to the insured 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 District'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 East Greenway Plaza, Suite 2000, Houston, TX 77046.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET ASSETS AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2009**

	General Fund	Special Revenue Fund
<b>ASSETS</b>		
Cash, Note 5	\$ 117,698	\$ 21,860
Investments, Note 5	2,506,286	
Cash with Paying Agent		
Receivables:		
Property Taxes	34,473	
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful		
Accounts of \$2,000)	122,474	
Accrued Interest	10,804	
Developers	18,016	
Due from Paying Agent	26,403	28,706
Due from Other Funds, Note 12	37,134	
Due from Other Governmental Units	14,354	
Prepaid Costs	18,000	
Advance 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>\$ 2,905,642</b>	<b>\$ 50,566</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
\$ 735,974	\$ 489,895	\$ 1,365,427	\$	\$ 1,365,427
1,848,332	1,096,201	5,450,819		5,450,819
1,061,833		1,061,833		1,061,833
108,555		143,028		143,028
64,011		64,011		64,011
5,493	1,611	122,474		122,474
		17,908		17,908
		18,016		18,016
100,061		100,061		100,061
		55,109	(55,109)	
		37,134		37,134
		14,354		14,354
		18,000	(18,000)	
			469,353	469,353
			462,247	462,247
			95,138	95,138
<u>\$ 3,924,259</u>	<u>\$ 1,587,707</u>	<u>\$ 8,468,174</u>	<u>8,549,827</u>	<u>8,549,827</u>
			<u>\$ 9,503,456</u>	<u>\$ 17,971,630</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, 2009**

	General Fund	Special Revenue Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 480,909	\$ 27,877
Due to Other Governmental Units	4,527	2,689
Accrued Interest Payable		
Accrued Interest Received at Time of Sale		
Due to Other Funds, Note 12	28,706	
Due to Taxpayers		
Due to Developers	6,041	
Security Deposits	205,840	
Advances from Participants, Note 9		20,000
Deferred Revenues:		
Property Taxes	34,473	
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>\$ 760,496</b>	<b>\$ 50,566</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 2009 Debt Service		
For Future Debt Service	14,354	
Reserved for Prepaid Costs		
Reserved for Regional Wastewater Treatment Plant	18,000	
Operations, Note 9	2,112,792	
Unreserved -- Undesignated	2,145,146	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 2,905,642</b>	<b>\$ 50,566</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</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
\$ 10,005	\$ 12,966	\$ 531,757	\$	\$ 531,757
9,695		7,216	321,833	7,216
17,623	8,780	9,695	(55,109)	321,833
548		55,109	548	9,695
		548	6,041	548
		205,840	205,840	6,041
		20,000	(18,000)	205,840
108,555		143,028	(143,028)	2,000
64,011		64,011	(64,011)	
		740,000		740,000
		17,510,000		17,510,000
<u>\$ 210,437</u>	<u>\$ 21,746</u>	<u>\$ 1,043,245</u>	<u>\$ 18,291,685</u>	<u>\$ 19,334,930</u>
\$	\$ 1,477,799	\$ 1,477,799	\$ (1,477,799)	\$
	88,162	88,162	(88,162)	
1,061,833		1,061,833	(1,061,833)	
2,651,989		2,651,989	(2,651,989)	
		14,354	(14,354)	
		18,000	(18,000)	
		2,112,792	(2,112,792)	
<u>\$ 3,713,822</u>	<u>\$ 1,565,961</u>	<u>\$ 7,424,929</u>	<u>\$ (7,424,929)</u>	<u>\$ -0-</u>
<u>\$ 3,924,259</u>	<u>\$ 1,587,707</u>	<u>\$ 8,468,174</u>		
			\$ (7,195,636)	\$ (7,195,636)
			3,564,555	3,564,555
			88,162	88,162
			2,179,619	2,179,619
			<u>\$ (1,363,300)</u>	<u>\$ (1,363,300)</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 BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2009**

Total Fund Balances – Governmental Funds		\$ 7,424,929
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.		469,353
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 in government activities is not a financial resource and therefore is not reported as an asset in the governmental funds.		95,138
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		8,549,827
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported as a liability in the governmental funds.		(321,833)
Deferred tax revenues for the 2008 and prior tax levies became part of recognized revenues in the governmental activities of the District.		143,028
Deferred penalty and interest revenues for the 2008 and prior tax levies became part of recognized revenues in the governmental activities of the District.		64,011
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	\$ (740,000)	
Bonds Payable After One Year	<u>(17,510,000)</u>	<u>(18,250,000)</u>
Total Net Assets – Governmental Activities		<u>\$ (1,363,300)</u>

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

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**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
STATEMENT OF ACTIVITIES AND CHANGES IN FUND BALANCES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	General Fund	Special Revenue Fund
<b>REVENUES</b>		
Property Taxes	\$ 582,819	\$
Sales Tax Receipts, Note 10	59,187	
Water Service	630,491	
Wastewater Service	726,366	473,538
Penalty and Interest	12,806	
Tap Connection and Inspection Fees	33,907	
Investment Revenues	47,721	
Grant Revenues, Note 14	11,976	17,566
Miscellaneous Revenues	45,196	
<b>TOTAL REVENUES</b>	<b>\$ 2,150,469</b>	<b>\$ 491,104</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	275,317	7,185
Contracted Services	602,138	46,570
Purchased Water Service, Note 8	382,995	
Purchased Wastewater Service, Note 9	454,042	
Utilities	52,368	145,242
Repairs and Maintenance	326,705	101,740
Depreciation, Note 6	163,098	190,367
Other	29,312	
Capital Outlay		
Debt Service:		
Bond Principal		
Bond Interest		
Payment to Refunded Bond Paying Agent		
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 2,285,975</b>	<b>\$ 491,104</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (135,506)</b>	<b>\$ -0-</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Refunding Bonds Issued, Note 13	\$	\$
Bond Premium		
Bond Discount		
Payment to Refunded Bond Paying Agent		
Issuance Costs of Refunding Bonds		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ -0-</b>	<b>\$ -0-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ (135,506)</b>	<b>\$ -0-</b>
<b>CHANGE IN NET ASSETS</b>		
<b>FUND BALANCES/NET ASSETS – OCTOBER 1, 2008</b>	<b>2,280,652</b>	<b></b>
<b>FUND BALANCES/NET ASSETS – SEPTEMBER 30, 2009</b>	<b>\$ 2,145,146</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
\$ 1,446,725	\$	\$ 2,029,544	\$ 16,737	\$ 2,046,281
		59,187		59,187
		630,491		630,491
36,965		1,199,904	(454,042)	745,862
		49,771	1,479	51,250
		33,907		33,907
74,855	26,316	148,892		148,892
		29,542		29,542
<u>40</u>		<u>45,236</u>		<u>45,236</u>
\$ 1,558,585	\$ 26,316	\$ 4,226,474	\$ (435,826)	\$ 3,790,648
\$ 17,243	\$ (14,451)	\$ 285,294	\$	\$ 285,294
45,542		694,250		694,250
		382,995		382,995
		454,042	(454,042)	
		197,610		197,610
		428,445		428,445
4,957	50	358,472	376,753	376,753
	108,567	137,879	(137,879)	358,472
705,000		705,000	(705,000)	
836,232		836,232	28,613	864,845
<u>96,000</u>		<u>96,000</u>	<u>(96,000)</u>	
\$ 1,704,974	\$ 94,166	\$ 4,576,219	\$ (987,555)	\$ 3,588,664
\$ (146,389)	\$ (67,850)	\$ (349,745)	\$ 349,745	\$ -0-
\$ 3,335,000	\$	\$ 3,335,000	\$ (3,335,000)	\$
117,979		117,979	(117,979)	
(41,687)		(41,687)	41,687	
(3,226,338)		(3,226,338)	3,226,338	
<u>(182,331)</u>		<u>(182,331)</u>	<u>182,331</u>	
\$ 2,623	\$ -0-	\$ 2,623	\$ (2,623)	\$ -0-
\$ (143,766)	\$ (67,850)	\$ (347,122)	\$ 347,122	\$
			201,984	201,984
<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>
\$ 3,713,822	\$ 1,565,961	\$ 7,424,929	\$ (8,788,229)	\$ (1,363,300)

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, 2009**

Net Change in Fund Balances – Governmental Funds	\$ (347,122)
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.	16,737
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.	1,479
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.	(376,753)
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.	137,879
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.	705,000
Governmental funds report bond interest payments as expenditures in the year paid. However, in the Statement of Net Assets, interest is accrued on bonds through the fiscal year end	72,437
In governmental funds, bond issuance costs bond discounts and bond premiums related to refunding bond sales are reported as other financing sources (uses). However, in the government-wide financial statements, these items are amortized over the life of the bonds.	100,989
In governmental funds, the District's payment to the Refunded Bond Escrow Agent is an expenditure to defease a certain amount of bond debt. In government-wide financial statements, the debt recorded as a liability is reduced by the payment.	3,226,338
Governmental funds report bond proceeds as other financing sources. In the government-wide statements, the issuance of long-term debt increases liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	<u>(3,335,000)</u>
Change in Net Assets - Governmental Activities	<u>\$ 201,984</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, 2009**

**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, 2009**

**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 Net 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, 2009**

**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, 2009**

**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 (1) fund to another fund are reported as another financing source or use. Loans by one (1) fund to another fund and amounts paid by one (1) 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, 2009**

**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

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

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 appropriate 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, 2009**

**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, 2009	\$ 1,300,000	\$ 25,000
Interest Rates	5.375% - 5.40%	5.24% - 5.34%
Maturity Dates - Beginning/Ending	October 1, 2009/2010	October 1, 2009/2010
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. See Note 13 for current refunding.

\*\* 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. See Note 13 for current refunding.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

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

	Series 2003	Refunding Series 2004
Amount Outstanding - September 30, 2009	\$ 7,200,000	\$ 4,415,000
Interest Rates	4.10% - 5.00%	3.50% -4.20%
Maturity Dates – Beginning/Ending	October 1, 2015/2023	October 1, 2009/2017
Interest Payment Dates	October 1/April 1	October 1/April 1
Callable Dates	October 1, 2011*	October 1, 2012*
	Series 2008	Refunding Series 2009
Amount Outstanding - September 30, 2009	\$ 1,975,000	\$ 3,335,000
Interest Rates	4.00% - 4.40%	2.75% - 4.00%
Maturity Dates – Beginning/Ending	October 1, 2024/2026	October 1, 2010/2011 2014/2018
Interest Payment Dates	October 1/April 1	October 1/April 1
Callable Dates	October 15, 2015*	Not Callable

\* 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. The Series 2009 term bonds maturing on October 1, 2014, are subject to mandatory sinking fund redemption beginning October 1, 2012.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

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

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2009:

Bond Debt Payable – October 1, 2008		\$ 18,850,000
Add: Refunding Bonds Issued – Series 2009		3,335,000
Less: Bonds Advanced Refunded		
Series 1997	\$ 725,000	
Series 1998	1,425,000	
Series 2000	<u>1,080,000</u>	
		3,230,000
Less: Bond Principal Retirement		
Series 1997 Refunding	\$ 640,000	
Series 1998	10,000	
Series 2004 Refunding	<u>55,000</u>	
		<u>705,000</u>
<b>Bond Debt Payable – September 30, 2009</b>		<b><u>\$ 18,250,000</u></b>
<b>Bond Debt Payable –</b>		
Due Within One Year	\$ 740,000	
Due After One Year	<u>17,510,000</u>	
<b>Bond Debt Payable – September 30, 2009</b>		<b><u>\$ 18,250,000</u></b>
<b>Original Bonds Voted</b>		<b><u>\$ 46,025,000</u></b>
<b>Original Bonds Approved</b>		<b><u>\$ 24,400,000</u></b>
<b>Original Bonds Issued</b>		<b><u>\$ 24,400,000</u></b>
<b>Refunding Bonds Voted</b>		<b><u>\$ 16,100,000</u></b>
<b>Refunding Bond Authorization Used (Refunding</b>		
Bonds issued total \$23,020,000)		<b><u>\$ 10,310,000</u></b>

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

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

As of September 30, 2009, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2010	\$ 740,000	\$ 697,764	\$ 1,437,764
2011	815,000	709,898	1,524,898
2012	845,000	675,837	1,520,837
2013	885,000	645,387	1,530,387
2014	920,000	609,538	1,529,538
2015-2019	5,170,000	2,454,183	7,624,183
2020-2024	6,900,000	1,176,998	8,076,998
2025-2027	<u>1,975,000</u>	<u>122,350</u>	<u>2,097,350</u>
Total	<u>\$ 18,250,000</u>	<u>\$ 7,091,955</u>	<u>\$ 25,341,955</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, 2009, the District levied an ad valorem debt service tax at the rate of \$0.62 per \$100 of assessed valuation, which resulted in a tax levy of \$1,476,605 on the adjusted taxable valuation of \$237,887,349 for the 2008 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, 2009**

**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 \$8,755,000 and boiler and machinery coverage of \$8,755,000. Pollution liability and pollution clean-up and removal coverages are included in this policy. The District also has general liability coverage with a maximum limit of \$3,000,000 and umbrella liability coverage of \$2,000,000.
- C. 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, the Series 2003 bond issue and the Series 2004 refunding bond issue. The reports reflect that the District did not have a rebate obligation to the federal government on the Series 1997 and Series 2004 bond issues. 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, 2009**

**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 \$4,988,414 and the bank balance was \$5,573,667. Of the bank balance, \$3,603,089 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, 2009**

**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, 2009, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 117,698	\$ 1,643,926	\$ 1,761,624
SPECIAL REVENUE FUND	21,860		21,860
DEBT SERVICE FUND	735,974	1,675,224	2,411,198
CAPITAL PROJECTS FUND	<u>4,445</u>	<u>789,287</u>	<u>793,732</u>
TOTAL DEPOSITS	<u>\$ 879,977</u>	<u>\$ 4,108,437</u>	<u>\$ 4,988,414</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, 2009**

**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 TextAR, 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 TextAR. The fair value of the District's position in each pool is the same as the value of pool shares.

As of September 30, 2009, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years		
		Less Than 1	1-5	6-10
<u>GENERAL FUND</u>				
TexPool	\$ 386,256	\$ 386,256	\$	\$
TextAR	476,104	476,104		
Certificates of Deposit	1,643,926			

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

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

Investments (Continued)	Fund and Investment Type	Fair Value	Maturities in Years		
			Less Than 1	1-5	6-10
<b>DEBT SERVICE FUND -</b>					
TexPool		\$ 170,995		\$	
TextSTAR		2,113		2,113	
Certificates of Deposit		1,675,224		1,675,224	
<b>CAPITAL PROJECTS FUND -</b>					
TexPool		306,914		306,914	
Certificates of Deposit		789,287		789,287	
<b>TOTAL INVESTMENTS</b>		<u>\$ 5,450,819</u>		<u>\$ 5,450,819</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, 2009, the District's investments in TexPool and TextSTAR 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 TextSTAR to have a maturity of less than one (1) 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, 2009**

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2009:

	October 1, 2008	Increases	Decreases	September 30, 2009
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 462,247	\$	\$	\$ 462,247
Construction in Progress	<u>365,811</u>	<u>137,879</u>	<u>408,552</u>	<u>95,138</u>
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 828,058</b>	<b>\$ 137,879</b>	<b>\$ 408,552</b>	<b>\$ 557,385</b>
<b>Capital Assets at Historical Cost Subject to Depreciation</b>				
Water System	\$ 1,541,984	\$	\$	\$ 1,541,984
Wastewater System	3,884,392	88,919	5,377,145	3,884,392
Wastewater Treatment Plant	<u>5,377,145</u>	<u>204,828</u>	<u>2,510,633</u>	<u>5,377,145</u>
Water Plants	2,102,081	408,552	-	2,510,633
<b>Total Capital Assets at Historical Cost Subject to Depreciation</b>	<b>\$ 12,905,602</b>	<b>\$ 408,552</b>	<b>\$ -0-</b>	<b>\$ 13,314,154</b>
<b>Less Accumulated Depreciation</b>				
Water System	\$ 731,401	\$ 34,266	\$	\$ 765,667
Wastewater System	1,339,564	88,919	-	1,428,483
Wastewater Treatment Plant	1,121,266	204,828	-	1,326,094
Water Plants	<u>1,195,343</u>	<u>48,740</u>	<u>-</u>	<u>1,244,083</u>
<b>Total Accumulated Depreciation</b>	<b>\$ 4,387,574</b>	<b>\$ 376,753</b>	<b>\$ -0-</b>	<b>\$ 4,764,327</b>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<b>\$ 8,518,028</b>	<b>\$ 31,799</b>	<b>\$ -0-</b>	<b>\$ 8,549,827</b>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<b>\$ 9,346,086</b>	<b>\$ 169,678</b>	<b>\$ 408,552</b>	<b>\$ 9,107,212</b>

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

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**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, 2009, 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 \$595,406 on the adjusted taxable valuation of \$237,887,349 for the 2008 tax year.

**NOTE 8. WATER SUPPLY AGREEMENTS**

Camnfield Municipal Utility District

On December 30, 1980, the District executed a water supply agreement with a developer within Camnfield Municipal Utility District ("Camnfield"). Subsequent to that date, the contract was assigned to Camnfield 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 Camnfield 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, Camnfield paid the District \$20,000 which was recorded as revenue in a prior year. The District purchased the water plant site from Camnfield for \$20,000 which was paid from the Capital Projects Fund.

The District agrees to provide Camnfield 50,000 gallons per day of water at a cost of 2 1/4 times the single-family residential rate charged by the District. Camnfield 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. Camnfield 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 Camnfield 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 \$75,339 for water supplied to Camnfield. At September 30, 2009, Camnfield owed the District \$27,184 for water supplied under the terms of this agreement.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**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 percent (50%) 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 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. The District was responsible for fifty-eight percent (58%) of the cost of constructing the water main on FM 529 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 FM 529 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 eighty percent (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, 2009**

**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 rate at the beginning of the current fiscal year was \$1.793 per 1,000 gallons. Effective April 1, 2009, the rate increased to \$1.884 per 1,000 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 1,000 gallons) times a current rate. The excess usage rate at the beginning of the current fiscal year was \$0.582 per 1,000 gallons. Effective April 1, 2009, this rate increased to \$0.611 per 1,000 gallons. 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 \$382,995 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, 2009**

**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 (1) or both of the parties.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

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

The 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 ten percent (10%) share was \$167,497 and the District's ninety percent (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 was 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
	<u>1,200,000 gpd</u>	<u>100.00%</u>

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 \$454,042 for purchased wastewater service. 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, 2009**

**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 \$59,187 of which \$9,949 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, 2009**

**NOTE 11. 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 12. INTERFUND PAYABLES AND RECEIVABLES**

The Debt Service Fund (Tax Account) owes the General Fund \$10,088 for maintenance tax collections. This is a timing difference. The Debt Service Fund owes the General Fund \$7,535 for bond issuance costs for the Series 2009 refunding bond sale and arbitrage rebate report costs for the Series 2004 bond issue. The Capital Projects Fund owes the General Fund \$500 for bond issuance costs related to the sale of the Series 2008 Bonds and \$8,280 for engineering related to the construction of new buildings at Water Plants No. 1 and No. 2.

The General Fund owes the Special Revenue Fund \$28,706 for its share of wastewater treatment plant operating costs.

**NOTE 13. REFUNDING BOND SALE**

On September 29, 2009, the District issued \$3,335,000 of Series 2009 Combination Unlimited Tax and Revenue Refunding Bonds with interest rates of 2.75% to 4.00% to refund \$725,000 of Series 1997 Refunding Bonds, \$1,425,000 of Series 1998 Bonds and \$1,080,000 of Series 2000 Bonds. Proceeds of \$3,226,338 (after payment of \$224,018 for bond discount and other issuance costs) plus a premium of \$117,979 were deposited with the paying agent to redeem the refunded bonds. The District also transferred \$96,000 from its Debt Service Fund to the paying agent. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**NOTE 13. REFUNDING BOND SALE (Continued)**

The District refunded the following bonds to restructure its outstanding debt, the effect of which was to decrease its total debt service requirement over eight (8) years by \$284,826, and at the same time obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$230,636.

Issue	Interest Rates	Maturities	Redeemed on September 30, 2009
1997	5.50%	2011	\$ 725,000
1998	5.44% - 5.69%	2011 - 2017	1,425,000
2000	6.00%	2018	<u>1,080,000</u>
			<u>\$ 3,230,000</u>

**NOTE 14. FEMA GRANT**

The District received \$29,542 in disaster relief funds related to Hurricane Ike. These are federal funds from FEMA, passed through the Texas Department of Public Safety's Division of Emergency Management.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2009**

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**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, 2009**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 570,000	\$ 582,819	\$ (58,181)
Sales Tax Receipts	66,000	59,187	(6,813)
Water Service	591,000	630,491	110,491
Wastewater Service	780,000	726,366	(53,634)
Penalty and Interest	15,000	12,806	(2,194)
Tap Connection and Inspection Fees		33,907	33,907
Investment Revenues	48,000	47,721	(279)
Grant Revenues		11,976	11,976
Miscellaneous Revenues		45,196	45,196
<b>TOTAL REVENUES</b>	<b>\$ 2,070,000</b>	<b>\$ 2,150,469</b>	<b>\$ 80,469</b>
<b>EXPENDITURES</b>			
Service Operations:			
Professional Fees	\$ 170,500	\$ 275,317	\$ (104,817)
Contracted Services	568,872	602,138	(33,266)
Purchased Water Service	315,000	382,995	(67,995)
Purchased Wastewater Service	507,831	454,042	53,789
Utilities	63,640	52,368	11,272
Repairs and Maintenance	220,000	326,705	(106,705)
Other	135,498	163,098	(27,600)
Capital Outlay		29,312	(29,312)
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,981,341</b>	<b>\$ 2,285,975</b>	<b>\$ (304,634)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 88,659</b>	<b>\$ (135,506)</b>	<b>\$ (224,165)</b>
<b>FUND BALANCE - OCTOBER 1, 2008</b>	<b>2,280,652</b>	<b>2,280,652</b>	<b>—</b>
<b>FUND BALANCE - SEPTEMBER 30, 2009</b>	<b>\$ 2,369,311</b>	<b>\$ 2,145,146</b>	<b>\$ (224,165)</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, 2009**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Wastewater Service	\$ 531,760	\$ 473,538	\$ (58,222)
Investment Revenues	<u>                    </u>	17,566	17,566
<b>TOTAL REVENUES</b>	<u>\$ 531,760</u>	<u>\$ 491,104</u>	<u>\$ (40,656)</u>
<b>EXPENDITURES</b>			
Professional Fees			
Audit	\$ 3,000	2,800	\$ 200
Engineering	4,000	614	3,386
Legal	3,500	3,771	(271)
Contracted Services			
Bookkeeping	3,000	2,550	450
Operator	67,200	44,020	23,180
Utilities	176,560	145,242	31,318
Repairs and Maintenance	77,500	101,740	(24,240)
Other			
Chemicals	70,000	85,302	(15,302)
Insurance	6,000	6,045	(45)
Laboratory Fees	50,000	35,159	14,841
Office Expenses	500	591	(91)
Permit Fees	10,500	10,500	10,500
Sludge Hauling	60,000	63,270	(3,270)
<b>TOTAL EXPENDITURES</b>	<u>\$ 531,760</u>	<u>\$ 491,104</u>	<u>\$ 40,656</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ -0-	\$ -0-	\$ -0-
<b>FUND BALANCE – OCTOBER 1, 2008</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>FUND BALANCE – SEPTEMBER 30, 2009</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, 2009**

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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

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

**2. RETAIL SERVICE PROVIDERS**

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

Based on the rate order effective June 27, 2008.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 15.00	6,000	N	\$ 2.50 3.00 3.50 4.00	6,001 to 15,000 15,001 to 20,000 20,001 to 25,000 25,001 and up
WASTEWATER:	\$ 31.20	10,000	N	\$ 1.25 1.75	10,001 to 20,000 20,001 and up

**SURCHARGE:**

District employs winter averaging for wastewater usage?            Yes    X No

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

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered				
≤¾"	1,665	1,624	x 1.0	1,624
1"	106	103	x 2.5	258
1½"	1	1	x 5.0	5
2"	20	20	x 8.0	160
3"	1	1	x 15.0	15
4"			x 25.0	
6"	1	1	x 50.0	50
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>1,794</u>	<u>1,750</u>		<u>2,112</u>
Total Wastewater Connections	<u>1,785</u>	<u>1,741</u>	x 1.0	<u>1,741</u>

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

Gallons pumped into system:	7,967,000	Water Accountability Ratio: 93.3% (Gallons billed and sold/Gallons pumped and purchased)
Gallons purchased:	196,684,000	From: City of Houston
Gallons billed to customers:	182,534,000	
Gallons sold:	8,465,000	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, 2009**

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, 2009**

PERSONNEL EXPENDITURES (Including Benefits)	\$ <u>-0-</u>
PROFESSIONAL FEES:	
Auditing	\$ 16,800
Engineering	62,948
Legal	<u>195,569</u>
TOTAL PROFESSIONAL FEES	\$ <u>275,317</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 382,995
Purchased Wastewater Service	<u>454,042</u>
TOTAL PURCHASED SERVICES FOR RESALE	\$ <u>837,037</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 13,575
Operations and Billing	<u>71,208</u>
TOTAL CONTRACTED SERVICES	\$ <u>84,783</u>
UTILITIES – Electricity	\$ <u>52,368</u>
REPAIRS AND MAINTENANCE	\$ <u>326,705</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 30,450
Insurance	13,783
Office Supplies and Postage	46,080
Payroll Taxes	2,071
Travel and Meetings	2,807
Other	<u>27,578</u>
TOTAL ADMINISTRATIVE EXPENDITURES	\$ <u>122,769</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

CAPITAL OUTLAY:	
Capitalized Assets	\$ 29,312
Expenditures not Capitalized	<u>                    </u>
TOTAL CAPITAL OUTLAY	\$ <u>29,312</u>
TAP CONNECTION EXPENDITURES	\$ <u>10,571</u>
SOLID WASTE DISPOSAL	\$ <u>332,010</u>
FIRE FIGHTING	\$ <u>-0-</u>
PARKS AND RECREATION	\$ <u>-0-</u>
SECURITY	\$ <u>185,345</u>
OTHER EXPENDITURES:	
Chemicals	\$ 1,796
Inspection Fees	3,772
Laboratory Fees	7,219
Permit Fees	6,709
Reconnection Fees	4,281
Regulatory Assessment	<u>5,981</u>
TOTAL OTHER EXPENDITURES	\$ <u>29,758</u>
TOTAL EXPENDITURES	\$ <u><u>2,285,975</u></u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**INVESTMENTS**  
**SEPTEMBER 30, 2009**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<b>GENERAL FUND</b>					
TexPool	2565100002	0.282200%	Daily	\$ 386,256	\$
TexSTAR	25651-2222-000	0.262900%	Daily	476,104	
Certificate of Deposit	1007445891	1.390000%	11/02/09	486,753	2,725
Certificate of Deposit	515049	1.490000%	11/02/09	243,027	1,458
Certificate of Deposit	1002037166	1.600000%	11/02/09	243,991	1,583
Certificate of Deposit	3116001453	1.750000%	11/02/09	142,087	1,008
Certificate of Deposit	3300035322	1.700000%	11/02/09	142,416	982
Certificate of Deposit	4074126	2.250000%	11/02/09	142,643	1,302
Certificate of Deposit	9168204	2.000000%	11/02/09	142,094	1,152
Certificate of Deposit	4017836	2.150000%	12/21/09	100,915	594
<b>TOTAL GENERAL FUND</b>				<b>\$ 2,506,286</b>	<b>\$ 10,804</b>
<b>DEBT SERVICE FUND</b>					
TexPool	2565100001	0.282200%	Daily	\$ 170,995	\$
TexSTAR	25651-3333-000	0.262900%	Daily	2,113	
Certificate of Deposit	3414933	1.340000%	10/13/09	511,170	3,190
Certificate of Deposit	3116001313	1.600000%	12/28/09	97,949	399
Certificate of Deposit	33000347251	1.500000%	01/25/10	100,032	267
Certificate of Deposit	108777	1.500000%	02/01/10	242,438	578
Certificate of Deposit	207126	1.540000%	02/01/10	242,803	594
Certificate of Deposit	154000033	1.250000%	03/01/10	141,215	145
Certificate of Deposit	2802494	1.400000%	03/01/10	242,090	279
Certificate of Deposit	9161159	1.700000%	03/22/10	97,527	41
<b>TOTAL DEBT SERVICE FUND</b>				<b>\$ 1,848,332</b>	<b>\$ 5,493</b>
<b>CAPITAL PROJECTS</b>					
<b>FUND</b>					
TexPool	2565100004	0.282200%	Daily	\$ 306,914	\$
Certificate of Deposit	10217776	1.250000%	02/01/10	242,361	481
Certificate of Deposit	1007728213	1.140000%	02/01/10	303,967	551
Certificate of Deposit	6000004074	1.500000%	02/01/10	242,959	579
<b>TOTAL CAPITAL PROJECTS FUND</b>				<b>\$ 1,096,201</b>	<b>\$ 1,611</b>
<b>TOTAL - ALL FUNDS</b>				<b>\$ 5,450,819</b>	<b>\$ 17,908</b>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	Maintenance Tax	Debt Service Tax
TAXES RECEIVABLE -		
OCTOBER 1, 2008	\$ 26,592	\$ 99,699
Adjustments to Beginning Balance	<u>(4,706)</u>	<u>(21,024)</u>
Original 2008 Tax Roll	\$ 527,456	\$ 1,308,090
Adjustment to 2008 Tax Roll	<u>67,950</u>	<u>168,515</u>
TOTAL TO BE ACCOUNTED FOR	\$ 617,292	\$ 1,555,280
 TAX COLLECTIONS:		
Prior Years	\$ 5,561	\$ 15,126
Current Year	<u>577,258</u>	<u>1,431,599</u>
TAXES RECEIVABLE -		
SEPTEMBER 30, 2009	<u>\$ 34,473</u>	<u>\$ 108,555</u>
 TAXES RECEIVABLE BY YEAR:		
2008	\$ 18,148	\$ 45,006
2007	2,588	6,625
2006	9,129	24,831
2005	982	2,748
2004	2,035	5,941
2003	432	6,400
2002	559	6,476
2001	306	3,545
2000	234	2,833
1999	26	711
1998	34	909
1997		704
1996		748
1995		541
1992		<u>537</u>
TOTAL	<u>\$ 34,473</u>	<u>\$ 108,555</u>

See accompanying independent auditor's report.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	2008	2007	2006	2005
<b>PROPERTY VALUATIONS:</b>				
Land	\$ 40,180,974	\$ 36,275,672	\$ 32,418,240	\$ 22,543,512
Improvements	192,247,119	190,305,405	183,245,479	185,941,217
Personal Property	13,453,596	16,386,670	17,773,705	12,607,470
Exemptions	<u>(7,994,340)</u>	<u>(11,464,896)</u>	<u>(7,876,349)</u>	<u>(3,235,450)</u>
<b>TOTAL PROPERTY VALUATIONS</b>	<b><u>\$ 237,887,349</u></b>	<b><u>\$231,502,851</u></b>	<b><u>\$ 225,561,075</u></b>	<b><u>\$ 217,856,749</u></b>
<b>TAX RATES PER \$100 VALUATION:</b>				
Debt Service	\$ 0.620	\$ 0.640	\$ 0.680	\$ 0.700
Maintenance **	<u>0.250</u>	<u>0.250</u>	<u>0.250</u>	<u>0.250</u>
<b>TOTAL TAX RATES PER \$100 VALUATION</b>	<b><u>\$ 0.870</u></b>	<b><u>\$ 0.890</u></b>	<b><u>\$ 0.930</u></b>	<b><u>\$ 0.950</u></b>
<b>ADJUSTED TAX LEVY*</b>	<b><u>\$ 2,072,011</u></b>	<b><u>\$ 2,062,162</u></b>	<b><u>\$ 2,103,816</u></b>	<b><u>\$ 2,073,279</u></b>
<b>PERCENT OF TAXES COLLECTED TO TAXES LEVIED</b>	<b><u>96.95%</u></b>	<b><u>99.55%</u></b>	<b><u>98.39%</u></b>	<b><u>99.82%</u></b>

\* 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, 2009**

REFUNDING SERIES - 1 9 9 7			
Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/April 1	Total
2010	\$ 595,000	\$ 54,413	\$ 649,413
2011	705,000	19,211	724,211
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
TOTAL	<u>\$ 1,300,000</u>	<u>73,624</u>	<u>\$ 1,373,624</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2009**

SERIES - 1 9 9 8

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/April 1	Total
2010	\$ 10,000	\$ 1,063	\$ 11,063
2011	15,000	400	15,400
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
<b>TOTAL</b>	<u>\$ 25,000</u>	<u>\$ 1,463</u>	<u>\$ 26,463</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2009**

SERIES - 2 0 0 3

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/April 1	Total
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>\$ 7,200,000</b>	<b>\$ 3,881,667</b>	<b>\$ 11,081,667</b>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2009**

REFUNDING SERIES - 2 0 0 4

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/April 1	Total
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>\$ 4,415,000</u>	<u>\$ 947,213</u>	<u>\$ 5,362,213</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2009**

SERIES - 2 0 0 8

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/April 1	Total
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>\$ 1,975,000</b>	<b>\$ 1,344,850</b>	<b>\$ 3,319,850</b>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2009**

SERIES - 2 0 0 9

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/April 1	Total
2010	\$		
2011	35,000	72,713	\$ 72,713
2012	765,000	124,125	159,125
2013	20,000	112,125	877,125
2014	20,000	100,375	120,375
2015	20,000	99,825	119,825
2016	455,000	99,275	119,275
2017	470,000	89,900	544,900
2018	490,000	71,400	541,400
2019	1,060,000	52,200	542,200
2020		21,200	1,081,200
2021			
2022			
2023			
2024			
2025			
2026			
2027			
<b>TOTAL</b>	<b>\$ 3,335,000</b>	<b>\$ 843,138</b>	<b>\$ 4,178,138</b>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2009**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2010	\$ 740,000	\$ 697,764	\$ 1,437,764
2011	815,000	709,898	1,524,898
2012	845,000	675,837	1,520,837
2013	885,000	645,387	1,530,387
2014	920,000	609,538	1,529,538
2015	950,000	572,388	1,522,388
2016	985,000	533,691	1,518,691
2017	1,025,000	492,988	1,517,988
2018	1,070,000	450,058	1,520,058
2019	1,140,000	405,058	1,545,058
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>\$ 18,250,000</u></b>	<b><u>\$ 7,091,955</u></b>	<b><u>\$ 25,341,955</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, 2009**

Description	Original Bonds Issued	Bonds Outstanding October 1, 2008
Chimney Hill Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds – Series 1997	\$ 6,080,000	\$ 2,665,000
Chimney Hill Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds – Series 1998	1,520,000	1,460,000
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	4,470,000
Chimney Hill Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds – Series 2008	1,975,000	1,975,000
Chimney Hill Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds – Series 2009	<u>3,335,000</u>	
<b>TOTAL</b>	<u>\$ 27,430,000</u> *	<u>\$ 18,850,000</u>

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, 2009	Paying Agent
Bonds Sold	Principal	Interest	Retirements		
\$	\$ 1,365,000	\$ 127,079	\$	\$ 1,300,000	The Bank of New York Mellon Trust Company, N.A. Houston, TX
	1,435,000	82,615		25,000	The Bank of New York Mellon Trust Company, N.A. Houston, TX
	1,080,000	64,800			The Bank of New York Mellon Trust Company, N.A. Houston, TX
		313,732		7,200,000	The Bank of New York Mellon Trust Company, N.A. Houston, TX
	55,000	177,599		4,415,000	The Bank of New York Mellon Trust Company, N.A. Houston, TX
		70,407		1,975,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>3,335,000</u>				<u>3,335,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ 3,335,000</u>	<u>\$ 3,935,000</u>	<u>\$ 836,232</u>		<u>\$ 18,250,000</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, 2009**

	Original Bonds	Refunding Bonds
Bond Authority:		
Amount Authorized by Voters	\$ 46,025,000	\$ 16,100,000
Amount Issued	<u>24,400,000</u>	<u>10,310,000</u>
Remaining to be Issued	<u>\$ 21,625,000</u>	<u>\$ 5,790,000</u>

Debt Service Fund cash, investments and cash with paying agent balances as of  
September 30, 2009: \$ 3,646,139

Average annual debt service payment (principal & interest) for remaining term of  
all bond debt: \$ 1,407,886

See accompanying independent auditor's report.

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

	Amounts		
	2009	2008	2007
<b>REVENUES</b>			
Property Taxes	\$ 582,819	\$ 589,418	\$ 557,099
Sales Tax Receipts	59,187	69,184	60,849
Water Service	630,491	567,646	532,408
Wastewater Service	726,366	441,151	345,648
Penalty and Interest	12,806	17,560	13,464
Tap Connection and Inspection Fees	33,907	38,436	2,700
Investment Revenues	47,721	81,458	118,025
Grant Revenues	11,976		
Miscellaneous Revenues	<u>45,196</u>	<u>43,308</u>	<u>41,364</u>
<b>TOTAL REVENUES</b>	<b><u>\$ 2,150,469</u></b>	<b><u>\$ 1,848,161</u></b>	<b><u>\$ 1,671,557</u></b>
<b>EXPENDITURES</b>			
Professional Fees	\$ 275,317	\$ 154,425	\$ 167,265
Contracted Services	602,138	306,846	228,608
Purchased Water Service	382,995	323,395	268,835
Purchased Wastewater Service	454,042	439,973	398,970
Utilities	52,368	45,044	50,062
Repairs and Maintenance	326,705	239,876	175,875
Other	163,098	114,484	126,864
Capital Outlay	<u>29,312</u>	<u>114,459</u>	<u>54,716</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$ 2,285,975</u></b>	<b><u>\$ 1,738,502</u></b>	<b><u>\$ 1,471,195</u></b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b><u>\$ (135,506)</u></b>	<b><u>\$ 109,659</u></b>	<b><u>\$ 200,362</u></b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In (Out)	<u>\$ -0-</u>	<u>\$ 15,769</u>	<u>\$ 103,124</u>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (135,506)</b>	<b>\$ 125,428</b>	<b>\$ 303,486</b>
<b>BEGINNING FUND BALANCE</b>	<u>2,280,652</u>	<u>2,155,224</u>	<u>1,851,738</u>
<b>ENDING FUND BALANCE</b>	<b><u>\$ 2,145,146</u></b>	<b><u>\$ 2,280,652</u></b>	<b><u>\$ 2,155,224</u></b>

See accompanying independent auditor's report.

		Percent of Total Revenue					
	2006	2005	2009	2008	2007	2006	2005
\$	539,766	\$ 517,964	27.1%	31.9%	33.3%	33.1%	33.0%
	577,865	573,594	2.7	3.7	3.6	35.6	36.5
	355,281	363,807	29.3	30.7	31.8	21.8	23.2
	15,305	16,160	33.8	23.9	20.7	0.9	1.0
	6,885	13,175	0.6	1.0	0.8	0.4	0.8
	91,608	48,197	1.6	2.1	0.2	0.4	0.8
			2.2	4.4	7.1	5.6	3.1
	41,870	38,282	0.6				
			2.1	2.3	2.5	2.6	2.4
\$	1,628,580	\$ 1,571,179	100.0%	100.0%	100.0%	100.0%	100.0%
\$	134,265	\$ 141,635	12.8%	8.4%	10.0%	8.2%	9.0%
	198,360	204,482	28.0	16.6	13.7	12.2	13.0
	259,775	256,424	17.8	17.5	16.1	16.0	16.3
	422,123	330,507	21.1	23.8	23.9	25.9	21.0
	52,142	48,662	2.4	2.4	3.0	3.2	3.1
	162,131	235,471	15.2	13.0	10.5	10.0	15.0
	126,577	132,310	7.6	6.2	7.5	7.8	8.4
	39,513		1.4	6.2	3.3	2.4	
\$	1,394,886	\$ 1,349,491	106.3%	94.1%	88.0%	85.7%	85.8%
\$	233,694	\$ 221,688	(6.3)%	5.9%	12.0%	14.3%	14.2%
\$	-0-	\$ -0-					
\$	233,694	\$ 221,688					
	1,618,044	1,396,356					
\$	1,851,738	\$ 1,618,044					

See accompanying independent auditor's report.

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

	Amounts		
	2009	2008	2007
<b>REVENUES</b>			
Property Taxes	\$ 1,446,725	\$ 1,513,701	\$ 1,515,564
Penalty and Interest	36,965	64,865	67,247
Investment Revenues	74,855	124,829	172,405
Miscellaneous Revenues	40	894	1,109
<b>TOTAL REVENUES</b>	<b>\$ 1,558,585</b>	<b>\$ 1,704,289</b>	<b>\$ 1,756,325</b>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 63,937	\$ 82,868	\$ 80,346
Payment to Refunded Bond Escrow Agent	96,000		
Debt Service Interest and Fees	840,037	803,379	836,674
Debt Service Principal	705,000	670,000	640,000
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,704,974</b>	<b>\$ 1,556,247</b>	<b>\$ 1,557,020</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (146,389)</b>	<b>\$ 148,042</b>	<b>\$ 199,305</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Refunding Bonds Issued	\$ 3,335,000	\$	\$
Bond Premium	117,979		
Bond Discount	(41,687)		
Payment to Refunded Bond Escrow Agent	(3,226,338)		
Issuance Costs of Refunding Bonds	(182,331)		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 2,623</b>	<b>\$ -0-</b>	<b>\$ -0-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (143,766)</b>	<b>\$ 148,042</b>	<b>\$ 199,305</b>
<b>BEGINNING FUND BALANCE</b>	<u>3,857,588</u>	<u>3,709,546</u>	<u>3,510,241</u>
<b>ENDING FUND BALANCE</b>	<u><b>\$ 3,713,822</b></u>	<u><b>\$ 3,857,588</b></u>	<u><b>\$ 3,709,546</b></u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>1,750</u>	<u>1,766</u>	<u>1,750</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>1,741</u>	<u>1,758</u>	<u>1,750</u>

See accompanying independent auditor's report.

		Percent of Total Revenue					
	2006	2005	2009	2008	2007	2006	2005
\$	1,520,502	\$ 1,525,405	92.8%	88.8%	86.3%	89.2%	92.4%
	45,722	46,707	2.4	3.8	3.8	2.7	2.8
	138,514	79,288	4.8	7.3	9.8	8.1	4.8
	30			0.1	0.1		
\$	1,704,768	\$ 1,651,400	100.0%	100.0%	100.0%	100.0%	100.0%
\$	63,022	\$ 64,983	4.1%	4.9%	4.6%	3.7%	3.9%
	869,685	827,829	6.2	47.1	47.6	51.0	50.1
	605,000	640,000	53.9	39.3	36.4	35.5	38.8
\$	1,537,707	\$ 1,532,812	45.2	91.3%	88.6%	90.2%	92.8%
			109.4%				
\$	167,061	\$ 118,588	(9.4)%	8.7%	11.4%	9.8%	7.2%
\$	-0-	\$ -0-					
\$	167,061	\$ 118,588					
	3,343,180	3,224,592					
\$	3,510,241	\$ 3,343,180					
	1,735	1,738					
	1,733	1,737					

See accompanying independent auditor's report.



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**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2009**

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

District Telephone Number - (713) 651-0111

<b>Board Members</b>	Term of Office (Elected or Appointed)	Expense		Title
		Fees of Office for the year ended September 30, 2009	Reimbursements for the year ended September 30, 2009	
W. Jay Szinyei	05/08 05/12 (Elected)	\$ 6,300	\$ 216	President
Charley L. Lewis	05/06 05/10 (Elected)	\$ 4,950	\$ 299	Vice President
Kimberly R. McNinch	05/08 05/12 (Elected)	\$ 5,400	\$ 201	Assistant Vice President/ Assistant Secretary/ Treasurer/ Assistant Investment Officer
Camille W. Sowell	05/06 05/10 (Elected)	\$ 5,850	\$ 190	Secretary/ Treasurer/ Investment Officer
Sharon Bills	05/08 05/12 (Elected)	\$ 7,200	\$ 1,084	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, 2009**

Consultants:	Date Hired	Fees for the		Title
		year ended September 30, 2009	year ended September 30, 2009	
		District	Plant	
Coats, Rose, Ryman & Lee, P.C. 3 East Greenway Plaza, Suite 2000 Houston, TX 77046	09/01/80	\$ 218,135	\$ 1,261	Attorney/ Bond Counsel
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive Suite 235 Houston, TX 77065-5610	08/06/87	\$ 17,050	\$ 2,800	Auditor
Myrtle Cruz, Inc. 1621 Milam, 3 <sup>rd</sup> Floor Houston, TX 77002	08/01/85	\$ 16,951	\$ 2,991	Bookkeeper
Harris County Appraisal District 13013 Northwest Freeway Houston, TX 77040-6305	Legislative Action	\$ 17,364	\$ -0-	Central Appraisal District
Larson & Weisinger P.O. Box 2666 Conroe, TX 77305	02/25/99	\$ 12,278	\$ -0-	Delinquent Tax Attorney
A&S Engineers, Inc. 10377 Stella Link Road Houston, TX 77025-5445	07/30/99	\$ 153,428	\$ 614	Engineer

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2009**

Consultants:	Date Hired	Fees for the		Title
		year ended September 30, 2009	year ended September 30, 2009	
Rathmann & Associates, L.P. Four Houston Center 1331 Lamar, Suite 1050 Houston, TX 77010	04/09/03	\$ 66,438	\$ -0-	Financial Advisor
Water District Management Company P. O. Box 579 Spring, TX 77383	01/27/89	\$ 483,546	\$ 358,715	Operator
Thomas W. Lee, RTA c/o Assessments of the Southwest P. O. Box 1368 Friendswood, TX 77546	10/01/01	\$ 26,361	\$ -0-	Tax Assessor/ Collector

See accompanying independent auditor's report.