

# ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }

COUNTY OF HARRIS }

I, Debbie Gibson of the  
(Name of Duly Authorized District Representative)  
Chimney Hill Municipal Utility District  
(Name of District)

hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of Directors of the District on the 1st day of February, 2013, its annual audit report for the fiscal year or period ended September 30, 2012 and that copies of the annual audit report have been filed in the district office, located at

3 Greenway Plaza, Suite 2000, Houston, TX 77046  
(Address of District)

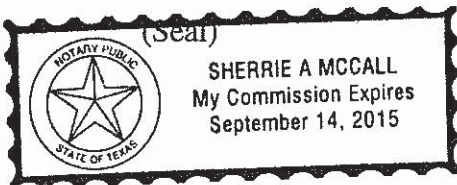
The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Natural Resource Conservation Commission in satisfaction of the annual filing requirements of Texas Water Code Section 49.194.

Date: March 28, 2013

By: Debbie Gibson  
(Signature of District Representative)

Debbie Gibson, Auditor  
(Typed Name & Title of above District Representative)

Sworn to and subscribed to before me this the 28th day of March, 2013.



Sherrie A. McCall  
(Signature of Notary)

My Commission Expires On: September 14, 2015.  
Notary Public in the State of Texas.

**TEXAS WATER CODE SECTION 49.194**  
**Filing of Audits, Affidavits, and Financial Reports**

- (a) After the board has approved the audit, it shall submit a copy of the report to the executive director for filing within 135 days after the close of the district's fiscal year.
- (b) If the board refuses to approve the annual audit report, the board shall submit a copy of the report to the executive director for filing within 135 days after the close of the district's fiscal year, accompanied by a statement from the board explaining the reasons for its failure to approve the report.
- (c) Copies of the audit, the annual financial dormancy affidavit, or annual financial report described in Sections 49.197 and 49.198 shall be filed annually in the office of the district.
- (d) Each district shall file with the executive director an annual filing affidavit in a format prescribed by the executive director, executed by a duly authorized representative of the board, stating that all copies of the annual audit report, annual financial dormancy affidavit, or annual financial report have been filed under this section.
- (e) The annual filing affidavit shall be submitted with the applicable annual document when it is submitted to the executive director for filing as prescribed by this subchapter.
- (f) The executive director shall file with the attorney general the names of any districts that do not comply with the provisions of this subchapter.

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**THE ANNUAL FILING AFFIDAVIT IS PRINTED ON THE OTHER SIDE**

Please review the affidavit, making sure it has been fully completed, signed, and notarized. Attach the affidavit to the audit report before mailing. Submit the completed affidavit and audit report to:

Reports & Supervision Team – MC 152  
TCEQ – Water Utilities Division  
P.O. Box 13087  
Austin, Texas 78711-3087

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2012**





**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2012**

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Board of Directors  
Chimney Hill Municipal Utility District  
Harris County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Chimney Hill Municipal Utility District (the "District"), as of and for the year ended September 30, 2012, 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 opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2012, 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.



Board of Directors  
Chimney Hill Municipal Utility District

Accounting principles generally accepted in the United States of America require that 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 39 and 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants

February 1, 2013

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Management's 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, 2012. 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 basic financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Assets and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances. This report also includes other supplementary information in addition to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

The first of the government-wide statements is the Statement of Net Assets. This information is found in the Statement of Net Assets column on pages 9 through 12. The Statement of Net Assets is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities on pages 14 and 15 reports how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

**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 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 restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**FUND FINANCIAL STATEMENTS (Continued)**

accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 17 through 37 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.

**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 \$1,019,270 as of September 30, 2012.

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

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



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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

	<u>Summary of Changes in the Statement of Net Assets</u>		
	<u>2012</u>	<u>2011</u>	Change Positive (Negative)
Current and Other Assets	\$ 7,408,654	\$ 7,722,150	\$ (313,496)
Capital Assets (Net of Accumulated Depreciation)	<u>9,184,909</u>	<u>9,342,482</u>	<u>(157,573)</u>
Total Assets	<u>\$ 16,593,563</u>	<u>\$ 17,064,632</u>	<u>\$ (471,069)</u>
Long -Term Liabilities	\$ 14,965,000	\$ 15,850,000	\$ 885,000
Other Liabilities	<u>2,647,833</u>	<u>2,304,212</u>	<u>(343,621)</u>
Total Liabilities	<u>\$ 17,612,833</u>	<u>\$ 18,154,212</u>	<u>\$ 541,379</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ (6,406,567)	\$ (6,744,781)	\$ 338,214
Restricted	3,452,773	3,614,726	(161,953)
Unrestricted	<u>1,934,524</u>	<u>2,040,475</u>	<u>(105,951)</u>
Total Net Assets	<u>\$ (1,019,270)</u>	<u>\$ (1,089,580)</u>	<u>\$ 70,310</u>

The following table provides a summary of the District's operations for the years ended September 30, 2012, and September 30, 2011. The District's net assets increased by \$70,310, accounting for a 6.5% growth in net assets.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2012</u>	<u>2011</u>	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,919,618	\$ 1,965,064	\$ (45,446)
Sales Tax Receipts	70,523	\$ 64,612	5,911
Charges for Services	1,517,239	1,678,416	(161,177)
Other Revenues	71,688	45,881	25,807
Capital Contributions	<u>100,920</u>	<u>12,748</u>	<u>88,172</u>
Total Revenues	<u>\$ 3,679,988</u>	<u>\$ 3,766,721</u>	<u>\$ (86,733)</u>
Expenses for Services	<u>(3,609,678)</u>	<u>(3,617,819)</u>	<u>8,141</u>
Change in Net Assets	\$ 70,310	\$ 148,902	\$ (78,592)
Net Assets, Beginning of Year	<u>(1,089,580)</u>	<u>(1,238,482)</u>	<u>148,902</u>
Net Assets, End of Year	<u>\$ (1,019,270)</u>	<u>\$ (1,089,580)</u>	<u>\$ 70,310</u>

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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

The District's combined fund balances as of the fiscal year ended September 30, 2012, were \$5,595,438, a decrease of \$462,638 from the prior year.

The General Fund fund balance decreased by \$285,354, primarily due to an increase in repair and maintenance costs.

The Debt Service Fund fund balance decreased by \$70,821, primarily due to a timing difference between tax collections and debt service payments.

The Capital Projects Fund fund balance decreased by \$106,463, primarily due to expenditures for projects funded from prior bond issues and the use of surplus funds for certain repairs and maintenance projects.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$2,700 more than budgeted revenues. Actual expenditures were \$130,052 more than budgeted expenditures. See budget and actual comparison schedule on page 39.

**CAPITAL ASSETS**

The District's investment in capital assets as of September 30, 2012, amounts to \$9,184,909 (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:

- SCADA System at Wastewater Treatment Plant and District Lift Stations
- Wastewater Treatment Plant Access Road

Construction in Progress:

- GIS System
- Sanitary Sewer Rehabilitation Planning and Design

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**CAPITAL ASSETS (Continued)**

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2012	2011	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 462,247	\$ 462,247	\$
Construction in Progress	92,792	271,508	(178,716)
Capital Assets, Net of Accumulated Depreciation:			
Water System	673,425	707,785	(34,360)
Wastewater System	2,227,111	2,318,338	(91,227)
Wastewater Treatment Plant	3,878,050	3,641,397	236,653
Water Plants	1,851,284	1,941,207	(89,923)
Total Net Capital Assets	\$ 9,184,909	\$ 9,342,482	\$ (157,573)

Additional information on the District's capital assets can be found in Note 6.

**LONG-TERM DEBT ACTIVITY**

At the end of the current fiscal year, the District had total bond debt payable of \$15,870,000.

The changes in the debt position of the District during the fiscal year ended September 30, 2012, are summarized as follows:

Bond Debt Payable, October 1, 2011	\$ 16,695,000
Add: Series 2011 Refunding Bonds	4,225,000
Less: Bond Principal Paid	5,050,000
Bond Debt Payable, September 30, 2012	\$ 15,870,000

At the beginning of the current fiscal year, the District's bonds carried an underlying rating of "A-" by Standard and Poor's Ratings Services ("S&P"). The rating did not change during the current fiscal year.

At the beginning of the current fiscal year, the Series 2003 Bonds carried an insured rating of "BBB" by S&P based on a policy issued by National Public Finance Guaranty Corporation ("NPFGC"). At the end of the current fiscal year, the insured rating was "A-."



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**LONG-TERM DEBT ACTIVITY (Continued)**

At the beginning of the current fiscal year, the Series 2004 Bonds and the Series 2008 Bonds were rated "AA+" by S&P based on a policy issued by Financial Security Assurance, Inc., now known as Assured Guaranty Municipal Corp. ("AGMC"). During the current fiscal year, S&P downgraded the rating of AGMC to "AA-".

At the beginning of the current fiscal year, the Series 2009 Bonds were rated "AA+" by S&P based on a policy issued by Assured Guaranty Corp. ("Assured Guaranty"). During the current fiscal year, S&P downgraded the rating of Assured Guaranty to "AA-".

At the beginning of the current fiscal year, the Series 2011 Bonds were rated AA+ by S&P based on a policy issued by AGMC. During the current fiscal year, S&P downgraded the rating of AGMC to "AA-".

**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, 2012**

	General Fund	Special Revenue Fund
<b>ASSETS</b>		
Cash, Note 5	\$ 1,562,718	\$ 21,222
Investments, Note 5	661,774	
Cash with Fiscal Agent		
Receivables:		
Property Taxes	23,929	
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$2,000)	140,861	
Accrued Interest	1,348	
Due from Developers	20,293	
Due from Other Funds, Note 12	9,467	45,845
Prepaid Costs	47,964	
Due from Other Governments	39,630	716
Advance for Regional Wastewater Treatment Plant Operations, Note 9	18,000	
Unamortized Bond Issuance Costs		
Unamortized Bond Discounts		
Land, Note 6		
Construction in Progress, Note 6		
Capital Assets (Net of Accumulated Depreciation), Note 6		
<b>TOTAL ASSETS</b>	<b>\$ 2,525,984</b>	<b>\$ 67,783</b>

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

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 1,067,176	\$ 283,402	\$ 2,934,518	\$	\$ 2,934,518
1,297,767	261,085	2,220,626		2,220,626
1,295,169		1,295,169		1,295,169
59,752		83,681		83,681
26,943		26,943		26,943
		140,861		140,861
3,633	1,469	6,450		6,450
		20,293		20,293
9,996	1,084	66,392	(66,392)	
1,000		48,964		48,964
		40,346		40,346
		18,000	(18,000)	
			415,966	415,966
			174,837	174,837
			462,247	462,247
			92,792	92,792
			8,629,870	8,629,870
<u>\$ 3,761,436</u>	<u>\$ 547,040</u>	<u>\$ 6,902,243</u>	<u>\$ 9,691,320</u>	<u>\$ 16,593,563</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, 2012**

	General Fund	Wastewater Treatment Plant
<b>LIABILITIES</b>		
Accounts Payable	\$ 685,293	\$ 47,783
Accrued Interest Payable		
Due to Other Governments	40,934	
Due to Developers	10,368	
Due to Other Funds, Note 12	55,841	
Due to Taxpayers		
Security Deposits	214,990	
Deferred Revenues:		
Property Taxes	23,929	
Penalty and Interest on Delinquent Taxes		
Accrued Bond Interest Received at Time of Sale		
Advance from Participants, Note 9		20,000
Unamortized Bond Premiums		
Long Term Liabilities:		
Bonds Payable, Due Within One Year, Note 3		
Bonds Payable, Due After One Year, Note 3		
<b>TOTAL LIABILITIES</b>	<b>\$ 1,031,355</b>	<b>\$ 67,783</b>
<b>FUND BALANCES/NET ASSETS</b>		
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 47,964	\$
Advance for Regional Wastewater Treatment Operations	18,000	
Restricted for Authorized Construction:		
Bond Proceeds		
Net Investment Revenues		
Restricted for Debt Service		
Assigned to 2013 Budget, Note 2	263,620	
Unassigned	1,165,045	
<b>TOTAL FUND BALANCES</b>	<b>\$ 1,494,629</b>	<b>\$ - 0 -</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,525,984</b>	<b>\$ 67,783</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.

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 21,013	\$ 77,302	\$ 831,391	\$	\$ 831,391
			391,169	391,169
		40,934		40,934
		10,368		10,368
3,033	7,518	66,392	(66,392)	
2,464		2,464		2,464
		214,990		214,990
59,752		83,681	(83,681)	
26,943		26,943	(26,943)	
9,642		9,642	(9,642)	
		20,000	(18,000)	2,000
			249,517	249,517
			905,000	905,000
			14,965,000	14,965,000
<u>\$ 122,847</u>	<u>\$ 84,820</u>	<u>\$ 1,306,805</u>	<u>\$ 16,306,028</u>	<u>\$ 17,612,833</u>
\$ 1,000	\$	\$ 48,964	\$ (48,964)	\$
		18,000	(18,000)	
	353,204	353,204	(353,204)	
	109,016	109,016	(109,016)	
3,637,589		3,637,589	(3,637,589)	
		263,620	(263,620)	
		1,165,045	(1,165,045)	
<u>\$ 3,638,589</u>	<u>\$ 462,220</u>	<u>\$ 5,595,438</u>	<u>\$ (5,595,438)</u>	<u>\$ - 0 -</u>
<u>\$ 3,761,436</u>	<u>\$ 547,040</u>	<u>\$ 6,902,243</u>		
			\$ (6,406,567)	\$ (6,406,567)
			3,343,757	3,343,757
			109,016	109,016
			1,934,524	1,934,524
			<u>\$ (1,019,270)</u>	<u>\$ (1,019,270)</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, 2012**

Total Fund Balances - Governmental Funds \$ 5,595,438

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

Unamortized bond issuance costs, bond discounts and bond premiums in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 341,286

Land, construction in progress and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 9,184,909

Deferred tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2011 and prior tax levies became part of recognized revenue in the governmental activities of the District. 110,624

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (381,527)	
Bonds Payable Within One Year	(905,000)	
Bonds Payable After One Year	<u>(14,965,000)</u>	<u>(16,251,527)</u>

Total Net Assets - Governmental Activities \$ (1,019,270)

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 GOVERNMENTAL FUNDS REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	General Fund	Special Revenue Fund
<b>REVENUES</b>		
Property Taxes	\$ 551,509	\$
Sales Tax Receipts, Note 10	70,523	
Water Service	749,328	
Wastewater Service	714,471	462,771
Penalty and Interest	30,613	
Tap Connection and Inspection Fees	9,792	
Investment Revenues	11,103	
Miscellaneous Revenues	42,361	
Capital Contributions		
<b>TOTAL REVENUES</b>	<b>\$ 2,179,700</b>	<b>\$ 462,771</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 258,392	\$ 21,956
Contracted Services	628,506	54,773
Purchased Water Service, Note 8	450,980	
Purchased Wastewater Service, Note 9	441,925	
Utilities	49,443	65,366
Repairs and Maintenance	361,582	121,516
Depreciation, Note 6		
Other	140,773	199,160
Capital Outlay	122,148	
Debt Service:		
Bond Principal		
Bond Interest		
Bond Issuance Costs		
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 2,453,749</b>	<b>\$ 462,771</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<b>\$ (274,049)</b>	<b>\$ -0-</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In(Out), Note 12	\$ (11,305)	\$ -0-
Refunding Bonds		
Payment to Refunded Escrow Agent		
Bond Discount		
Bond Premium		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ (11,305)</b>	<b>\$ -0-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ (285,354)</b>	<b>\$ -0-</b>
<b>CHANGE IN NET ASSETS</b>		
<b>FUND BALANCES/NET ASSETS - OCTOBER 1, 2011</b>	<b>1,779,983</b>	
<b>FUND BALANCES/NET ASSETS - SEPTEMBER 30, 2012</b>	<b>\$ 1,494,629</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
\$ 1,389,622	\$	\$ 1,941,131	\$ (21,513)	\$ 1,919,618
		70,523		70,523
		749,328		749,328
		1,177,242	(441,925)	735,317
27,733		58,346	(35,544)	22,802
		9,792		9,792
15,134	3,090	29,327		29,327
		42,361		42,361
			100,920	100,920
<u>\$ 1,432,489</u>	<u>\$ 3,090</u>	<u>\$ 4,078,050</u>	<u>\$ (398,062)</u>	<u>\$ 3,679,988</u>
\$ 16,010	\$ 24,703	\$ 321,061	\$	\$ 321,061
42,560		725,839		725,839
		450,980		450,980
		441,925	(441,925)	
		114,809		114,809
	21,172	504,270		504,270
			451,935	451,935
4,706	281	344,920		344,920
	74,702	196,850	(193,083)	3,767
854,000		854,000	(854,000)	
583,000		583,000	109,097	692,097
225,671		225,671	(225,671)	
<u>\$ 1,725,947</u>	<u>\$ 120,858</u>	<u>\$ 4,763,325</u>	<u>\$ (1,153,647)</u>	<u>\$ 3,609,678</u>
<u>\$ (293,458)</u>	<u>\$ (117,768)</u>	<u>\$ (685,275)</u>	<u>\$ 755,585</u>	<u>\$ 70,310</u>
\$ 4,225,000	\$ 11,305	\$ 4,225,000	\$ (4,225,000)	\$
(4,222,820)		(4,222,820)	4,222,820	
(52,813)		(52,813)	52,813	
<u>273,270</u>		<u>273,270</u>	<u>(273,270)</u>	
<u>\$ 222,637</u>	<u>\$ 11,305</u>	<u>\$ 222,637</u>	<u>\$ (222,637)</u>	<u>\$ -0-</u>
\$ (70,821)	\$ (106,463)	\$ (462,638)	\$ 462,638	\$
			70,310	70,310
<u>3,709,410</u>	<u>568,683</u>	<u>6,058,076</u>	<u>(7,147,656)</u>	<u>(1,089,580)</u>
<u>\$ 3,638,589</u>	<u>\$ 462,220</u>	<u>\$ 5,595,438</u>	<u>\$ (6,614,708)</u>	<u>\$ (1,019,270)</u>

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



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Net Change in Fund Balances - Governmental Funds	\$ (462,638)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenues are recorded in the accounting period for which the taxes are levied.	(21,513)
Governmental funds report penalty and interest revenues on property taxes when collected. However, in the Statement of Activities, revenues are recorded when penalties and interest are assessed.	(35,544)
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.	(451,935)
Governmental funds record capital asset costs as expenditures in the period purchased. However, in the Statement of Net Assets, capital assets are increased by new purchases that meet the District's threshold for capitalization, and are owned and maintained by the District. All other capital asset purchases are expensed in the Statement of Activities.	294,003
Governmental funds report bond issuance costs as expenditures and bond discounts and bond premiums as other financing sources/uses in the year paid. However, in the Statement of Net Assets, the bond issuance costs, bond discounts, and bond premiums are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.	5,214
Governmental funds report bond principal payments as expenditures. In the government-wide statements, bond principal payments decrease long-term liabilities and the Statement of Activities is not affected.	854,000
Governmental funds report bond interest payments as expenditures in the year paid. However, in the Statement of Activities, interest is accrued on the bonds through fiscal year end and the current amortized portion of bond issuance costs, bond discounts and bond premiums is added to the bond interest expense.	(109,097)
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.	(4,225,000)
Governmental funds report the payment to the refunded bond escrow agent as an other financing use. However, in the government-wide statements, long-term liabilities are decreased by the amount of the bonds refunded and the difference is added to interest expense.	4,222,820
Change in Net Assets - Governmental Activities	\$ 70,310

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, 2012**

**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 ("GASB"). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The GASB 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 GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

Financial Statement Presentation (Continued)

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three 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, 2012**

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

Financial Statement Presentation (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 financial statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has four 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 restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

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

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means 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 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, 2012**

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

Basis of Accounting (Continued)

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

Amounts transferred from one fund to another fund are reported as an other financing source or use. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as an expenditure in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost of \$15,000 or more and a useful life of at least two 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:

	Years
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, 2012**

**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 tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net assets.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances are included on the Balance Sheet as follows:

Fund Balances

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, requires the classification of fund balances in governmental funds using the following hierarchy:

*Nonspendable*: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted*: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

Measurement Focus (Continued)

Fund Balances (Continued)

*Committed:* amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

*Assigned:* amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. The District has assigned \$263,620 of its current General Fund fund balance to cover a portion of the 2013 budget.

*Unassigned:* all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, management has evaluated and disclosed all material subsequent events through February 1, 2013, which is the date these statements were available to be issued.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 3. BONDS PAYABLE**

	Series 2003	Refunding Series 2004
Amount Outstanding - September 30, 2012	\$ 2,995,000	\$ 4,140,000
Interest Rates	4.25% - 4.30%	4.00% - 4.20%
Maturity Dates – Beginning/Ending	October 1, 2023/2024	October 1, 2012/2017
Interest Payment Dates	October 1/April 1	October 1/April 1
Callable Dates	October 1, 2011*	October 1, 2012*

	Series 2008	Refunding Series 2009	Refunding Series 2011
Amount Outstanding - September 30, 2012	\$ 1,975,000	\$ 2,535,000	\$ 4,225,000
Interest Rates	4.00% - 4.40%	2.75% - 4.00%	2.00% - 4.00%
Maturity Dates – Beginning/Ending	October 1, 2024/2026	October 1, 2014/2018	October 1, 2012/2021
Interest Payment Dates	October 1/April 1	October 1/April 1	October 1/April 1
Callable Dates	October 15, 2015*	Not Callable	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.

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2012:

Bond Debt Payable - October 1, 2011	\$ 16,695,000
Add: Series 2011 Refunding Bonds	4,225,000
Less: Bond Principal -	
Series 2003 Refunding	\$ 4,205,000
Series 2004	80,000
Series 2009	765,000
	<u>5,050,000</u>
Bond Debt Payable - September 30, 2012	<u>\$ 15,870,000</u>

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

Bond Debt Payable -	
Due Within One Year	\$ 905,000
Due After One Year	<u>14,965,000</u>
Bond Debt Payable - September 30, 2012	<u>\$ 15,870,000</u>
Original Bonds Voted	<u>\$ 46,025,000</u>
Original Bonds Approved	<u>\$ 24,400,000</u>
Original Bonds Issued	<u>\$ 24,400,000</u>
Refunding Bonds Voted	<u>\$ 16,100,000</u>
Refunding Bond Authorization Used	<u>\$ 10,310,000</u>

As of September 30, 2012, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 905,000	\$ 611,238	\$ 1,516,238
2014	925,000	588,762	1,513,762
2015	955,000	551,513	1,506,513
2016	990,000	514,087	1,504,087
2017	1,030,000	474,348	1,504,348
2018-2022	6,095,000	1,765,037	7,860,037
2023-2027	<u>4,970,000</u>	<u>415,598</u>	<u>5,385,598</u>
	<u>\$ 15,870,000</u>	<u>\$ 4,920,583</u>	<u>\$ 20,790,583</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, 2012, the District levied an ad valorem debt service tax at the rate of \$0.63 per \$100 of assessed valuation, which resulted in a tax levy of \$1,402,327 on the adjusted taxable valuation of \$222,140,671 for the 2011 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.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

The District's tax calendar is as follows:

Levy Date - October 1 or as soon thereafter as practicable.

Lien Date - January 1.

Due Date - Not later than January 31.

Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

**NOTE 4. SIGNIFICANT BOND RESOLUTIONS 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 \$9,881,000, boiler and machinery coverage of \$9,881,000 and pollution liability and pollution clean-up and removal coverages of \$5,000,000. The District also has general liability coverage with a maximum limit of \$5,000,000.

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 each 5<sup>th</sup>-year anniversary of each issue.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

C. (Continued)

In compliance with this covenant, the 5<sup>th</sup> year arbitrage rebate reports were completed for 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 2004 bond issue and the District made a yield restriction payment of \$8,454 to the federal government in 2008 on the Series 2003 bond issue.

- 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 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 \$4,949,346 and the bank balance was \$5,110,442. Of the bank balance, \$2,892,537 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.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Assets at September 30, 2012, as listed below:

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

Deposits (Continued)

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 1,562,718	\$ 644,820	\$ 2,207,538
SPECIAL REVENUE FUND	21,222		21,222
DEBT SERVICE FUND	1,067,176	1,123,902	2,191,078
CAPITAL PROJECTS FUND	283,402	246,106	529,508
TOTAL DEPOSITS	\$ 2,934,518	\$ 2,014,828	\$ 4,949,346

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. 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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (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)



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

Investments (Continued)

commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

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

As of September 30, 2012, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<b><u>GENERAL FUND</u></b>					
TexPool	\$ 4,615	\$ 4,615	\$	\$	\$
TexSTAR	12,339	12,339			
Certificates of Deposits	644,820	644,820			
<b><u>DEBT SERVICE FUND</u></b>					
TexPool	171,743	171,743			
TexSTAR	2,122	2,122			
Certificates of Deposits	1,123,902	1,123,902			
<b><u>CAPITAL PROJECTS FUND</u></b>					
TexPool	14,979	14,979			
Certificates of Deposit	246,106	246,106			
<b>TOTAL INVESTMENTS</b>	<b>\$ 2,220,626</b>	<b>\$ 2,220,626</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2012, the District's investments in TexPool and TexSTAR were rated "AAAm" by Standard and Poor's.

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

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

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.

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2012:

	October 1, 2011	Increases	Decreases	September 30, 2012
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 462,247	\$	\$	\$ 462,247
Construction in Progress	271,508	294,362	473,078	92,792
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 733,755</b>	<b>\$ 294,362</b>	<b>\$ 473,078</b>	<b>\$ 555,039</b>
<b>Capital Assets at Historical Cost Subject to Depreciation</b>				
Water System	\$ 1,541,984	\$	\$	\$ 1,541,984
Wastewater System	3,926,088			3,926,088
Wastewater Treatment Plant	5,377,144	473,078		5,850,222
Water Plants	3,314,552			3,314,552
<b>Total Capital Assets at Historical Cost Subject to Depreciation</b>	<b>\$ 14,159,768</b>	<b>\$ 473,078</b>	<b>\$ - 0 -</b>	<b>\$ 14,632,846</b>
<b>Less Accumulated Depreciation</b>				
Water System	\$ 834,199	\$ 34,360	\$	\$ 868,559
Wastewater System	1,607,750	91,227		1,698,977
Wastewater Treatment Plant	1,735,747	236,425		1,972,172
Water Plants	1,373,345	89,923		1,463,268
<b>Total Accumulated Depreciation</b>	<b>\$ 5,551,041</b>	<b>\$ 451,935</b>	<b>\$ - 0 -</b>	<b>\$ 6,002,976</b>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<b>\$ 8,608,727</b>	<b>\$ 21,143</b>	<b>\$ - 0 -</b>	<b>\$ 8,629,870</b>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<b>\$ 9,342,482</b>	<b>\$ 315,505</b>	<b>\$ 473,078</b>	<b>\$ 9,184,909</b>



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 6. CAPITAL ASSETS (Continued)**

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

**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, 2012, 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 \$556,479 on the adjusted taxable valuation of \$222,140,671 for the 2011 tax year.

**NOTE 8. WATER SUPPLY AGREEMENTS**

Camfield Municipal Utility District

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

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

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

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

Camfield Municipal Utility District (Continued)

During the current fiscal year, the District recorded revenue of \$64,719 for water supplied to Camfield. At September 30, 2012, Camfield owed the District \$23,285 for water supplied under the terms of this agreement.

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 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 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 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 50 percent of the costs, \$14,827. The District is allowing Spencer Road a credit of \$2,485 for costs incurred by Spencer Road for remote meter reading equipment installation. The total agreed upon payment by Spencer Road is \$12,342. Spencer Road shall pay this amount in the form of a flow-meter fee of \$0.75 per 1,000 gallons of water pumped through the flow-meter in addition to the rate agreed to above.

City of Houston, Texas

Effective March 3, 1998, the District entered into a water supply contract with the City of Houston ("COH"). The District 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 58 percent of the cost of constructing the water main on FM 529 and 100 percent of the cost of the water tap and water main on Mayard Road. COH's share of the project was



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

City of Houston (Continued)

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 80 percent reduction in its groundwater withdrawals and has opted out of the West Harris County Regional Water Authority.

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 \$2.513 per 1,000 gallons. Effective April 1, 2012, the rate increased to \$2.596 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 \$0.623 per 1,000 gallons. Effective April 1, 2012, this rate increased to \$0.644 per 1,000 gallons. The District can revise its minimum quantity no more than once each calendar year. The term of the contract is 40 years.

During the current fiscal year, the District recorded an expenditure of \$450,980 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 1,000 gallons of water delivered, as measured by the flow meter; or (2) \$0.25 per 1,000 gallons of water delivered plus the cost per 1,000 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 years and shall continue for additional one-year periods unless terminated by either district by providing 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



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

Harris County Municipal Utility District No. 130 (Continued)

additional \$0.04 per 1,000 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-year periods until March 3, 2038, subject to various termination provisions.

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.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

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

The District will operate the plant and hold title for the benefit of the parties. The term of the agreement is 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 share was \$167,497. The District's 90 percent 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 percent of the expansion costs. The Plant expansion was completed in November of 2004.

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

The participating districts are billed for operating charges on a monthly basis. The monthly billing to each district is based on the amount of flow to the plant from each district. An operating reserve of \$20,000 has been established by the districts, \$18,000 advanced by the District and \$2,000 advanced by Camfield. During the current year the District recorded expenditures of \$441,925 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, 2012**

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

On November 10, 2010, an agreement between the District, Camfield and TVH Land Company, L.P. ("TVH") was executed for the construction and maintenance of an access road to the wastewater treatment plant. The District was responsible for 50% of the construction costs for the road improvements and TVH was responsible for 50% of the costs with the understanding that TVH's share included Camfield's portion of the costs. Construction of the access road was completed in 2012 for a total cost of \$227,336. The District is responsible for road maintenance and then the costs are to be shared among the parties as follows: the District-50%, TVH-45.84% and Camfield-4.16%. The term of this agreement is 25 years.

**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 30 days of the City receiving the funds from the State



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 10. STRATEGIC PARTNERSHIP AGREEMENT (Continued)**

Comptroller's office. During the current fiscal year, the District recorded sales tax receipts of \$70,523 of which \$16,346 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 30 years from the effective date of the agreement.

The City and the District entered into a First Amended and Restated Strategic Partnership Agreement effective December 13, 2010, which supersedes and replaces the original Strategic Partnership Agreement and adds various tracts to the original area annexed for limited purposes.

**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 fiscal years.

**NOTE 12. INTERFUND PAYABLES/RECEIVABLES AND TRANSFERS**

The General Fund owes the Debt Service Fund (Tax Account) \$9,996 for maintenance tax collections. This is a timing difference. The Capital Projects Fund owes the General Fund \$7,518 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 \$45,845 for its share of Wastewater Treatment Plant operating costs.

The General Fund transferred \$11,305 to the Capital Projects Fund for costs associated with the pigging project.

The Debt Service Fund owes the General Fund \$1,949 for bond issuance costs for the Series 2011 Refunding Bonds.

The Debt Service Fund owes the Capital Projects Fund \$1,084 for Series 2011 Refunding Bond issuance costs.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 13. USE OF SURPLUS**

Under the rules of the Commission, specifically 30 TAC §293.83 (C)(3), the District meets the requirements to use surplus funds for certain projects without further Commission approval. During the current fiscal year, the District approved the use of \$63,440 of surplus Capital Projects Funds for the replacement of the sluice gates at the wastewater treatment plant. These funds will be expended in the next fiscal year.

**NOTE 14. REFUNDING BOND SALE**

On November 22, 2011, the District closed on the sale of its \$4,225,000 Series 2011 Unlimited Tax and Revenue Refunding Bonds with interest rates of 2.00% to 4.00% to call \$4,205,000 of Series 2003 Bonds. Bond proceeds of \$4,222,820 plus \$9,000 of Debt Service Funds were used to call and retire the bonds maturing October 1, 2015 through October 1, 2021 with interest rates of 4.10% - 5.00%, on November 23, 2011.

The effect of the refunding was to decrease the District's total debt service requirement over 10 years by \$161,349 and at the same time obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$134,053.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2012**



**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, 2012**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 541,000	\$ 551,509	\$ 10,509
Sales Tax Receipts	65,000	70,523	5,523
Water Service	845,000	749,328	(95,672)
Wastewater Service	685,000	714,471	29,471
Penalty and Interest	26,000	30,613	4,613
Tap Connection and Inspection Fees		9,792	9,792
Investment Revenues	15,000	11,103	(3,897)
Miscellaneous Revenues		42,361	42,361
<b>TOTAL REVENUES</b>	<b>\$ 2,177,000</b>	<b>\$ 2,179,700</b>	<b>\$ 2,700</b>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 199,200	\$ 258,392	\$ (59,192)
Contracted Services	655,040	628,506	26,534
Purchased Water Service	430,000	450,980	(20,980)
Purchased Wastewater Service	413,712	441,925	(28,213)
Utilities	52,000	49,443	2,557
Repairs and Maintenance	400,000	361,582	38,418
Other	173,745	140,773	32,972
Capital Outlay		122,148	(122,148)
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,323,697</b>	<b>\$ 2,453,749</b>	<b>\$ (130,052)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (146,697)</b>	<b>\$ (274,049)</b>	<b>\$ (127,352)</b>
<b>OTHER FINANCING SOURCES(USES)</b>			
Transfers In (Out)	\$	\$ (11,305)	\$ (11,305)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ -0-</b>	<b>\$ (11,305)</b>	<b>\$ (11,305)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (146,697)</b>	<b>\$ (285,354)</b>	<b>\$ (138,657)</b>
<b>FUND BALANCE - OCTOBER 1, 2011</b>	<b>1,779,983</b>	<b>1,779,983</b>	
<b>FUND BALANCE - SEPTEMBER 30, 2012</b>	<b>\$ 1,633,286</b>	<b>\$ 1,494,629</b>	<b>\$ (138,657)</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, 2012**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Wastewater Services	\$ 430,950	\$ 462,771	\$ 31,821
Investment Revenues			
<b>TOTAL REVENUES</b>	<u>\$ 430,950</u>	<u>\$ 462,771</u>	<u>\$ 31,821</u>
<b>EXPENDITURES</b>			
Professional Fees	\$ 10,150	\$ 21,956	\$ (11,806)
Contracted Services	48,000	54,773	(6,773)
Utilities	68,000	65,366	2,634
Repairs and Maintenance	95,000	121,516	(26,516)
Others	209,800	199,160	10,640
<b>TOTAL EXPENDITURES</b>	<u>\$ 430,950</u>	<u>\$ 462,771</u>	<u>\$ (31,821)</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ -0-	\$ -0-	\$ -0-
<b>FUND BALANCE - OCTOBER 1, 2011</b>			
<b>FUND BALANCE - SEPTEMBER 30, 2012</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, 2012**



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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

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

**2. RETAIL SERVICE PROVIDERS**

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

Based on the rate order effective June 22, 2012.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 24.00	5,000	N	\$ 3.50	5,001 to 10,000
				\$ 4.00	10,001 to 20,000
				\$ 4.50	20,001 to 25,000
				\$ 5.00	25,001 and up
WASTEWATER:	\$ 32.50	10,000	N	\$ 1.25	10,001 to 20,000
				\$ 1.75	20,001 and up

**SURCHARGE:**

District employs winter averaging for wastewater usage? \_\_\_\_\_   X    
Yes                      No

Total monthly charges per 10,000 gallons usage: Water: \$41.50 Wastewater: \$32.50 Surcharge: \$ -0- Total: \$74.00

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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

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

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	1,664	1,625	x 1.0	1,625
1"	105	104	x 2.5	260
1½"	1	1	x 5.0	5
2"	23	20	x 8.0	160
3"			x 15.0	
4"			x 25.0	
6"	1	1	x 50.0	50
8"			x 80.0	
10"	1	1	x 115.0	115
Total Water Connections	<u>1,795</u>	<u>1,752</u>		<u>2,215</u>
Total Wastewater Connections	<u>1,786</u>	<u>1,743</u>	x 1.0	<u>1,743</u>

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

Gallons pumped into system:	34,215,000	Water Accountability Ratio: 96.8% (Gallons billed and sold/Gallons pumped and purchased)
Gallons purchased:	146,823,000	From: City of Houston
Gallons billed to customers:	167,990,000	
Gallons sold:	7,284,000	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, 2012**

**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, 2012**

PROFESSIONAL FEES:	
Auditing	\$ 16,500
Engineering	41,136
Legal	<u>200,756</u>
TOTAL PROFESSIONAL FEES	<u>\$ 258,392</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 450,980
Purchased Wastewater Service	<u>441,925</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 892,905</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 13,413
Operations and Billing	<u>97,242</u>
TOTAL CONTRACTED SERVICES	<u>\$ 110,655</u>
UTILITIES - Electricity	<u>\$ 49,443</u>
REPAIRS AND MAINTENANCE	<u>\$ 361,582</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 28,950
Dues	550
Election Costs	235
Insurance	13,012
Legal Notices	90
Office Supplies and Postage	35,572
Payroll Taxes	2,281
Travel and Meetings	4,289
Other	<u>25,797</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 110,776</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
GENERAL FUND EXPENDITURES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

CAPITAL OUTLAY:	
Capitalized Assets	\$ 122,148
Expenditures Not Capitalized	
TOTAL CAPITAL OUTLAY	<u>\$ 122,148</u>
TAP CONNECTIONS	<u>\$ -0-</u>
SOLID WASTE DISPOSAL	<u>\$ 341,983</u>
SECURITY	<u>\$ 175,868</u>
FIRE FIGHTING	<u>\$ -0-</u>
PARKS AND RECREATION	<u>\$ -0-</u>
OTHER EXPENDITURES:	
Chemicals	\$ 5,740
Laboratory Fees	13,421
Permit Fees	1,666
Inspection Fees	2,421
Regulatory Assessment	<u>6,749</u>
TOTAL OTHER EXPENDITURES	<u>\$ 29,997</u>
TOTAL EXPENDITURES	<u>\$ 2,453,749</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
INVESTMENTS  
SEPTEMBER 30, 2012**

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
TexPool	2565100002	0.1501%	Daily	\$ 4,615	\$
TexSTAR	25651-2222-000	0.1710%	Daily	12,339	
Certificate of Deposit	120436	0.5000%	10/29/12	249,666	520
Certificate of Deposit	3300035322	0.4500%	10/29/12	146,798	275
Certificate of Deposit	9168204	0.5500%	10/29/12	147,557	338
Certificate of Deposit	4017836	0.7500%	06/18/13	100,799	215
TOTAL GENERAL FUND				<u>\$ 661,774</u>	<u>\$ 1,348</u>
<u>DEBT SERVICE FUND</u>					
TexPool	2565100001	0.1501%	Daily	\$ 171,743	\$
TexSTAR	25651-3333-000	0.1710%	Daily	2,122	
Certificate of Deposit	3414933	0.5000%	10/15/12	525,216	2,540
Certificate of Deposit	33000347251	0.6500%	01/21/13	102,475	458
Certificate of Deposit	6111512	0.5000%	10/30/12	246,848	511
Certificate of Deposit	2802494	0.7000%	09/04/13	249,363	124
TOTAL DEBT SERVICE FUND				<u>\$ 1,297,767</u>	<u>\$ 3,633</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	2565100004	0.1501%	Daily	\$ 14,979	\$
Certificate of Deposit	6000004074	0.9000%	02/01/13	246,106	1,469
TOTAL CAPITAL PROJECTS FUND				<u>\$ 261,085</u>	<u>\$ 1,469</u>
TOTAL - ALL FUNDS				<u>\$ 2,220,626</u>	<u>\$ 6,450</u>

See accompanying independent auditor's report.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
OCTOBER 1, 2011	\$	24,216	\$	80,978
Adjustments to Beginning				
Balance		<u>(5,257)</u>	\$	<u>(33,931)</u>
		\$	18,959	\$
				47,047
Original 2011 Tax Levy	\$	541,117	\$	1,363,615
Adjustment to 2011 Tax Levy		<u>15,362</u>	<u>556,479</u>	<u>38,712</u>
TOTAL TO BE				<u>1,402,327</u>
ACCOUNTED FOR				
			\$	575,438
				\$
				1,449,374
TAX COLLECTIONS:				
Prior Years	\$	4,239	\$	10,501
Current Year		<u>547,270</u>	<u>551,509</u>	<u>1,379,121</u>
				<u>1,389,622</u>
TAXES RECEIVABLE -				
SEPTEMBER 30, 2012		<u>\$</u>	<u>23,929</u>	<u>\$</u>
				<u>59,752</u>
TAXES RECEIVABLE BY				
YEAR:				
2011	\$	9,209	\$	23,206
2010		7,675		19,034
2009		4,159		10,314
2008		2,377		5,895
2007		<u>509</u>		<u>1,303</u>
TOTAL	\$	<u>23,929</u>	\$	<u>59,752</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
PROPERTY VALUATIONS:				
Land	\$ 39,786,261	\$ 39,983,560	\$ 40,141,121	\$ 40,180,974
Improvements	174,883,814	177,362,191	190,302,184	192,247,119
Personal Property	30,747,071	28,844,467	11,891,988	13,453,596
Exemptions	<u>(23,276,475)</u>	<u>(21,516,227)</u>	<u>(8,545,897)</u>	<u>(7,994,340)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 222,140,671</u>	<u>\$ 224,673,991</u>	<u>\$ 233,789,396</u>	<u>\$ 237,887,349</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.63	\$ 0.62	\$ 0.62	\$ 0.62
Maintenance	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.88</u>	<u>\$ 0.87</u>	<u>\$ 0.87</u>	<u>\$ 0.87</u>
ADJUSTED TAX LEVY*	<u>\$ 1,958,806</u>	<u>\$ 1,956,586</u>	<u>\$ 2,034,693</u>	<u>\$ 2,072,011</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>98.35 %</u>	<u>98.63 %</u>	<u>99.29 %</u>	<u>99.60 %</u>

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

\*\* Maintenance Tax – Maximum tax rate of \$0.25 per \$100 of assessed valuation approved by voters on January 15, 1977.

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2012**

S E R I E S - 2 0 0 3			
Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due April 1/ October 1	Total
2013	\$	\$ 128,058	\$ 128,058
2014		128,057	128,057
2015		128,058	128,058
2016		128,057	128,057
2017		128,058	128,058
2018		128,057	128,057
2019		128,058	128,058
2020		128,057	128,057
2021		128,058	128,058
2022		128,057	128,057
2023	1,455,000	97,138	1,552,138
2024	1,540,000	33,110	1,573,110
2025			
2026			
2027			
	\$ 2,995,000	\$ 1,410,823	\$ 4,405,823

See accompanying independent auditor's report.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2012**

REFUNDING SERIES - 2004

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due April 1/ October 1	Total
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			
	<u>\$ 4,140,000</u>	<u>\$ 433,460</u>	<u>\$ 4,573,460</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2012**

S E R I E S - 2 0 0 8

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due April 1/ October 1	Total
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
	<u>\$ 1,975,000</u>	<u>\$ 1,100,350</u>	<u>\$ 3,075,350</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2012**

REFUNDING SERIES - 2009

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due April 1/ October 1	Total
2013	\$ 20,000	\$ 100,375	\$ 120,375
2014	20,000	99,825	119,825
2015	20,000	99,275	119,275
2016	455,000	89,900	544,900
2017	470,000	71,400	541,400
2018	490,000	52,200	542,200
2019	1,060,000	21,200	1,081,200
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
	<u>\$ 2,535,000</u>	<u>\$ 534,175</u>	<u>\$ 3,069,175</u>

See accompanying independent auditor's report.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2012**

REFUNDING SERIES - 2011

Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due April 1/ October 1	Total
2013	\$ 20,000	\$ 151,525	\$ 171,525
2014	5,000	164,900	169,900
2015	5,000	164,800	169,800
2016	70,000	164,650	234,650
2017	80,000	162,550	242,550
2018	85,000	160,150	245,150
2019	80,000	157,600	237,600
2020	1,230,000	155,200	1,385,200
2021	1,290,000	106,000	1,396,000
2022	1,360,000	54,400	1,414,400
2023			
2024			
2025			
2026			
2027			
	<u>\$ 4,225,000</u>	<u>\$ 1,441,775</u>	<u>\$ 5,666,775</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**SEPTEMBER 30, 2012**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2013	\$ 905,000	\$ 611,238	\$ 1,516,238
2014	925,000	588,762	1,513,762
2015	955,000	551,513	1,506,513
2016	990,000	514,087	1,504,087
2017	1,030,000	474,348	1,504,348
2018	1,075,000	432,407	1,507,407
2019	1,140,000	388,358	1,528,358
2020	1,230,000	364,757	1,594,757
2021	1,290,000	315,558	1,605,558
2022	1,360,000	263,957	1,623,957
2023	1,455,000	178,638	1,633,638
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
	<u>\$ 15,870,000</u>	<u>\$ 4,920,583</u>	<u>\$ 20,790,583</u>

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Description	Original Bonds Issued	Bonds Outstanding October 1, 2011
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	4,220,000
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	3,335,000	3,300,000
Chimney Hill Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2011	4,225,000	
<b>TOTAL</b>	<u>\$ 21,475,000</u>	<u>\$ 16,695,000</u>
	*	

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

See accompanying independent auditor's report.



Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding September 30, 2012	Paying Agent
	Principal	Interest		
\$	\$ 4,205,000	\$ 220,895	\$ 2,995,000	The Bank of New York Mellon Trust Company, N.A. Houston, TX
	80,000	168,480	4,140,000	The Bank of New York Mellon Trust Company, N.A. Houston, TX
		81,500	1,975,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	765,000	112,125	2,535,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>4,225,000</u>			<u>4,225,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ 4,225,000</u>	<u>\$ 5,050,000</u>	<u>\$ 583,000</u>	<u>\$ 15,870,000</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, Series 1995 refunding bonds in the amount of \$3,160,000, Series 1997 refunding bonds in the amount of \$6,080,000 and Series 1998 bonds in the amount of \$1,520,000.

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, 2012**

Bond Authority:	<u>Original Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 46,025,000	\$ 16,100,000
Amount Issued	<u>24,400,000</u>	<u>10,310,000</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, 2012:	<u>\$ 3,660,112</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 1,386,039</u>

See accompanying independent auditor's report.



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

	Amount		
	2012	2011	2010
<b>REVENUES</b>			
Property Taxes	\$ 551,509	\$ 569,615	\$ 592,279
Sales Tax Receipts	70,523	64,612	50,021
Water Service	749,328	832,393	552,286
Wastewater Service	714,471	731,676	700,806
Penalty and Interest	30,613	29,850	23,645
Tap Connection and Inspection Fees	9,792	2,550	4,047
Investment Revenues	11,103	15,740	23,905
Grant Revenues			
Miscellaneous Revenues	42,361	43,298	45,258
<b>TOTAL REVENUES</b>	<u>\$ 2,179,700</u>	<u>\$ 2,289,734</u>	<u>\$ 1,992,247</u>
<b>EXPENDITURES</b>			
Professional Fees	\$ 258,392	\$ 177,908	\$ 210,975
Contracted Services	628,506	633,843	622,877
Purchased Water Service	450,980	458,355	368,852
Purchased Wastewater Service	441,925	409,505	450,473
Utilities	49,443	54,098	49,345
Repairs and Maintenance	361,582	390,269	302,958
Other	140,773	158,792	141,859
Capital Outlay	122,148	61,163	95,587
<b>TOTAL EXPENDITURES</b>	<u>\$ 2,453,749</u>	<u>\$ 2,343,933</u>	<u>\$ 2,242,926</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (274,049)</u>	<u>\$ (54,199)</u>	<u>\$ (250,679)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In(Out)	\$ (11,305)	\$ (60,285)	\$ - 0 -
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ (11,305)</u>	<u>\$ (60,285)</u>	<u>\$ - 0 -</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (285,354)	\$ (114,484)	\$ (250,679)
<b>BEGINNING FUND BALANCE</b>	<u>1,779,983</u>	<u>1,894,467</u>	<u>2,145,146</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 1,494,629</u>	<u>\$ 1,779,983</u>	<u>\$ 1,894,467</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2009	2008	2012	2011	2010	2009	2008
\$ 582,819	\$ 589,418	25.3 %	24.8 %	29.7 %	27.1 %	31.9 %
59,187	69,184	3.2	2.8	2.5	2.7	3.7
630,491	567,646	34.4	36.4	27.8	29.3	30.7
726,366	441,151	32.8	32.0	35.1	33.8	23.9
12,806	17,560	1.4	1.3	1.2	0.6	1.0
33,907	38,436	0.4	0.1	0.2	1.6	2.1
47,721	81,458	0.5	0.7	1.2	2.2	4.4
11,976					0.6	
45,196	43,308	2.0	1.9	2.3	2.1	2.3
<u>\$ 2,150,469</u>	<u>\$ 1,848,161</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 275,317	\$ 154,425	11.9 %	7.8 %	10.6 %	12.8 %	8.4 %
602,138	306,846	28.8	27.7	31.3	28.0	16.6
382,995	323,395	20.7	20.0	18.5	17.8	17.5
454,042	439,973	20.3	17.9	22.6	21.1	23.8
52,368	45,044	2.3	2.4	2.5	2.4	2.4
326,705	239,876	16.6	17.0	15.2	15.2	13.0
163,098	114,484	6.5	6.9	7.1	7.6	6.2
29,312	114,459	5.6	2.7	4.8	1.4	6.2
<u>\$ 2,285,975</u>	<u>\$ 1,738,502</u>	<u>112.7 %</u>	<u>102.4 %</u>	<u>112.6 %</u>	<u>106.3 %</u>	<u>94.1 %</u>
<u>\$ (135,506)</u>	<u>\$ 109,659</u>	<u>(12.7) %</u>	<u>(2.4) %</u>	<u>(12.6) %</u>	<u>(6.3) %</u>	<u>5.9 %</u>
\$ - 0 -	\$ 15,769					
\$ - 0 -	\$ 15,769					
\$ (135,506)	\$ 125,428					
<u>2,280,652</u>	<u>2,155,224</u>					
<u>\$ 2,145,146</u>	<u>\$ 2,280,652</u>					

See accompanying independent auditor's report.

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

	Amount		
	2012	2011	2010
<b>REVENUES</b>			
Property Taxes	\$ 1,389,622	\$ 1,412,835	\$ 1,468,999
Penalty and Interest	27,733	26,454	69,456
Interest on Investments	15,134	23,460	31,331
Miscellaneous Revenues		10	
<b>TOTAL REVENUES</b>	<u>\$ 1,432,489</u>	<u>\$ 1,462,759</u>	<u>\$ 1,569,786</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 62,126	\$ 63,239	\$ 87,735
Debt Service Interest and Fees	584,150	712,049	689,219
Debt Service Principal	854,000	815,000	740,000
Bond Issuance Costs	225,671		
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,725,947</u>	<u>\$ 1,590,288</u>	<u>\$ 1,516,954</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (293,458)</u>	<u>\$ (127,529)</u>	<u>\$ 52,832</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In (Out)	\$	\$ 70,285	\$
Refunding Bonds	4,225,000		
Payment to Refunded Escrow Agent	(4,222,820)		
Bond Discount	(52,813)		
Bond Premium	273,270		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ 222,637</u>	<u>\$ 70,285</u>	<u>\$ - 0 -</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (70,821)	\$ (57,244)	\$ 52,832
<b>BEGINNING FUND BALANCE</b>	<u>3,709,410</u>	<u>3,766,654</u>	<u>3,713,822</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 3,638,589</u>	<u>\$ 3,709,410</u>	<u>\$ 3,766,654</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>1,752</u>	<u>1,742</u>	<u>1,760</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>1,743</u>	<u>1,733</u>	<u>1,755</u>

See accompanying independent auditor's report.



		Percentage of Total Revenue				
2009	2008	2012	2011	2010	2009	2008
\$ 1,446,725	\$ 1,513,701	97.0 %	96.6 %	93.6 %	92.8 %	88.8 %
36,965	64,865	1.9	1.8	4.4	2.4	3.8
74,855	124,829	1.1	1.6	2.0	4.8	7.3
40	894					0.1
<u>\$ 1,558,585</u>	<u>\$ 1,704,289</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 63,937	\$ 82,868	4.3 %	4.3 %	5.6 %	4.1 %	4.9 %
840,037	803,379	40.8	48.7	43.9	53.9	47.1
801,000	670,000	59.6	55.7	47.1	51.4	39.3
<u>182,331</u>		<u>15.8</u>			<u>11.7</u>	
<u>\$ 1,887,305</u>	<u>\$ 1,556,247</u>	<u>120.5 %</u>	<u>108.7 %</u>	<u>96.6 %</u>	<u>121.1 %</u>	<u>91.3 %</u>
<u>\$ (328,720)</u>	<u>\$ 148,042</u>	<u>(20.5) %</u>	<u>(8.7) %</u>	<u>3.4 %</u>	<u>(21.1) %</u>	<u>8.7 %</u>
\$ 3,335,000	\$					
(3,226,338)						
(41,687)						
<u>117,979</u>						
<u>\$ 184,954</u>	<u>\$ - 0 -</u>					
\$ (143,766)	\$ 148,042					
<u>3,857,588</u>	<u>3,709,546</u>					
<u>\$ 3,713,822</u>	<u>\$ 3,857,588</u>					
<u>1,750</u>	<u>1,766</u>					
<u>1,741</u>	<u>1,758</u>					

See accompanying independent auditor's report.

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**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2012**

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)	Fees of Office for the year ended September 30, 2012	Expense Reimbursements for the year ended September 30, 2012	Title
W. Jay Szinyei	05/08 05/13 (Elected)	\$ 7,200	\$ 1,417	President
Charley L. Lewis	05/10 05/15 (Elected)	\$ 4,200	\$ 1,795	Vice President
Kimberly R. McNinch	05/08 05/13 (Elected)	\$ 5,400	\$ 314	Assistant Vice President/ Assistant Secretary/ Treasurer/ Assistant Investment Officer
Camille W. Sowell	05/10 05/15 (Elected)	\$ 5,700	\$ 327	Secretary/ Treasurer/ Investment Officer
Sharon Bills	05/08 05/13 (Elected)	\$ 6,600	\$ 272	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): February 3, 2012.

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.

\* Pursuant to the authority granted by Texas Election Code, Section 41.0052(a), as amended, the Board adopted an order on October 28, 2011, changing the date of the Director's election and extending the Director's terms of office by one year from the dates above.

See accompanying independent auditor's report.



**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2012**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2012 District</u>	<u>Fees for the year ended September 30, 2012 Plant</u>	<u>Title</u>
Coats, Rose, Yale, Ryman & Lee, P.C. 3 East Greenway Plaza, Suite 2000 Houston, TX 77046	09/01/80	\$ 203,030	\$ 7,886	Attorney/ Bond Counsel
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive Suite 235 Houston, TX 77065-5610	08/06/87	\$ 16,950	\$ 4,000	Auditor
Myrtle Cruz, Inc. 1621 Milam, 3 <sup>rd</sup> Floor Houston, TX 77002	08/01/85	\$ 24,532	\$ 3,068	Bookkeeper
Harris County Appraisal District 13013 Northwest Freeway Houston, TX 77040-6305	Legislative Action	\$ 15,995	\$ -0-	Central Appraisal District
Larson & Weisinger P.O. Box 2666 Conroe, TX 77305	02/25/99	\$ 9,505	\$ -0-	Delinquent Tax Attorney
A&S Engineers, Inc. 10377 Stella Link Road Houston, TX 77025-5445	07/30/99	\$ 149,322	\$ 10,070	Engineer

See accompanying independent auditor's report.

**CHIMNEY HILL MUNICIPAL UTILITY DISTRICT**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**SEPTEMBER 30, 2012**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2012 District</u>	<u>Fees for the year ended September 30, 2012 Plant</u>	<u>Title</u>
Rathmann & Associates, L.P. 8584 Katy Freeway, Suite 250 Houston, TX 77024	04/09/03	\$ 82,013	\$ -0-	Financial Advisor
Water District Management Company P. O. Box 579 Spring, TX 77383	01/27/89	\$ 477,848	\$ 352,451	Operator
Thomas W. Lee, RTA c/o Assessments of the Southwest P. O. Box 1368 Friendswood, TX 77546	10/01/01	\$ 29,482	\$ -0-	Tax Assessor/ Collector

See accompanying independent auditor's report.