

AMENDED PRELIMINARY LIMITED OFFERING MEMORANDUM DATED JANUARY 23, 2019

In the opinion of Bond Counsel, under existing law, assuming continuing compliance by the Issuer (defined herein) after the date of initial delivery of the Bonds described below (the "Bonds") with certain covenants contained in the Bond Ordinances (defined below) authorizing the Bonds and subject to the matters set forth under "TAX EXEMPTION" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the "Code"). In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. (See "TAX EXEMPTION" herein).

NEW ISSUE

\$5,595,000*
CITY OF LEWISVILLE, TEXAS
COMBINATION CONTRACT REVENUE AND
SPECIAL ASSESSMENT UTILITY SYSTEM
BONDS, SERIES 2019
(LEWISVILLE CASTLE HILLS PUBLIC
IMPROVEMENT DISTRICT NO. 6 PROJECT)

\$4,725,000*
CITY OF LEWISVILLE, TEXAS
COMBINATION CONTRACT REVENUE AND
SPECIAL ASSESSMENT ROAD SYSTEM
BONDS, SERIES 2019
(LEWISVILLE CASTLE HILLS PUBLIC
IMPROVEMENT DISTRICT NO. 6 PROJECT)

Dated: January 1, 2019
Interest Accrues: Date of Initial Delivery

Due: September 1
(As shown on inside front cover)

The \$5,595,000* City of Lewisville, Texas Combination Contract Revenue and Special Assessment Utility System Bonds, Series 2019 (Lewisville Castle Hills Public Improvement District No. 6 Project) (the "Utility Bonds") and the \$4,725,000* City of Lewisville, Texas Combination Contract Revenue and Special Assessment Road System Bonds, Series 2019 (Lewisville Castle Hills Public Improvement District No. 6 Project) (the "Road Bonds" and with the Utility Bonds, the "Bonds") will be issued by the City of Lewisville, Texas (the "Issuer") in fully registered form. The Bonds initially will be in authorized denominations of \$25,000 and integral multiples of \$5,000 in excess thereof. The Trustee and Paying Agent/Registrar for the Bonds is Wilmington Trust, National Association, in Dallas, Texas. Interest on the Bonds will be paid by check mailed by the Paying Agent/Registrar on or before each interest payment date to the registered owners of the Bonds at the addresses shown on the Bond registration books kept by the Paying Agent/Registrar. Principal of the Bonds is payable to the registered owners at maturity or earlier redemption only upon presentation and surrender of the Bonds at the corporate trust office of the Paying Agent/Registrar in Dallas, Texas.

Interest on the Bonds accrues from the date of initial delivery thereof, is calculated on the basis of a 360-day year comprised of twelve 30-day months, and is payable on September 1, 2019, and on each March 1 and September 1 thereafter until maturity or prior redemption. The Bonds are subject to optional, special mandatory, and mandatory sinking fund redemption as more fully described herein. Upon redemption, the Bonds will be payable at prices described herein, plus accrued interest to the date of redemption. See "THE BONDS - Redemption Provisions."

The proceeds of the Bonds will be applied to pay the costs of acquiring and constructing certain water, sewer, and drainage facilities, and streets and roads within the Improvement District (hereinafter defined) and to pay certain costs of issuance of the Bonds. See "USE OF PROCEEDS."

The Bonds, when issued, constitute valid and legally binding special obligations of the Issuer. An amount, on a cumulative basis, not less than one percent (1%) of the original principal amount of the Bonds, together with interest thereon, is payable from and secured by a pledge of and lien on certain Special Assessment Revenues (as defined herein) levied by the Issuer against benefitted property within the Lewisville Castle Hills Public Improvement District No. 6 (the "Improvement District"), a public improvement district of the Issuer, all of which is located within the Issuer's extraterritorial jurisdiction and all of which is located within the District (hereinafter defined), all to the extent and upon the conditions described herein. An amount equal to the balance of the original principal amount of the Bonds, together with interest thereon, but in no event to exceed, on a cumulative basis, ninety-nine percent (99%) of the original principal amount of the Bonds, together with interest thereon, is payable from certain Contract Revenues (as defined herein) paid by Denton County Fresh Water Supply District No. 1-H (the "District"), which Contract Revenues are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See "THE BONDS - Sources of Payment."

THE BONDS ARE SPECIAL REVENUE OBLIGATIONS OF THE ISSUER AND ARE NOT OBLIGATIONS OF DENTON COUNTY, THE STATE OF TEXAS, OR ANY POLITICAL SUBDIVISION OTHER THAN THE ISSUER AND THE DISTRICT. THE BONDS ARE NOT PAYABLE FROM ANY FUNDS RAISED OR TO BE RAISED BY TAXATION BY THE ISSUER OR FROM ANY OTHER SOURCE OF FUNDS OF THE ISSUER OTHER THAN CONTRACT REVENUES AND SPECIAL ASSESSMENT REVENUES.

THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS" herein.

THIS LIMITED OFFERING MEMORANDUM IS FURNISHED WITH THE EXPRESS UNDERSTANDING THAT IT IS SOLELY FOR THE PURPOSE OF CONSIDERATION BY PROSPECTIVE PURCHASERS OF THE BONDS WHO ARE BOTH (i) "QUALIFIED INSTITUTIONAL BUYERS" (WITHIN THE MEANING OF RULE 144A OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC")) AND (ii) "INSTITUTIONAL INVESTORS" WITHIN THE MEANING OF APPLICABLE STATE SECURITIES LAWS, AND IS NOT TO BE USED FOR ANY OTHER PURPOSE OR MADE AVAILABLE TO ANYONE NOT DIRECTLY CONCERNED WITH THE DECISION REGARDING SUCH PURCHASE. PURCHASERS OF THE BONDS WILL BE REQUIRED TO EXECUTE AN INVESTMENT LETTER IN THE FORM SET FORTH IN APPENDIX H HERETO.

UNLESS CERTAIN CONDITIONS ARE MET, AS DESCRIBED UNDER "THE BONDS - LIMITATIONS ON TRANSFERS," THE TRANSFER OF THE BONDS MAY BE LIMITED TO CERTAIN TRANSFEREES AND SUCH TRANSFEREES MAY BE REQUIRED TO PROVIDE TO THE PAYING AGENT/REGISTRAR A TRANSFEREE LETTER IN THE FORM SET FORTH IN APPENDIX I HERETO PRIOR TO ANY SUCH TRANSFER.

The Bonds will be delivered when, as and if issued, subject to, among other things, the approval of the Bonds by the Attorney General of Texas and the opinion of Winstead PC, Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for Raymond James & Associates, Inc., as placement agent (the "Placement Agent") by its counsel McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The Bonds in definitive form are expected to be available for delivery through the facilities of DTC on or about February 21, 2019.

RAYMOND JAMES

Dated: _____, 2019

*Preliminary; Subject to change.

This Preliminary Limited Offering Memorandum and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Limited Offering Memorandum constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND PRICES

UTILITY BONDS

\$ _____ % Term Bonds Due September 1, ____ (a)(b) CUSIP 528819 ____ (d)
Price 100% (c)

ROAD BONDS

\$ _____ % Term Bonds Due September 1, ____ (a)(b) CUSIP 528819 ____ (d)
Price 100% (c)

- (a) Subject to optional redemption as described under the caption "THE BONDS - Redemption Provisions - *Optional Redemption*.
- (b) Subject to special mandatory redemption on any date and mandatory sinking fund redemption on September 1 in each of the years and in the amounts, all as set forth herein under the caption "THE BONDS - Redemption Provisions - *Special Mandatory Redemption*" and "- *Mandatory Sinking Fund Redemption*," respectfully.
- (c) The initial reoffering yield has been provided by the Placement Agent (defined herein) and represents the initial offering price of a substantial amount of the Bonds.
- (d) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the America Bankers Association, and are included solely for the convenience of purchasers of the Bonds. Neither the Issuer nor the Placement Agent shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

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USE OF INFORMATION IN LIMITED OFFERING MEMORANDUM

General

None of the Issuer, its Financial Advisor, the Purchaser (as defined herein) or the Placement Agent makes any representation regarding the information contained in this Limited Offering Memorandum regarding The Depository Trust Company, or its book-entry-only system, as such information has been furnished by the Depository Trust Company.

The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Limited Offering Memorandum, including all schedules and appendices attached hereto, to obtain information essential to making an informed investment decision.

THIS LIMITED OFFERING MEMORANDUM CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

This Limited Offering Memorandum does not constitute, and is not authorized by the Issuer for use in connection with, an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, resolutions, orders, contracts, audits, engineering and other related reports set forth in this Limited Offering Memorandum are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Issuer.

This Limited Offering Memorandum contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Limited Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the condition of the Issuer or other matters described herein since the date hereof. However, the Issuer has agreed to keep this Limited Offering Memorandum current by amendment or sticker to reflect material changes in the affairs of the Issuer, and to the extent that information actually comes to its attention, the other matters described in this Limited Offering Memorandum, until delivery of the Bonds to the Purchasers thereof.

The Placement Agent has reviewed the information in this Limited Offering Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Placement Agent does not guarantee the accuracy or completeness of such information.

THE TRUSTEE ASSUMES NO RESPONSIBILITY FOR THIS LIMITED OFFERING MEMORANDUM AND HAS NOT REVIEWED OR UNDERTAKEN TO VERIFY ANY INFORMATION CONTAINED HEREIN.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Issuer assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

MUNICIPAL BOND RATING

The Issuer has not applied for a municipal bond rating on the Bonds and it is not expected that an investment grade rating would have been obtained had such application been made.

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LIMITED OFFERING MEMORANDUM SUMMARY

The following summary of certain information contained herein is qualified in its entirety by the detailed information appearing elsewhere in this Limited Offering Memorandum. The reader should refer particularly to sections that are indicated for more detailed information.

THE BONDS

The Issuer	City of Lewisville, Denton County, Texas (the "Issuer" or the "City"), a home rule city existing under the Constitution and laws of the State of Texas. See "THE ISSUER."
The District	Denton County Fresh Water Supply District No. 1-H (the "District"), a political subdivision of the State of Texas and a conservation and reclamation district under Article XVI, Section 59 of the Texas Constitution, located wholly within the extraterritorial jurisdiction of the Issuer, operating under Chapters 49 and 51, Texas Water Code, as amended, with certain rights, powers, privileges, authority, and functions derived from Chapter 53, Texas Water Code, as amended. See "THE DISTRICT."
The Improvement District	Lewisville Castle Hills Public Improvement District No. 6 (the "Improvement District"), a public improvement district under Chapter 372, Texas Local Government Code, all of which is located within the extraterritorial jurisdiction of the Issuer and all of which is also located within the boundaries of the District. See "THE IMPROVEMENT DISTRICT."
Description	City of Lewisville, Texas Combination Contract Revenue and Special Assessment Utility System Bonds, Series 2019 (Lewisville Castle Hills Public Improvement District No. 6 Project) (the "Utility Bonds") in the aggregate principal amount of \$5,595,000* and City of Lewisville, Texas Combination Contract Revenue and Special Assessment Road System Bonds, Series 2019 (Lewisville Castle Hills Public Improvement District No. 6 Project) (the "Road Bonds" and, with the Utility Bonds, the "Bonds"), in the aggregate principal amount of \$4,725,000*, are dated January 1, 2019, and mature on September 1 in each of the years and in the amounts set forth on the inside cover page hereof. Interest on the Bonds accrues at the respective rates shown on the inside cover hereof from the date of initial delivery thereof to the Purchaser (as defined herein) and is payable on September 1, 2019 and on each March 1 and September 1 thereafter until maturity or prior redemption. The Bonds are issued pursuant to ordinances adopted by the City Council of the Issuer on January 28,

* Preliminary; subject to change.

2019 (collectively, the "Bond Ordinances") and two separate Master Trust Agreements, each dated as of August 1, 2014, and each as supplemented by First Supplemental Trust Agreements, dated as of August 1, 2014, by Second Supplemental Trust Agreements, dated as of July 1, 2017, and a Third Supplemental Trust Agreement, dated as of January 1, 2019 (collectively, the "Trust Agreements"), between the Issuer and Wilmington Trust, National Association in Dallas, Texas (the "Trustee," "Paying Agent/Registrar," or "Paying Agent").

Optional Redemption

The Bonds are subject to redemption prior to maturity, in whole or in part, at the option of the District, on September 1, 2021, and on any date thereafter, at the redemption prices set forth herein under "THE BONDS - Redemption Provisions - *Optional Redemption*, plus accrued interest to the date fixed for redemption. If fewer than all the Bonds are optionally redeemed at any time, the amounts to be redeemed shall be designated by the Issuer and the particular Bonds shall be selected by the Trustee by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). See "THE BONDS - Redemption Provisions - *Optional Redemption*."

Special Mandatory Redemption

Utility Bonds not exceeding \$55,000* in principal amount and Road Bonds not exceeding \$45,000* in principal amount are subject to special mandatory redemption prior to maturity on any date, at a price equal to the principal amount of the Bonds, or portions thereof, to be redeemed, plus accrued interest thereon, to the date fixed for redemption from Special Assessment Revenues resulting from prepayments of Special Assessments (credited pro rata among the Bonds, and any Additional Bonds (as defined herein) based upon respective amounts outstanding). The maturities and amounts of Bonds to be redeemed shall be designated by the Issuer and the particular Bonds shall be selected by the Trustee by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Mandatory Sinking Fund Redemption

The Bonds are also subject to mandatory sinking fund redemption, by lot or other customary method of random selection designated by the Trustee, at a price equal to the principal amount thereof plus accrued interest to the date of redemption as described herein under "THE BONDS - Redemption Provisions - Mandatory Sinking Fund Redemption."

Source of Payment

Principal of and interest on the Bonds are payable from (i) certain Contract Revenues (as defined herein) paid by the

* Preliminary; subject to change.

District pursuant to a 2008 Joint Utility Contract and a 2008 Joint Road Contract, each dated as of August 18, 2014, as amended by an Amended 2015 Joint Utility Contract and an Amended 2015 Joint Road Contract, each dated as of August 7, 2017 (collectively, the "Contracts"), among the Issuer, the District and Denton County Fresh Water Supply District No. 1-A ("District No. 1-A") and (ii) Special Assessment Revenues (as defined herein) collected by the Issuer from within the Improvement District. An amount, on a cumulative basis, not less than one percent (1%) of the original principal amount of the Bonds, together with interest thereon, is payable from Special Assessment Revenues and an amount equal to the balance of the original principal amount of the Bonds, together with interest thereon, but in no event to exceed, on a cumulative basis, ninety-nine percent (99%) of the original principal amount of the Bonds, together with interest thereon, is payable from Contract Revenues. Special Assessment Revenues are payable from Special Assessments (as defined in the Trust Agreements) levied by the Issuer within the Improvement District against benefitted property within the Improvement District, to the extent and upon the conditions described herein. Contract Revenues are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied by the District upon all taxable property located within the District. **The Bonds are special revenue obligations of the Issuer and are not obligations of Denton County, Texas, the State of Texas or any political subdivision other than the Issuer and the District. The Bonds are not payable from any funds raised or to be raised by taxation by the Issuer or from any source of funds of the Issuer other than Contract Revenues and Special Assessment Revenues. See "THE BONDS - Sources of Payment," "DISTRICT TAX DATA - Tax Rate Calculations," and "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments - Maximum Impact on District Tax Rates."**

Other Characteristics

Except as provided herein under "THE BONDS - Limitation on Transfers," the Bonds will be issued in fully registered form in the denomination of \$25,000 and in integral multiples of \$5,000 in excess thereof, and will be in book-entry-only form. See "THE BONDS - Book-Entry-Only System."

Use of Proceeds

Proceeds of the sale of the Utility Bonds will be used to pay the costs of acquiring and constructing certain water, sewer, and drainage facilities, and proceeds of the sale of the Road Bonds will be used to pay the costs of acquiring and constructing certain street and roads, within the

Improvement District and to pay the costs of issuance of the Bonds. See "USE OF PROCEEDS."

Outstanding Bonds and
Payment Record

The Bonds constitute the fifth and sixth series of bonds issued by the Issuer pursuant to the Contracts. The Issuer previously issued City of Lewisville, Texas Combination Contract Revenue and Special Assessment Utility System Bonds, Series 2014 (Lewisville Castle Hills Public Improvement District No. 6 Project), in the original principal amount of \$7,310,000, of which \$6,515,000 is currently outstanding, City of Lewisville, Texas Combination Contract Revenue and Special Assessment Road System Bonds, Series 2014 (Lewisville Castle Hills Public Improvement District No. 6 Project), in the original principal amount of \$1,200,000, of which \$1,195,000 is currently outstanding, City of Lewisville, Texas Combination Contract Revenue and Special Assessment Utility System Bonds, Series 2017 (Lewisville Castle Hills Public Improvement District No. 6 Project), in the original principal amount of \$7,690,000, all of which is currently outstanding, City of Lewisville, Texas Combination Contract Revenue and Special Assessment Road System Bonds, Series 2017 (Lewisville Castle Hills Public Improvement District No. 6 Project), in the original principal amount of \$15,310,000, of which \$15,295,000 is currently outstanding (collectively, the "Outstanding Bonds").

Municipal Bond Ratings

The Issuer has not applied for a municipal bond rating on the Bonds and it is not expected that an investment grade rating would have been obtained had such application been made.

Authorized but Unissued Bonds

The Issuer has the right in the Bond Ordinances and Trust Agreements to issue additional bonds, in addition to the Bonds and the Outstanding Bonds, in the maximum amount of \$94,170,000* (not including refunding bonds), consisting of \$92,155,000* for utility purposes and \$2,015,000* for road purposes pursuant to the Contracts (as defined herein). See "THE BONDS - Legal Ability of the Issuer to Issue Additional Debt."

Further, voters in the District have authorized the issuance by the District of unlimited tax bonds in the amount of \$54,000,000 for water, sewer, and drainage purposes, \$67,500,000 for refunding any such bonds, \$13,900,000 for road and street purposes and \$17,375,000 for refunding any such bonds. None of such voted bonds have been issued. See "THE BONDS - Legal Ability of the District to Issue Additional Debt."

* Preliminary; subject to change.

Legal Opinion Winstead PC, Dallas, Texas, Bond Counsel.

THE ISSUER

Description The City of Lewisville, Texas (the "Issuer" or the "City") is a home rule city under the Constitution and laws of the State of Texas. The City, incorporated in 1925, is located in the southeastern portion of Denton County on Interstate Highway 35-E, 20 miles north of Dallas, 34 miles northeast of Fort Worth, 15 miles southeast of Denton and 8 miles north of Dallas-Fort Worth International Airport. See "THE ISSUER" and "APPENDIX A - AERIAL PHOTOGRAPH."

Authority The rights, powers, privileges, authority and functions of the Issuer are established by the Constitution and laws of the State of Texas pertaining to home rule municipal corporations and the Issuer's home rule charter.

THE DISTRICT

Description Denton County Fresh Water Supply District No. 1-H (the "District") is a political subdivision of the State of Texas and a conservation and reclamation district under Article XVI, Section 59 of the Texas Constitution, containing approximately 386.44 acres, and located entirely within the extraterritorial jurisdiction of the Issuer.

Authority The rights, powers, privileges, authority and functions of the District are established by the general law of the State of Texas, pertaining to water control and improvement districts, particularly, Chapters 49 and 51, Texas Water Code, as amended. In addition, certain reserved rights, powers, privileges, authority and functions of the District are derived from Chapter 53, Texas Water Code, as amended.

Development of the District Land within the District is expected to be developed for commercial mixed-use projects, single-family projects and multi-family projects. Proceeds of the Bonds will be used to pay the costs of acquiring and constructing certain water, sewer, and drainage facilities (the "Utility System") and certain streets and roads (the "Road System") (the Utility System and the Road System, collectively, the "System") to serve land within the District. Currently there are 423 units of multifamily housing constructed on 21 acres. An additional 312 multi-family units are expected to be constructed on approximately 8 acres, a 515,000 square foot mixed-use project is currently under development on approximately 10 acres, and 358 single-family lots are expected to be developed as Castle Hills, Phase 10, on 77 acres, of which 201 lots are currently under development as Castle Hills, Phases 10. After such

construction, there will remain approximately 184 undeveloped but developable acres within the District. It is expected that approximately 134 acres of such undeveloped acres will be developed as multi-family, 50 acres will be developed for mixed-use projects and an additional 5 acres will remain owned by Kroger Marketplace but developable in the future. The Developer is under no obligation to complete construction of the System if proceeds of the Bonds are insufficient for such purpose. See "RISK FACTORS - Construction Risks and Facilities Costs." Approximately 81 acres within the District are located within the easements, roads, parking, and power transmission and are not considered developable.

Builders The Developer has entered into earnest money contracts with builders for construction of homes in Castle Hills, Phase 10A, consisting of 201 lots, as follows: Perry Homes - 38 lots, American Legend Homes (an entity related to the Developer) - 155 lots, and Shaddock Homes 8 lots.

THE IMPROVEMENT DISTRICT

Description Lewisville Castle Hills Public Improvement District No. 6 (the "Improvement District") is a public improvement district authorized under Chapter 372, Texas Local Government Code, containing approximately 386.44 acres. The Improvement District is located wholly within the extraterritorial jurisdiction of the Issuer and within the boundaries of the District.

Authority The Improvement District is a public improvement district of the Issuer under the provisions of Chapter 372, Texas Local Government Code.

THE CASTLE HILLS PROJECT

Description The District is part of the master planned community known as Castle Hills (the "Castle Hills Project"). Castle Hills Project is a development of Bright Realty, LLC ("Bright Realty"). See "THE DEVELOPER" below. Castle Hills Project consists of approximately 2,400 acres of land, approximately 386.44 acres of which are located within the District, approximately 1.659 acres which are located within the boundaries of District No. 1-A, 309.2 acres of which are located within District No. 1-B, 261.4 acres of which are located within District No. 1-C, approximately 490.69 acres of which are located within District No. 1-D, approximately 259.46 acres of which are located within the boundaries of District No. 1-E, approximately 259.46 acres are located within the boundaries of District No. 1-F, and 307.074 acres of which are located within District No. 1-G. According to the Developer, the ultimate land use within the Castle Hills

Project is currently projected as follows: approximately 1,526 acres will be subdivided into approximately 4,300 single family lots, approximately 455 acres will be used for the development of commercial mixed-use projects, approximately 207 acres will be developed as multi-family communities, and approximately 212 acres have been developed as an 18 hole golf course and country club known as The Lakes at Castle Hills. Swimming and tennis facilities, drainage, easements, streets rights-of-way, utility easements, open space, lakes, parks and greenbelts are included in the single-family acreage.

Status of Development

As of December 1, 2018, a total of 4,029 lots on approximately 1,272 acres had been developed within the Castle Hills Project, with 201 lots under development on approximately 47 acres, and 3,906 homes were occupied. Also completed are 210 acres of commercial development, 212 acres for the 18-hole golf course and country club (The Lakes at Castle Hills), with swimming and tennis facilities and 67 acres of multifamily development. Approximately 10 acres for commercial development, 8 acres for multi-family development, and 71 acres for single-family development are to be constructed on, while approximately 235 acres are available for commercial development and 140 acres are available for multifamily development. All of the current development within the Castle Hills Project has occurred within District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-G, and the District.

THE DEVELOPER

General

The developer of land within the District has been Bright Realty, which is owned by certain members of the family of the late H.R. ("Bum") Bright and trusts for the benefit of such family members. Bright Realty is acquiring land in the District from a related company, BRECO Lands CH, LLC ("BRECO Lands"), as dictated by development needs. Bright Realty and BRECO Lands are collectively referred to herein as the "Developer." See "THE DEVELOPER."

Development Financing

Land within the District was originally acquired with equity provided by a predecessor entity to the Developer. The Developer is financing its development of land in the District by a variety of lenders. A portion of the land is collateral for a 25% land loan with Frontier State Bank. Realm 1A is financed through developer cash equity, developer land contribution, Canyon Partners preferred Equity and Senior debt from Simmons Bank. The lot development is financed by developer cash equity, developer land contribution and senior debt from Texas Capital Bank. The finished Discovery 1 project is financed through FNMA. The future projects will essentially follow

the capital stack format with Realm 1B being financed with developer land, developer cash equity Preferred Equity from Canyon Partners and senior debt from BB&T. See "THE DEVELOPER - Financing" and "APPENDIX G - FINANCIAL INFORMATION CONCERNING THE DEVELOPER."

RISK FACTORS

THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS AS SET FORTH IN THIS LIMITED OFFERING MEMORANDUM. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THE ENTIRE LIMITED OFFERING MEMORANDUM BEFORE MAKING THEIR INVESTMENT DECISIONS, ESPECIALLY THE PORTION OF THE LIMITED OFFERING MEMORANDUM ENTITLED "RISK FACTORS."

**SELECTED FINANCIAL INFORMATION
CONCERNING THE DISTRICT*
(Unaudited)**

2018 Assessed Valuation	\$131,135,166	(a)
Estimated Assessed Valuation at January 1, 2019	\$141,500,000	(b)
Direct Debt: The Outstanding Bonds	\$30,695,000	
The Utility Bonds	5,595,000	
The Road Bonds	<u>4,725,000</u>	
Total	\$41,015,000	(c)
Estimated Overlapping Debt	\$4,529,415	(d)
Direct and Estimated Overlapping Debt	\$45,544,415	(e)
Ratio of Direct Debt to: 2018 Assessed Valuation	31.28%	
Estimated Assessed Valuation at January 1, 2019	28.99%	
Ratio of Direct and Estimated Overlapping Debt to:		
2018 Assessed Valuation	34.73%	
Estimated Assessed Valuation at January 1, 2019	32.19%	
Utility Bonds Interest and Sinking Fund Balance	\$ 634	(f)
Road Bonds Interest and Sinking Fund Balance	\$ 512	(f)
Utility Bonds Debt Service Reserve Fund Balance	\$1,502,349	(g)
Road Bonds Debt Service Reserve Fund Balance	\$1,621,674	(g)
2018 Tax Rate per \$100 of Assessed Valuation	\$ 1.00	(h)
Contract Tax	\$1.00	
Maintenance Tax	\$0.00	
Average Annual Debt Service Requirements of the Outstanding Bonds and the Bonds (2019-2039)	\$3,469,458	
Maximum Annual Debt Service Requirements of the Outstanding Bonds and the Bonds (2037)	\$3,537,000	
Tax Rate per \$100 of Assessed Valuation within the District required to pay Average Annual Debt Service Requirements at 95% tax collections Based Upon:		
2018 Assessed Valuation	\$2.79	
Estimated Assessed Valuation at January 1, 2019	\$2.59	
Tax Rate per \$100 of Assessed Valuation with the District required to pay Maximum Annual Debt Service Requirements at 95% tax collections Based Upon:		
2018 Assessed Valuation	\$2.84	
Estimated Assessed Valuation at January 1, 2019	\$2.64	

* Preliminary; subject to change.

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- (a) Provided by the Denton County Appraisal District (the "Appraisal District"), this amount is the certified value of all taxable property located within the District as of January 1, 2018. This amount constitutes the District's 2018 tax roll. See "TAX PROCEDURES" and "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments."
- (b) Provided by the Appraisal District for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of January 1, 2019, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2018, through December 31, 2018. The ultimate assessed valuation of such additions to the District's tax roll resulting from development and construction activity from January 1, 2018, through December 31, 2018, may vary significantly from this estimate when the Appraisal Review Board certifies the valuation of District property for the purpose of determining the District's 2019 tax roll, which will be based on the valuation of District property as of January 1, 2019.
- (c) Although all but one percent (1%) of the total principal amount is to be paid from Contract Revenues, the full principal amount is shown here.
- (d) See "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement for the District."
- (e) As is described in this Limited Offering Memorandum under the caption "DISTRICT TAX DATA - Estimated Overlapping Taxes," the aggregate of the tax levies of all units of government which levy taxes against the property located within the District in 2018, plus the 2018 levy by the District of \$1.00 per \$100 of assessed valuation, is \$2.6684 per \$100 of Assessed Valuation. See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments."
- (f) As of January 1, 2019, and does not include \$31,357 in the Collection Fund to be transferred to the applicable Interest and Sinking Fund. Balances also do not include approximately \$503,643 in capitalized interest from Bond proceeds to be deposited into the Utility Bonds Interest and Sinking Fund and approximately \$367,566 in capitalized interest from Bond proceeds to be deposited in the Road Bonds Interest and Sinking Fund. Neither the Bond Ordinances, the Trust Agreements, nor Texas law requires that any particular amount be maintained in the Interest and Sinking Fund at any time.
- (g) As of January 1, 2019. In addition, out of proceeds of the Bonds, there will be deposited into such funds an amount, if any, sufficient to cause the balance therein to be equal to the lesser of (i) 10% of the principal amount of the Bonds and Outstanding Bonds, (ii) maximum annual debt service on the Bonds and the Outstanding Bonds, or (iii) 125% of average annual debt service on the Bonds and the Outstanding Bonds. See "THE BONDS - Source of Payment - Debt Service Reserve Fund."
- (h) The District expects to levy a tax of \$1.00 per \$100 of assessed valuation during the year 2019 to pay its obligations under the Contracts. As indicated herein, a tax rate of \$1.00 is insufficient to pay either the Average Annual or the Maximum Annual Debt Service Requirements of the Bonds based upon the 2018 Assessed Valuation or based upon the 2019 Preliminary Assessed Valuation. In order for a \$1.00 tax rate to be sufficient to pay the Average Annual Debt Service Requirement and the Maximum Annual Debt Service Requirement, assessed values in the District would have to increase to approximately \$365,206,071 and \$372,315,789, respectively.

**SELECTED FINANCIAL INFORMATION
CONCERNING THE IMPROVEMENT DISTRICT
[TO BE UPDATED BY WINSTEAD]**

Special Assessment Roll

Description	No. of Acres	Special Assessments per Acre	Total Assessments
Original Commercial			
Lot Type A Multifamily/Commercial	23.2721	\$1,553.00	2 \$61,589.50
Amended and Restated Commercial			
Lot Type A Multifamily/Commercial	345.0906	\$3,762.52	\$1,298,410.50
Total	368.3627	\$5,315,000	

¹ Excludes 16.412 acres which were double-counted in the Plan and 1.60 acres estimated Right-of-Way dedication (No Assessment).

² This \$61,589.50 includes \$25,447.93 that was collected for the 16.412 acres that were previously double-counted in the Plan; the \$25,447.93 will not be refunded.

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PRELIMINARY LIMITED OFFERING MEMORANDUM

\$5,595,000*
CITY OF LEWISVILLE, TEXAS
COMBINATION CONTRACT REVENUE AND
SPECIAL ASSESSMENT UTILITY SYSTEM BONDS,
SERIES 2019
(LEWISVILLE CASTLE HILLS PUBLIC
IMPROVEMENT DISTRICT NO. 6 PROJECT)

\$4,725,000*
CITY OF LEWISVILLE, TEXAS
COMBINATION CONTRACT REVENUE AND
SPECIAL ASSESSMENT ROAD SYSTEM
BONDS, SERIES 2019
(LEWISVILLE CASTLE HILLS PUBLIC
IMPROVEMENT DISTRICT NO. 6 PROJECT)

INTRODUCTION

This Limited Offering Memorandum provides certain information with respect to the issuance by the City of Lewisville, Texas (the "Issuer"), of its Combination Contract Revenue and Special Assessment Utility System Bonds, Series 2019 (Lewisville Castle Hills Public Improvement District No. 6 Project) (the "Utility Bonds") and its Combination Contract Revenue and Special Assessment Road System Bonds, Series 2019 (Lewisville Castle Hills Public Improvement District No. 6 Project) (the "Road Bonds" and, with the Utility Bonds the "Bonds").

There follows in this Limited Offering Memorandum descriptions of the Bonds and certain information about the Issuer, Lewisville Castle Hills Public Improvement District No. 6 (the "Improvement District") and Denton County Fresh Water Supply District No. 1-H (the "District"). All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Winstead PC, 2728 N. Harwood Street, Suite 500, Dallas, Texas 75201, upon request and payment of the costs of duplication therefor. Certain capitalized terms used in this Limited Offering Memorandum have the same meanings assigned to such terms in the Bond Ordinances (hereinafter defined) and the Trust Agreements (hereinafter defined), except as otherwise indicated herein.

THE BONDS

General

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the ordinances of the City Council (the "Governing Body") of the Issuer authorizing the issuance of the Bonds (collectively, the "Bond Ordinances") and two separate Master Trust Agreements, each dated as of August 1, 2014, and each as supplemented by First Supplemental Trust Agreements, dated as of August 1, 2014, Second Supplemental Trust Agreements, dated as of July 1, 2017, and Third Supplemental Trust Agreements, dated as of January 1, 2019 (collectively, the "Trust Agreements") between the Issuer and Wilmington Trust, National Association, in Dallas, Texas (the "Trustee"). The Bond Ordinances and Trust Agreements authorize the issuance and sale of the Bonds and prescribe the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the Issuer.

The Bonds are dated January 1, 2019, and will mature on September 1 in each of the years and in the amounts set forth on the inside cover hereof. Except as provided in "Limitation on Transfers" below, the Bonds will be issued as fully registered bonds in the denomination of \$25,000 and integral multiples of \$5,000 in excess thereof. Principal of the Bonds will be payable to the Registered Owners at maturity or earlier redemption upon presentation of Bonds at the principal corporate trust office of the Trustee as paying agent/registrar (the "Paying Agent/Registrar," "Paying Agent," or "Registrar"). The Bonds are subject to optional, special mandatory, and mandatory sinking fund redemption as described below under "Redemption Provisions."

*Preliminary; subject to change.

The Bonds constitute the fifth and sixth series of Bonds issued by the Issuer pursuant to the Contracts (hereinafter defined). Proceeds of the Bonds will be used to pay the costs of acquiring and constructing certain water, sewer, and drainage facilities, and streets and roads within the Improvement District, and pay the costs of issuance of the Bonds.

The Bonds will be issued in fully registered form and will be registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Individual purchases in authorized denominations will be made only through the book-entry system maintained by DTC through brokers and dealers who are, or act through, DTC participants. The purchasers of the Bonds will not receive certificates representing their interest in the Bonds. Ownership interest in the Bonds will be shown on, and transfer of the Bonds will be effected only through, records maintained by DTC and its participants. Payments of the principal of and interest on the Bonds are required to be made to owners by DTC through its participants. See "Book-Entry Only System."

For so long as DTC is the securities depository for the Bonds, then "Owner" or "Registered Owner" shall refer solely to DTC. In the event that DTC is no longer the securities depository for the Bonds, the term "Owner" or "Registered Owner" shall refer to a successor securities depository or the Owners of the Bonds which are shown as Registered Owners on the registration books of the Paying Agent/Registrar.

Interest

Interest on the Bonds will accrue from the date of delivery to the Placement Agent (as defined herein) at the respective rates per annum set forth on the inside cover hereof. Interest on the Bonds is payable on September 1, 2019, and on each March 1 and September 1 thereafter until maturity or prior redemption.

Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on each Bond shall be paid by check payable on the interest payment date, mailed by the Paying Agent/Registrar on or before each interest payment date to the Registered Owner of record as of the Record Date to the address of such Registered Owner as shown on the bond registration books (the "Register") kept by the Paying Agent/Registrar, or by other such customary banking arrangements as may be acceptable to the Paying Agent/Registrar and the Registered Owner at the expense and risk of the Registered Owner.

If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which the Paying Agent/Registrar is authorized by law or executive order to close or a day on which banking institutions in Dallas, Texas are closed, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which the Paying Agent/Registrar or banking institutions in Dallas, Texas are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

Redemption Provisions

Optional Redemption

The Bonds are subject to redemption and payment prior to their scheduled maturities at the option of the Issuer, in whole or in part, on September 1, 2021, and on any date thereafter, at the redemption prices (expressed as a percentage of the principal amount of the Bonds to be redeemed), plus accrued interest to the date of redemption, from funds transferred from the Collection Fund (as defined in the Bond Ordinances) or from other available money provided by the Issuer as set forth below:

Redemption Date

Redemption Prices

If fewer than all of the Bonds are optionally redeemed at any time, the amounts of Bonds to be redeemed shall be designated by the Issuer and the particular Bonds within a maturity shall be selected by the Trustee by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Special Mandatory Redemption

Utility Bonds not exceeding \$55,000* in principal amount and Road Bonds not exceeding \$45,000* in principal amount are subject to special mandatory redemption prior to maturity, on any date, at a price equal to the principal amount of the Bonds, or portions thereof, to be redeemed, plus accrued interest thereon, to the date fixed for redemption from Special Assessment Revenues resulting from Prepayments of Special Assessments, when such Prepayments have accumulated in the Special Assessments Prepayment Fund in an amount sufficient to redeem \$55,000* in principal amount in Utility Bonds, or \$45,000* in principal amount of Road Bonds, as applicable, plus accrued interest thereon, and such funds have been transferred to the applicable account of the Redemption Fund. The maturities and amounts of Bonds to be so redeemed shall be designated by the Issuer and the particular Bonds within a maturity shall be selected by the Trustee by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Mandatory Sinking Fund Redemption

The Bonds are subject to mandatory sinking fund redemption by the Issuer prior to their scheduled maturities, by lot or other customary method of random selection designated by the Trustee, on the dates and in the amounts set forth below at a redemption price equal to the principal amount redeemed plus accrued interest to the redemption date:

UTILITY BONDS

<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>
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*Preliminary; subject to change.

ROAD BONDS

<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>
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⁽¹⁾ Maturity

The particular Bonds to be so redeemed shall be selected by lot or other customary method of random selection. However, if during any period in which ownership of the Bonds is determined only by a book-entry-only system at a securities depository, if fewer than all of the Bonds are to be redeemed, the particular Bonds shall be selected in accordance with arrangement between the Issuer and the securities depository. The principal amounts shown above are subject to reduction, at the option and direction of the Issuer, by the amount of (i) any prior optional redemption of Bonds of such series at a redemption price of par plus accrued interest to the date fixed for redemption or (ii) any Bonds of such series and maturity acquired by the Issuer prior to maturity and delivered to the Trustee for cancellation and application.

Notice of Redemption

Notice of any redemption shall be given at least thirty (30) days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owners of the Bonds to be redeemed in whole or in part at the address shown on the Register.

Any notice mailed as provided in the Trust Agreements shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice. By the redemption date, due provision shall be made with the Trustee for the payment of the redemption price of the Bonds to be redeemed, plus accrued interest thereon to the redemption date. When such Bonds have been called for redemption, in whole or in part, as provided above, and due provision has been made to redeem same, such Bonds, or portions thereof, shall no longer be regarded as outstanding except for the purpose of receiving payment from the funds provided for redemption, and the right of the owners to collect interest on such Bonds or portions thereof which would otherwise accrue after the redemption date shall be terminated.

The Issuer reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the Issuer retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the Issuer delivers a certificate of the Issuer to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so

deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the Issuer to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

Partial Redemption

If a portion of a Bond is to be redeemed, such portion may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount of the unredeemed portion of the Bond so surrendered.

Registration and Exchange

The Trust Agreements provide that, so long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal corporate trust office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Trust Agreements.

Each Bond shall be transferable only upon the presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar in Dallas, Texas, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar and, if applicable, compliance with the limitations set forth in "Limitations on Transfers" below. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and bearing interest at the same rate as the Bond or Bonds so presented.

All Bonds are exchangeable upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar in Dallas, Texas, for a Bond or Bonds of like maturity and interest rate and in any authorized denomination, in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar shall not be required to transfer or exchange any Bond during the fifteen (15) day period next preceding any interest payment date. The Issuer or the Paying Agent/Registrar may require the Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the Issuer.

See "Book-Entry Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Limitations on Transfers

The Bonds are transferable only to Accredited Investors (within the meaning of Rule 501 of Regulation D under the Securities Act of 1933 (the "Securities Act")) and/or Qualified Institutional Buyers (within the meaning of Rule 144A under the Securities Act) upon delivery of an executed Transferee Letter in the form set forth in APPENDIX I hereto, provided, however, that:

(1) At any time on and after the date on which the Assessed Value within the District first equals or exceeds \$310,000,000, the Bonds shall be transferable to Accredited Investors and/or Qualified Institutional Buyers, in denominations of \$25,000 and integral multiples of \$5,000 in excess thereof, without delivery of a Transferee Letter; and

(2) At any time on and after the date on which the Bonds or any other bonds issued by the Issuer for the Improvement District first receive an Investment Grade Rating, then the Bonds shall be transferable to any transferee, in denominations of \$5,000 and integral multiples thereof, without delivery of a Transferee Letter.

Book-Entry Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, ("DTC") while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Limited Offering Memorandum. The Issuer, the District, the Financial Advisor, and the Placement Agent believe the source of such information to be reliable, but none of the Issuer, the District, the Financial Advisor, nor the Placement Agent takes any responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Limited Offering Memorandum. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing companies, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect

Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

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

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

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

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

Sources of Payment

The Bonds, when issued and delivered, are valid and legally binding special revenue obligations of the Issuer, with an amount not less than one percent (1%) of the original principal amount of the Bonds, together with interest thereon, being payable, together with the Outstanding Bonds, from and secured by a pledge of and lien on certain Special Assessment Revenues and with an amount equal to the balance of the original principal amount of the Bonds, together with interest thereon, but in no event to exceed, on a cumulative basis, ninety-nine percent (99%) of the original principal amount of the Bonds, together with interest thereon, being payable, from certain Contract Revenues to be paid by the District pursuant to a 2008 Joint Utility Contract and a 2008 Joint Road Contract, each dated as of August 18, 2014, as amended by an Amended 2015 Joint Utility Contract and an Amended 2015 Joint Road Contract, each dated as of August 7, 2017 (collectively, the "Contracts") among the Issuer, the District and District No. 1-A. See "APPENDIX D - SUMMARY OF THE CONTRACTS."

- Special Assessment Revenues -

Special Assessment Revenues are to be derived from Special Assessments levied by the Issuer against benefitted property within the Improvement District pursuant to an Assessment/Service Plan adopted by the Issuer pursuant to Section 372, Texas Local Government Code, including updates thereto approved by the Issuer. See "ASSESSMENT PROCEDURES." Such Special Assessments are payable pursuant to the assessment ordinance (the "Assessment Ordinance") adopted by the Issuer for the Improvement District. Special Assessment Revenues are to be collected in an amount sufficient to pay an amount not less than one percent (1%) of the original principal amount of the Bonds, together with interest thereon, when due.

- Contract Revenues -

Contract Revenues are payable from the levy by the District of ad valorem taxes, without legal limitation as to rate or amount on all taxable property within the District, to pay the principal and the interest on the Bonds and such additional bonds of the Issuer as may hereafter be issued pursuant to the terms of the Contracts. The Trust Agreements create a Series 2019 Utility Bonds Interest and Sinking Account and a Series 2019 Road Bonds Interest and Sinking Account within the Interest and Sinking Fund, and the proceeds from all taxes levied, assessed and collected for and on account of the Contract Revenues shall be deposited in such Fund to pay debt service on the Utility Bonds and the Road Bonds, respectively. While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are assessed, levied and collected, in each year, separate annual ad valorem taxes, without legal limit as to rate or amount, upon all taxable property in the District, sufficient to pay an amount equal to the balance of the original principal amount of the Bonds, together with interest thereon, that is not paid from Special Assessment Revenues, but in no event to exceed, on a cumulative basis, ninety-nine percent (99%) of the original principal amount of the Bonds, together with interest thereon, when due.

The Contracts provide that the District shall, prior to setting its tax rate each year, calculate the total amount of the payments to be made by the Issuer pursuant to the Bonds, after the application of the available reserves established with the proceeds of such Bonds and any Special Assessment Revenues, and shall establish a tax rate on all taxable property within its boundaries which, if 95% of such taxes are collected in a timely fashion, would be sufficient to make the annual payment of Contract Revenues to the Issuer. See "APPENDIX D - SUMMARY OF THE CONTRACTS."

- Debt Service Reserve Funds -

The Trust Agreements create Debt Service Reserve Funds and require such Debt Service Reserve Funds to be in an amount (the "Debt Service Reserve Amount"), equal to the lesser of (i) ten percent (10%) of the principal amount of the Outstanding Bonds, the Bonds and any Additional Bonds (hereinafter defined), (ii) the maximum annual debt service on the Outstanding Bonds, the Bonds, and any Additional Bonds, and (iii) 125% of the average annual debt service requirements on the Outstanding Bonds, the Bonds, and any Additional Bonds. On the Closing Date for the Bonds, an amount equal to maximum annual debt service on the Utility Bonds and on the Road Bonds, respectively, will be deposited into the applicable Debt Service Reserve Fund.

The Debt Service Reserve Funds are to be used solely (i) to pay principal of and interest on the Outstanding Bonds, the Bonds, and any Additional Bonds in the event and to the extent that funds on deposit in the applicable Interest and Sinking Fund are insufficient for such purpose and (ii) to the extent of funds available therein, to pay the last maturity or maturities of the Bonds. The District is required to replenish any deficiencies in the Debt Service Reserve Funds resulting from a withdrawal therefrom in twelve consecutive equal monthly installments. Any deficiency in the Debt Service Reserve Funds resulting from a determination that the value of the Authorized Investments credited to the applicable Debt Service Reserve Fund is less than the Debt Service Reserve Amount, must also be replenished in twelve consecutive equal monthly installments.

Defeasance

The Issuer may defease the provisions of the Bond Ordinances and the Trust Agreements and discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal and interest thereon in the manner provided by Subchapter C, Chapter 1207, Texas Government Code, as amended ("Subchapter C"). Under Subchapter C, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) for obligations of the Issuer payable from the Contracts, or with a commercial bank or trust company designated in the proceedings authorizing such discharge, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the Issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the Issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the

scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Ordinances and Trust Agreements.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and thereafter the Issuer will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the defeasance securities. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the Issuer to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the Issuer: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because neither the Bond Ordinances nor the Trust Agreements contractually limit such investments, owners of the Bonds may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the Issuer, the District may be annexed by the Issuer without the District's consent, subject to compliance by the Issuer with various requirements of Chapter 43 of the Texas Local Government Code, as amended. If the District is annexed, the Issuer must assume the District's assets and obligations (including the Contracts) and abolish the District within 90 days of the date of annexation except as provided under "Strategic Partnership Agreement" below. Annexation of territory by the Issuer is a policy-making matter within the discretion of the Mayor and City Council of the Issuer, and therefore, the District and the Issuer make no representation that the Issuer will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the Issuer to make Contract Payments to pay debt service on the Bonds should annexation occur. Under the terms of the SPA (as herein defined) between the District and the Issuer, however, the Issuer has agreed not to annex the District for full purposes (a traditional municipal annexation) for at least ten (10) years from the date of execution of the SPA, which would be June of 2019. The Issuer has not taken any official action regarding annexation of the District, and City officials do not currently believe annexation for full purposes will occur prior to 2021. There can be no guarantee that the City will or will not annex the District for full purposes on any particular date. See "Strategic Partnership Agreement" below.

Strategic Partnership Agreement

In June, 2009, the District, together with District No. 1-A, District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, and District No. 1-G, entered into a Strategic Partnership Agreement with the City as authorized by Texas Local Government Code, Chapter 43 (the "SPA"). The SPA provides for a "limited purpose annexation" of that portion of the District developed for retail and commercial purposes for purposes of applying the City sales tax. The portion of the District consisting of residential development is not subject to the SPA. The SPA also provides that the City will not annex the District for "full purposes"

(a traditional municipal annexation) for the ten (10)-year term of the SPA, which expires in June of 2019. The City and the District currently expect to amend the SPA to extend the term for three years and to subject additional commercial development to the provisions of the SPA.

As a result of the SPA, the City is authorized to impose a one percent (1%) retail City sales tax within the portion of the District included in the limited purpose annexation. Pursuant to the SPA, the City pays to the District through District No. 1-A, an amount, if any, over and above an amount retained by the City for its cost to provide public safety services to the District, equal to one-half of all retail sales tax revenues within such area of the District and received by the City from the Texas Comptroller of Public Accounts (herein defined as the "Sales Tax Revenue"). The SPA requires that amounts received by the District under the SPA be used first to reimburse any developer for any outstanding maintenance and operating advances. Thereafter, the District is authorized to use the Sales Tax Revenue generated pursuant to the SPA for any lawful purpose.

None of the Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds and none is expected to be used for such purpose.

Consolidation

The District has the legal authority to consolidate with any other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the System) and liabilities (such as its obligations under the Contracts), with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

Authorization of the Bonds

The Bonds are issued pursuant to the authority of the Bond Ordinances, the Trust Agreements, and Chapter 372 of the Texas Local Government Code, as amended. The Contracts have been entered into in accordance with Chapters 49, 51, and, for limited purposes, 53, Texas Water Code, as amended. The Contracts were approved at elections held within the District on November 4, 2008 and November 3, 2015, by a vote of 1 "For" to 0 "Against" and 2 "For" to 0 "Against," respectively. See "Legal Ability of the Issuer to Issue Additional Debt" and "Legal Ability of the District to Issue Additional Debt" below.

Legal Ability of the Issuer to Issue Additional Debt

The Issuer has the right in the Bond Ordinances and the Trust Agreements to issue bonds in addition to the Outstanding Bonds and the Bonds ("Additional Bonds") pursuant to the Contracts, in the maximum aggregate amount of \$94,170,000* (not including refunding bonds), consisting of \$92,155,000* for utility purposes and \$2,015,000* for road purposes pursuant to the Contracts. Additional Bonds may be issued only to the extent that Special Assessments (including unpaid Special Assessments and Prepayments of Special Assessments then on deposit in the Debt Service Reserve Funds) are pledged to the payment of such Additional Bonds and the total of (i) Special Assessment Revenues pledged to the payment of such Additional Bonds and (ii) Special Assessment Revenues theretofore deposited into the Debt Service Reserve Funds of the Trust Agreements are at least equal to 1% of the original principal of such Additional Bonds. Further, the Issuer will not issue any Additional Bonds pursuant to the Contracts unless the Assessed Value within the District is at least 3.5 times the sum of the then outstanding Bonds, any outstanding Additional Bonds, and the proposed Additional Bonds, net of any cash on deposit in the Debt Service Reserve Fund with respect to the outstanding Bonds and any outstanding Additional Bonds, and any other cash held by the Trustee that is available to pay debt service and the proposed Additional Bonds. Additional Bonds may also be issued in such amounts as are necessary for the refunding of any outstanding obligations issued pursuant to the Contracts. Such Additional Bonds may be issued with the approval of the governing body of the Issuer, but

* Preliminary; subject to change.

without the necessity of authorization by the voters within the Issuer or further authorization by voters within the District.

With a certified estimate of taxable assessed value as of January 1, 2019 of \$141,500,000, the Assessed Value is 3.83 times the total of the Outstanding Bonds and the Bonds, minus amounts in the Debt Service Reserve Fund with respect to the Outstanding Bonds and the Bonds as shown in the table below:

Bond Issues	Bonds Outstanding/Proposed	Debt Service Reserve Fund/Proposed	Debt Net of Reserve Fund
Series 2014 Utility Bonds ⁽¹⁾	\$6,515,000	\$724,912.34	
Series 2014 Road Bonds ⁽¹⁾	1,195,000	121,393.70	
Series 2017 Utility Bonds ⁽¹⁾	7,690,000	777,436.14	
Series 2017 Road Bonds ⁽¹⁾	15,295,000	1,500,280.28	
Series 2019 Utility Bonds ⁽²⁾	5,595,000	559,500.00	
Series 2019 Road Bonds ⁽²⁾	<u>4,725,000</u>	<u>472,500.00</u>	
TOTALS	\$41,015,000.00	\$4,156,022.46	\$36,858,977.54

⁽¹⁾The par amounts outstanding of the Outstanding Bonds and Debt Service Reserve Fund amounts, both as of December 12, 2018 were provided by the Trustee.

⁽²⁾The Bonds.

The Issuer also has the right to issue such bonds, notes or other obligations as are authorized to be issued by municipal corporations by and subject to the requirements of, the provisions of the Constitution and laws of the State of Texas applicable to municipal corporations. Any such obligations issued by the Issuer other than pursuant to the Contracts will be payable from sources other than the Contract Revenues.

Legal Ability of the District to Issue Additional Debt

In addition to the Bonds and any Additional Bonds issued pursuant to the Contracts, on November 4, 2008, voters within the District authorized the issuance by the District of unlimited tax bonds in the amount of \$54,000,000 for water, sewer, and drainage purposes, \$13,900,000 for road and street purposes, \$67,500,000 for refunding bonds issued for water, sewer, and drainage purposes, and \$17,375,000 for refunding bonds issued for road and street purposes. To date, none of such bonds authorized at such election have been issued.

In addition, the District has the right to issue such unlimited tax bonds as may be hereafter approved by the voters of the District. The District also has the right to issue revenue bonds, revenue notes, bond anticipation notes and tax anticipation notes without voter approval. In addition, the District has the right to enter into other contracts similar to the Contracts and to pledge its taxing power to secure any payments the District is required to make under such a contract, provided the provisions of the contract are approved by the voters of the District. The District further has the right, without further voter approval, to issue bonds to refund outstanding bonds of the District.

The District is also authorized by law to engage in fire-fighting activities and is authorized to issue bonds payable from District ad valorem taxes for such purpose. Before the District may issue bonds for fire-fighting activities payable from District ad valorem taxes, the following actions would be required: (1) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (2) approval of the master plan and bonds by the Texas Commission on Environmental Quality (the "TCEQ"); and (3) approval of bonds by the Attorney General of Texas. The Board of Directors of the District has not considered calling an election at this time for such purposes.

Notwithstanding the foregoing, the District has agreed in its orders approving the issuance of the Bonds that it will not issue any bonds payable from ad valorem taxes unless the Assessed Value within the District is at least 3.5 times the sum of the then outstanding bonds payable from ad valorem taxes, and the proposed additional bonds after deducting any amounts on deposit in any debt service reserve fund and any other cash held by the Trustee that is available to pay debt service with respect to any outstanding bonds and any amounts to be deposited to any debt service reserve fund out of proceeds of the proposed additional bonds. The term "Assessed Value" shall be defined as follows: as determined by the Denton Central Appraisal District, the greater of (i) the total assessed valuation certified by the Appraisal District or (ii) the most recent preliminary total assessed valuation certified by the Appraisal District.

If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds. See "RISK FACTORS - Future Debt."

Events of Default

The Trust Agreements define each of the following to be an "Event of Default":

(a) if default occurs in the timely payment of a Principal Installment (whether mandatory prepayment amount or the principal amount due at maturity) of any of the Bonds of a series; or

(b) if default occurs in the timely payment of any installment of interest or premium, if any, on any of the Bonds; or

(c) the Bankruptcy or Insolvency of the Issuer or the District; or

(d) if the Issuer shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the respective series of Bonds Trust Agreements, other than as specified in (a), (b), or (c) above, on the part of the Issuer to be performed, and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Issuer by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Owners of not less than ten percent (10%) in principal amount of the respective series of Utility Bonds or Road Bonds, as applicable, then outstanding; or

(e) if the Issuer or the District shall default in the due and prompt performance of any of the covenants, conditions, agreements and provisions contained in the respective Contract on the part of the Issuer or the District, as the case may be, to be performed, and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given by the Trustee, which notice the Trustee may give in its discretion.

Remedies in Event of Default

Upon the happening and continuance of any Event of Default, the Trustee may proceed, and upon the written request of the Registered Owners of not less than a majority in principal amount of either the Utility Bnds or the Road Bonds and any applicable Additional Bonds then Outstanding shall proceed to protect and enforce its rights and the rights of the Owners of the applicable Bonds under the Act and under the applicable Trust Agreement by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the applicable Trust Agreement or in aid or execution of any power granted in the applicable Trust Agreement or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under a Trust Agreement, to the extent permitted by law, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Issuer for Principal Installments, interest or otherwise under any of the provisions of the Trust Agreements or of the Bonds and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings therewith and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Owners of the Bonds, and to recover and enforce judgment or decree against the Issuer, but solely as provided in the Trust Agreements and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect (but solely from Contract Payments and Special Assessment Revenues or other moneys available for such purposes specifically permitted by the Trust Agreements) in any manner provided by law, the moneys adjudged or decreed to be payable from said sources.

In enforcing the rights of the Registered Owners under the Trust Agreements, the Trustee may sue for specific performance or may institute all action for mandamus to enforce its rights under the Contracts. Under the Contracts, the District has covenanted to levy and collect a tax, without legal limit as to rate or amount, on all taxable property within the District, sufficient to make all payments on the Bonds (after deducting Special Assessment Revenues). Such covenant may be enforced by mandamus by the Issuer or the Trustee to require the District to levy a sufficient tax or to exercise the District's remedies to enforce payment of such tax, including foreclosure. See "TAX PROCEDURES - District's Rights in the Event of Tax Delinquencies."

The Registered Owners of not less than a majority in principal amount of the applicable series of Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial actions to be taken by the Trustee thereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Trust Agreements.

No Registered Owners of any of the Bonds then Outstanding shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law for the execution of any trust or the protection or enforcement of any right under the Trust Agreements or the Bond Ordinances, or any right under the Act or the laws of Texas, excepting only an action for the recovery of overdue and unpaid principal installments, interest or redemption premium, unless such Registered Owner previously shall have given to the Trustee written notice of the event of default or breach of trust or duty on account of which such suit or action is to be taken, and unless the Registered Owners of not less than twenty percent (20%) in principal amount of the applicable series of Bonds and any Additional Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers under the Trust Agreements granted or granted by the laws of Texas, or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

Notwithstanding the foregoing, if an Event of Default shall have occurred and be continuing, the Series 2019 Road Bonds Bondholder Representative or the Series 2019 Utility Bonds Bondholder Representative, as applicable, in its sole discretion as evidenced by written notice delivered to the Trustee, may (but shall not be required to), (i) in lieu of the Trustee, exercise such one or more of the rights and powers conferred on the Trustee; and (ii) exercise such rights and powers granted to the Issuer under the Trust Agreements, and such rights of the Owners under the Trust Agreements, either by a suit or suits in equity or in law for the enforcement of any appropriate equitable or legal remedy the applicable Bondholder Representative shall deem most expedient in the interest of the Owners.

Any delay or omission to exercise any right or power occurring upon any default shall not impair any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

There is no acceleration of maturity of the Bonds in the event of default. Consequently, the remedy of specific performance or mandamus is a remedy which may have to be relied upon from year to year by the Registered Owners. Based on recent Texas court decisions, it is unclear whether certain legislation effectively waives governmental immunity of governmental entities for suits for money damages. Even if the Registered Owners could obtain a judgment against the Issuer, such judgment could not be enforced by levy and execution against the Issuer's property or the District's property or the property subject to assessment. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District or the Improvement District, as the case may be, in order to pay the principal of and interest on the Bonds. Certain traditional legal remedies also may not be available.

The enforceability of the rights and remedies of the Registered Owners may be further limited by federal bankruptcy laws related to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the Issuer and the District. Specifically, the Issuer or the District may voluntarily file a petition for protection from creditors under the federal bankruptcy laws. During the pendency of the bankruptcy proceedings the remedy for mandamus would not be available to the Registered Owners unless authorized by a federal bankruptcy judge. Additionally, the right of the District to seek judicial foreclosure of any tax lien or special assessment lien upon property within such District may be stayed. See "RISK FACTORS - Bankruptcy Limitation to Registered Owners' Rights."

Legal Investment and Eligibility to Secure Public Funds in Texas

Chapter 372, Texas Local Government Code, as amended, pursuant to which the Bonds are issued, provides as follows:

- (a) Bonds issued under this subchapter are legal and authorized investments for:
 - (1) banks, trust companies, and savings and loan associations;
 - (2) all insurance companies;
 - (3) fiduciaries, trustees, and guardians; and
 - (4) interest funds, sinking funds, and other public funds of the state or of an agency, subdivision, or instrumentality of the state, including a county, municipality, school district, or other district, public agency or body politic.

(b) Bonds issued under this subchapter may be security for deposits of public funds of the state or of an agency, subdivision, or instrumentality of the state, including a county, municipality, school district, or other district, public agency or body politic, to the extent of the market value of the bonds, if accompanied by any appurtenant unmatured interest coupons.

The Issuer makes no representation that the Bonds will be acceptable to banks, savings and loan associations or public entities for investment purposes or to secure deposits of public funds. The Issuer has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the availability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the acceptability of the Bonds for investment or collateral purposes.

USE OF PROCEEDS

Sources and Uses of Funds

UTILITY BONDS

The proceeds from the sale of the Utility Bonds will be applied as follows:

Sources of Funds

Principal Amount of Bonds	\$
Total Sources of Funds	<u>\$</u>

Uses of Funds

Utility Bonds Improvement Fund	\$
Utility Bonds Debt Service Reserve Fund	
Capitalized Interest	
Issuance Costs	
Total Uses of Funds	<u>\$</u>

ROAD BONDS

The proceeds from the sale of the Road Bonds will be applied as follows:

Sources of Funds

Principal Amount of Bonds	\$
Total Sources of Funds	<u>\$</u>

Uses of Funds

Road Bonds Improvement Fund	\$
Road Bonds Debt Service Reserve Fund	
Capitalized Interest	
Issuance Costs	
Total Uses of Funds	<u>\$</u>

In the instance that the above estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for other authorized purposes. In the instance that actual costs exceed such estimated amounts, the issuance of Additional Bonds may be required. The District's Engineer has advised the Issuer that the proceeds of the sale of the Bonds should be sufficient to pay the costs of the above-described facilities. However, the Issuer cannot and does not guarantee the sufficiency of such funds for such purposes.

RISK FACTORS

General

The Bonds, which are special revenue obligations of the Issuer and not of the State of Texas or Denton County, will be secured by Contract Revenues to be paid by the District to the Issuer pursuant to the Contracts, and by Special Assessment Revenues. Contract Revenues are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied by the District on all taxable property within the District. Special Assessment Revenues are payable from Special Assessments levied by the Improvement District against benefitted property within the Issuer. AN AMOUNT ON A CUMULATIVE BASIS NOT LESS THAN ONE PERCENT (1%) OF THE ORIGINAL PRINCIPAL AMOUNT OF THE BONDS, TOGETHER WITH INTEREST THEREON, IS PAYABLE FROM SPECIAL ASSESSMENTS AND AN AMOUNT EQUAL TO THE BALANCE OF THE ORIGINAL PRINCIPAL AMOUNT OF THE BONDS, TOGETHER WITH INTEREST THEREON, BUT IN NO EVENT TO EXCEED, ON A CUMULATIVE BASIS, NINETY-NINE PERCENT (99%) OF THE ORIGINAL PRINCIPAL AMOUNT OF THE BONDS, TOGETHER WITH INTEREST THEREON, IS PAYABLE FROM CONTRACT REVENUES. The ultimate security for payment of the principal of and interest on the Bonds depends upon (i) the ability of the District to pay Contract Revenues from the collection from the property owners within the District of taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities, and (ii) the ability of the Issuer to collect Special Assessment Revenues within the Improvement District or, in the event Special Assessments are not collected and foreclosure proceedings are instituted on behalf of the Issuer, upon the value of the property which is subject to such Special Assessments. Neither the Issuer nor the District makes any representations that over the life of the Bonds the property within the District will maintain values sufficient to justify continued payment of taxes or Special Assessments by the property owners. The potential increase in taxable valuation of property within the District is directly related to the economics of the residential housing and commercial products industry, not only due to general economic conditions, but also due to the particular factors discussed below.

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development of the District is directly related to the vitality of the residential housing industry and the demand for commercial projects. Such development and construction can be significantly affected by factors such as interest rates, construction costs, availability of liquidity and credit in the financial markets, and consumer demand. Decreased levels of home construction activity would restrict the growth of property values in the District. Because a significant number of the homes being constructed and planned for construction within the District are considered to be in the higher end market, a slowdown or worsening of the market for such higher end homes could adversely effect the growth of taxable values within the District. Neither the Issuer nor the District can predict the pace or magnitude of any future development or home construction in the District.

Development of land within the District is contingent upon construction or acquisition of major public improvements such as arterial streets, water distribution facilities, sewage collection and transmission facilities and street lighting, as well as local in-tract improvements that may include substantial site grading. While these improvements in the District are expected to be constructed with proceeds of the Outstanding Bonds and the Bonds, there can be no assurance that any or all of these improvements will be constructed. See "DEVELOPMENT OF THE DISTRICT AND FUTURE DEVELOPMENT" herein. The cost of these public and private in-tract and off-site improvements could increase the public and private debt for which the land within the District provides security. This increased debt could reduce the ability or desire of the property owners to pay taxes or the Special Assessments levied against their property.

The development of land within the District is subject to a number of contingencies which could slow or prevent future development of the undeveloped land. Consequently, no assurance can be given that such development will be partially or fully completed, and in assessing the investment quality of the Bonds, prospective purchasers should evaluate such risks. In addition to potentially reducing the ability and willingness of the landowners to pay taxes and Special Assessments, a slowdown of the economic development process in the region could adversely affect land values and reduce the proceeds received at a foreclosure sale in the event taxes or Special Assessments are not paid when due.

Developer and Major Landowner's Obligation to the Issuer: The ten largest taxpayers for 2018 constituted 99.9% of the District's 2018 tax roll. The largest taxpayer is BRECO Lands, an entity related to Bright Realty, whose property constitutes 47.94% of the 2018 tax roll. The second largest taxpayer is Discovery CH LLC, an entity related to Bright Realty, which is the owner of undeveloped land which currently comprises approximately 42.13% of the 2018 tax roll of the District. Entities related to Bright Realty therefore constitute 90.07% of the District's tax roll. Bright Realty is a nominally capitalized corporation, the primary assets of which currently are the land within the District, District No. 1-C, and District No. 1-G. Bright Realty has no source of funds with which to pay taxes levied by the District or Special Assessments other than funds resulting from sale of lots to builders and/or funds which other entities comprising the Developer may choose to advance to Bright Realty. See "THE DEVELOPER" and "APPENDIX G - FINANCIAL INFORMATION CONCERNING THE DEVELOPER." The ability of Bright Realty to make full and timely payments of taxes levied against their properties by the District will directly affect the District's ability to meet its obligations to make payments under the Contracts. Only owners of property located in the District are legally responsible for payment of ad valorem taxes to the District and other taxing authorities and for payment of Special Assessments to the Issuer. Failure of Bright Realty to make timely payment of its taxes could result in defaults under the Trust Agreements and ultimately could adversely affect the investment security of the Bonds.

There is no commitment by or legal requirement of the Developer or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District, and there is no restriction on any landowners' right to sell its land. Therefore, neither the Issuer nor the District can make any representation about the probability of future development, if any, or the rate of home construction activity in the District.

Maximum Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The District's 2018 Assessed Valuation is \$131,135,166. The Estimated Assessed Valuation at January 1, 2019, of property located within the District, supplied by the Appraisal District is \$141,500,000. The average annual debt service requirement on the Bonds and the Outstanding Bonds is \$3,469,458 and the maximum annual debt service requirement on the Bonds and the Outstanding Bonds is \$3,537,000 (2037). Assuming no increase to nor decrease from the 2018 Assessed Valuation, and no use of funds on hand to augment tax receipts and the issuance of no additional bonds, tax rates of \$2.79 and \$2.84 per \$100 of Assessed Valuation 95% collection rates would be necessary to pay both the average annual debt service requirement and maximum annual debt service requirement, respectively. Assuming no increase to nor decrease from the 2019 Preliminary Assessed Valuation, no use of funds on hand to augment tax receipts and the issuance of no additional bonds, tax rates of \$2.59 and \$2.64 per \$100 of Assessed Valuation at 95% collection rates would be necessary to pay both the average annual debt service requirement and maximum annual debt service requirement, respectively.

The District levied a tax of \$1.00 in 2018 for purposes of making payments under the Contracts. As the above paragraph indicates, the 2018 tax rate of \$1.00 will be insufficient to pay its average annual debt service requirement on the Bonds and the Outstanding Bonds and the maximum annual debt service

requirements on the Bonds and the Outstanding Bonds given taxable values in the District at the level of the 2019 Preliminary Assessed Valuation, assuming a tax collection rate of 95%, no use of funds on hand, and the issuance of no additional bonds by the District. In order for a tax rate of \$1.00 to be sufficient to pay both the average annual and maximum annual debt service requirement on the Bonds and the Outstanding Bonds, the assessed valuation in the District must increase to approximately \$365,206,071 and \$372,315,789, respectively.

Projections provided by the Developer, but not verified by any independent third party, show that, in the absence of projected construction permit revenues, there will be annual tax revenue shortfalls for the next three years based upon a \$1.00 tax rate. The Developer has also provided projections as to construction permit revenues to be received by the District over the next three years which, on a cumulative basis will cover any total revenue shortfall. See "DISTRICT DEBT - Debt Service Coverage." With the continued development of property and construction of homes on the lots developed by the Developer and with projected revenue from construction permits, the District anticipates that increases in the taxable values, commencing in 2021, will enable the District to make payments of Contract Revenues sufficient to meet debt service requirements on the Bonds without increasing the tax rate above a rate of \$1.00. However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes or Special Assessments by property owners.

Increases in the District's tax rate to higher levels than the \$1.00 per \$100 of Assessed Valuation may have an adverse impact upon future development of the District, the sale and construction of homes within the District and the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District. In addition, the collection by the District of delinquent taxes owed to it and the enforcement by a Registered Owner of the District's obligations to collect sufficient taxes may be a costly and lengthy process.

The combination of the District's 2018 levy of \$1.00 per \$100 of Assessed Valuation, plus the aggregate of the 2018 tax levies of all other units of government which levy taxes against the property located within the District, is \$2.634 per \$100 of Assessed Valuation. See "DISTRICT TAX DATA - Estimated Overlapping Taxes."

Tax Collection Limitations

The District's ability to make payments of Contract Revenues may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions affecting the marketability of taxable property within the District and limitation of the proceeds from a foreclosure sale of such property, (d) adverse effects on the proceeds of a foreclosure sale resulting from a taxpayer's limited right to redeem its foreclosed property as set forth below, or (e) insufficient foreclosure bids to satisfy the tax liens of all state and local taxing authorities which have parity liens on the property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Moreover, the value of the property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayers' right to redeem residential or agricultural use property within two (2) years of foreclosure and all other property within six (6) months of foreclosure. See "TAX PROCEDURES."

The ability to foreclose in the event of nonpayment of Assessments or District taxes may be limited by Section 33.06 of the Texas Tax Code, as amended ("Section 33.06"), relating to the deferral of property taxes. Pursuant to Section 33.06, an individual 65 years of age or older, or who is disabled or is a disabled veteran under Texas law, is able to defer all taxes owed on a residence homestead until the 181st day after the date the individual no longer owns and occupies the property as a residence homestead. The deferral is obtained by filing an affidavit with the chief appraiser of the appraisal district in which the property is located. The tax lien remains on the property during the deferral period and interest continues to accrue at the rate of five percent. The deferral of taxes is transferable to a surviving spouse of the individual until 181 days after the date the surviving spouse no longer owns and occupies the property as a resident homestead if (1) the property was the residence homestead of the deceased spouse when the deceased spouse died; (2) the surviving spouse was 55 years of age or older when the deceased spouse died; and (3) the property was the residence homestead of the surviving spouse when the deceased spouse died. Under Section 33.06, once a tax deferral is in place, a taxing unit may not file suit to collect delinquent taxes on the property and the property may not be sold at a sale to foreclose the tax lien until the 181st day after the date the individual no longer owns and occupies the property as a residence homestead.

While there is no definitive law stating that Assessments may also be deferred under Section 33.06, because Assessments are enforced in the same manner as ad valorem taxes under Texas law, it is likely that Assessments would also be subject to deferral under this statutory provision. As a result, the District may be unable to foreclose in the event that an owner of an Assessed Parcel avails itself of the tax deferral pursuant to Section 33.06.

Special Assessment Limitations

Special Assessments are due and payable in the same manner as, and bear the same penalties and interest for non-payment, as do regular property tax installments. Additionally, Special Assessments are payable in annual installments established by the Assessment Ordinance to correspond in number and proportionate amount to the number of installments and principal amounts of the Outstanding Bonds, the Bonds and any Additional Bonds maturing in each year. See "ASSESSMENT PROCEDURES - Priority of Lien" herein. It should be noted that the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular assessment installment payments in the future.

Although Special Assessments are secured by a lien on the parcels within the Improvement District and the Issuer has covenanted to institute foreclosure proceedings to sell parcels with delinquent assessment installments for amounts sufficient to cover such delinquent installments in order to obtain funds to pay debt service on the Bonds, there can be no assurance that foreclosure proceedings will occur in a timely manner so as to avoid delay in payments of debt service on the Bonds. In addition the pledge of Special Assessments to the Bonds is not sufficient to pay the full amount of debt service due on the Bonds. Upon an ad valorem tax lien foreclosure event of a property within the District, an installment of Special Assessments that is also delinquent will be foreclosed in the same manner as the ad valorem tax lien (assuming all conditions and procedures for foreclosure are duly satisfied). The foreclosure of accrued installments of Special Assessments does not eliminate the outstanding principal balance of the Special Assessment and any purchaser of the property in foreclosure takes the property subject to the Special Assessment lien and any associated obligations.

Failure by owners of the parcels to pay installments of Special Assessments when due, delay in foreclosure proceedings, or the inability of the Issuer to sell parcels which have been subject to foreclosure for amounts sufficient to cover the delinquent installments of Special Assessments levied against such parcels may result in the inability of the Issuer to make full or punctual payments of debt service on the Bonds.

Construction Risks and Facilities Costs

Although the District's Engineer estimates that proceeds of the Bonds will be sufficient to pay the costs of acquiring and constructing certain water, sewer, drainage facilities, and streets and roads, there can be no assurance that such proceeds will be sufficient to acquire and construct such facilities. The Developer is under no obligation and has made no commitment to the District to complete any of such facilities should proceeds of the Bonds be insufficient for such purpose. Failure to complete all of such facilities could result in an inability to construct taxable improvements within the District and could adversely impact the security for the Bonds.

Hazardous Substance

While governmental taxes, assessments and charges are a common claim against the value of a parcel, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to the assessment is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or "Superfund Act," is the most well known and widely applicable of these laws. It is likely that, should any of the parcels of land located in the District be affected by a hazardous substance, the marketability and value of parcels would be reduced by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition, just as is the seller.

The value of the land within the District does not take into account the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the parcel. The Issuer has not independently verified, and is not aware, whether the owner (or operator) of any of the parcels within the District has such a current liability with respect to such parcel, however, it is possible that such liabilities do currently exist and that the Issuer is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the land within the District resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel that is realizable upon a delinquency.

Regulation

Development within the District may be subject to future federal, state and local regulations. Approval may be required from various agencies from time to time in connection with the layout and design of development in the District, the nature and extent of public improvements, land use, zoning and other matters. Failure to meet any such regulations or obtain any such approvals in a timely manner could delay or adversely affect development in the District and property values.

Registered Owners' Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds, the Trustee may proceed, and upon the written request of the Registered Owners of not less than fifty-one percent (51%) in principal amount of the Outstanding Utility Bonds or Road Bonds, as applicable, shall proceed to protect and enforce

its rights and the rights of the Owners of the Bonds under the Bond Ordinances and the Trust Agreements by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained therein or in aid or execution of any power granted or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of specific performance or mandamus has to be relied upon from year to year. Based on recent Texas court decisions, it is unclear whether certain legislation effectively waives governmental immunity of governmental entities for suits for money damages. Even if the Registered Owners could obtain a judgment against the Issuer, such a judgment could not be enforced by a direct levy and execution against the Issuer's or the District's property. Further, the Registered Owners cannot themselves foreclose on property within the Issuer or sell property within the Issuer in order to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners further may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the Issuer. In this regard, should the Issuer or the District file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the Issuer to seek judicial foreclosure of its tax lien would be automatically stayed and could not be pursued unless authorized a federal bankruptcy judge. See "RISK FACTORS - Bankruptcy Limitation to Registered Owners' Rights."

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the Issuer and the District. Subject to the requirements of Texas law, the Issuer or the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. 901-946, if the Issuer or the District (1) is generally authorized to file for federal bankruptcy protection by Texas law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a water control and improvement district, such as the District, must also obtain the approval of the TCEQ prior to filing for bankruptcy. Such legislation requires that the TCEQ investigate the financial condition of such district and authorize the district to proceed only if the district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the Issuer or the District, as the case may be, decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the Issuer or the District, as the case may be, would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the plan if (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code, (2) all payments to be made in connection with the plan are fully disclosed and reasonable, (3) the Issuer or the District, as the case may be, is not prohibited by law from taking any action necessary to carry out the plan, (4) administrative expenses are paid in full, and (5) the plan is in the best interests of creditors and is feasible. The rights and remedies of the Registered Owners would be adjusted in accordance with the confirmed plan of adjustment of the Issuer's or the District's, as the case may be, debt.

Neither the Issuer nor the District may be placed into bankruptcy involuntarily.

The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection

of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA (i) no real property held by the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

There has been no definitive determination of the validity of these provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent FIRREA provisions are valid and applicable to any property in the District or the Improvement District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District or the Improvement District, and may prevent the collection of penalties and interest on such taxes.

Future Debt

The Issuer has the right to issue bonds pursuant to the terms of the Contracts, up to an aggregate maximum amount of \$136,000,000 consisting of \$112,750,000 for utility purposes and \$23,250,000 for road purposes (not including refunding bonds) as set forth in the Contracts. In addition, the District may issue such tax bonds as may hereafter be approved by voters within such District. After issuance of the Bonds, \$94,170,000* in Additional Bonds (not including refunding bonds), consisting of \$92,155,000* for utility purposes and \$2,015,000* for road purposes will remain authorized but unissued pursuant to the Contracts. See "THE BONDS - Legal Ability of the Issuer to Issue Additional Debt."

On November 4, 2008, voters within the District authorized the issuance by the District of unlimited tax bonds in the amount of \$54,000,000 for water, sewer, and drainage purposes, \$13,900,000 for road and street purposes, \$67,500,000 for refunding bonds issued for water, sewer, and drainage purposes, and \$17,375,000 for refunding bonds issued for road and street purposes. To date, none of such bonds authorized at such election have been issued. See "THE BONDS - Legal ability of the District to Issue Additional Debt."

If Additional Bonds are issued by the Issuer pursuant to the Contracts or additional debt is issued by the District secured by taxes in the future and property values have not increased proportionately, such issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

Competitive Nature of Dallas-Fort Worth Residential Housing Market

The housing industry in the Dallas-Fort Worth area is very competitive, and neither the Issuer nor the District can give any assurance that the current building programs will continue, and, if so, at what pace. The competitive position of the Developer in the sale of developed lots or of any other home builder in the construction and sale of single-family residential units is affected by most of the factors discussed in this section, and such competitive position is directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District. In the Dallas/Fort Worth area in the general vicinity of the District, there is currently one directly comparable master planned community in operation, and three developments in the construction or early sales phase whose focus is on residential properties. The closest

* Preliminary; subject to change.

comparable planned development is Lone Star Ranch in Frisco, Texas, approximately three miles north of the Castle Hills Project, consisting of approximately 6,000 acres, in which homebuilding has commenced. The next closest master planned community is an approximate 2,000 acre development called Twin Creeks in Allen, Texas, approximately five miles north of the Castle Hills Project. Other master planned communities include Stonebridge, an approximate 7,000 acre planned community project in McKinney, Texas and Lantana, an approximate 1,600 acre development north of Flower Mound.

Continuing Compliance with Certain Covenants

The Bond Ordinances and the Trust Agreements contain covenants by the Issuer intended to preserve the exclusion from gross income of interest on the Bonds. Failure by the Issuer to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds become taxable retroactively to the date of original issuance. See "TAX EXEMPTION."

Future and Proposed Legislation

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

2019 Legislative Session

On January 10, 2019, the Texas Legislature will convene its 86th regular session until May 27, 2019. During this time, the Legislature will likely enact laws which affect ad valorem tax and other matters which could adversely affect the marketability or market value of the Bonds. The Issuer cannot predict actions of the Legislature.

DISTRICT DEBT

General

The following tables and calculations relate to the Bonds. The District is empowered to incur debt to be paid from revenues raised by taxation against all taxable property located within the District, and various other political subdivisions of government which overlap all or a portion of the District are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of the property within the District.

Bonded Indebtedness*

2018 Assessed Valuation	\$131,135,166	(a)
Estimated Assessed Valuation at January 1, 2019	\$141,500,000	(b)
Direct Debt: The Outstanding Bonds	\$30,695,000	
The Utility Bonds	5,595,000	
The Road Bonds	<u>4,725,000</u>	
Total	\$41,015,000	(c)

*Preliminary; subject to change.

Estimated Overlapping Debt		\$4,529,415	(d)
Direct and Estimated Overlapping Debt		\$45,544,415	(e)
Ratio of Direct Debt to: 2018 Assessed Valuation		31.28%	
	Estimated Assessed Valuation at January 1, 2019	28.99%	
Ratio of Direct and Estimated Overlapping Debt to:			
	2018 Assessed Valuation	34.73%	
	Estimated Assessed Valuation at January 1, 2019	32.19%	
Utility Bonds Interest and Sinking Fund Balance		\$ 634	(f)
Road Bonds Interest and Sinking Fund Balance		\$ 512	(f)
Utility Bonds Debt Service Reserve Fund Balance		\$1,502,349	(g)
Road Bonds Debt Service Reserve Fund Balance		\$1,621,674	(g)
2018 Tax Rate per \$100 of Assessed Valuation		\$ 1.00	(h)
	Contract Tax	\$1.00	
	Maintenance Tax	\$0.00	
Average Annual Debt Service Requirements of the Outstanding Bonds and the Bonds (2019-2039)		\$3,469,458	
Maximum Annual Debt Service Requirements of the Outstanding Bonds and the Bonds (2037)		\$3,537,000	
Tax Rate per \$100 of Assessed Valuation within the District required to pay Average Annual Debt Service Requirements at 95% tax collections Based Upon:			
	2018 Assessed Valuation	\$2.79	
	Estimated Assessed Valuation at January 1, 2019	\$2.59	
Tax Rate per \$100 of Assessed Valuation with the District required to pay Maximum Annual Debt Service Requirements at 95% tax collections Based Upon:			
	2018 Assessed Valuation	\$2.84	
	Estimated Assessed Valuation at January 1, 2019	\$2.64	

(a) Provided by the Denton County Appraisal District (the "Appraisal District"), this amount is the certified value of all taxable property located within the District as of January 1, 2018. This amount constitutes the District's 2018 tax roll. See "TAX PROCEDURES" and "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments."

(b) Provided by the Appraisal District for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of January 1, 2019, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2018, through December 31, 2018. The ultimate assessed valuation of such additions to the District's tax roll resulting from development and construction activity from January 1, 2018, through December 31, 2018, may vary significantly from this estimate when the Appraisal Review Board certifies the valuation of District property for the purpose of determining the District's 2019 tax roll, which will be based on the valuation of District property as of January 1, 2019.

- (c) Although all but one percent (1%) of the total principal amount is to be paid from Contract Revenues, the full principal amount is shown here.
- (d) See "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement for the District."
- (e) As is described in this Limited Offering Memorandum under the caption "DISTRICT TAX DATA - Estimated Overlapping Taxes," the aggregate of the tax levies of all units of government which levy taxes against the property located within the District in 2018, plus the 2018 levy by the District of \$1.00 per \$100 of assessed valuation, is \$2.6684 per \$100 of Assessed Valuation. See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments."
- (f) As of January 1, 2019, and does not include \$31,357 in the Collection Fund to be transferred to the applicable Interest and Sinking Fund. Balances also do not include approximately \$503,643 in capitalized interest from Bond proceeds to be deposited into the Utility Bonds Interest and Sinking Fund and approximately \$367,566 in capitalized interest from Bond proceeds to be deposited in the Road Bonds Interest and Sinking Fund. Neither the Bond Ordinances, the Trust Agreements, nor Texas law requires that any particular amount be maintained in the Interest and Sinking Fund at any time.
- (g) As of January 1, 2019. In addition, out of proceeds of the Bonds, there will be deposited into such funds an amount, if any, sufficient to cause the balance therein to be equal to the lesser of (i) 10% of the principal amount of the Bonds and Outstanding Bonds, (ii) maximum annual debt service on the Bonds and the Outstanding Bonds, or (iii) 125% of average annual debt service on the Bonds and the Outstanding Bonds. See "THE BONDS - Source of Payment - Debt Service Reserve Fund."
- (h) The District expects to levy a tax of \$1.00 per \$100 of assessed valuation during the year 2019 to pay its obligations under the Contracts. As indicated herein, a tax rate of \$1.00 is insufficient to pay either the Average Annual or the Maximum Annual Debt Service Requirements of the Bonds based upon the 2018 Assessed Valuation or based upon the 2019 Preliminary Assessed Valuation. In order for a \$1.00 tax rate to be sufficient to pay the Average Annual Debt Service Requirement and the Maximum Annual Debt Service Requirement, assessed values in the District would have to increase to approximately \$365,206,071 and \$372,315,789, respectively.

Estimated Direct and Overlapping Debt Statement for the District

The following statement indicates the direct and estimated overlapping debt of the District. The table includes the estimated amount of indebtedness of governmental entities overlapping the District, defined as outstanding bonds payable from ad valorem taxes, and the estimated percentages and amounts of such indebtedness attributable to the property located within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports published by the Municipal Advisory Council of Texas. The calculations by which the statement was derived were made in part by comparing the reported assessed valuation of the property in the overlapping taxing jurisdictions with the Assessed Valuation of property within the District. No effect has been given to the tax burden levied by any applicable taxing jurisdiction for maintenance and operation or other purposes.

Taxing Jurisdiction	Outstanding Debt	As of	Percent	Amount
Denton County	\$ 612,630,000	11/30/2018	0.11%	\$ 673,893
Lewisville ISD	1,243,716,701	11/30/2018	0.31	3,855,522
Total Estimated Overlapping Debt				\$4,529,415
Total Direct Debt (the Outstanding Bonds and the Bonds)				\$41,015,000
Total Direct Debt and Overlapping Debt				\$45,544,415
Ratio of Total Direct and Estimated Overlapping Debt to:				
2018 Assessed Valuation (\$131,135,166)				34.73%
2019 Preliminary Assessed Valuation (\$141,500,000)				32.19%

Under Texas law ad valorem taxes levied by each taxing authority other than the District create a lien which is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administration and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District has the power to assess, levy and collect ad valorem taxes for operation and maintenance purposes if authorized by the District's voters at an election held for such purpose. Voters within the District have authorized a maintenance tax without legal limit as to rate or amount. See "DISTRICT TAX DATA - Maintenance Tax."

Debt Service Requirements*

The following schedule sets forth the principal and interest requirements on the Outstanding Bonds and the Bonds.

Year	Outstanding Debt Service	<u>The Utility Bonds</u>		<u>The Road Bonds</u>		Less: Capitalized Interest	Total Resulting Debt Service
		<u>Principal</u>	<u>Interest⁽¹⁾</u>	<u>Principal</u>	<u>Interest⁽¹⁾</u>		
2019	\$2,778,425		\$210,745		\$177,975	\$(388,720)	\$2,778,425
2020	2,778,275		335,700		283,500	(482,489)	2,914,986
2021	2,779,725	\$ 75,000	335,700	\$ 60,000	283,500		3,533,925
2022	2,777,475	80,000	331,200	65,000	279,900		3,533,575
2023	2,781,525	80,000	326,400	70,000	276,000		3,533,925
2024	2,776,275	90,000	321,600	75,000	271,800		3,534,675
2025	2,777,000	95,000	316,200	80,000	267,300		3,535,500
2026	2,783,100	95,000	310,500	85,000	262,500		3,536,100
2027	2,783,950	100,000	304,800	90,000	257,400		3,536,150
2028	2,779,550	110,000	298,800	95,000	252,000		3,535,350
2029	2,779,900	115,000	292,200	100,000	246,300		3,533,400
2030	2,779,375	125,000	285,300	105,000	240,300		3,534,975
2031	2,777,675	135,000	277,800	110,000	234,000		3,534,475
2032	2,779,500	140,000	269,700	120,000	227,400		3,536,600
2033	2,784,225	145,000	216,300	125,000	220,200		3,535,725
2034	2,781,225	155,000	252,600	135,000	212,700		3,536,525
2035	2,775,500	170,000	243,300	140,000	204,600		3,533,400
2036	2,780,700	175,000	233,100	150,000	196,200		3,535,000
2037	2,777,200	190,000	222,600	160,000	187,200		3,537,000
2038		1,710,000	211,200	1,435,000	177,600		3,533,800
2039		1,810,000	108,600	1,525,000	91,500		3,535,100
Totals	\$52,810,600	\$5,595,000	\$5,749,345	\$4,725,000	\$4,849,875	\$(871,209)	\$72,858,611
Average Annual Requirements (2019-2039)			\$3,469,458				
Maximum Annual Requirements (2037)			\$3,537,000				

⁽¹⁾ Interest at a rate of 6.00%.

Debt Service Coverage

As has been shown elsewhere in this Offering Memorandum, in order for a tax rate of \$1.00 to be sufficient to pay the Average Annual Debt Service Requirement and Maximum Annual Debt Service Requirement, assessed values in the District would have to increase to \$365,206,071 and \$372,315,789, respectively. While it is anticipated that such values will be attained at some point in the future, based upon projections provided by the Developer, it is not expected that such values will increase sufficiently within the next three years to enable a tax rate of \$1.00 to be sufficient to pay debt service on the Bonds during those three years. However

*Preliminary; subject to change.

the Developer has provided projections of revenues expected to be received by the District for construction permits, which permit revenues are projected to be sufficient to enable the District to continue to levy a tax at a rate of \$1.00. Such projections, shown below, have been internally generated by the Developer and have not been verified or confirmed in any way by any independent third party. NEITHER THE DISTRICT NOR THE PLACEMENT AGENT MAKES NO REPRESENTATION WITH RESPECT TO SUCH PROJECTIONS. PROSPECTIVE PURCHASERS ARE ENCOURAGED TO CONTACT THE DEVELOPER DIRECTLY WITH ANY QUESTIONS CONCERNING SUCH PROJECTIONS.

<u>Fiscal Year</u>	<u>Taxable Value</u>	<u>Projected Tax Levy at \$1.00 Tax Rate</u>	<u>Net Debt Service</u>	<u>Projected Tax Revenue Shortage</u>	<u>Projected Permit Revenue</u>	<u>Projected Total Annual Revenue Shortfall*</u>
2019	\$131,135,166	\$1,311,352	\$2,778,425	\$(1,467,073)	\$1,180,000	\$(287,073)
2020	141,500,000	1,415,000	2,914,986	(1,499,986)	1,500,000	0
2021	274,634,754	2,746,348	3,533,925	(787,577)	1,500,000	0

* The Developer has represented to the District that it is prepared to advance funds for any revenue shortfall. There can be no assurance that the Developer can or will make any such advances.

GENERAL FUND STATEMENT

The Bonds are payable from Contract Revenues and Assessment Revenues, which, in turn, are payable from the levy of an ad valorem tax, without legal limitation as to rate amount, upon all taxable property in the District and the imposition of assessments upon land in the District. Although not pledged to the payment of the Bonds or the Outstanding Bonds net revenues of the District, if any, are available for any lawful purpose including payment of debt service on the Bonds, the Outstanding Bonds, and any additional bonds issued by the District, at the discretion and upon action of the Board.

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statement for the periods ending September 30, 2014 through September 30, 2017 and from the District's Bookkeeper (District No. 1A) in the case of statements as of September 30, 2018.

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Fiscal Year Ended September 30,

	<u>2018^(a)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
REVENUES					
Property Taxes	\$	\$144,851	\$	\$ 33,872	\$
Special Assessments	34,356	60,081			
Water Service	190,499	141,531	46,067	1,582	1,152
Wastewater Service	62,597	56,188	11,485	4	317
Penalty and Interest	329	171	215		10
Permit and Inspection Fees	327,225		166,462	552,613	2,205
Franchise Fees	24,837	21,103	10,649	528	61
Strategic Partnership Revenue		1,092			
Miscellaneous Revenues	20,434	6,538	296	180	_____
TOTAL REVENUES	<u>\$660,227</u>	<u>\$431,555</u>	<u>\$235,174</u>	<u>\$588,779</u>	<u>3,745</u>
EXPENDITURES					
Professional Fees	\$60,110	\$41,254	\$45,611	71,174	\$37,321
Contracted Services	24	899	21,153	14,528	16,185
Allocated Costs to District 1-A	414,693	394,943	210,093	244,082	116,685
Purchased Water and Wastewater Services	27,924	30,323	980	50	716
Repairs and Maintenance			8,133		
Other	17,777	17,745	19,652	23,533	15,388
Capital Outlay	_____	_____	_____	_____	_____
TOTAL EXPENDITURES	<u>\$520,528</u>	<u>\$482,164</u>	<u>\$305,622</u>	<u>\$353,367</u>	<u>186,295</u>
EXCESS (DEFICIENCY OF REVENUES OVER EXPENDITURES)	<u>\$139,749</u>	<u>\$ (50,609)</u>	<u>\$ (70,488)</u>	<u>\$ 253,412</u>	<u>\$ (182,550)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In (Out)	<u>\$(8,248)</u>	<u>\$(80,495)</u>		<u>\$(46,309)</u>	<u>\$</u>
Developer Contribution			<u>\$80,712</u>		
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$(8,248)</u>	<u>\$(80,495)</u>	<u>\$80,712</u>	<u>\$(46,309)</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCE	\$131,501	\$(131,104)	\$ 10,264	\$ 189,103	\$(182,550)
BEGINNING FUND BALANCE	<u>\$(836,275)</u>	<u>(775,870)</u>	<u>(786,134)</u>	<u>(975,237)</u>	<u>(792,687)</u>
ENDING FUND BALANCE	<u>\$704,774)</u>	<u>\$(906,974)</u>	<u>\$(775,870)</u>	<u>\$(786,134)</u>	<u>\$(975,237)</u>

(a) Unaudited

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TAX PROCEDURES

AN AMOUNT NOT MORE THAN NINETY-NINE PERCENT (99%) OF THE ORIGINAL PRINCIPAL AMOUNT OF THE BONDS, TOGETHER WITH INTEREST THEREON, IS PAYABLE FROM CONTRACT REVENUES, WHICH ARE PAYABLE FROM THE PROCEEDS OF AN ANNUAL AD VALOREM TAX, WITHOUT LIMITATION AS TO RATE OR AMOUNT, LEVIED AGAINST ALL TAXABLE PROPERTY WITHIN THE DISTRICT. THE FOLLOWING IS A SUMMARY OF CERTAIN PROCEDURES APPLICABLE TO SUCH TAXES.

County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") establishes an Appraisal District and an appraisal review board in each county of the State of Texas. The Appraisal District is governed by a board of directors elected by the governing bodies of cities, towns and schools that participate in the Appraisal District and are located in the county. Conservation and reclamation districts such as the District may participate, to a limited extent, in such election. The board of directors selects a chief appraiser to manage the appraisal office of the Appraisal District. All taxing units within Denton County, including the District, are included in the Appraisal District. The Appraisal District is responsible for appraising property within the District, subject to review by the county appraisal review board. The appraisal roll as approved by the county appraisal review board must be used by the District in establishing its tax rolls and tax rate. The valuation and assessment of taxable property within the District is governed by the Texas Property Tax Code.

Under current Texas law, the District is responsible for the levy and collection of its taxes and will continue to be so responsible unless the Board, or the qualified voters of the District or of Denton County, at an election held for such purpose, determine to transfer such functions to the Appraisal District or another taxing unit.

Exempt Property

Except for certain exemptions provided by Texas law, all real property and tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt real property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; nonprofit cemeteries; and certain property owned by qualified charitable, religious, veterans, fraternal, or education organizations. Partially exempt to the maximum extent of \$5,000 to \$12,000 of assessed value, depending upon the disability rating of the veteran, is property owned by a disabled veteran or by the spouse or certain children of a deceased disabled veteran or a veteran who died while on active duty. A veteran who receives a disability rating of 100% is entitled to the exemption for the full amount of the veteran's residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. Also, the surviving spouse of (i) a member of the armed forces, or effective January 1, 2018, (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same

amount may be transferred to a subsequent residence homestead of a surviving spouse. Also partially exempt, if approved by the Board or at an election called by the Board upon petition of a least 20% of the number of the qualified voters who voted in such District's preceding election, are residence homesteads of certain persons who are disabled or at least 65 years old to the extent of \$3,000 of appraised value or such higher amount as the Board or the District's voters may approve. The District's tax assessor is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by June 30. To date, the District has not granted a general homestead exemption.

Freeport Goods Exemption: Freeport goods are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas and other petroleum products, which have been acquired or brought into the state for assembling, storing, manufacturing, repair, maintenance, processing or fabricating or used to repair or maintain aircraft of a certified air carrier and shipped out the state within 175 days. Freeport goods are exempted from taxation by the District.

Goods-In-Transit: Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Property Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemptions excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealers' motor vehicle, vessel and out-board motor, dealers' heavy equipment and retain manufactured housing inventory. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is further limited to tangible personal property acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The Property Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemption or the goods-in-transit exemption for items of personal property. The District has provided for this exemption.

Tax Abatement

The Issuer and Denton County may designate all or part of the area within the District as a reinvestment zone, and Denton County, the Issuer, and the District may thereafter enter into tax abatement agreements with owners of real property within the zone, with each taxing jurisdiction's agreement affecting its own tax roll. The tax abatement agreements exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to 10 years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. In certain instances, personal property also may be eligible for tax abatement. Currently, none of the area within the District has been designated for tax abatement.

Assessment and Levy

Generally, all taxable property in the District (other than any qualifying agricultural, open space, and timber land) must be appraised at 100% of market value as of January 1 of each tax year, subject to review and approval by the appraisal district appraisal review board. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value for the preceding tax year, (b) the appraised value of the property for the preceding tax year; and (c) the market value of all new improvements to the property. However, houses held for sale by a developer or builder which remain unoccupied, are not leased or rented and produce no income, are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner's business. The Property Tax Code requires each appraisal district to implement a plan providing for reappraisal of all real property in the appraisal district at least once every three years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

The chief appraiser must give written notice before the appraisal review board meeting to each owner whose property value is recommended for an increase or if the recommended value is greater than the value rendered by the property owner. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the District; however, any owner who has timely filed notice to the appraisal review board may appeal the final determination by the appraisal review board of the owner's protest by filing suit in Texas district court. Prior to such appeal, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, but not to exceed the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption. The District may not, however, protest a valuation of individual property.

By September 1 of each year, or as soon thereafter as possible, the rate of taxation within the District is set by the Board based upon the valuation of property within the District as of January 1 and the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Under certain circumstances the Board may be required to advertise and hold a public hearing within the District on a proposed tax rate before the Board can hold a public meeting to vote on the tax rate. If the tax rate adopted exceeds by more than 8% the rate needed to pay debt service and certain contractual obligations and to produce, when applied to the property which was on the prior year's roll, the prior year's total taxes levied for purposes other than debt service and such contractual obligations, such portion of the levy in excess of 3% more than the above-described rate may be repealed at an election within the District held upon petition of 10% of the District's qualified voters.

Agricultural, Open Space, or Timberland Deferment

The Property Tax Code permits land designated for agricultural use or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an

unqualified owner, the District can collect "rollback" taxes based on the new use, in some cases, up to five years. A property owner may receive these special exemptions but waive such in particular taxing jurisdictions of the property owner's choice. Hence, a large landowner in a district could enjoy the benefit of the special exemptions with respect to county and school taxes without reducing his obligation to pay district property taxes. The waiver is effective for twenty-five (25) consecutive years, runs with the land and is binding on the owner who executed the waiver and any successor in interest. A governing body can revoke a waiver upon request by the property owner only upon finding that such revocation would not materially impair an obligation payable from property taxes.

As of January 1, 2018, approximately 8.0432 acres of land within the District had been designated for agricultural use, open space or timberland.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

The Property Tax Code establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Rollback of Operation and Maintenance Tax Rate

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent (8%). If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rates plus 1.08 times the previous year's operation and maintenance tax rate. However, debt service and contract tax rates cannot be changed by a rollback election.

Collection

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Directors of the District based upon the valuation of property within the District as of the preceding January 1. Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year. The date of the delinquency may be postponed by the District if the tax bills are mailed after September 30 (if the Board has authorized discounts for early payment) or otherwise after January 10. The Board may approve a discount for early payment of taxes. Delinquent taxes are subject to 6% penalty for the first month of delinquency, 1% for each month thereafter to August 1 and 12% total if any taxes are unpaid on August 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. In addition, in the instance in which the District must engage an attorney for collection of delinquent taxes, the Board may impose a further penalty not to exceed 15% on all taxes unpaid on August 1.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the person who owns the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year upon the property. The District's

tax lien is on a parity with the tax liens of the other local jurisdictions levying taxes on property within the District. Whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. In the absence of such federal law, a district's tax lien takes priority over a lien of the United States. In the event a taxpayer fails to make timely payment of taxes due a District, the District may file suit at any time after taxes become delinquent to foreclose its lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Property owners over 65 years of age may defer the payment of property taxes, or abate a suit for their collection, levied against their homesteads. The exercise of such deferrals or abatements could significantly delay the collection of property taxes by the District. See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments." Collection of delinquent taxes may also be adversely affected by the amount of taxes owed to other federal, state and local taxing jurisdictions, by the effects of market conditions on the foreclosure sales price, by the taxpayer's right to redeem the property within two years of foreclosure, or by bankruptcy proceedings which may delay the collection of a taxpayer's debts.

ASSESSMENT PROCEDURES

AN AMOUNT AT LEAST EQUAL TO ONE PERCENT (1%) OF THE ORIGINAL PRINCIPAL AMOUNT OF THE BONDS, TOGETHER WITH INTEREST THEREON, IS PAYABLE FROM AND SECURED BY A PLEDGE OF AND LIEN ON SPECIAL ASSESSMENT REVENUES LEVIED BY THE ISSUER ON BENEFITTED PROPERTY WITHIN THE IMPROVEMENT DISTRICT. THE FOLLOWING IS A SUMMARY OF CERTAIN PROCEDURES APPLICABLE TO THE SPECIAL ASSESSMENTS.

Levy of Special Assessments

By ordinances duly adopted and amended on May 6, 2013, August 18, 2014, and July 17, 2017 (collectively, the "Assessment Ordinance"), the Issuer has levied special assessments against all property (except road rights-of-way) located within the boundaries of the Improvement District (the "Special Assessments"). Pursuant to the Assessment Ordinance, the Issuer has levied the Special Assessments in the total amount of \$1,360,000 on the basis of the proportion of the value borne by each tract of land (without regard to any improvements thereon) within the Improvement District to the total value of property within the Improvement District, to be payable in full, at any time, or to be payable in annual installments as set forth in the Service/Assessment Plan and the Assessment Roll. The aggregate amount of Special Assessments assessed to pay a portion (not less than 1%) of the debt service on the Outstanding Bonds, the Bonds and any Additional Bonds, together with interest thereon, are payable in annual installments which have been established to correspond as nearly as practicable to the debt service on all Outstanding Bonds, the Bonds and any Additional Bonds. Installments of Special Assessments bear interest at a weighted average interest rate based upon the rate borne by the Outstanding Bonds and the Bonds, subject to adjustment based upon the rate borne by any Additional Bonds. Installments are due when billed and become delinquent on the following February.

Prepayment of Special Assessments

The owner of any property assessed may voluntarily prepay all or part of any Special Assessment levied against any lot or parcel, together with accrued interest to the date of payment, at any time. The Assessment Ordinance requires that each Special Assessment, together with interest accrued thereon, be prepaid in full at such time as the owner of the tract subject to the Special Assessment applies for a building permit to construct a structure on such tract.

Priority of Lien

The assessment or any reassessment, the expense of collection, and reasonable attorney's fees, if incurred, constitute a first and prior lien against the property assessed, superior to all other liens and claims except liens or claims for state, county, city, school districts, or other political subdivision (such as the District), ad valorem taxes, and are a personal liability of and charge against the owners of the property regardless of whether the owners are named. The lien is effective from the date of the Assessment Ordinance until the Special Assessment is paid, and may be enforced by the Issuer in the same manner as an ad valorem tax levied against real property may be enforced by the Issuer. The lien of the Special Assessment runs with the land and any installments of Special Assessments that have not yet come due are not eliminated by foreclosure of an ad valorem tax lien.

Covenant to Commence Foreclosure Proceedings

In the event of delinquency in the payment of any installment of an unpaid Special Assessment, the Issuer is empowered to order institution of an action in state district court to foreclose the lien of such delinquent Special Assessment. In such action the real property subject to the delinquent unpaid Special Assessment may be sold at judicial foreclosure sale for the amount of such delinquent installments, plus penalties and interest.

Pursuant to the provisions of the Trust Agreements, the Issuer has covenanted to determine or cause to be determined, no later than February 1 of each year, whether or not any installment or installments of Special Assessments are delinquent and, if such delinquencies exist, the Issuer has covenanted to order and cause to be commenced, or cause the Trustee to do so on behalf of the Issuer, on or before June 1, or immediately thereafter, and thereafter diligently prosecute an action in district court to foreclose the currently delinquent lien for the amount of any delinquent installment or installments of Special Assessments. See "APPENDIX C - SUMMARY OF THE TRUST AGREEMENTS."

To the extent it may legally do so, and taking into account the prior liens on assessed land for ad valorem taxes, the Issuer covenants that property will not be sold in a judicial foreclosure for less than the amount of a currently delinquent Special Assessment installment due on the property, including delinquent penalties, interest, and attorney fees, without the consent of the owners of a majority in principal amount of the Bonds, and any Additional Bonds. Any sale of property for nonpayment of an installment or installments of a Special Assessment shall be subject to the lien established for remaining unpaid installments of the Special Assessment against such property and such property may again be sold at a judicial foreclosure sale if the purchaser thereof fails to make timely payment of the nondelinquent installments of Special Assessments against such property as they become due and payable pursuant to the terms of the Assessment Ordinance and the Bond Ordinances.

Judicial foreclosure proceedings are not mandatory; however, the Issuer has covenanted to order and cause such actions to be commenced. In the event a foreclosure is necessary, there could be a delay in payments to owners of the Bonds pending prosecution of the foreclosure proceedings and receipt by the Issuer of the proceeds of the foreclosure sale. It is possible that no bid would be received at the foreclosure sale, and in such event there could be an additional delay in payment of the principal of and interest on Bonds or such payment may not be made in full. The Issuer is not required under any circumstance to purchase or make payment for the purchase of a delinquent account.

DISTRICT TAX DATA

Contract Tax

The Board of Directors of the District is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay amounts due to the Issuer under the Contracts, including principal of and interest on the Outstanding Bonds, the Bonds and any Additional Bonds payable from taxes which the Issuer may hereafter issue under the Contracts. The District agrees in the Contracts to levy such a tax from year to year as described more fully above under the caption "THE BONDS - Sources of Payment." The District expects to levy such a contract tax in 2017, in an amount, together with its maintenance tax, not to exceed \$1.00 per \$100 of assessed valuation.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements and operation of the District, if such maintenance tax is authorized by a vote of the District's electorate. Pursuant to an election held in the District on November 4, 2008, voters within the District authorized the Board to levy a maintenance tax unlimited as to rate or amount. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds, any Additional Bonds, and any other tax supported bonds which may be issued in the future. The District expects to levy a maintenance tax in 2019 in an amount, together with its contract tax, not to exceed \$1.00 per \$100 of assessed valuation.

Historical Values and Tax Collection History

The following statement of tax collections sets forth in condensed form the historical assessed valuation and tax collections of the District. Such summary has been prepared for inclusion herein based upon information obtained from District records. Reference is made to such records, including the District's annual audited financial statements, for more complete information. See "APPENDIX F - DISTRICT'S AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017."

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate(a)</u>	<u>Adjusted Levy</u>	<u>% Collections</u>	
				<u>Current & Prior Years(b)</u>	<u>Year Ending 9/30</u>
2014	49,737,955	1.00	497,380	100	2015
2015	51,918,515	1.00	519,185	100	2016
2016	97,906,911	1.00	979,069	100	2017
2017	101,272,336	1.00	1,012,723	100	2018
2018	131,096,354	1.00	1,310,964	(c)	2019

(a) Per \$100 of Assessed Valuation.

(b) Such percentages reflect cumulative total collections for each year from the time each respective annual tax was levied through December 30, 2018. The amount of tax collected for each levy on a current basis (by September 30 of the year following each respective levy) is not reflected in this statement.

(c) In process of collection.

Analysis of Tax Base

The following table illustrates the current composition of property located within the District during the past four years:

Type of Property	2018 Assessed Valuation	2017 Assessed Valuation	2016 Assessed Valuation	2015 Assessed Valuation
Land	\$87,754,071	\$75,526,174	\$55,712,102	\$52,685,512
Improvements	48,808,718	26,568,835	42,517,784	215,560
Personal Property	169,208	123,085	0	210
Exemptions and Cap	(2,635,643)	(845,748)	(322,975)	(982,557)
Total	\$131,096,354	\$101,272,336	\$97,905,911	51,918,725

Exemptions

To date, the Board has not granted any general residence homestead exemption or any exemptions for homesteads of those over sixty-five (65) years of age or disabled. It cannot be predicted what actions future boards may take regarding exemptions.

Principal Taxpayers

Based upon information supplied by the Appraisal District, the following table lists principal taxpayers within the District, type of property owned by such taxpayers, and the valuation of such property as of January 1, 2018. The information reflects the composition of the Appraisal District's record of property ownership as of January 1, 2018.

Taxpayer	Type of Property	2018 Assessed Valuation	As a Percentage of 2018 Assessed Valuation
BRECO Lands, CH, LLC	Real Estate	\$62,844,624	47.94%
Discovery CH LLC	Media and Entertainment	55,230,336	42.13%
CH PH 10A LLC	Real Estate	8,580,231	6.54%
SWC 121/423 LP	Commercial	3,102,918	2.37%
Texas Utilities Electric Co.	Electric Utility	1,066,580	0.81%
Brazos Electric Power Coop Inc.	Electric Utility	101,985	0.08%
Geneva Capital LLC	Commercial	90,155	0.07%
Donlen Trust	Trust	41,600	0.03%
VW Credit Inc.	Financial	18,304	0.01%
Canon Financial Services Inc.	Financial	<u>9,156</u>	<u>0.01%</u>
		<u>\$131,085,899</u>	99.99%

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Valuation which would be required to meet the maximum debt service requirements on the Bonds payable from Contract Revenues from the District if no growth in the District occurs beyond the 2018 Assessed Valuation (\$131,135,166) or the Estimated Assessed Valuation at January 1, 2019 (\$141,500,000). The calculations also assume collection of 95% of taxes levied, the sale of no Additional Bonds by the Issuer other than the Bonds, and no use of funds on hand. Debt service requirements have been calculated based upon the rate borne by the Bonds.

Average Annual Debt Service Requirements \$3,469,458
 Tax Rate of \$2.79 on the 2018 Assessed Valuation produces \$3,475,738
 Tax Rate of \$2.59 on the Estimated Assessed Valuation at January 1, 2019 produces \$3,481,608

Maximum Annual Debt Service Requirements \$3,537,000
 Tax Rate of \$2.84 on the 2018 Assessed Valuation produces \$3,538,027
 Tax Rate of \$2.64 on the Estimated Assessed Valuation at January 1, 2019 produces \$3,548,820

As the above indicates, a tax rate of \$1.00 per \$100 of Assessed Valuation will be insufficient to pay the District's share of either Average Annual or Maximum Debt Service Requirements on the Bonds unless taxable values in the District increase beyond the 2018 Assessed Valuation. Assessed values within the District would have to increase to approximately \$365,206,071 and \$372,315,789, respectively, in order for a tax rate of \$1.00 to be sufficient to pay the District's share of Average Annual Debt Service Requirements and Maximum Annual Debt Service Requirements on the Bonds. Any such increase in taxable values depends on the continuing construction and/or sale of residential and commercial projects and other taxable improvements within the District. See "TAX PROCEDURES" and "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments."

Estimated Overlapping Taxes

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all 2018 taxes levied upon property located within the District. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded debt of the District and of such other jurisdictions (see "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement for the District"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

<u>Taxing Jurisdictions</u>	<u>2018 Tax Rate Per \$100 of Assessed Valuation</u>
Lewisville Independent School District	\$1.4080
Denton County	0.226
The District	<u>1.0000</u>
 Total Overlapping Tax Rate	 \$2.6684

THE ISSUER

The City of Lewisville, Texas (the "Issuer") is a home rule city under the Constitution and laws of the State of Texas. The City, incorporated in 1925, is located in the southeastern portion of Denton County on Interstate Highway 35-E, 20 miles north of Dallas, 34 miles northeast of Fort Worth, 15 miles southeast of Denton and 8 miles north of Dallas-Fort Worth International Airport.

The individuals involved in the administration of the City as are follows:

Elected Officials

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Rudy Durham, Mayor	22 years	May, 2019	Chief Appraiser, Denton Central Appraisal District
Brandon Jones, Mayor Pro-Tem	1 year	May, 2020	Senior Internal Auditor, Dallas ISD
Bob Troyer, Deputy Mayor Pro-Tem	newly elected	May, 2019	Director of Customer Projects, Autosig Systems
R. Neil Ferguson, Councilman	5 years	May, 2020	Technology Consultant
T.J. Gilmore, Councilman	5 years	May, 2019	Public Sector Sales Manager. Waste Management
Brent Daniels	1 year	May, 2019	Owner and Manager, Bahama Buck's

Selected Administrative Staff

<u>Name</u>	<u>Position</u>	<u>Length of Service with City</u>
Donna Barron	City Manager	26 years
Brenda Martin	Director of Finance	10 years
Julie Worster	City Secretary	16 years
Lizbeth Plaster	City Attorney	11 years

THE DISTRICT

Authority

The District was originally part of a district (the "Original District") created as a fresh water supply district by the Commissioners Court of Denton County pursuant to Chapter 53, Texas Water Code and Article XVI, Section 59 of the Texas Constitution. The creation of the Original District was confirmed at an election held within the Original District on January 17, 1983, by a vote of 10 "For" to 0 "Against." On December 21, 1993, the Original District was converted to a water control and improvement district by actions of its Board of Directors, retaining certain powers under Chapter 53 of the Texas Water Code and operating under the provisions of Chapters 49 and 51, Texas Water Code. On May 6, 1995, pursuant to an election held within the Original District, the Original District was subdivided into Denton County Fresh Water Supply District No. 1-A ("District No. 1-A") and Denton County Fresh Water Supply District No. 1-B (the "District No. 1-B") by a vote of 5 "For" to 0 "Against". Thereafter, on August 9, 1997, the voters within District No. 1-A approved the subdivision of District No. 1-A into District No. 1-A and Denton County Fresh Water Supply District No. 1-C ("District No. 1-C") and on May 1, 1999, the voters within District No. 1-C approved the division of District No. 1-C into District No 1-C and Denton County Fresh Water Supply District No. 1-D ("District No. 1-D"). In addition, on May 1, 1999, voters within District No. 1-A approved the further

division of District No. 1-A into District No. 1-A and Denton County Fresh Water Supply District No. 1-E ("District No. 1-E"). Thereafter, on November 5, 2002, voters within District No. 1-A approved the further division of District No. 1-A into District No. 1-A and Denton County Fresh Water Supply District No. 1-F ("District No. 1-F"). In addition, on May 3, 2003, voters within District No. 1-A approved the further division of District No. 1-A into District No. 1-A and the District and on May 10, 2008, voters within District No. 1-A approved the further division of District No. 1-A into District No. 1-A and Denton County Fresh Water Supply District No. 1-G ("District No. 1-G"). District No. 1-A, District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District 1-F, District No. 1-G and the District, are referred to collectively herein as the "Districts." The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to water control and improvement districts, particularly Chapters 49 and 51, Texas Water Code, as amended. Pursuant to an election passed by a vote of 7 "For" and 0 "Against" on August 8, 1987, the Original District was authorized to exercise sanitary sewer powers and to assume the privileges and functions of a road district under Article III, Section 52 of the Texas Constitution. The principal functions of the District are to finance, construct, own, and operate waterworks, wastewater, drainage facilities, streets and roads and to provide such facilities and services to the customers of the District. If approved by the voters within the District, the TCEQ, and other governmental entities having jurisdiction, the District may establish, operate, and maintain a fire department, independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District. The District is subject to the continuing supervision of the TCEQ in certain matters.

Description

As a consequence of the subdivision of the Original District and subsequent additions and exclusions of land, District No. 1-A now contains approximately 1.659 acres and the District contains approximately 386.44 acres. The remainder of the land comprising the Castle Hills Project lies within District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, and District No. 1-G. The District is located approximately 25 miles from the central business district of Dallas, Texas in the southeastern portion of Denton County, Texas. The District lies entirely within the extraterritorial jurisdiction of the City of Lewisville. The District is located approximately 11 miles northeast of Dallas/Fort Worth International Airport. Highway 544 is located less than 1/4 mile to the north of the District, Josey Lane is located approximately 1/4 mile to the east of the District, and Hebron Parkway is located approximately 1/4 mile to the south of the District. The District is approximately 5 miles from Lake Lewisville, a 23,280 acre recreational lake adjacent to a 720 acre state park. In addition, the District is approximately two miles from the border of Legacy Business Park, which includes the corporate headquarters of J.C. Penney, Frito-Lay, Dr. Pepper, Beal Bank and other large corporate office complexes. The District lies within the Lewisville Independent School District. See "APPENDIX A - AERIAL PHOTOGRAPH."

Management of the District

The District is governed by the Board, consisting of five directors. The Board has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms, and elections are held within the District on the first Saturday in May in even-numbered years. The current members and officers of the Board, along with their respective terms of office, are listed below. Director Taylor resides in the District. All other Directors own property located in the District subject to separate notes and deeds of trust in favor of the Developer.

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ralph Hunter	President	May, 2020
Patti Brown	Vice President	May, 2022
Corwin Snow	Secretary	May, 2020
Michael Clark	Treasurer/Assistant Secretary	May, 2022
John Lessner	Assistant Secretary	May, 2020

The District does not have a general manager or any other employee, but has contracted, or expects to contract, for services as follows:

Tax Assessor/Collector - Land and improvements within the District are appraised for ad valorem taxation purposes by the Denton Central Appraisal District. The District contracts with the Denton County Tax Assessor-Collector to perform tax collection services for the District.

Bookkeeper - The District has contracted with District No. 1-A for bookkeeping services. District No. 1-A also provides such services for District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, and District No. 1-G.

Auditor - The District's financial statements for the fiscal year ended September 30, 2017, were audited by McCall Gibson Swedlund & Barfoot PLLC, Certified Public Accountants. See APPENDIX F for a copy of the District's September 30, 2017 audited financial statements.

Operations Manager - The District has contracted with District No. 1-A to manage and operate its facilities and bill and collect for the District's services. District No. 1-A currently employs approximately 30 persons, including 8 licensed operators, to carry out its functions.

Consulting Engineers - The District has employed the firm of LandDesign, Inc. Dallas, Texas as Consulting Engineer (the "Engineer") in connection with the design of the System.

Legal Counsel - The District has engaged Winstead PC, Dallas, Texas, as general counsel and as Bond Counsel in connection with the issuance of the Bonds. Such firm also acts as general counsel and Bond Counsel for District No. 1-A, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, and District No. 1-G. Payment to Bond Counsel by the Issuer of legal fees for services rendered in connection with the issuance of the Bonds is based upon a percentage of the Bonds actually issued and sold and therefore such fees are contingent on the issuance, sale and delivery of the Bonds. See "LEGAL MATTERS."

A pension plan has not been established by the District. The District has funded payroll costs to District No. 1-A. District No. 1-A handles pension provisions for its employees.

THE IMPROVEMENT DISTRICT

The Issuer has created and authorized the Improvement District in accordance with the provisions of Chapter 372 of the Texas Local Government Code (the "Improvement District Act"). The Improvement District Act authorizes municipalities to create public improvement districts within the boundaries or the extraterritorial jurisdiction of the municipality, and to levy assessments within the public improvement district to pay for certain improvements.

After receiving a petition signed by the requisite number of landowners, requesting the creation of a public improvement district, the Issuer published a notice as required by Chapter 372 of the Local Government Code and on May 6, 2013, after a hearing, adopted a resolution creating the Improvement District over the 386.44

acres contained within the District. On August 18, 2014, after published notice and a public hearing, the Issuer also adopted an ordinance approving the Assessment/Service Plan (the "Assessment/Service Plan").

The land within the Improvement District is located within the District. The Improvement District is not a political subdivision of the State of Texas and is governed by the governing body of the Issuer.

Authorized Public Improvements

The Issuer may undertake improvement projects and/or services that confer a special benefit on property located within the Improvement District as provided by the Improvement District Act. The Issuer may levy and collect Special Assessments on property in the Improvement District, payable in periodic installments based on the benefit conferred by the Improvement Project to pay all or part of the cost of improvement projects or services.

A public improvement project may include:

- (1) landscaping; the erection of fountains, distinctive lighting and signs; the acquiring, constructing, improving, widening, narrowing, closing or rerouting of sidewalks or of streets, any other roadways or their rights-of-way; acquisition, construction or improvement of water, wastewater or drainage facilities or improvements; acquisition, construction or improvement of libraries; the construction or improvement of pedestrian malls, the establishment or improvement of parks; the acquisition and installation of pieces of art; the acquisition, construction or improvement of off-street parking facilities; and the acquisition, construction improvement or rerouting of mass transportation facilities;
- (2) other improvements similar to those described in (1) above;
- (3) the acquisition, by purchase or otherwise, of real property in connection with an authorized improvement;
- (4) special supplemental services for improvement and promotion of the District, including advertising, promotion, health and sanitation, water and wastewater, public safety, security, business recruitment, development, recreation and cultural enhancements;
- (5) payment of expenses incurred in the establishment, administration and operation of the District; and
- (6) development, rehabilitation, or expansion of affordable housing.

Assessment/Service Plan

Pursuant to the Improvement District Act, the Assessment/Service Plan has been approved by the Issuer, setting forth a plan for services and activities to be provided in the Improvement District, and setting forth the plan for apportioning the cost of the improvements to be assessed against properties in the Improvement District and for payment of the assessments against exempt municipal property in the Improvement District. The improvements contemplated by the Assessment/Service Plan include:

1. Acquisition or construction of a water distribution system which benefits the Improvement District, connecting to the Upper Trinity Regional Water District's water supply system.

2. Acquisition or construction of a wastewater collection system which benefits the Improvement District, connecting to the Issuer's sanitary sewer collection and treatment system.
3. Acquisition or construction of a stormwater drainage system which benefits the Improvement District.
4. Acquisition or construction of streets or roadways and improvements thereto to provide access to and through all property within the Improvement District.

Under the Improvement District Act, the cost of the improvements may be assessed equally per square foot against all property within the Improvement District, or it may be assessed against property according to the value of the property as determined by the Issuer, with or without regard to structures or other improvements on the property, or it may be assessed on the basis of any other reasonable assessment plan that results in imposing equal shares of the cost on property similarly benefitted. The Issuer has elected to levy an assessment rate based on the valuation method, the proportion of value borne by each tract of land (without regard to any improvements thereon) within the Improvement District to the total value of property in the Improvement District.

The Assessment/Service Plan is updated annually pursuant to Chapter 372, Texas Local Government Code.

Preparing Assessment Roll and Notices

The Issuer has caused the Special Assessments against each parcel of land (except road rights-of-way) within the Improvement District to be determined in accordance with the provisions of the Assessment/Service Plan. The Issuer has also adopted an Assessment Roll. The Issuer has prepared an updated Assessment Roll in connection with the issuance of the Bonds. The update projects the annual indebtedness of the Improvement District and the current lien on property within the Improvement District. The Assessment Roll and all subsequent updates to the Assessment Roll have been filed with the City Secretary and are available for public inspection.

Assessments, Hearing, Levy and Payment

After published notice and public hearing, on May 6, 2013, the Issuer adopted an ordinance, as amended on August 18, 2014 and July 17, 2017 (collectively, the "Assessment Ordinance") levying the assessments as Special Assessments on the property and specifying the method of payment of the Special Assessments and providing that they be payable in periodic installments and shall continue for the number of years required to retire indebtedness or until the Special Assessments are prepaid in full, whichever occurs first.

Supplemental Assessments

After notice and hearing in the manner required for original assessments or as authorized by Section 372.020 of the Improvement District Act, the Issuer may make supplemental assessments to correct omissions or mistakes in the assessment relating to the total cost of the Authorized Improvements and/or services.

Ownership of Authorized Improvements

In accordance with the Improvement District Act, the Issuer has acquired and constructed, and will acquire the Authorized Improvements. All such Authorized Improvements, including the land and the facilities and infrastructure thereon, have been acquired and constructed and shall be acquired pursuant to the provisions of the Contracts. The Authorized Improvements will become facilities owned by the Issuer and will constitute a portion of the Issuer's infrastructure improvements.

Maintenance of Authorized Improvements

The Issuer will provide for the ongoing maintenance and repair of the Authorized Improvements constructed and conveyed, as outlined in the Assessment/Service Plan, from the date of receipt and acceptance of title to the Authorized Improvements. The cost of such maintenance and repair is required to be paid by the District pursuant to the Contracts.

DEVELOPMENT OF THE DISTRICT AND FUTURE DEVELOPMENT

Development of the District

Land within the District is expected to be developed for commercial mixed-use projects, single-family projects and multi-family projects. Proceeds of the Bonds will be used to pay the costs of acquiring and constructing certain water, sewer, and drainage facilities (the "Utility System") and certain streets and roads (the "Road System") (the Utility System and the Road System, collectively, the "System") to serve land within the District. Currently there are 423 units of multifamily housing constructed on 21 acres. An additional 312 multi-family units are expected to be constructed on approximately 8 acres, a 515,000 square foot mixed-use project is currently under development on approximately 10 acres, and 358 single-family lots are expected to be developed as Castle Hills, Phase 10, on 77 acres, of which 201 lots are currently under development as Castle Hills, Phase 10A. After such construction, there will remain approximately 184 undeveloped but developable acres within the District. It is expected that approximately 134 acres of such undeveloped acres will be developed as multi-family, 50 acres will be developed for mixed-use projects and an additional 5 acres will remain owned by Kroger Marketplace but developable in the future. The Developer is under no obligation to complete construction of the System if proceeds of the Bonds are insufficient for such purpose. See "RISK FACTORS - Construction Risks and Facilities Costs." Approximately 81 acres within the District are located within the easements, roads, parking, and power transmission and are not considered developable.

Builders

The Developer has entered into earnest money contracts with builders for construction of homes in Castle Hills, Phase 10A, consisting of 201 lots, as follows: Perry Homes - 38 lots, American Legend Homes (an entity related to the Developer) - 155 lots, and Shaddock Homes 8 lots.

Community Facilities

Community facilities available to the District and its general geographic area are set forth below:

Churches: There are no churches in the District, however, churches of most denominations are located in the immediate vicinity of the District.

Fire and Police Protection and Emergency Medical Services: Fire and police protection and emergency medical services are provided by the City, and a City fire station is located within the Castle Hills Project.

Medical Facilities: Baylor Medical Center is located approximately one mile from the District in the City of Carrollton.

Other Utilities: Electric and gas service are being provided by COSERV and its subsidiaries and telephone and cable service are provided by Grande Communications and Verizon.

Schools: Residents of the District attend Lewisville Independent School District which currently has three elementary schools located in or near the District. A middle school is located contiguous to the

western boundary of the Castle Hills Project. Lewisville Independent School District has acquired an additional middle school site approximately 1/4 mile from the District. Hebron High School is approximately 2 miles northeast of the District.

Shopping Facilities: Five grocery stores and several convenience centers are located within a 1/2 mile radius of the District. Lewisville Towne Crossing, 343,000 square feet of retail development, is located within District 1-F and Vista Ridge Mall, a regional shopping mall, is approximately 4 miles west of the District. In addition, The Shops at Willow Bend, a new regional mall, is located approximately 4 miles east of the District. Stonebriar Mall, a regional mall, is located approximately 5 1/2 miles northeast of the District. Located in District No. 1-D, Castle Hills Village Shops and Plaza Center consists of 65,000 sq. ft. of retail space (75% leased) and approximately 64,000 sq. ft. of office space (90% leased). Four phases of the Castle Hills Village Shops and Plaza Center are complete with one more planned at this location.

Future Development

After the construction of the portions of the Utility System and the Road System to be constructed with proceeds of the Bonds, there remains approximately 184 undeveloped but developable acreage within the District. It is expected that such acreage will be developed into commercial mixed use projects and multi-family projects. The instigation of construction of new taxable improvements will be dependent on several factors including, to a great extent, the general demand for housing and commercial projects in the Dallas/Fort Worth metropolitan area as well as the vicinity of the District and other economic conditions which would affect the Developer's or any other party's ability to sell lots and/or other property and of any home builder to sell completed homes or any commercial developer to construct above-ground improvements. See "RISK FACTORS."

THE CASTLE HILLS PROJECT

Description

The Districts are part of the master planned community known as Castle Hills (the "Castle Hills Project"). Castle Hills Project is a development of Bright Realty (hereinafter defined). See "THE DEVELOPER" below. Castle Hills Project consists of approximately 2,400 acres of land, approximately 386.44 acres of which are located within the District, approximately 1.659 acres which are located within the boundaries of District No. 1-A, 309.2 acres of which are located within District No. 1-B, 261.4 acres of which are located within District No. 1-C, approximately 490.69 acres of which are located within District No. 1-D, approximately 259.46 acres of which are located within the boundaries of District No. 1-E, approximately 259.46 acres are located within the boundaries of District No. 1-F, and 307.074 acres of which are located within District No. 1-G. According to the Developer, the ultimate land use within the Castle Hills Project is currently projected as follows: approximately 1,526 acres will be subdivided into approximately 4,300 single family lots, approximately 455 acres will be used for the development of commercial mixed-use projects, approximately 207 acres will be developed as multi-family communities, and approximately 212 acres have been developed as an 18 hole golf course and country club known as The Lakes at Castle Hills. Swimming and tennis facilities, drainage, easements, streets rights-of-way, utility easements, open space, lakes, parks and greenbelts are included in the single-family acreage.

Status of Development

As of December 1, 2018, a total of 4,029 lots on approximately 1,272 acres had been developed within the Castle Hills Project, with 201 lots under development on approximately 47 acres, and 3,906 homes were occupied. Also completed are 210 acres of commercial development, 212 acres for the 18-hole golf course and country club (The Lakes at Castle Hills), with swimming and tennis facilities and 67 acres of multifamily development.

Approximately 10 acres for commercial development, 8 acres for multi-family development, and 71 acres for single-family development are to be constructed on, while approximately 235 acres are available for commercial development and 140 acres are available for multifamily development. All of the current development within the Castle Hills Project has occurred within District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-G, and the District.

Funding for the improvements located within the District will be through the issuance of bonds by Lewisville Castle Hills Public Improvement District No. 6, funding for the improvements located within District No. 1-B has been through the issuance of bonds by Castle Hills Public Improvement District, funding for the improvements located within District No. 1-C will be funded through the issuance of bonds by Lewisville Castle Hills Public Improvement District No. 7, funding the improvements within District No. 1-D has been through the issuance of bonds by Lewisville Castle Hills Public Improvement District No. 2, funding for the improvements with District No. 1-E has been through the issuance of bonds by Lewisville Castle Hills Public Improvement District No.3, funding for the improvements within District No. 1-F will be through the issuance of bonds by Lewisville Castle Hills Public Improvement District No. 4, and funding for the improvements with District No.1-G is expected to be through the issuance of bonds by Lewisville Castle Hills Public Improvement District No. 5.

The Lakes at Castle Hills now operates as a private club facility, the ownership of which is retained in an entity related to the Developer. The Lakes at Castle Hills consists of an 18 hole championship golf course designed by Jay Morrish, along with an approximately 25,000 square foot clubhouse resort style pool, tennis facilities with a tennis pro shop, among other amenities.

Major roadways in or adjacent to the Castle Hills Project which have been completed are: (i) S.H. 121 Sam Rayburn Toll Road; (ii) FM 2281 (Old Denton Road); and (iii) extension of FM 423 (Josey Lane).

The information provided in this Section regarding the Castle Hills Project is provided to give prospective purchasers of the Bonds an overview of the Castle Hills Project, a portion of which is being developed within the District. The Bonds are special limited obligations of the Issuer secured only by the ad valorem taxes levied by and within the District and paid to the Issuer under the Contracts, and the Special Assessments levied by the Issuer on property within the District. Neither the faith and credit nor the taxing power of any other district that is a part of the Castle Hills Project is pledged to payment of the Outstanding Bonds, the Bonds, or any Additional Bonds.

THE DEVELOPER

Role of the Developer

In general, the activities of a developer in a development such as the District include purchasing the land within the Districts, designing the subdivision, designing the utilities and streets to be placed in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, sewer, and drainage facilities, as well as gas, telephone, and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. The relative success or failure of a developer to perform such activities in development of the property within a development may have a profound effect on the security of the bonds issued for development. A developer is generally under no obligation to a district to develop the property which its owns in a development. Furthermore, there is no restriction on the developer's right to sell any or all of the land which the developer owns within a development. In addition, a developer is ordinarily the major taxpayer within a development during the development phase of the property.

The Developer in the District

The developer of land within the Castle Hills Project and within the District is Bright Realty, LLC (together with certain predecessors and subsidiaries, collectively, "Bright Realty"), which is owned by certain members of the family of the late H.R. ("Bum") Bright and trusts for the benefit of such family members. Bright Realty is acquiring land in the District from a related company, BRECO Lands CH, LLC ("BRECO Lands") as dictated by development needs. Bright Realty and BRECO Lands are collectively referred to as the "Developer."

In addition to being former owners of the Dallas Cowboys football team, the Bright family has been active in real estate, oil & gas, banking, trucking and other areas of business both as an investor and a principal acting as owner/manager of operations.

Beginning in the early 1960's, entities owned by the Bright family built and acquired apartments, developed numerous mixed use subdivisions and built and operated a nursing home. Bright Realty and its predecessors substantially expanded its activities into office buildings and land development projects. A major component of its activities became fee management of distressed properties. Managing its own apartment properties was expanded into managing problem properties for various lending institutions, through Bright Realty's wholly owned subsidiary, Bright Management. At its height, Bright Management was managing real estate properties valued at over \$500 million. The types of properties managed ranged from small retail pad sites to apartment complexes, twenty-five office buildings, and numerous retail, warehouse and miscellaneous commercial buildings.

Bright Realty and its predecessors has been involved in land acquisition and real estate development for over 40 years. They have been involved as developer, builder and lender in numerous projects during that period of time. These projects have included:

Mixed Use Developments:

- 500 acre mixed use development in Arlington, Texas
- 250 acre mixed use development in DeSoto, Texas
- 200 acre mixed use development in Arlington, Texas

Apartment Complexes:

- 204 unit apartment complex in Arlington, Texas
- 300 unit apartment complex in Plano, Texas in Joint Venture with Seafield Capital
- 130 unit apartment complex in Fort Worth, Texas

Commercial Office Buildings:

- 143,000 s.f. office building in Dallas, Texas
- 160,000 s.f. office building in Dallas, Texas
- 50,000 s.f. office building in Dallas, Texas

Other Developments:

- 100 unit townhouse project in Plano, Texas with Seafield Capital
- 60 unit nursing home in Dallas, Texas
- 50,000 s.f. mixed use development in Lewisville, Texas

Prior to the commencement of the Castle Hills Project, the Developer had no prior experience in the development of single-family subdivisions. The Issuer cautions that the prior development experience described above was, in some instances, undertaken during market conditions which existed in the past and in different geographical locations than the Issuer. Consequently, the prior land development experience of the Developer is no assurance that the development program in the District will be successful.

Developer Principals

Chris Bright (65), Partner. Chris Bright oversees Bright Realty and its parent company Bright Industries. Dallas based Bright Industries includes real estate development (Castle Hills), home building operations (American Legend Homes, Belclaire Homes, Avanti Custom Homes), real estate marketing (Bright Marketing, LLC), hospitality, club and golf operations (The Lakes at Castle Hills) and corporate hospitality (TresMil, LLC). Mr. Bright is a Dallas native who was born and raised in Highland Park. He holds a B.A. from the University of Dallas. He began his career with STM Mortgage Company, where he supervised STM's real estate construction lending operations as well as its commercial loan placement and underwriting. He has served as Vice President of operations for Bright Management. Mr. Bright is active in several Dallas charitable and civic organizations and serves on the board of directors for the University of Dallas, A Weekend to Wipe Out Cancer, Big Brothers Big Sisters of North Texas and the McKinney Avenue Trolley Association. He also serves on the boards of Bright Industries, Bright Realty, Bright & Co. Marketing and American Legend Homes.

Clay Bright (63), Partner. Clay Bright is a member of Bright Realty's Board of Managers, he also oversees Bright Industries. As president of Bright Industries, Mr. Bright oversees real estate investing, commercial banking, mortgage banking, insurance and home building, and farming and ranching operations, with a focus on operational structure, asset and cash management, strategic planning, tax optimization, safety and soundness. Mr. Bright holds a B.S. in Industrial Distribution from Texas A&M University. He serves on the board of directors for Bright Industries and American Legend Homes. He is involved in local charitable organizations and serves on the board of directors for the Easterwood Foundation and previously on the board of Association of Former Students of Texas A&M University. He has also been actively involved in Boy Scouts of America.

Financing

Land within the District was originally acquired with equity provided by a predecessor entity to the Developer. The Developer is financing its development of land in the District by a variety of lenders. A portion of the land is collateral for a 25% land loan with Frontier State Bank. Realm 1A is financed through developer cash equity, developer land contribution, Canyon Partners preferred Equity and Senior debt from Simmons Bank. The lot development is financed by developer cash equity, developer land contribution and senior debt from Texas Capital Bank. The finished Discovery 1 project is financed through FNMA. The future projects will essentially follow the capital stack format with Realm 1B being financed with developer land, developer cash equity Preferred Equity from Canyon Partners and senior debt from BB&T. A portion of the land within the District is a portion of the collateral for a third-party loan obtained by the Developer in connection with a change in ownership of the Developer in 2007. Such loan is now with Frontier State Bank and is scheduled to mature on _____, _____. As of January 1, 2019, such loan had a principal balance due of \$_____. According to the Developer, the Developer is in compliance with the provisions of all such loans.

Certain financial information with respect to Bright Realty is included in APPENDIX G hereto. Bright Realty is not responsible for, liable for, and has not made any commitment for payment of the Bonds or other obligations of the District or the Issuer. Bright Realty has no legal commitment to the District, the Issuer, or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, Bright Realty's financial condition is subject to change at any time.

THE UTILITY SYSTEM

Regulation

According to the District's Engineer, water supply and distribution, wastewater collection, and storm drainage facilities and streets and roads (collectively, the "Utility System") to serve the Castle Hills Project were and will be designed in accordance with accepted engineering practices and the current requirements of various agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction of the Utility System is required to be accomplished in accordance with the standards and specifications of such entities and are subject to inspection by each such entity. Operation of the Utility System must be accomplished in accordance with the standards and requirements of such entities. TCEQ exercises continuing supervisory authority over the District. Collection and transmission of the sewage to the City of Lewisville, Texas (the "City") plant and subsequent treatment and discharge is all subject to the regulatory authority of TCEQ and the U.S. Environmental Protection Agency. Construction of drainage facilities is subject to regulation by Denton County and, in some instances, the TCEQ. Denton County, the TCEQ, and the City also exercise certain regulatory jurisdiction over the Utility System. The regulations and requirements of entities exercising regulatory jurisdiction over the Utility System are subject to further development and revision which, in turn, could require additional expenditures in order to achieve compliance. In particular, additional or revised requirements in connection with any permit wastewater collection and transmission system beyond the criteria existing at the time of construction of the Utility System could result in the need to construct additional facilities in the future. The following descriptions are based upon information supplied by the District's Engineer.

Water and Sanitary Sewer System

Water Supply Facilities: There are multiple sources of water to serve the Castle Hills Project. It is served by the Upper Trinity Regional Water District which delivers to a site immediately south of FM 544, in the vicinity of the Texas Utility transmission lines, treated water at an average daily rate in excess of 14,000,000 gallons per day upon build out and a presently contracted amount of 2,700,000 gallons per day. In addition, the City of Lewisville provides water to serve the District, at an average daily rate of 4,500,000 gallons per day upon build out and a presently contracted amount of 300,000 gallons per day. The System currently has a pumping capacity of 8,000 gallons per minute, with current ground storage of 1,500,000 gallons, and with elevated storage of 1,500,000 gallons. This system will be adequate for the current and future service to approximately 3,500 single family equivalent connections. In addition to the foregoing, District No. 1-A has an emergency water interconnect with the City of Lewisville and Dallas Water Utilities.

Wastewater Treatment Facilities: Wastewater treatment is provided by the City. A wastewater treatment agreement has been reached among District No. 1-A, District No. 1-B, the Developer and the City by which the City agrees to provide sewage treatment capacity to District No. 1-B and District No. 1-A up to a maximum average of 10,500,000 g.p.d., or approximately 52,500 single-family equivalent connections. In turn, District No. 1-A and District No. 1-B make sewage treatment capacity available to the District out of such capacity.

Drainage Facilities

Drainage facilities to serve the developed areas within the District and a portion of the remaining developable acreage have been designed to outfall into Indian Creek, which traverses the Castle Hills Project and outfalls into the Elm Fork of the Trinity River approximately two miles from the District.

100-Year Flood Plain

According to the Engineer, the Federal Emergency Management Agency ("FEMA") Flood Insurance Rate Map effective April 18, 2011, which covers land located within the District, indicates that approximately 19 acres of land in the District is within the 100-year floodplain designation.

PURCHASE OF THE BONDS

Raymond James & Associates, Inc., as Placement Agent (the "Placement Agent") has agreed to use its best efforts to place the Bonds with purchasers who are both (i) "Qualified Institutional Buyers" within the meaning of Rule 144A of the United States Securities and Exchange Commission (the "SEC") and (ii) "Institutional Investors" within the meaning of applicable state securities laws (collectively, the "Purchasers") pursuant to a Bond Placement Agreement (the "Bond Placement Agreement") with the Issuer at a price equal to the principal amount thereof. See "USE OF PROCEEDS." The Bond Placement Agreement provides, among other things, that the Purchaser's obligation to make such purchase is subject to the terms and conditions of the Bond Placement Agreement, including approval of certain legal matters by counsel to the Purchaser. For its services as Placement Agent, the Placement Agent is to receive a fee of \$_____, payable from proceeds of the Bonds.

The Placement Agent has provided the following sentence for inclusion in this Limited Offering Memorandum. The Placement Agent has reviewed the information in this Limited Offering Memorandum in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Placement Agent does not guarantee the accuracy or completeness of such information.

LEGAL MATTERS

Legal Opinions

The Issuer will furnish the Purchaser a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the Issuer. The Issuer will also furnish the legal opinion of Winstead PC, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the Issuer under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, together with interest thereon, are payable from and secured by a pledge of and lien on (i) the Special Assessment Revenues and (ii) the Contract Revenues to be paid by the District pursuant to the Contracts from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property located within the District. Bond Counsel's opinion will also address the matters described below under the caption "TAX EXEMPTION." A copy of the opinion of Bond Counsel is attached hereto as "APPENDIX E." Bond Counsel's fees for services rendered with respect to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds. Bond Counsel acts as counsel for the District on matters other than the issuance of Bonds.

In its capacity as Bond Counsel, Winstead PC, has reviewed the information appearing in this Limited Offering Memorandum under the captions "THE BONDS" (excluding the subsection entitled "Book-Entry-Only System"), "THE ISSUER," "THE DISTRICT," "THE IMPROVEMENT DISTRICT," "TAX PROCEDURES," "ASSESSMENT PROCEDURES," "LEGAL MATTERS," "TAX EXEMPTION," "CONTINUING DISCLOSURE OF INFORMATION" (excluding the subsection entitled "Compliance with Prior Undertakings"), "APPENDIX B - DEFINITIONS," "APPENDIX C - SUMMARY OF TRUST AGREEMENTS" "APPENDIX D - SUMMARY OF THE CONTRACTS," and "APPENDIX E - FORM OF BOND COUNSEL OPINION" solely to determine whether such information fairly summarizes the procedures, law and documents referred to

therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Limited Offering Memorandum, nor has Bond Counsel conducted an investigation of the affairs of the Issuer or the District for the purpose of passing upon the accuracy or completeness of the information contained in this Limited Offering Memorandum. Certain legal matters will be passed upon for the Placement Agent by its counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

No Arbitrage

The Issuer will certify on the date the Bonds are delivered and paid for that based upon all facts and estimates now known or reasonably expected to be in existence, the Issuer reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986 (the "Code") and the regulations prescribed from time to time thereunder. Furthermore, all officers, employees and agents of the Issuer have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the Issuer as of the date the Bonds are delivered and paid for. In particular, all or any officers of the Issuer have been authorized to certify to the facts, circumstances and reasonable expectations of the Issuer on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the Issuer will covenant in the Bond Ordinances that it will make such use of the proceeds of the Bonds, regulate investments of proceeds of the Bonds and take such other and further actions and follow such procedures, including without limitation, calculation of the yield on the Bonds, as may be required so that the Bonds will not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

No-Litigation Certificate

The Issuer and the District will furnish to the Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both their authorized officers, to the effect that no litigation of any nature has been filed or is then pending or threatened, of which either has notice, either in state or federal courts, contesting or attacking the Bonds; to restrain or enjoin the issuance, execution or delivery of the Bonds; which would affect the provisions made for the payment of or security for the Bonds; which would in any manner question the authority or proceedings for the issuance, execution, or delivery of the Bonds; or which would affect the validity of the Bonds.

No Material Adverse Change

The agreement of the Purchaser to purchase the Bonds pursuant to the Bond Placement Agreement, and the obligation of the Issuer to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the financial condition of the Issuer or the District from that set forth or contemplated in the Preliminary Limited Offering Memorandum, as it may have been supplemented or amended, through the date of sale of the Bonds.

TAX EXEMPTION

The delivery of the Bonds is subject to the opinion of Winstead PC, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be a specific preference item for purposes of the federal alternative minimum tax. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the Issuer pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Bond Ordinances by the Issuer subsequent to the issuance of the Bonds. The Bond Ordinances and Trust Agreements contain covenants by the Issuer with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Law Changes

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent owners of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to obligations issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability, or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives, or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any

date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives, or litigation.

Ancillary Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, taxpayers qualifying for health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium Bonds

The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium

Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

SOURCES OF INFORMATION

General

The information contained in this Limited Offering Memorandum has been obtained primarily from the Issuer's and the District's records, the District's Engineer, District No. 1-A, the Developer, the Denton Central Appraisal District and other sources believed to be reliable; however, no representation is made by the Issuer or the District as to the accuracy or completeness of the information contained herein, except as described below under "Certification of Limited Offering Memorandum." The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Limited Offering Memorandum or any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the Issuer described herein since the date hereof. This Limited Offering Memorandum contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized. The summaries of the statutes, resolutions and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

Experts

The information contained in this Limited Offering Memorandum relating to engineering, to the description of the System generally and, in particular, the engineering information included in the sections captioned "THE ISSUER," "DEVELOPMENT OF THE DISTRICT AND FUTURE DEVELOPMENT," "THE CASTLE HILLS PROJECT," and "THE SYSTEM" has been provided by LandDesign, Inc. Such information has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in this Limited Offering Memorandum relating to assessed valuations of property generally and, in particular, that information concerning valuations contained in the sections captioned "DISTRICT TAX DATA" and "DISTRICT DEBT" has been provided by the Denton Central Appraisal District.

The audited financial statements of the District for the year ended September 30, 2017, included in APPENDIX F hereto, were prepared by McCall Gibson Swedlund & Barfoot PLLC, Certified Public Accountants, which has consented to the publication of such financial statements in this Limited Offering Memorandum.

Certification of Limited Offering Memorandum

At the time of payment for and delivery of the Bonds, the Issuer will furnish the Purchaser a certificate, executed by the Mayor and City Secretary, acting in their official capacities, to the effect that to their knowledge and belief (a) the information, descriptions and statements of or pertaining to the Issuer contained in this Limited Offering Memorandum, on the date thereof and on the date of delivery were and are true and correct in all material respects; (b) insofar as the Issuer and its affairs, including its financial affairs, are concerned, this Limited Offering Memorandum did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data contained in this Limited Offering Memorandum, of or pertaining to entities other than

the Issuer and their activities are concerned, such statements and data have been obtained from sources which the Issuer believes to be reliable and that the Issuer has no reason to believe are untrue in any material respect or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; however, the Issuer has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the Issuer.

At the time of payment for and delivery of the Bonds, the District will furnish the Purchaser a certificate, executed by the President and Secretary of the Board of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief (a) the information, descriptions and statements of or pertaining to the District contained in this Limited Offering Memorandum, on the date thereof and on the date of delivery were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, this Limited Offering Memorandum did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data contained in this Limited Offering Memorandum, of or pertaining to entities other than the District and its activities are concerned, such statements and data have been obtained from sources which the District believes to be reliable and that the District has no reason to believe are untrue in any material respect or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading; however, the District has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District.

Continuing Availability of Financial Information

Pursuant to Texas law, the District will have its financial statements prepared in accordance with generally accepted accounting principles, and will have its financial statements audited by a certified public accountant in accordance with generally accepted auditing standards within 120 days after the close of its fiscal year. The District audit report is filed with the TCEQ within 135 days after the close of its fiscal year. Copies of each audit report are also filed in the office of the District.

The District's financial records and audit reports are available for public inspection during regular business hours at the office of the District and copies will be provided on written request, to the extent permitted by law, upon payment of copying charges. Request for copies should be addressed to the District in care of Bond Counsel.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Limited Offering Memorandum, and in any other information provided by the Issuer, the District, or the Developer that are not purely historical, are forward-looking statements, including statements regarding the Issuer's, the District's or the Developer's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Limited Offering Memorandum are based on information available on the date hereof, and none of the Issuer, the District or the Developer assumes any obligation to update any such forward-looking statements. The actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgements with respect to, among other things, future economic, competitive, and market conditions

and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Issuer, the District, or the Developer, as the case may be. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Limited Offering Memorandum will prove to be accurate.

CONTINUING DISCLOSURE OF INFORMATION

The Issuer has, in the Trust Agreements, undertaken (the "Undertaking") for the benefit of the owners and beneficial owners of the Bonds, to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system. In order to obtain from the District the information necessary for the Issuer to comply with the Undertaking, the Issuer has entered into an "Agreement to Provide Certain Information" with the District pursuant to which the District has agreed to provide such information concerning the District and the Developer. The District has entered into a "Continuing Disclosure Agreement" with the Developer pursuant to which the Developer has agreed to provide such information. The Issuer is required to observe the Undertaking for so long as it is obligated to advance funds to pay the Bonds.

Annual Reports

The Issuer shall provide, or cause to be provided, annually to the MSRB, in an electronic format as prescribed by the MSRB, within six months after the end of each fiscal year of the District ending in or after 2019, financial information and operating data with respect to the District of the general type included in the final Limited Offering Memorandum under the headings "DISTRICT DEBT," "DISTRICT TAX DATA, and in APPENDIX F hereto (District's Audited Financial Statements). The Issuer may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in the Bond Ordinances or Trust Agreements, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the Issuer shall provide, or cause to be provided, unaudited financial information concerning the District by the required time, and shall provide, or cause to be provided, audited financial statements of the District for the applicable fiscal year to the MSRB, when and if the audit report on such statements become available.

In addition, the Issuer has agreed to provide financial information with respect to the Developer, any person or entity to whom the Developer voluntarily assigns (except as collateral) the right to receive a payment out of the proceeds from the sale of the bonds of the Issuer, and each other person or entity, if any, to whom the Issuer voluntarily makes or agrees or has agreed to make a payment out of such proceeds of the general type. The Issuer will be obligated to provide information concerning the Developer and any such other person or entity only if and so long as (1) such person owns more than 20% of the taxable property within the Issuer by value, as reflected by the most recently certified tax rolls (and without effect to special valuation provisions), (2) such person has made tax or other payments to the Issuer which were used or available to pay more than 20% of the Issuer's debt service requirements in the applicable fiscal year of the Issuer, or (3) at the end of such fiscal year of the Issuer such person is obligated to the Issuer to provide or pay for Issuer facilities in an amount which exceeds 20% of the construction costs of said facilities to be financed with proceeds of the Bonds or any future bonds. The financial information to be provided with respect to the Developer is information of the type described in APPENDIX G hereto.

In addition, in the event of foreclosure of any mortgage lien deed of trust or bankruptcy foreclosure sale with respect to the Developer's property within the District, the Developer's continuing disclosure obligations may be discharged and no information with respect to the Developer would be filed thereafter.

If the District changes its fiscal year, the Issuer will notify the MSRB, or cause the MSRB to be notified, of the change (and of the date of the new fiscal year end) prior to the next date by which the Issuer otherwise would be required to provide financial information and operating data pursuant to this Section. All documents provided to the MSRB pursuant to this Section shall be accompanied by identifying information as prescribed by the MSRB.

Event Notices

Notice of Occurrence of Certain Events, Whether or Not Material . The Issuer will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Bonds, without regard to whether such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person. (Neither the Bonds nor the Bond Ordinances make any provision for credit enhancement - unless a municipal bond insurance policy is obtained - or liquidity enhancement.)

Notice of Occurrence of Certain Events, If Material. The Issuer also will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of holders; (3) redemption calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

Notice of Failure to Timely File. The Issuer also will notify the MSRB through EMMA, in a timely manner, of any failure by the Issuer to provide financial information or operating data in accordance with the provisions described above.

Availability of Information

The Issuer has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through the EMMA internet portal at www.emma.msrb.org.

Limitations, Disclaimers, and Amendments

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

The Issuer may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Issuer or the District, if but only if the agreement, as amended, would have permitted a purchaser to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the Issuer (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The Issuer may amend or repeal the agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Purchaser from lawfully purchasing the Bonds. If the Issuer so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

The Issuer has entered into certain undertakings under SEC Rule 15c2-12 with respect to obligations issued by the Issuer for the benefit of Castle Hills Public Improvement District Nos. 2, 3, 4, 5, 6 and 7, the security for which include payments made by Denton County Fresh Water Supply Districts Nos. 1-B, 1-D, 1-E, 1-F, 1-G, 1-H, and 1-C, respectively (collectively, the "Castle Hills Districts"). In those undertakings, the Issuer undertook to provide, or cause to be provided, certain financial and operating information relating to the Castle Hills Districts. In turn, the Castle Hills Districts entered into agreements with the Issuer agreeing to provide to the Issuer such financial and operating information as well as to give notice of any events described above under "Event Notices." During the last five years, the Issuer and the Castle Hills Districts have been in compliance in all material respect with such undertakings and agreements except as follows:

The audits of District Nos. 1-C, 1-H, and 1-G, for the fiscal year ended 9/30/14 were filed late with unaudited financial statements being filed on 7/16/15, together with a notice of late filing, and audited financial statements being filed on 9/01/15.

The underlying rating on District No. 1-D was upgraded by S&P on 4/21/15 from BBB+ to A- but notice of such upgrade was not timely filed. Such filing has now been made.

This Limited Offering Memorandum is duly approved by the Governing Body of the Issuer and the Board of Directors of the District as of the date specified on the first page hereof.

CITY OF LEWISVILLE, TEXAS

/s/ _____
Mayor

ATTEST:

/s/ _____
City Secretary

**DENTON COUNTY FRESH WATER SUPPLY
DISTRICT NO. 1-H**

/s/ _____
President, Board of Directors

ATTEST:

/s/ _____
Secretary, Board of Directors

APPENDIX A
AERIAL PHOTOGRAPH
(January 15, 2019)

SEE ATTACHED



APPENDIX B

DEFINITIONS

The following words and terms, whenever the same appear in the Bond Ordinances, the Trust Agreements or the Contracts without qualifying language, and, unless otherwise defined herein, in this Limited Offering Memorandum, are defined to have the meanings set out below, unless the context requires a different interpretation:

Act - means, collectively, the Public Improvement District Assessment Act, as amended, Texas Local Government Code, Chapter 372, as amended.

Additional Bonds - means the additional parity bonds payable from Special Assessment Revenues and payable from Contract Payments in accordance with the Contracts which the Issuer reserved the right to issue in the Trust Agreements.

Administrative Expense Fund - means the fund established in the Trust Agreements.

"Assessed Value" means, as determined by the Denton Central Appraisal District, the greater of (I) the total assessed valuation certified by the Appraisal District or (ii) the most recent preliminary total assessed valuation certified by the Appraisal District.

Assessment Ordinance - means, collectively, the Ordinances adopted by the governing body of the Issuer on May 6, 2013, August 18, 2014, and July 17, 2017, and any amendment or supplement thereto that may be hereafter adopted by the governing body of the Issuer, levying annual Special Assessments to pay the Debt Service Requirements on the Bonds against each eligible parcel of land in the P.I.D. and providing that such Special Assessments together with the Contract Revenues received from the Districts in accordance with the Contracts be paid in periodic installments in amounts necessary to pay the Debt Service Requirements on the Bonds.

Assessment Roll - means the Assessment Roll which is attached to the Assessment/Service Plan as Exhibit "A" to the Assessment Ordinance as amended from time to time in accordance with the Act, which shows, among other things, the properties within the P.I.D. subject to Special Assessments, the amount assessed, and the installment payments on the Special Assessments.

Assessment/Service Plan - means the Assessment/Service Plan prepared in accordance with the Act and approved by the governing body of the Issuer, as part of the Assessment Ordinance, setting for the plan for services and activities to be provided in the P.I.D. and setting for the plan for apportioning the cost of the improvements to be assessed against properties in the P.I.D.

Authorized Expenditures - means the expenditures made for facilities and improvements set forth in Exhibit "A" to the Trust Agreements, but shall not include: (i) any part of the water or sewer system of the City of Lewisville, secured under the outstanding obligations of the City of Lewisville; or (ii) certain facilities which, while owned by the Issuer, are constructed or acquired to perform certain contracts between the Issuer and other entities, including private corporations, municipalities and political subdivisions and are financed by the proceeds of the Issuer's revenue bonds issued particularly to finance facilities needed to perform such contract.

Authorized Improvements - means those improvements acquired with Authorized Expenditures.

Authorized or Permitted Investments - means any investment authorized by the Public Funds Investment Act, Chapter 2256, Texas Government Code.

Bankruptcy or Insolvency of a Person - means commencement by a Person of any voluntary case under any applicable bankruptcy, insolvency or similar law now or hereafter in effect, or any consent by the Issuer to the appointment of or taking of possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of a Person or any substantial part of its property, or any general assignment by the Issuer for the benefit of creditors, or failure by a Person generally to pay its debts as they become due.

Bondholder Representative - means, collectively, the Series 2019 Road Bonds Bondholder Representative and the Series 2019 Utility Bonds Bondholder Representative.

Bond Ordinances - means the City of Lewisville ordinances, adopted on January 28, 2019, authorizing the issuance of the Bonds.

Bonds - means, collectively, the Utility Bonds and the Road Bonds authorized by the Bond Ordinances and issued in accordance with the Trust Agreements.

Business Day - means any day which is not a Saturday, Sunday, or a day on which the Trustee is authorized by law or executive order to close, or a legal holiday.

Cede & Co. - means the nominee of DTC in whose name the initial Bonds are to be registered.

City - means the City of Lewisville, Texas, a home rule city organized and operating under Article XI, Section 5 of the Constitution of the State of Texas.

Closing Date - means the date of physical delivery of the initial Bonds for payment in full by the Placement Agent.

Code - means the Internal Revenue Code of 1986, as amended.

Collection Fund - means the fund established in Section 4.1 of the Trust Agreements.

Comptroller - means the Comptroller of Public Accounts of the State of Texas.

Contracts - means, collectively, the Joint Utility Contract and the Joint Road Contract.

Contract Payments or District Contract Payments - means the payments required to be made by the District under the Contracts.

Contract Revenues - means the revenue paid to the Issuer by the District in accordance with the provisions of the Contracts.

Debt Service Requirements - means, as of any particular date of computation, with respect to any Parity Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside from the Interest and Sinking Fund by the Trustee on behalf of the Issuer as of such date or in such period for the payment of the Principal Installment, redemption premium, if any, and interest (to the extent not capitalized) on such Parity Bonds.

Debt Service Reserve Amount - means the lesser of (i) 10% of the principal amount of the Outstanding Bonds, the Bonds, and any Additional Bonds, (ii) the maximum annual debt service requirement of the Outstanding Bonds, the Bonds, and any Additional Bonds, and (iii) 125% of the average annual debt service of the Outstanding Bonds, the Bonds, and any Additional Bonds.

Debt Service Reserve Funds - means the funds so designated and established to Section 4.5 of the Trust Agreements.

District - means Denton County Fresh Water Supply District No. 1-H.

Districts - means, collectively, Denton County Fresh Water Supply District No. 1-A and the District.

DTC - means The Depository Trust Company, New York, New York.

Electronic Means - means telecopy, email, or facsimile transmission or other similar means of communication approved in writing by the Trustee.

EMMA - means the Electronic Municipal Market Access system, a service of the MSRB.

Event of Default - means those events of default provided for in the Trust Agreements.

Fiscal Year - means the twelve (12) month accounting period used by the Issuer which currently ends on September 30, the Fiscal Year may be any twelve (12) consecutive month period established by the Issuer.

Foreclosure Proceeds - means the amounts received from the judicial sale of assessed property within the P.I.D. as a result of the nonpayment of Special Assessments.

Funds - means the Collection Fund, the Interest and Sinking Fund, the Administrative Expense Fund, the Prepayment Fund, the Utility Improvement Fund, the Road Improvement Fund, the Debt Service Reserve Fund, the Special Assessments Prepayment Fund, and the Redemption Fund, but not including the Rebate Fund, created by the Trust Agreements and any accounts in such Funds or Subaccounts.

Governing Body - means the City Council of the City of Lewisville, Texas.

Improvement Funds - means the funds established in the Trust Agreements.

Interest and Sinking Fund - means the interest and sinking fund and accounts created or confirmed in the Trust Agreements.

Interest Payment Date - when used in connection with any Bond, means September 1, 2019, and each March 1 and September 1 thereafter until maturity or prior redemption.

Investment Grade Rating - means a rating on the Bonds, assigned by a Rating Agency in one of such Rating Agency's four highest categories for long-term debt instruments (without regard for gradation within a rating category and without regard for credit enhancement unless such credit enhancement extends through the final maturity date of the Bonds) or otherwise designated as investment grade by a Rating Agency.

Issue Date - means the Closing Date.

Issuer - means the City of Lewisville, Texas, a home rule city organized and operating pursuant to Article XI, Section 5 of the Constitution of the State of Texas.

Joint Road Contract - means that certain 2008 Joint Road Contract, dated as of August 18, 2014, as amended by an Amended 2015 Joint Road Contract, dated as of August 7, 2017, by and among the District, District No. 1-A and the Issuer.

Joint Utility Contract - means that certain 2008 Joint Utility Contract, dated as of August 18, 2014, as amended by an Amended 2015 Joint Utility Contract, dated as of August 7, 2017, by and among the District, District No. 1-A and the Issuer.

Maturity Date - means the date or dates on which principal of the Bonds is scheduled to be paid, as provided in the Bond Ordinance.

MSRB - means the Municipal Securities Rulemaking Board.

Outstanding - as of the date of determination, all Bonds theretofore issued and delivered under the Trust Agreements, except: (i) Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancellation; (ii) Bonds for whose purchase, payment or redemption money in the necessary amount has been theretofore deposited in an account, other than the Collection Fund with the Trustee in trust for the holders of such Bond; (iii) Bonds in exchange for or in lieu of which other Bonds have been registered and delivered pursuant to the Trust Agreements; and (iv) Bonds alleged to have been mutilated, destroyed, lost or stolen which have been paid as provided in the Trust Agreements.

Outstanding Bonds - means the Outstanding Bonds of those issues of City of Lewisville, Texas Combination Contract Revenue and Special Assessment Utility System Bonds, Series 2014 (Lewisville Castle Hills Public Improvement District No. 6 Project), City of Lewisville, Texas Combination Contract Revenue and Special Assessment Road System Bonds, Series 2014 (Lewisville Castle Hills Public Improvement District No. 6 Project), City of Lewisville, Texas Combination Contract Revenue and Special Assessment Utility System Bonds, Series 2017 (Lewisville Castle Hills Public Improvement District No. 6 Project), and City of Lewisville, Texas Combination Contract Revenue and Special Assessment Road System Bonds, Series 2017 (Lewisville Castle Hills Public Improvement District No. 6 Project).

Owner or Registered Owner - means the Person or entity who is the registered owner of any Outstanding Bond.

Paying Agent/Registrar - means the entity serving as the Trustee when serving as Paying Agent/Registrar.

Person or Person - mean any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof or any other entity recognized by the laws of the State of Texas.

Placement Agent - means Raymond James & Associates, Inc.

Prepayments - means amounts received as a result of the payment, more than 6 months in advance of the due date thereof, of Special Assessments or Contract Revenues.

Principal Installment - means as of any particular date of computation and with respect to the Bonds, an amount of money equal to the aggregate of (a) the principal amount of Outstanding Parity Bonds of said series which mature on a single future date, reduced by the aggregate principal amount of such Outstanding Parity Bonds, which would at or before said future date be retired by reason of the payment when due and application in

accordance with the Bond Ordinances of Sinking Fund Payments payable at or before said future date for the retirement of such Outstanding Parity Bonds, plus (b) the amount of any Sinking Fund Payment payable on said future date for the retirement of any Outstanding Parity Bonds of said series, and said future date is deemed to be the date when such Principal Installment is payable and the date of such Principal Installment.

Principal Office - when used with respect to the Trustee, means the principal office of the Trustee situated in Dallas, Texas, at which the Trustee conducts its corporate business.

Public Improvement District or P.I.D. - means the Lewisville Castle Hills Public Improvement District No. 6.

Rating Agency - mean each of Moody's Investors Service, Standard and Poor's Ratings Services, a Standard & Poor's Financial Services business, Fitch Ratings Inc., and any other Nationally Recognized Statistical Rating Organization recognized as such by the SEC.

Rebate Funds - means the rebate funds created or confirmed in the Bond Ordinances.

Record Date - means, for any Interest Payment Date, the fifteenth (15th) calendar day of the month next preceding such Interest Payment Date.

Redemption Funds - means the redemption funds established or confirmed in the Bond Ordinances.

Register - means the books of registration kept by the Paying Agent/Registrar/Registrar in which are maintained the names and addresses of, and the principal amounts registered to, the Registered Owners.

Road Bonds - means any or all bonds of the \$4,725,000* City of Lewisville, Texas Combination Contract Revenue and Special Assessment Road System Bonds, Series 2019 (Lewisville Castle Hills Public Improvement District No. 6 Project).

Rule - means SEC Rule 15c2-12, as amended from time to time.

SEC - means the United States Securities and Exchange Commission.

Securities Depository - means The Depository Trust Company, New York, New York, or any successor to DTC who serves as a securities depository.

Series 2019 Road Bonds Bondholder Representative – means the Bondholder Representative for the Owners of not less than a majority in principal amount of the Series 2019 Road Bonds then Outstanding, initially _____ ("_____"); provided, however, that if _____ no longer owns a majority of the Series 2019 Road Bonds Outstanding, then such term shall be replaced with a majority of the Owners.

Series 2019 Utility Bonds Bondholder Representative - means the Bondholder Representative for the Owners of not less than a majority in principal amount of the Series 2019 Utility Bonds then Outstanding, initially _____; provided, however, that if _____ no longer owns a majority of the Series 2019 Utility Bonds Outstanding, then such term shall be replaced with a majority of the Owners.

Sinking Fund Payment - means the annual payments in the years and amounts provided in the Trust Agreements which are to be made into the Interest and Sinking Fund for the purpose of redeeming the Bonds prior to maturity.

Sinking Fund Payment Date - means the date on which a Sinking Fund Payment is due.

Special Assessments - means the assessments levied against properties in the P.I.D. to pay Debt Service Requirements on the Parity Bonds as set forth in the Assessment/Service Plan which are payable in periodic installments, and may and shall be prepaid, all as provided in the Assessment Ordinance and the Bond Ordinances. Special Assessments also include any supplemental assessments or reassessments levied in accordance with the Act.

Special Assessments Prepayment Fund - means the fund by that name created by the Trust Agreements.

Special Assessment Revenues - means the monies collected from Special Assessments levied against properties in the P.I.D., including interest on Special Assessments during the period a Special Assessment or any installment thereof is current or delinquent, prepayments, foreclosure proceeds, proceeds from a guarantor of the Special Assessments, penalties for non-timely payment of Special Assessments, earnings and income derived from the investment or deposit of moneys in the special funds or accounts created and established for the payment and security of the Bonds shall also constitute Special Assessment Revenues unless required to be deposited into the Rebate Fund for payment to the federal government, in which case, such earnings and investment income will not be Special Assessment Revenues.

Standard & Poor's - means S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC.

Trust Agreements - means, collectively, the two Master Trust Agreements, dated as of August 1, 2014, each as supplemented by First Supplemental Trust Agreements, dated as of August 1, 2014 each as supplemented by Second Supplemental Trust Agreements, dated as of July 1, 2017, and each as supplemented by Third Supplemental Trust Agreements, dated of January 1, 2019.

Trust Estate - means the property and assets conveyed to the Trustee pursuant to the granting clauses of the Trust Agreements.

Trustee - means Wilmington Trust, National Association, in Dallas, Texas, a national banking association, and any successor trustee hereunder.

Utility Bonds - means any or all bonds of the \$5,595,000* City of Lewisville, Texas Combination Contract Revenue and Special Assessment Utility System Bonds, Series 2019 (Lewisville Castle Hills Public Improvement District No. 6 Project).

APPENDIX C

SUMMARY OF TRUST AGREEMENTS

The following is a brief summary of certain provisions of the Trust Agreements and is not intended to be definitive. The summary does not purport to be a complete explanation of all provisions of the Trust Agreements and reference is directed to such document, which is available from the Issuer for the complete text thereof.

General.

The Trust Agreements authorize the issuance of the Bonds, pledge the Contract Payments and Special Assessment Revenues to the repayment of the Outstanding Bonds, and establish separate funds for the disbursement of the proceeds from the Bonds and the repayment (including mandatory tender for purchase and redemption) of the Outstanding Bonds.

Funds.

All Special Assessment Revenues from the P.I.D. (other than interest and investment earnings and those received as a Prepayment of Special Assessments) and all Contract Payments are to be deposited in the Collection Fund. From the Collection Fund the monies are to be transferred upon receipt, as follows:

FIRST: To the Interest and Sinking Fund to meet Debt Service Requirements on the outstanding Bonds for the following year or a greater amount designated by the Issuer with the prior written approval of the District;

SECOND: To the Redemption Fund, any amounts required for redemptions (other than scheduled mandatory sinking fund redemptions) for the year; and

THIRD: To the Debt Service Reserve Fund, an amount necessary, if any, to increase the balance in the Debt Service Reserve Fund to the amount required to be on deposit therein as of the next succeeding Interest Payment Date.

FOURTH: To the Issuer to be used pursuant to the Joint Utility Contract or Joint Road Contract.

All Special Assessment Revenues received as Prepayments of Special Assessments are to be transferred upon receipt to the Special Assessments Prepayment Fund.

After the initial deposits required into the Interest and Sinking Fund and the Debt Service Reserve Fund, all remaining proceeds of the sale of the Bonds which will be deposited into the Improvement Funds established in the Trust Agreements and will be applied to payment of the costs of acquiring and constructing the Facilities together with all expenses incidental thereto, the costs incident to the organization and initial administration of the P.I.D., and the costs of issuance of the Bonds.

Accrued interest, if any, on the Bonds together with capitalized interest on the Bonds from the proceeds of the sale of the Bonds, shall be delivered at closing to the Interest and Sinking Fund. Thereafter, prior to each Interest Payment Date, an amount equal to the full amount of the interest on and principal of the Bonds then falling due shall be transferred from the Collection Fund to the Interest and Sinking Fund and utilized to make the payments to the Bondholders.

The Redemption Funds are the funds into which funds to be used to pay the redemption price in connection with a redemption of the Outstanding Bonds are to be transferred from the Collection Fund as provided in the Trust Agreements.

Investment of Funds.

Money held by the Trustee in any of the accounts established pursuant to the Trust Agreements will be invested in Authorized Investments as defined in the Trust Agreements pursuant to written instructions of the Issuer with the approval of the District.

Trustee Responsibility.

The Trustee may rely and shall be protected in acting, or refraining from acting upon any written notice, instruction, or request furnished to it under the Trust Agreements and believed by it to be genuine and to have been presented by the proper party or parties. The Trustee will not be liable for any action taken by it in good faith and believed by it to be authorized within the rights or powers conferred upon it by the Trust Agreements shall be answerable only for its own negligence and willful misconduct and may consult counsel of its own choice, and shall have full and complete authorization and protection for any action taken or suffered by it under the Trust Agreements in accordance with the opinion of such counsel.

Successor Trustee.

A bank or trust company authorized to perform corporate trust services may be substituted to act as Trustee under the Trust Agreements, if the Trustee resigns, or is removed, dissolved or otherwise becomes incapable of duty. The Trustee or any successor trustee may at any time resign by giving not less than 60 days prior written notice to the owners of all of the outstanding Bonds of the applicable series, and such resignation shall take effect at the end of such sixty (60) days or upon the earlier appointment of a successor trustee approved in writing by the Holders of a majority in aggregate principal amount of the Bonds of the applicable series then outstanding. The holder of any the Bonds of the applicable series outstanding, may apply to any court of competent jurisdiction to appoint a successor trustee. No resignation or removal of the Trustee shall be effective until acceptance of appointment by the successor trustee. Any successor Trustee shall have capital and surplus exclusive of borrowed capital aggregating at least \$50,000,000 and shall be subject to examination or supervision by a federal or state banking authority.

If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation or national banking association, the resulting, surviving, or transferee corporation or national banking association without further act shall be the successor Trustee with the same effect as if it had been named as the Trustee herein.

Amendment.

The Issuer, without the consent of the Bondholders, may amend the Trust Agreements for any of the following purposes:

- a) To grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may be lawfully be granted to or conferred upon the Bondholders or the Trustee or either of them;
- b) to authorize the Trustee to perform any and all of the duties of the Trustee under the Trust Agreements;
- c) To cure any ambiguity, inconsistency or formal defect or omission in the Bond Ordinance; and

- d) To make such additions, deletions or modifications as may be necessary for compliance with Section 148(f) of the Code.

Exclusive of the aforementioned types of amendment, the owners of not less than a majority in aggregate principal amount of the Bonds of the applicable series then outstanding have the right, from time to time, anything contained in the Trust Agreements to the contrary notwithstanding, to consent to and approve the execution by the Trustee, the Issuer of such other amendments as shall be deemed necessary and desirable by the Trustee and the Issuer for the purpose of modifying, altering, amending, adding to, or rescinding, in any particular, any of the terms or provisions contained in the Trust Agreements or in any amendment thereto; provided, however, that no amendment shall permit or be construed as permitting: (i) without the consent of each Bondholder so affected, an extension of the maturity of the principal of or interest on any Bond or any scheduled mandatory redemption; (ii) a reduction in the principal amount of any Bond, or a reduction in the rate of interest thereon or a Sinking Fund Payment; (iii) without the consent of all the Bondholders, a privilege or priority of any Bond over any other Bond; or (iv) a reduction in the aggregate principal amount of the Bonds of the applicable series required for consent to such amendment. Notice of an amendment under this provision must be sent, in writing, to all Bondholders and to the District, and consent must be obtained from 51% in aggregate principal amount of the Bonds of the applicable series outstanding within 90 days following such notice, or a longer period of time prescribed by the Issuer up to 6 months.

Defeasance.

Upon payment of all outstanding Bonds, either at or before maturity, or upon deposit of moneys, or deposit into an adequate escrow of non-callable obligations backed by the full faith and credit of the United States Government, with the Trustee sufficient (together with interest earnings on such investments) with other available funds to redeem all the Bonds at or before maturity, the Bonds will be considered defeased.

APPENDIX D

SUMMARY OF THE CONTRACTS

The following is a brief summary of certain provisions of the 2008 Joint Utility Contract and the 2008 Joint Road Contract (collectively, the "Contracts") and is not intended to be definitive. The summary does not purport to be a complete explanation of all provisions of the Contracts, and reference is directed to the Contracts, which is available from the Issuer for the complete text thereof.

General

The Contracts are agreements among the City of Lewisville (the "Issuer"), Denton County Fresh Water Supply District No. 1-A ("District 1-A") and Denton County Fresh Water Supply District No. 1-H (the "District"). The Contracts contains the terms and conditions under which the Facilities will be financed, constructed and operated.

Terms of Contracts

The Contracts are dated as of August 18, 2014, and continue for so long as any of the Parity Bonds and any Additional Bonds remain outstanding and unpaid, but in no event longer than 40 years from the date thereof.

Responsibilities of Parties

The Issuer is obligated to issue the Bonds to finance, acquire, construct, own, or operate the Facilities. The Issuer agrees to submit a draft of any resolution authorizing the issuance of the Bonds to the District, and obtain its approval before issuing the Bonds and any Additional Bonds.

District 1-A has the primary responsibility as project manager in connection with the construction, acquisition and operation of the Facilities. This responsibility entails designing the Facilities, acquiring easements and sites for the Facilities, awarding and supervising construction contracts.

For each year while the Bonds and any Additional Bonds, or any part of the principal and interest on the Bonds and any Additional Bonds, remain outstanding and unpaid, the District agrees to levy, assess and collect a continuing direct annual ad valorem tax, without limit as to rate or amount on all taxable property within the boundaries of the District to make all payments under the Contracts. The taxes shall be sufficient to make all payments on the Bonds and any Additional Bonds, all charges and fees of the Paying Agent/Registrar or trustee, all costs incident to the Facilities or the Parity Bonds, all payments to special funds or reserve funds established by the Bond Ordinances and Trust Agreements, and all operations and maintenance expenses of the Facilities.

Procedure for Calculating Annual Tax Rate

Under the Contracts, the District shall, prior to setting its tax rate each year, calculate the amount of the payments to be made to the Issuer during the forthcoming year.

Subject to any limitation imposed by the Bond Ordinances or the Trust Agreements, the District has the right to acquire the Facilities at any time during the term of the Contracts by paying to the Issuer the amount necessary to repay, redeem, refund or defease the Bonds and any Additional Bonds, together with all costs incident thereto. The District is required to furnish written notice to the Issuer no less than 60 days prior to the exercise of this right.

Remedies

In addition to all remedies provided by the laws of the State of Texas, the District covenants and agrees that, if that the District defaults in the payment of any of the amounts required to be paid under the Contracts or

defaults in the performance of any of the obligations of the Contracts, the Issuer or the Trustee shall be entitled to a writ of mandamus requiring performance of the obligation.

Approved by Voters

At an election conducted on November 4, 2008, the Contracts were approved by the voters within the District.

APPENDIX E
FORM OF BOND COUNSEL'S OPINION

2728 N. Harwood
Suite 500
Dallas, TX 75201214.745.5400 OFFICE
214.745.5390 FAX
winstead.com

FORM OF BOND COUNSEL OPINION

_____, 2019

City of Lewisville, Texas
151 W. Church Street
Lewisville, Texas 75067Raymond James & Associates, Inc.
5956 Sherry Lane, Ste. 1900
Dallas, Texas 75225**\$ _____ CITY OF LEWISVILLE, TEXAS COMBINATION CONTRACT REVENUE
AND SPECIAL ASSESSMENT _____ SYSTEM BONDS SERIES 2019 (LEWISVILLE
CASTLE HILLS PUBLIC IMPROVEMENT DISTRICT NO. 6 PROJECT)**

We have acted as “Bond Counsel” to the City of Lewisville, Texas (the “City”) in connection with the issuance of the bonds described above (the “Bonds”) for the sole purpose of providing legal advice and traditional legal services to the City including rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. We have relied solely on information and certifications furnished to us by the City and others with respect to the adequacy of the “Special Assessment Revenues” and “Contract Revenues” described in the Trust Agreement (as defined below), for payment of the Bonds.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds that contains certified copies of certain proceedings of the City Council of the City (the “Council”); an ordinance of the Council authorizing the Bonds adopted on January 28, 2019 (the “Ordinance”); the Master Trust Agreement dated as of August 1, 2014 (the “Master Trust Agreement”), the First Supplemental Trust Agreement dated as of August 1, 2014 (the “First Supplemental Trust Agreement”), the Second Supplemental Trust Agreement dated as of July 1, 2017 (the “Second Supplemental Trust Agreement”), and the Third Supplemental Trust Agreement dated as of January 1, 2019 (the “Third Supplemental Trust Agreement”, together with the Master Trust Agreement, the First Supplemental Trust Agreement, and the Second Supplemental Trust

Agreement, the “Trust Agreement”), each between the City and Wilmington Trust, National Association; the Bond Placement Agreement dated January 28, 2019 between the placement agent named therein and the City; the approving opinion of the Attorney General of the State of Texas; customary certificates of officers, agents, and representatives of the City (including a “Federal Tax Certificate”), and other public officials; and other documents relating to the issuance of the Bonds. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. We have also examined applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service as we have deemed relevant. We have examined executed Bond No. T-1.

Based on said examination and in accordance with customary legal practice, it is our opinion that:

1. The City is a validly existing municipal corporation of the State of Texas with power to adopt the Ordinance, perform its agreements therein, and issue the Bonds.

2. The Bonds have been authorized, sold, and delivered in accordance with law.

3. The Bonds constitute valid and legally binding obligations of the City enforceable in accordance with their terms except as the enforceability thereof may be limited by principles of sovereign immunity and bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors’ rights generally.

4. The Bonds are obligations of the City secured solely by the special assessments collected on the subject property within Lewisville Castle Hills Public Improvement District No. 6 (the “PID”) and contract revenues collected pursuant to an Amended Joint _____ Contract between the City, Denton County Fresh Water Supply District No. 1-A, and Denton County Fresh Water Supply District No. 1-H (the “Amended Joint _____ Contract”) and are not full faith and credit obligations of the City. The City is obligated to levy and collect special assessments upon certain parcels within the PID pursuant to the Assessment Roll and Service and Assessment Plan of the PID, and shall collect contract revenues pursuant to the Amended Joint _____ Contract, both of which shall be used to pay principal of and interest on the Bonds. The registered owners of the Bonds shall never have the right to demand payment of the principal thereof or interest thereon out of any funds raised or to be raised by taxation or from any source whatsoever other than the sources specified in the Ordinance.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Code. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Bonds.

The City reserves the right, subject to the restrictions stated in the Trust Agreement, and without obtaining the consent of the registered owners of the Bonds, to issue “Additional Bonds” which also may be secured by and payable from a first lien on and pledge of the Special Assessment Revenues and Contract Revenues, in the same manner and to the same extent as the Bonds.

In rendering these opinions, we have relied upon representations and certifications of the City, the City’s financial advisor, and the initial purchaser of the Bonds with respect to matters solely within the knowledge of such parties, respectively, which we have not independently verified, and we assume continuing compliance by the City with covenants pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations and certifications are determined to be inaccurate or incomplete, or the City fails to

comply with the foregoing covenants, interest on the Bonds could become includable in gross income retroactively to the date of issuance of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any other federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds.

We call your attention to the fact that the ownership of obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, certain S corporations with Subchapter C earnings and profits, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred expenses allocable to, tax-exempt obligations.

The opinions set forth above are based on existing laws of the United States and the State of Texas, which are subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based on our review of existing law, and are made in reliance on the representations and covenants referenced above that we deem relevant to such opinions.

The Service has an ongoing audit program to determine compliance with rules relating to whether interest on state or local obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit is commenced, under current procedures, the Service would treat the City as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that, if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Limited Offering Memorandum relating to the Bonds.

This legal opinion expresses the professional judgment of this firm as to the legal issues explicitly addressed therein. In rendering a legal opinion, we do not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,

APPENDIX F

**DISTRICT'S AUDITED FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
DENTON COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2017

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H

DENTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2017

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McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Denton County Fresh Water
Supply District No. 1-H
Denton County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Denton County Fresh Water Supply District No. 1-H (the "District"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Board of Directors
Denton County Fresh Water
Supply District No. 1-H

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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

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

Others Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

January 16, 2018

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Management's discussion and analysis of Denton County Fresh Water Supply District No. 1-H's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2017. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Position includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$3,151,527 as of September 30, 2017.

The following is a comparative analysis of government-wide changes in net position:

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2017	2016	Change Positive (Negative)
Current and Other Assets	\$ 4,753,207	\$ 1,822,505	\$ 2,930,702
Capital Assets (Net of Accumulated Depreciation)	1,793,259	5,227,136	(3,433,877)
Total Assets	\$ 6,546,466	\$ 7,049,641	\$ (503,175)
Noncurrent Liabilities	\$ 1,913,392	\$ 5,285,587	\$ 3,372,195
Other Liabilities	1,481,547	1,756,150	274,603
Total Liabilities	\$ 3,394,939	\$ 7,041,737	\$ 3,646,798
Net Position:			
Net Investment in Capital Assets	\$ 1,809,323	\$ 5,227,136	\$ (3,417,813)
Restricted	4,162,570	842,225	3,320,345
Unrestricted	(2,820,366)	(6,061,457)	3,241,091
Total Net Position	\$ 3,151,527	\$ 7,904	\$ 3,143,623

The following table provides a summary of the District's operations for the years ended September 30, 2017, and September 30, 2016. The District's net position increased by \$3,143,623.

	Summary of Changes in the Statement of Activities		
	2017	2016	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 979,387	\$ 519,185	\$ 460,202
Special Assessments	89,820		89,820
Charges for Services	197,890	224,229	(26,339)
Franchise Fees	21,103	10,649	10,454
Strategic Partnership Revenue	1,092		1,092
Other Revenue	4,042,367	448	4,041,919
Total Revenues	\$ 5,331,659	\$ 754,511	\$ 4,577,148
Expenses for Services	2,188,036	1,153,259	(1,034,777)
Change in Net Position	\$ 3,143,623	\$ (398,748)	\$ 3,542,371
Net Position, Beginning of Year	7,904	406,652	(398,748)
Net Position, End of Year	\$ 3,151,527	\$ 7,904	\$ 3,143,623

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2017, were \$3,271,660, an increase of \$3,205,305 from the prior year.

The General Fund fund balance decreased by \$131,104 primarily due to operating expenditures exceeding service revenue, permit and inspection fees.

The Debt Service Fund fund balance increased by \$3,320,345, primarily due to property tax revenues and PID 6 contributions exceeding current year contract tax payment to the City of Lewisville.

The Capital Projects Fund fund balance increased by \$16,064, primarily due to PID 6 contributions and developer advances exceeding developer reimbursements and capital costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$270,740 less than budgeted revenues. Actual expenditures were \$120,929 less than budgeted.

CAPITAL ASSETS

A portion of the District's water, wastewater, drainage and roadway facilities were paid for from proceeds of the City of Lewisville – Lewisville Castle Hills Public Improvement District No. 6 bond proceeds. The City of Lewisville has recorded these assets on the books of the City. A portion of the District's assets were also funded by Denton County per an agreement with Denton County Fresh Water Supply District No. 1-A (District No. 1-A). Per the agreement, Denton County funded construction costs of the Windhaven Parkway West project which lies partially within the District. The District also shares in the cost of the capital assets that District No. 1-A purchases and records on its books. The District's capital assets as of September 30, 2017, amount to \$1,793,259 (net of accumulated depreciation). Additional information on the District's capital assets can be found in Note 4 of this report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

CAPITAL ASSETS (Continued)

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Construction in Progress	\$ 98,054	\$ 3,699,461	\$ (3,601,407)
Capital Assets, Net of Accumulated Depreciation:			
Water System	621,705	486,346	135,359
Wastewater System	13,376	13,740	(364)
Drainage System	241,576	248,152	(6,576)
Road System	755,544	779,353	(23,809)
Landscaping Improvements	62,681		62,681
Investment in Shared Lift Station	323	84	239
Total Net Capital Assets	\$ 1,793,259	\$ 5,227,136	\$ (3,433,877)

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Denton County Fresh Water Supply District No. 1-H, c/o Winstead PC, 2728 N. Harwood Street, Suite 500, Dallas, Texas 75201.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2017

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 159,839	\$ 22
Cash with Other Governmental Entities		4,209,837
Receivables:		
Service Accounts	39,096	
Franchise Fees	8,481	
Other	38	
Due from Developer		
Due from Other Funds	189,817	
Prepaid Costs	6,730	
Due from Other Government Units	17,773	
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 421,774	\$ 4,209,859
LIABILITIES		
Accounts Payable	\$ 4,933	\$
Due to Other Governmental Units	1,323,815	30,151
Due to Other Funds		17,138
Long-Term Liabilities:		
Due to Other Governmental Units		
TOTAL LIABILITIES	\$ 1,328,748	\$ 47,289
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 6,730	\$
Restricted for Authorized Construction		
Restricted for Debt Service		4,162,570
Unassigned	(913,704)	
TOTAL FUND BALANCES	\$ (906,974)	\$ 4,162,570
TOTAL LIABILITIES AND FUND BALANCES	\$ 421,774	\$ 4,209,859
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 23,743	\$ 183,604	\$	\$ 183,604
	4,209,837		4,209,837
	39,096		39,096
	8,481		8,481
	38		38
287,648	287,648		287,648
	189,817	(189,817)	
	6,730		6,730
	17,773		17,773
		98,054	98,054
		<u>1,695,205</u>	<u>1,695,205</u>
<u>\$ 311,391</u>	<u>\$ 4,943,024</u>	<u>\$ 1,603,442</u>	<u>\$ 6,546,466</u>
\$	\$ 4,933	\$	\$ 4,933
122,648	1,476,614		1,476,614
172,679	189,817	(189,817)	
		<u>1,913,392</u>	<u>1,913,392</u>
<u>\$ 295,327</u>	<u>\$ 1,671,364</u>	<u>\$ 1,723,575</u>	<u>\$ 3,394,939</u>
\$	\$ 6,730	\$ (6,730)	\$
16,064	16,064	(16,064)	
	4,162,570	(4,162,570)	
	(913,704)	<u>913,704</u>	
<u>\$ 16,064</u>	<u>\$ 3,271,660</u>	<u>\$ (3,271,660)</u>	<u>\$ - 0 -</u>
<u>\$ 311,391</u>	<u>\$ 4,943,024</u>		
		\$ 1,809,323	\$ 1,809,323
		4,162,570	4,162,570
		<u>(2,820,366)</u>	<u>(2,820,366)</u>
		<u>\$ 3,151,527</u>	<u>\$ 3,151,527</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

Total Fund Balances - Governmental Funds	\$ 3,271,660
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets and construction in progress used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	1,793,259
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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:

Due to Other Governmental Units	<u>(1,913,392)</u>
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Total Net Position - Governmental Activities	<u>\$ 3,151,527</u>
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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property Taxes	\$ 144,851	\$ 834,536
Special Assessments	60,081	29,739
Water Service	141,531	
Wastewater Service	56,188	
Penalty and Interest	171	
Franchise Fees	21,103	
Strategic Partnership Revenue	1,092	
Investment Revenues		1,424
Miscellaneous Revenues	6,538	38
	<u>431,555</u>	<u>865,737</u>
TOTAL REVENUES	\$ 431,555	\$ 865,737
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 41,254	\$ 32,051
Contracted Services	899	
Allocated Costs to District 1-A	394,943	
Purchased Water and Wastewater Services	30,323	
Depreciation		
Other	14,745	2,036
Capital Outlay		
Debt Service:		
Contract Tax Obligation - City of Lewisville		792,550
Bond Issuance Costs		825,250
	<u>482,164</u>	<u>1,651,887</u>
TOTAL EXPENDITURES/EXPENSES	\$ 482,164	\$ 1,651,887
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ (50,609)	\$ (786,150)
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ (80,495)	\$ 80,495
Contribution by PID 6		4,026,000
Developer Contributions		
	<u>(80,495)</u>	<u>4,106,495</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (80,495)	\$ 4,106,495
NET CHANGE IN FUND BALANCES	\$ (131,104)	\$ 3,320,345
CHANGE IN NET POSITION		
FUND BALANCES (DEFICIT)/NET POSITION - OCTOBER 1, 2016	(775,870)	842,225
	<u>(775,870)</u>	<u>842,225</u>
FUND BALANCES (DEFICIT)/NET POSITION - SEPTEMBER 30, 2017	\$ (906,974)	\$ 4,162,570
	<u>(906,974)</u>	<u>4,162,570</u>

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$ 979,387	\$	\$ 979,387
	89,820		89,820
	141,531		141,531
	56,188		56,188
	171		171
	21,103		21,103
	1,092		1,092
	1,424		1,424
	6,576	4,034,367	4,040,943
<u>\$ - 0 -</u>	<u>\$ 1,297,292</u>	<u>\$ 4,034,367</u>	<u>\$ 5,331,659</u>
\$	\$ 41,254	\$	\$ 41,254
	32,950		32,950
	394,943		394,943
	30,323		30,323
	16,781	53,985	53,985
5,079,153	5,079,153	(5,079,153)	16,781
	792,550		792,550
	825,250		825,250
<u>\$ 5,079,153</u>	<u>\$ 7,213,204</u>	<u>\$ (5,025,168)</u>	<u>\$ 2,188,036</u>
<u>\$ (5,079,153)</u>	<u>\$ (5,915,912)</u>	<u>\$ 9,059,535</u>	<u>\$ 3,143,623</u>
\$	\$ 8,259,832	\$	\$
4,233,832	8,259,832	(8,259,832)	
861,385	861,385	(861,385)	
<u>\$ 5,095,217</u>	<u>\$ 9,121,217</u>	<u>\$ (9,121,217)</u>	<u>\$ -0-</u>
\$ 16,064	\$ 3,205,305	\$ (3,205,305)	\$
		3,143,623	3,143,623
	66,355	(58,451)	7,904
<u>\$ 16,064</u>	<u>\$ 3,271,660</u>	<u>\$ (120,133)</u>	<u>\$ 3,151,527</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
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, 2017**

Net Change in Fund Balances - Governmental Funds	\$ 3,205,305
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(53,985)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	853,688
Governmental funds report developer contributions as other financing sources. However, in the Statement of Net Position, developer contributions, net any amount paid to the developer, are recorded as a liability.	<u>(861,385)</u>
Change in Net Position - Governmental Activities	<u>\$ 3,143,623</u>

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1. CREATION OF DISTRICT

By the terms of an election held on January 17, 1983, voters approved the creation of the Denton County Fresh Water Supply District No. 1, now known as Denton County Fresh Water Supply District No. 1-A (District No. 1-A). As a result of another election held on August 8, 1987, the voters approved District No. 1-A's assumption of certain rights, authority, privileges and functions of a road district and approved for District No. 1-A to purchase, construct, acquire, own, operate, repair, improve and extend sanitary sewer systems. On December 21, 1993, following a hearing, the governing board of District 1-A approved the conversion of District No. 1-A to a Water Control and Improvement District and conversion to operating under Chapter 51 of the Texas Water Code and specifically reserved certain rights under Sections 53.029, 53.030 through 53.035, 53.037 through 53.041, 53.111, 53.112, 53.121, and 53.125 of the Texas Water Code.

At an election held within the boundaries of District No. 1-A on May 10, 2008, voters approved the division of District No. 1-A into two new districts of which Denton County Fresh Water Supply District No. 1-H (the District) was one. The District held its first meeting on June 17, 2008. Pursuant to the provisions of Chapters 49, 51 and 53 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, roadways, solid waste collection and disposal, including recycling, 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 District has contracted with District No. 1-A to operate the utility system within the District. The District and its operations is part of the eight Districts which make up the community referred to as Castle Hills.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). In addition, the accounting records of the District are maintained in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statement as component units.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting.

GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets — This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Position — This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position — This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Funds

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

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

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting debt service 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 revenue reported in governmental funds to be available if they are collectable within 60 days of year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property 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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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

Capital Assets

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

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$10,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water system	10-45
Wastewater system	10-45
Drainage system	10-45
Road system	10-50
All Other equipment	3-20

Budgeting

Pursuant to the Operating Agreement (Note 8), District No. 1-A will prepare and submit to the District for its review on or about September 1 of each year an annual operating and maintenance budget. For fiscal year ending September 30, 2017, the District’s Board acknowledged the receipt of the annual budget provided by District No. 1-A.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

The District does not have employees, except that the Internal Revenue Service has determined that directors are considered to be “employees” for federal payroll tax purposes only. A pension plan has not been established. The District has funded payroll costs to District No. 1-A. District No. 1-A operates the District’s utility system on behalf of the District and handles pension provisions for its employees.

Measurement Focus

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

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the balance sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental funds types increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

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

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

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

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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.

Allocated Costs

Pursuant to the Operating Agreement (Note 8), District No. 1-A pays all expenses required to maintain, operate and manage the facilities of the District and all expenses related to management of the District. On a monthly basis District No. 1-A allocates to the District its allocable share of expenses which is reflected as allocated cost on the statement of activities and governmental fund revenues, expenditures, and changes in fund balances.

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 expenses/expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. 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.

The District is a participant of a pooled cash account. The consolidated cash account is allocated between districts with operations within the Castle Hills development. At September 30, 2017,

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

total bank balance of pooled cash consisted of \$3,200,411 in cash and \$469,743 in certificates of deposit. The book balance of the total pooled cash account was \$3,600,197. The book balance of the District's share of pooled cash was a deficit of \$1,273,423.

The District also had deposits in non-pooled cash accounts. As of September 30, 2017, the bank balance of these deposits was \$183,604 and the book balance was \$183,604.

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. 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, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

As of September 30, 2017, the District does not own any investments.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4. CAPITAL ASSETS

A portion of the District's assets were funded by Denton County per an agreement with District No. 1-A. Per the agreement, Denton County funded construction costs of the Windhaven Parkway West project which lies partially within the District. The District also shares in the cost of the capital assets that District No. 1-A purchases and records in its records.

The District's water, wastewater, drainage and roadway facilities were funded from proceeds of the City of Lewisville — Castle Hills Public Improvement District No. 6 bond proceeds, (see Note 13). The City of Lewisville has recorded these assets in its records.

In addition, the District has recorded capital assets and intangible assets for the water, wastewater, drainage and roadway facilities that have been funded through other available monies, including advances by the Developer of the District.

Capital asset activity for the year ended September 30, 2017:

	October 1, 2016	Increases	Decreases	September 30, 2017
Capital Assets Not Being Depreciated				
Construction in Progress	\$ 3,699,461	\$ 845,321	\$ 4,446,728	\$ 98,054
Capital Assets Subject to Depreciation				
Water System	\$ 579,994	\$ 151,617	\$	\$ 731,611
Wastewater System	16,384			16,384
Drainage System	295,931			295,931
Road System	952,343			952,343
Landscaping Improvements		69,646		69,646
Investment in Shared Lift Station	313	252		565
Total Capital Assets Subject to Depreciation	\$ 1,844,965	\$ 221,515	\$ - 0 -	\$ 2,066,480
Less Accumulated Depreciation				
Water System	\$ 93,648	\$ 16,258	\$	\$ 109,906
Wastewater System	2,644	364		3,008
Drainage System	47,779	6,576		54,355
Road System	172,990	23,809		196,799
Landscaping Improvements		6,965		6,965
Investment in Shared Lift Station	229	13		242
Total Accumulated Depreciation	\$ 317,290	\$ 53,985	\$ - 0 -	\$ 371,275
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 1,527,675	\$ 167,530	\$ - 0 -	\$ 1,695,205
Total Capital Assets, Net of Accumulated Depreciation	\$ 5,227,136	\$ 1,012,851	\$ 4,446,728	\$ 1,793,259

On April 19, 2006, a Cost Sharing Agreement was executed between Denton County Fresh Water Supply District Nos. 1-A, 1-B, 1-C and 1-E. The agreement provided for the sharing of costs for the construction of certain lift station facilities. District No. 1-A owns the facilities for the benefit

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4. CAPITAL ASSETS (Continued)

of the residents and the property located within the original boundaries of Denton County Fresh Water Supply District No. 1, which includes the District No. 1-B, District No. 1-C, District No. 1-D and District No. 1-E. On September 23, 2009, the District executed an Excess Capacity Purchase Agreement (ECPA) with District No. 1-A, District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, and District No. 1-G. This agreement reallocates the shared cost for the construction of the lift station facilities based on capacity. The capacity allocated to each participant was based upon the estimated total sewer connections as of September 30, 2017. Capacity in the facilities is allocated as follows:

District No. 1-B	17.24%
District No. 1-C	6.06
District No. 1-D	21.63
District No. 1-E	21.53
District No. 1-F	29.23
District No. 1-G	4.26
District No. 1-H	<u>0.05</u>
Total	<u>100.00%</u>

District Nos. 1-B, 1-C, 1-D and 1-E are defined in the ECPA as “Selling Districts”. It is the intent of the Selling Districts to sell excess capacity to District Nos. 1-F, 1-G and 1-H based on the actual capacity needed as development occurs within their respective district. The cost of capacity to District Nos. 1-F, 1-G and 1-H will be calculated based upon the provisions outlined in the ECPA.

NOTE 5. NONCURRENT LIABILITIES

Effective May 20, 2009, the District entered into a reimbursement agreement between Castle Hills Development Corporation, Bright Realty, Ltd., Bright Farm Partnership, Bright & Company, Inc., Castle Hills Property Company (collectively Bright Entities), District No. 1-A, District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, and District No. 1-G, and the District (collectively the Districts).

For advances made by Bright Entities on or before November 20, 2006, the Districts will reimburse the relevant Bright Entity for 100% of such advances. For advances made by a Bright Entity after November 20, 2006, the Districts will transfer reimbursement funds to District No. 1-A. District No. 1-A will act as a clearinghouse for receipt of reimbursement proceeds and for the deployment of such proceeds to any District that would otherwise require an advance from a Bright Entity. Any reimbursement for advances received by District No. 1-A will be considered as a full complete release of that particular District’s obligation pursuant to existing developer

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5. NONCURRENT LIABILITIES (Continued)

reimbursement agreements. Such amounts due to District No. 1-A under this agreement are reported as a liability on the Statement of Net Position. Activity in this liability for the year ended September 30, 2017 was:

	Beginning Balance	Additions	Repayments	Ending Balance
Due to 1-A	<u>\$5,285,587</u>	<u>\$ 861,637</u>	<u>\$4,233,832</u>	<u>\$1,913,392</u>

NOTE 6. MAINTENANCE TAX

On November 4, 2008, voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended September 30, 2017, the District levied a maintenance tax rate of \$0.1479 per \$100 of assessed valuation, which resulted in a tax levy of \$144,851 on an adjusted taxable valuation of \$97,938,693 for the 2016 tax year. The maintenance tax will be used for maintenance purposes to include funds for planning, maintaining, repairing and operating all necessary plants, properties, facilities and improvements of the District and for proper services, engineering and legal fees, and operational and administrative costs in accordance with Section 49.107 of the Texas Water Code.

NOTE 7. WATER SUPPLY AGREEMENTS

Upper Trinity Regional Water District Regional Treated Water Supply Service Contract for Additional Participating Member

On May 7, 1992, Denton County Fresh Water Supply District No. 1 executed an agreement with the Upper Trinity Regional Water District (UTRWD) to provide treated water to participants in the UTRWD. District No. 1-A has assumed the obligations of District No. 1 under the terms of this agreement. The UTRWD has agreed to use its best efforts to build the facilities called for in this agreement and to issue debt to fund the cost of the facilities.

The governing body of each contract member, each participating member and Denton County are entitled to appoint a qualified person to serve on the Board. The governing body of each customer can appoint one member of the governing body or an employee as a member of the Customer Advisory Council (Council) of the UTRWD. The Council will consult with and advise the UTRWD and Board on all pertinent matters related to operation of UTRWD.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7. WATER SUPPLY AGREEMENTS (Continued)

Upper Trinity Regional Water District Regional Treated Water Supply Service Contract for Additional Participating Member (Continued)

The supply of water on a minimum demand, on an interim basis, is for 0.50 million gallons of water per day (MGD) and 3.0 MGD for regular service. Each member can adjust the regular service amount upon mutual agreement of the members. A determination of demand on an annual basis that takes into account actual usage for the most recent five (5) water years and projected needs for the next water year will be made. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and maintenance cost of the system. Annual budgets will be prepared for the system. District No. 1-A will pay its part of the annual requirement in monthly installments.

The agreement provides for water conservation and drought contingency issues. The term of the contract is thirty (30) years or as long as the bonds issued remain outstanding. The Contract has a twenty (20) year extension provision.

Upper Trinity Regional Water District Contract for Non-Potable Water Service with Denton County Fresh Water Supply District No. 1.

On March 8, 1995, the Upper Trinity Regional Water District executed an agreement with the Denton County Fresh Water Supply District No. 1 (District No. 1) to provide for the supply of non-potable water to District No. 1. District No. 1-A has assumed the obligations of District No. 1 under the terms of this agreement.

District No. 1 desired to develop the ability to have a dual delivery system to provide non-potable water and UTRWD agreed to provide such a water source. District No. 1-A has agreed to make sufficient payments to assure adequate funds to fulfill its obligations under the contract terms. The minimum capacity reserved for the District is 3.35 million gallons per day (MGD).

The UTRWD agreed to provide the necessary equipment and devices of standard type required for measuring the quantity of non-potable water delivered. Sixty (60) days after the end of a fiscal year, District No. 1-A will report to UTRWD the number of gallons of non-potable raw water and non-potable treated wastewater effluent used for irrigation, make-up water for lakes and ponds and other purposes. Also reported would be the estimated annual water requirements for each of the next five (5) years for both types of water and an estimate of demand for the next year.

The UTRWD will choose the consulting engineers and provide for the construction of the system to provide the non-potable water. The sale of bonds by the UTRWD will be considered for funding the facilities. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7. WATER SUPPLY AGREEMENTS (Continued)

Upper Trinity Regional Water District Contract for Non-Potable Water Service with Denton County Fresh Water Supply District No. 1. (Continued)

maintenance cost of the system. Annual budgets will be prepared for the system. The District will pay its annual payment including facilities charges and charges for the actual volume of water taken. The agreement is in effect for thirty (30) years from the effective date of the agreement. On October 1, 1997, the District started funding the cost of the agreement with the UTRWD.

Wholesale Water Supply Agreement with the City of Lewisville

On January 28, 2008, District No. 1-A entered into a wholesale water supply agreement with the City of Lewisville (City). The City agrees to provide wholesale water supply to District No. 1-A for the City Wholesale Service Area. Within the City Wholesale Service Area, District No. 1-A agrees not to use potable water, including ground water, from any source or facilities other than from the City system without the prior written consent of the City Council of the City. District No. 1-A agrees, at its sole expense, to design and construct the infrastructure necessary to enable the City to connect the City system to Castle Hills Subdivision's system.

District No. 1-A will be charged a two-part rate, consisting of a volume rate and a demand rate (Charges), based on the City Wholesale Service Area's treated water consumption and Maximum Day Demand. The initial demand capacity requested from the City is 300,000 gallons per day.

The initial volume rate was \$1.49 per 1,000 gallons and demand rate of \$299,160 per million gallons per day, paid monthly. The term of this agreement ends the earlier of August 18, 2032, or such date specified for District No. 1-A's annexation by the City.

NOTE 8. OPERATING AGREEMENT

Effective October 1, 2008, the District entered into an Operating Agreement with District No. 1-A. District No. 1-A is responsible for operating, maintaining, and managing the Facilities to be constructed within the boundaries of the once defined Denton County Fresh Water Supply District No. 1 which includes Districts 1-A, 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H (Participating Districts).

District No. 1-A is responsible for preparing and submitting to the District a Facilities Operating and Maintenance Budget (FOMB) by September 1 of each year for the next fiscal year expected to start October 1. With the exception of expenses based on customer usage, if the total actual costs do not exceed the FOMB by more than 12%, the District's revision requests are only advisory. If the reverse is true, the new budget will not take effect until approved by the Board of Directors of the District. District No. 1-A shall be authorized to make expenditures not approved

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8. OPERATING AGREEMENT (Continued)

in the FOMB if, 1.) Immediately required by law or, 2.) Not in excess of \$5,000, with notification efforts being made to the applicable District.

District No. 1-A agreed to handle all aspects of operating the District including contracting for consultants, negotiating with various utility companies, coordinating with various governmental entities, reviewing all statements, invoices and billings, supervising and coordinating contractors, verifying insurance on contractors and facilities and recommending water and sewer rates. District No. 1-A will employ personnel as required.

The District agreed to institute a rate order containing water, sewer, solid waste collection, building permits and inspection fees. District No. 1-A agreed to provide such issuance of permits and inspection fees and management of the utility system. The fees for such permits and inspection services, payable to the District, will be the amount charged for the services. The District agreed to fund a pro-rata portion of overhead cost incurred by District No. 1-A from proceeds of the water, sewer and solid waste collection revenues.

In accordance with the agreement, costs of the maintenance of the facilities within districts of the Castle Hill Subdivision shall be allocated to each district based on the basis of projected water connections. Projected water connections are defined as those new connections that are projected to occur during the next succeeding fiscal year for all the districts. Each district's cost will be calculated based upon a fraction, the numerator of which shall be the total number of actual and projected water connections within each district divided by the total number of actual and projected water connections within all the districts. Such fraction shall be calculated as of the first day of the fiscal year in which such fraction is to be used to allocate such costs among the districts and shall be recalculated as of the first of each succeeding fiscal year thereafter.

On September 17, 2008, the Participating Districts approved the Amended and Restated Operating Agreement. This agreement was effective on October 1, 2008. All other provisions remain the same, with the exception of the allocation of the maintenance costs. In accordance with the agreement, costs of the maintenance of the facilities within the districts of the Castle Hills Subdivision shall be allocated to each district on the basis of projected property values. Projected property values are defined as the combined total value of all property that exists on January 1 of the current fiscal year plus that which is projected to be added during the next succeeding fiscal year for the districts.

Each district's cost will be calculated based upon a fraction that is calculated by dividing the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within each district divided by the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within all of the districts. Such fraction shall be calculated as of the first day of the fiscal year in which such fraction is to be used to allocate such costs among the districts and shall be recalculated as of the

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8. OPERATING AGREEMENT (Continued)

first day of each succeeding fiscal year thereafter. This agreement terminates on the fortieth (40th) anniversary of October 1, 2008.

NOTE 9. STRATEGIC PARTNERSHIP AGREEMENT

In June, 2009, District No. 1-A, District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, District No. 1-G, and the District approved a Strategic Partnership Agreement (SPA) with the City of Lewisville. The Agreement allowed the City of Lewisville to annex certain properties for the limited purpose of imposing a sales and use tax on certain properties within each District. The sales and use tax collected will be used first to cover the cost of the City of Lewisville providing public safety services to the Districts. If, after all public safety costs are covered, there are surplus funds, then those funds are split 50%/50% between the City of Lewisville and District No. 1-A.

Upon receipt of surplus funds, District No. 1-A will allocate those funds to the District(s) that generated the sales and use tax. The Agreement specifies that a District that receives funds from the SPA must first use those funds to repay any outstanding Developer Debt. If no outstanding Developer debt exists, the funds can be used for any lawful purpose. The Agreement will expire June, 2019 unless the City of Lewisville either 1) renews the agreement, or 2) fully annexes the District. The District only recognizes revenue for the allocated surplus as strategic partnership revenue. On March 20, 2017, the SPA was amended to include additional land.

NOTE 10. ECONOMIC DEPENDENCY

The District is contractually obligated to levy sufficient contract taxes to fund the City of Lewisville's Lewisville Castle Hills Public Improvement District No. 6 bonds and the District has contracted with Denton County Fresh Water Supply District No. 1-A to conduct District operations. The District is further obligated for significant water supply commitments. The ability to meet all these obligations may require the Developer to advance monies to the District from time to time to meet all the financial obligations and to cover any operating deficits of the District. As of September 30, 2017, the District's General Fund had a deficit fund balance of \$906,974. The District anticipates being able to alleviate this deficit by the sale of water and wastewater services.

NOTE 11. RISK MANAGEMENT

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 12. BOND ELECTION

In November 2015, voters within the District approved for the District to issue bonds in the maximum amount of \$128,640,000 for utilities, \$25,690,000 for roads, \$165,824,000 for utility refunding and \$33,397,000 for road refunding.

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS

On August 18, 2014, the District, District No. 1-A and the City of Lewisville (Lewisville) executed a 2008 Joint Utility Contract and a 2008 Joint Road Contract. On July 17, 2017, the District approved an Amended 2015 Joint Utility Contract and an Amended 2015 Joint Road Contract with the City. The amended contracts state that Lewisville will proceed with financing utility and road facilities within the District through the sale of \$112,750,000 of Lewisville Castle Hills Public Improvement District No. 6 (PID 6) utility bonds and \$23,250,000 of PID 6 road bonds; the first installment of these bonds were sold in the amount of \$7,310,000 in Combination Contract Revenue and Special Assessment Utility System Bonds and \$1,200,000 in Combination Contract Revenue and Special Assessment Road System Bonds. The second installment of these bonds were sold in the amount of \$7,690,000 in Combination Contract Revenue and Special Assessment Utility System Bonds and \$15,310,000 in Combination Contract Revenue and Special Assessment Road System Bonds. District No. 1-A will have primary responsibility as Project Manager and shall perform its duties in accordance with the agreements dated August 18, 2014. District No. 1-A is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville. The term of the contract is 40 years.

District No. 1-A serves as Project Manager for the purpose of easement and facilities site negotiation and acquisition as well as the inspection and supervision of the construction of facilities. District No. 1-A further agrees that adequate water distribution, wastewater collection and treatment capacity, storm sewer and drainage capacity and road system capacity shall be reserved in the Project-Wide Facilities to accommodate the Castle Hills Facilities.

The parties to the agreements agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District No. 1-A shall have the right to acquire the facilities at any time by paying to Lewisville the amount necessary to repay, redeem, refund or defease the PID 6 bonds allocable to the facilities being acquired. The parties to the agreements agree that the cost of operations and maintenance of the facilities being constructed will be borne by the districts and not Lewisville.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS (Continued)

In order to finance the facilities being constructed with bond proceeds being issued by the PID 6 and Lewisville, the District agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 6 Bonds as they mature. The District committed each year to levy, assess and collect a tax on all taxable property within the District, unlimited by rate or amount, sufficient to service up to ninety-nine percent (99%) of the debt and other costs incidental to the PID 6 Bonds.

The additional one percent (1%) of the debt and other costs included to the PID 6 Bonds will be paid from the special assessment as outlined in the agreement. Lewisville will calculate the total amount of payments to be made on the PID 6 Bonds on the following February 1, after application of the available reserves from proceeds of the PID 6 Bonds and will calculate an assessment on all assessable property within the PID 6.

Lewisville will notify the District of the calculation of the Annual Assessment by September 1 of each year proceeding the above-referenced February 1. During the current fiscal year, the District made contract tax payments of \$792,550 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2017, is \$3,054,500 and the District has fully satisfied that requirement at year end. At September 30, 2017, the City of Lewisville is holding \$4,209,837 in trust for the District, including reserve funds. The amounts held in trust in excess of the reserve requirement are available to cover debt service required of PID 6.

On February 1 following the date of receipt of written notification of the Annual Assessment, the District will certify to Lewisville the amount of all taxes collected. The parties to the agreement acknowledged that the tax levy would be contingent upon a one-time approval by the voters within the District. Such election occurred on November 4, 2008, and approved the levy and collection of said tax. During the fiscal year ended September 30, 2017, the District levied an ad valorem contract tax of \$834,536 computed at the rate of \$0.8521 per \$100 assessed valuation based upon an appraised taxable valuation of \$97,938,693 for the 2016 tax year. The Debt Service Fund Balance of \$4,162,570 is reserved to meet the contract debt obligations.

The Districts tax calendar is as follows:

Levy Date - October 1, 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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS (Continued)

The following are the amortization schedules on the existing outstanding debt the District's contract tax is expected to amortize.

PID 6 SERIES - 2014 UTILITY				
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total	
2018	\$ 270,000	\$ 442,975	\$	712,975
2019	290,000	425,425		715,425
2020	310,000	406,575		716,575
2021	330,000	386,425		716,425
2022	350,000	364,975		714,975
2023	370,000	342,225		712,225
2024	395,000	318,175		713,175
2025	320,000	292,500		612,500
2026	350,000	271,700		621,700
2027	380,000	248,950		628,950
2028	405,000	224,250		629,250
2029	435,000	197,925		632,925
2030	460,000	169,650		629,650
2031	485,000	139,750		624,750
2032	520,000	108,225		628,225
2033	555,000	74,425		629,425
2034	590,000	38,350		628,350
	\$ 6,815,000	\$ 4,452,500	\$	11,267,500

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS (Continued)

PID 6			
SERIES - 2014 ROAD			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2018	\$	\$ 78,000	\$ 78,000
2019		78,000	78,000
2020		78,000	78,000
2021		78,000	78,000
2022		78,000	78,000
2023		78,000	78,000
2024		78,000	78,000
2025	100,000	78,000	178,000
2026	100,000	71,500	171,500
2027	100,000	65,000	165,000
2028	105,000	58,500	163,500
2029	110,000	51,675	161,675
2030	120,000	44,525	164,525
2031	130,000	36,725	166,725
2032	135,000	28,275	163,275
2033	145,000	19,500	164,500
2034	155,000	10,075	165,075
	\$ 1,200,000	\$ 1,009,775	\$ 2,209,775

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS (Continued)

PID 6
 SERIES - 2016 UTILITY

Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2018	\$	\$ 490,878	\$ 490,878
2019	120,000	461,400	581,400
2020	125,000	454,200	579,200
2021	130,000	446,700	576,700
2022	140,000	438,900	578,900
2023	155,000	430,500	585,500
2024	160,000	421,200	581,200
2025	270,000	411,600	681,600
2026	280,000	395,400	675,400
2027	290,000	378,600	668,600
2028	305,000	361,200	666,200
2029	320,000	342,900	662,900
2030	340,000	323,700	663,700
2031	365,000	303,300	668,300
2032	385,000	281,400	666,400
2033	410,000	258,300	668,300
2034	435,000	233,700	668,700
2035	1,085,000	207,600	1,292,600
2036	1,155,000	142,500	1,297,500
2037	1,220,000	73,200	1,293,200
	<u>\$ 7,690,000</u>	<u>\$ 6,857,178</u>	<u>\$ 14,547,178</u>

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS (Continued)

P I D 6 S E R I E S - 2 0 1 6 R O A D			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2018	\$	\$ 977,288	\$ 977,288
2019	485,000	918,600	1,403,600
2020	515,000	889,500	1,404,500
2021	550,000	858,600	1,408,600
2022	580,000	825,600	1,405,600
2023	615,000	790,800	1,405,800
2024	650,000	753,900	1,403,900
2025	590,000	714,900	1,304,900
2026	635,000	679,500	1,314,500
2027	680,000	641,400	1,321,400
2028	720,000	600,600	1,320,600
2029	765,000	557,400	1,322,400
2030	810,000	511,500	1,321,500
2031	855,000	462,900	1,317,900
2032	910,000	411,600	1,321,600
2033	965,000	357,000	1,322,000
2034	1,020,000	299,100	1,319,100
2035	1,245,000	237,900	1,482,900
2036	1,320,000	163,200	1,483,200
2037	1,400,000	84,000	1,484,000
	\$ 15,310,000	\$ 11,735,288	\$ 27,045,288

NOTE 14. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of September 30, 2017, the Capital Projects Funds owes the General Fund \$172,679 for capital construction cost paid by pooled cash and the Debt Service Fund owed the General Fund \$17,138 for maintenance tax collections.

During the current fiscal year, the General Fund transferred \$80,495 of special assessment revenue to the Debt Service Fund.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 135,000	\$ 144,851	\$ 9,851
Special Assessments		60,081	60,081
Water Service	803	141,531	140,728
Wastewater Service	516	56,188	55,672
Penalty and Interest		171	171
Permit and Inspection Fees	565,976		(565,976)
Franchise Fees		21,103	21,103
Strategic Partnership Revenue		1,092	1,092
Miscellaneous Revenues		6,538	6,538
TOTAL REVENUES	<u>\$ 702,295</u>	<u>\$ 431,555</u>	<u>\$ (270,740)</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 38,163	\$ 41,254	\$ (3,091)
Contracted Services	30,059	899	29,160
Allocated Costs to District 1-A	395,330	394,943	387
Purchased Water and Wastewater Services	123,964	30,323	93,641
Repairs and Maintenance			
Other	15,577	14,745	832
TOTAL EXPENDITURES	<u>\$ 603,093</u>	<u>\$ 482,164</u>	<u>\$ 120,929</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 99,202</u>	<u>\$ (50,609)</u>	<u>\$ (149,811)</u>
OTHER FINANCING SOURCES(USES)			
Transfers Out	<u>\$ -0-</u>	<u>\$ (80,495)</u>	<u>\$ (80,495)</u>
NET CHANGE IN FUND BALANCE	\$ 99,202	\$ (131,104)	\$ (230,306)
FUND BALANCE - OCTOBER 1, 2016	<u>(775,870)</u>	<u>(775,870)</u>	
FUND BALANCE - SEPTEMBER 30, 2017	<u>\$ (676,668)</u>	<u>\$ (906,974)</u>	<u>\$ (230,306)</u>

See accompanying independent auditor's report.

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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
SEPTEMBER 30, 2017

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 1” METER (OR EQUIVALENT):

Based on the rate order effective November 18, 2014.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 34.75	2,000	N	\$ 3.74 \$ 4.24 \$ 5.06 \$ 6.06 \$ 7.06 \$ 8.06	2,001 to 15,000 15,001 to 25,000 25,001 to 35,000 35,001 to 45,000 45,001 to 55,000 55,001 and up
WASTEWATER:	\$ 16.82		N	\$ 5.38	0,001 and up
SURCHARGE:					
Solid Waste/ Garbage	\$ 15.43 per month plus sales tax		Y		
Commission Regulatory Assessments	0.5% of actual water and sewer bill				

District employs winter averaging for wastewater usage?

<u> X </u>	_____
Yes	No

Total monthly charges per 10,000 gallons usage: Water: \$64.67 Wastewater: \$70.62 Surcharge: \$17.27

See accompanying independent auditor’s report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤ ³ / ₄ "	_____	_____	X 1.0	_____
1"	<u>2</u>	<u>2</u>	X 2.5	<u>5</u>
1½"	_____	_____	X 5.0	_____
2"	<u>4</u>	<u>4</u>	x 8.0	<u>32</u>
3"	<u>2</u>	<u>2</u>	x 15.0	<u>30</u>
4"	<u>1</u>	<u>1</u>	x 25.0	<u>25</u>
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water Connections	<u>9</u>	<u>9</u>		<u>92</u>
Total Wastewater Connections	<u>7</u>	<u>7</u>	x 1.0	<u>7</u>

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

Water Accountability Ratio: 82.4%
(Gallons billed and sold/Gallons
pumped and purchased)

Gallons billed to customers: 4,197,000

Gallons purchased: 5,096,000 From: Water Suppliers

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Denton 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 Lewisville, Texas.

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

PROFESSIONAL FEES:	
Auditing	\$ 15,900
Engineering	1,280
Legal	<u>24,074</u>
TOTAL PROFESSIONAL FEES	<u>\$ 41,254</u>
ALLOCATED COSTS TO DISTRICT 1-A:	
Personnel	\$ 119,862
Contract Labor	4,172
Purchased Water Services Demand Charge	76,231
Non-Potable Water Demand Charge	9,304
Purchased Wastewater Services Demand Charge	18,539
Utilities	21,999
Landscaping Maintenance	24,031
Repair and Maintenance	53,602
Office Rental	12,041
Supplies	6,555
Insurance	16,454
Capital Outlay	19,568
ARRA Payment	8,861
Other Operating Expenditures	<u>3,724</u>
TOTAL ALLOCATED COSTS TO DISTRICT 1-A	<u>\$ 394,943</u>
PURCHASED WATER AND WASTEWATER SERVICES:	
Purchased Water Services	\$ 26,568
Purchased Wastewater Services	<u>3,755</u>
TOTAL PURCHASED WATER AND WASTEWATER SERVICES	<u>\$ 30,323</u>
CONTRACTED SERVICES:	
Appraisal District	<u>\$ 899</u>

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

ADMINISTRATIVE EXPENDITURES:

Director Fees	\$ 5,400
Insurance	5,861
Office Supplies and Postage	2,190
Payroll Taxes	413
Travel and Meetings	433
Other	<u>22</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 14,319</u>
 TAP CONNECTIONS	 <u>\$ 426</u>
 TOTAL EXPENDITURES	 <u>\$ 482,164</u>

(Note: The District is allocated a portion of personnel cost from Denton County Fresh Water Supply District No. 1-A in accordance with an Operating Agreement.)

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
ANALYSIS OF TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Maintenance Tax		Contract Tax	
TAXES RECEIVABLE -				
OCTOBER 1, 2016	\$	-0-	\$	-0-
Adjustments to Beginning				
Balance	<u> </u>	\$ -0-	<u> </u>	\$ -0-
Original 2016 Tax Levy	\$	144,757	\$	833,994
Adjustment to 2016 Tax Levy	<u> </u>	<u> 94</u>	<u> </u>	<u> 542</u>
TOTAL TO BE		<u> 144,851</u>		<u> 834,536</u>
ACCOUNTED FOR		\$ 144,851		\$ 834,536
TAX COLLECTIONS:				
Prior Years	\$		\$	
Current Year	<u> 144,851</u>	<u> 144,851</u>	<u> 834,536</u>	<u> 834,536</u>
TAXES RECEIVABLE -				
SEPTEMBER 30, 2017		<u><u> -0-</u></u>		<u><u> -0-</u></u>

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>
PROPERTY VALUATIONS:			
Land	\$ 55,743,884	\$ 52,685,512	\$ 50,510,091
Improvements	42,517,784	215,560	210,569
Personal Property	0	210	210
Exemptions	<u>(322,975)</u>	<u>(982,767)</u>	<u>(982,915)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 97,938,693</u>	<u>\$ 51,918,515</u>	<u>\$ 49,737,955</u>
TAX RATES PER \$100 VALUATION:			
Contract	\$ 0.8521	\$ 1.00	\$ 0.9319
Maintenance	<u>0.1479</u>	<u> </u>	<u>0.0681</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>
ADJUSTED TAX LEVY*	<u>\$ 979,387</u>	<u>\$ 519,185</u>	<u>\$ 497,380</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

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

Maintenance Tax – Maximum tax rate in unlimited amount per \$100 of assessed valuation approved by voters on November 4, 2008.

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2017	2016	2015
REVENUES			
Property Taxes	\$ 144,851	\$	\$ 33,872
Special Assessments	60,081		
Water Service	141,531	46,067	1,582
Wastewater Service	56,188	11,485	4
Penalty and Interest	171	215	
Permit and Inspection Fees		166,462	552,613
Franchise Fees	21,103	10,649	528
Strategic Partnership Revenue	1,092		
Miscellaneous Revenues	6,538	296	180
TOTAL REVENUES	\$ 431,555	\$ 235,174	\$ 588,779
EXPENDITURES			
Professional Fees	\$ 41,254	\$ 45,611	\$ 71,174
Contracted Services	899	21,153	14,528
Allocated Costs to District 1-A	394,943	210,093	244,082
Purchased Water and Wastewater Services	30,323	980	50
Repairs and Maintenance		8,133	
Other	14,745	19,652	23,533
Capital Outlay			
TOTAL EXPENDITURES	\$ 482,164	\$ 305,622	\$ 353,367
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (50,609)	\$ (70,448)	\$ 235,412
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$ (80,495)	\$	\$ (46,309)
Developer Contribution		80,712	
TOTAL OTHER FINANCING SOURCES (USES)	\$ (80,495)	\$ 80,712	\$ (46,309)
NET CHANGE IN FUND BALANCE	\$ (131,104)	\$ 10,264	\$ 189,103
BEGINNING FUND BALANCE	(775,870)	(786,134)	(975,237)
ENDING FUND BALANCE	\$ (906,974)	\$ (775,870)	\$ (786,134)

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2014	2013	2017	2016	2015	2014	2013
\$	\$	33.6 %	%	5.8 %	%	%
		13.9				
1,152	1,596	32.8	19.6	0.2	30.7	20.8
317	463	13.0	4.9		8.5	6.0
10	5		0.1		0.3	0.1
2,205	2,270		70.8	93.9	58.9	29.6
61	135	4.9	4.5	0.1	1.6	1.8
		0.3				
	3,212	1.5	0.1			41.7
<u>\$ 3,745</u>	<u>\$ 7,681</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 37,321	\$ 63,438	9.6 %	19.4 %	12.1 %	996.6 %	825.9 %
16,185	8,754	0.2	9.0	2.5	432.2	114.0
116,685	71,877	91.5	89.3	41.5	3,115.8	935.8
716	1,102	7.0	0.4		19.1	14.3
			3.5			
15,388	9,130	3.4	8.4	4.0	410.9	118.9
	34,483					448.9
<u>\$ 186,295</u>	<u>\$ 188,784</u>	<u>111.7 %</u>	<u>130.0 %</u>	<u>60.1 %</u>	<u>4,974.6 %</u>	<u>2,457.8 %</u>
<u>\$ (182,550)</u>	<u>\$ (181,103)</u>	<u>(11.7) %</u>	<u>(30.0) %</u>	<u>39.9 %</u>	<u>(4,874.6) %</u>	<u>(2,357.8) %</u>
\$	\$					
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ (182,550)	\$ (181,103)					
<u>(792,687)</u>	<u>(611,584)</u>					
<u>\$ (975,237)</u>	<u>\$ (792,687)</u>					

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2017	2016	2015
REVENUES			
Property Taxes	\$ 834,536	\$ 519,185	\$ 463,508
Special Assessments	29,739		
Interest on Investments	1,424	130	89
Miscellaneous Revenues	38		
TOTAL REVENUES	\$ 865,737	\$ 519,315	\$ 463,597
EXPENDITURES			
Tax Collection Expenditures	\$ 34,087	\$ 10,842	\$ 17,123
Contract Tax Obligation - City of Lewisville	792,550	793,150	539,321
Bond Issuance Costs	825,250		
TOTAL EXPENDITURES	\$ 1,651,887	\$ 803,992	\$ 556,444
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (786,150)	\$ (284,677)	\$ (92,847)
OTHER FINANCING SOURCES (USES)			
Developer Contributions	\$	\$ 307,361	\$
Transfers In(Out)	80,495		46,309
Contribution by PID 6	4,026,000		29,482
TOTAL OTHER FINANCING SOURCES (USES)	\$ 4,106,495	\$ 307,361	\$ 75,791
NET CHANGE IN FUND BALANCE	\$ 3,320,345	\$ 22,684	\$ (17,056)
BEGINNING FUND BALANCE	842,225	819,519	836,575
ENDING FUND BALANCE	\$ 4,162,570	\$ 842,203	\$ 819,519
TOTAL ACTIVE RETAIL WATER CONNECTIONS	9	7	2
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	7	6	-0-

See accompanying independent auditor's report.

		Percentage of Total Revenue				
<u>2014</u>	<u>2013</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$	\$	96.4 % 3.4 0.2	100.0 %	100.0 %	%	%
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>0.0 %</u>	<u>0.0 %</u>
\$	\$	3.9 % 91.5 95.3	2.1 % 152.7	3.7 % 116.3	%	%
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>190.7 %</u>	<u>154.8 %</u>	<u>120.0 %</u>	<u>0.0 %</u>	<u>0.0 %</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>(90.7) %</u>	<u>(54.8) %</u>	<u>(20.0) %</u>	<u>0.0 %</u>	<u>0.0 %</u>
\$ 836,575	\$					
<u>\$ 836,575</u>	<u>\$ - 0 -</u>					
\$ 836,575	\$ - 0 -					
<u>\$ 836,575</u>	<u>\$ - 0 -</u>					
<u>2</u>	<u>3</u>					
<u>1</u>	<u>2</u>					

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2017**

District Mailing Address - Denton County Fresh Water Supply District No. 1-H
2540 King Arthur, Suite 220
Lewisville, TX 75056

District Telephone No. - (972) 899-4000

Board Members	Term of Office (Elected or Appointed)	Fees of office for the year ended <u>September 30, 2017</u>	Expense Reimbursements for the year ended <u>September 30, 2017</u>	<u>Title</u>
Ralph Hunter	05/16 05/20 (Elected)	\$ 600	\$ 108	President
Patti Brown	05/14 05/18 (Elected)	\$ 1,200	\$ 17	Vice President
Corwin Snow	05/16 05/20 (Elected)	\$ 900	\$ 129	Secretary
Michael Clark	05/14 05/18 (Elected)	\$ 1,350	\$ 72	Treasurer/ Assistant Secretary
John Lessner	05/16 05/20 (Elected)	\$ 1,350	\$ 106	Assistant Secretary

Note: 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 developer or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): April 4, 2017.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by the Texas Water Code Section 49.060. On May 18, 2005, the District formally adopted a Resolution setting the limits for its Directors at \$3,500. Fees of office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2017

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2017</u>	<u>Title</u>
Hurt & Berry, LLP	05/03/10	\$ -0-	Attorney
Winstead PC	09/22/15	\$ 26,264	Attorney
McCall Gibson Swedlund Barfoot PLLC	09/17/13	\$ 15,900	Auditor
Land Design, Inc.	01/16/13	\$ 330,686	Engineer
Robert Flint		\$ -0-	Investment Officer
Denton County Tax Collector	Legislative Action	\$ -0-	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX G

FINANCIAL INFORMATION CONCERNING THE DEVELOPER

The Developer has delivered the financial information included in this APPENDIX G (the "Financial Information") to the District for publication in connection with the District's offer and sale of the Bonds. The Financial Information has been included herein solely as additional information concerning the financial condition and capability of the Developer. Such Financial Information is relevant, among other reasons, to the Developer's ability to continue developing its land within the District and to pay ad valorem taxes thereon, and to preserve its financial investment in the District. See "THE DEVELOPER". The Developer is not responsible for, liable for, and has not made any commitment for payment of the Bonds or other obligations of the District or the Issuer and the inclusion of the Financial Information herein should not be construed as an implication to that effect. The Developer has no legal commitment to the District, the Issuer, or holders of the Bonds to continue development of land within the District and may sell or otherwise dispose of property within the District, or any other assets, at any time. Further, the Developer's financial condition is subject to change, and, except as stated in this Limited Offering Memorandum under the section captioned "CONTINUING DISCLOSURE OF INFORMATION," financial information concerning the Developer will not be provided by the District after the sale of the Bonds. Therefore, the District cautions that the Financial Information should not be construed or interpreted as an indication of the investment security of the Bonds.

The Developer has represented to the District that the Financial Information has been prepared from its books and records, has been prepared in accordance with generally accepted accounting principles, fairly represents the financial condition of the Developer as the date indicated, and does not fail to disclose any material fact or omit to state any material facts necessary to make such Financial information not misleading and that there has not been any material adverse change in the financial condition of the Developer since the date on which the financial information is presented.

The following financial information of the Developer is included in this Appendix G:

Bright Realty

1. Audited Financial Statements as of December 31, 2017 and 2016
2. Unaudited Balance Sheet and Income Statement as of September 30, 2018.

Consolidated Financial Statements – Contractual Basis and Report of Independent
Certified Public Accountants

Bright Realty, LLC

December 31, 2017 and 2016

Bright Realty, LLC

CONSOLIDATED FINANCIAL STATEMENTS – CONTRACTUAL BASIS

December 31, 2017 and 2016

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Consolidated Statements of Cash Flows – Contractual Basis	7
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
1717 Main Street, Suite 1800
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)
twitter.com/GrantThorntonUS

The Members
Bright Realty, LLC

We have audited the accompanying financial statements of Bright Realty, LLC (a Texas Limited Liability Company) (the “Company”), which comprise the consolidated balance sheets – contractual basis as of December 31, 2017 and 2016, and the consolidated statements of operations – contractual basis, changes in member’s equity – contractual basis, and cash flows – contractual basis for the years then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the contracts (the “Contracts”) between the Company and Frontier State Bank, First United Bank, Plains Capital Bank, Texas Bank and Trust Company, Berkadia Commercial Mortgage LLC, and Texas Capital Bank (“the Lenders”). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated balance sheets – contractual basis as of December 31, 2017 and 2016, and the consolidated statements of operations – contractual basis, changes in member’s equity – contractual basis, and cash flows – contractual basis for the years then ended in accordance with the financial reporting provisions of the Contracts.

Basis of accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting used to comply with the financial reporting provisions of the Contracts. The financial statements are prepared by the Company on the basis of the financial reporting provisions of the Contracts, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Restriction on use

Our report is intended solely for the information and use of those charged with governance, management, others within the Company, Frontier State Bank, First United Bank, Plains Capital Bank, Texas Bank and Trust Company, Berkadia Commercial Mortgage LLC, and Texas Capital Bank, and is not intended to be, and should not be, used by anyone other than these specified parties.

GRANT THORNTON LLP

Dallas, Texas

March 21, 2018

Bright Realty, LLC

CONSOLIDATED BALANCE SHEETS – Contractual Basis

December 31,

ASSETS	<u>2017</u>	<u>2016</u>
Real estate inventory		
Land under development	\$ 1,134,082	\$ 24,320,761
Condominium inventory	3,569,527	-
Lot inventory	35,933,666	14,444,914
Land inventory	<u>40,184,996</u>	<u>40,180,678</u>
Total real estate inventory	80,822,271	78,946,353
Fixed assets		
Land, buildings, and improvements	47,752,049	109,719,672
Accumulated depreciation	<u>(11,014,344)</u>	<u>(10,759,213)</u>
Total fixed assets, net	36,737,705	98,960,459
Total real estate inventory and fixed assets, net	117,559,976	177,906,812
Cash	2,787,195	9,474,768
Restricted cash	1,208,656	-
Trade receivables, net	1,894,479	494,542
Related party receivables, net	377,571	82,181
Receivables from water district, net	6,223,479	10,017,243
Other assets, net	1,358,629	1,292,532
Investment in related party	<u>3,791,858</u>	<u>-</u>
Total assets	<u>\$135,201,843</u>	<u>\$199,268,078</u>
 LIABILITIES AND MEMBER'S EQUITY		
Liabilities		
Trade payables	\$ 2,299,795	\$ 1,379,397
Related party payables	143,473	220,544
Customers' deposits	3,074,201	2,727,247
Related party customers' deposits	3,576,690	6,125,520
Other accrued liabilities	4,011,962	5,031,114
Loans payable	64,928,250	110,880,557
Note payable to related party	<u>1,914,248</u>	<u>16,928,248</u>
Total liabilities	79,948,619	143,292,627
Commitments and contingencies (Note I)		
Member's equity	51,969,940	50,817,289
Non-controlling interests	<u>3,283,284</u>	<u>5,158,162</u>
Total member's equity and non-controlling interests	<u>55,253,224</u>	<u>55,975,451</u>
Total liabilities and member's equity	<u>\$135,201,843</u>	<u>\$199,268,078</u>

The accompanying notes are an integral part of these consolidated financial statements – contractual basis.

Bright Realty, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS – Contractual Basis

Years ended December 31,

	<u>2017</u>	<u>2016</u>
Revenue		
Lot, land, and condominium sales	\$22,942,504	\$36,230,432
Rental revenue	5,832,056	4,319,842
Landscaping revenue	6,866,580	7,659,819
Lease commission revenue	812,291	961,558
Management and development fee revenue	<u>633,662</u>	<u>6,603,457</u>
Total revenues	37,087,093	55,775,108
Expenses		
Cost of lot, land, and condominium sales	16,563,934	20,989,165
Cost of landscaping materials	1,542,926	2,788,339
Wages and other direct employment expenses	7,405,287	7,906,133
Administrative expenses	3,485,879	3,867,476
Abandonment of project costs	-	6,100
Repairs and maintenance expense	1,020,300	937,627
Utilities	573,370	481,025
Advertising expense	1,084,621	1,054,564
Insurance expense	388,750	361,969
Property tax expense	2,898,380	2,325,867
Depreciation and amortization expense	<u>2,846,264</u>	<u>2,628,520</u>
Total expenses	<u>37,809,711</u>	<u>43,346,785</u>
Income (loss) before taxes and other income and expenses, net	(722,618)	12,428,323
Gain on sale of assets	803,054	-
Gain on sale of assets to related party	7,386,482	-
Interest expense, net	<u>(4,938,535)</u>	<u>(3,966,405)</u>
Income from operations before income taxes	2,528,383	8,461,918
Income taxes	<u>235,882</u>	<u>96,533</u>
Income before equity in net loss of related party	2,292,501	8,365,385
Equity in net loss of related party	<u>(382,728)</u>	<u>-</u>
Total net income	1,909,773	8,365,385
Net income attributable to non-controlling interests	<u>757,122</u>	<u>2,218,803</u>
Net income attributable to Bright Realty, LLC	<u>\$ 1,152,651</u>	<u>\$ 6,146,582</u>

The accompanying notes are an integral part of these consolidated financial statements – contractual basis.

Bright Realty, LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY – Contractual Basis

For the years ended December 31, 2017 and 2016

	<u>Bright Realty, LLC</u>	<u>Non-controlling interests</u>	<u>Total</u>
Balance on January 1, 2016	\$44,794,906	\$ 6,584,399	\$51,379,305
Distributions	(164,594)	(5,023,702)	(5,188,296)
Contributions	40,395	1,378,662	1,419,057
Net income	<u>6,146,582</u>	<u>2,218,803</u>	<u>8,365,385</u>
Balance on December 31, 2016	50,817,289	5,158,162	55,975,451
Distributions	-	(3,917,000)	(3,917,000)
Contributions	-	1,285,000	1,285,000
Net income	<u>1,152,651</u>	<u>757,122</u>	<u>1,909,773</u>
Balance on December 31, 2017	<u>\$51,969,940</u>	<u>\$ 3,283,284</u>	<u>\$55,253,224</u>

The accompanying notes are an integral part of these consolidated financial statements – contractual basis.

Bright Realty, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS – Contractual Basis

Years ended December 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Net income attributable to Bright Realty, LLC	\$ 1,152,651	\$ 6,146,582
Net income attributable to non-controlling interests	757,122	2,218,803
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization of real estate and real estate commissions	2,846,264	2,620,447
Amortization of loan costs	507,121	203,918
Bad debt expense	33,402	(2,612)
Non-cash interest expense	-	898,260
Equity in loss of related party	382,728	-
Gain on sale of assets	(803,054)	-
Non-cash gain on sale to related party	(7,386,482)	-
Changes in operating assets and liabilities:		
Real estate inventory	5,511,439	(9,629,810)
Trade receivables and other assets	(2,736,984)	53,547
Related party receivables	(295,390)	319,214
Trade payables and other accrued liabilities	(734,773)	(3,757,283)
Related party payables	(77,071)	(497,050)
Customers' deposits	712,369	(1,749,802)
Related party customers' deposits	<u>(2,548,830)</u>	<u>2,814,560</u>
Net cash provided by (used in) operating activities	(2,679,488)	(361,226)
Cash flows from investing activities		
Additions to land, buildings, and improvements	(11,795,604)	(31,696,250)
Proceeds from sale of assets, net of transaction costs	3,998,079	-
Change in restricted cash	(1,208,656)	250,764
Changes in receivables from Water District	3,793,764	1,021,047
Contributions to investment in related party	(321,515)	-
Distribution from investment in related party	<u>65,000</u>	<u>-</u>
Net cash used in investing activities	(5,468,932)	(30,424,439)
Cash flows from financing activities		
Equity contributions from member	-	40,395
Equity distributions to member	-	(164,594)
Equity contributions from non-controlling interests	1,285,000	1,378,662
Equity distributions to non-controlling interests	(3,917,000)	(5,023,702)
Loan origination costs paid	(430,882)	(191,393)
Increase in loans payable	76,549,072	72,908,440
Increase in note payable to related party	1,000	10,000
Repayment of loans payable	(72,011,343)	(31,095,532)
Repayment of loans payable to related party	<u>(15,000)</u>	<u>(437,829)</u>
Net cash provided by financing activities	<u>1,460,847</u>	<u>37,424,447</u>
Net increase (decrease) in cash	(6,687,573)	6,638,782
Cash, excluding restricted cash at beginning of year	<u>9,474,768</u>	<u>2,835,986</u>
Cash, excluding restricted cash at end of year	\$ <u>2,787,195</u>	\$ <u>9,474,768</u>

NON-CASH AND SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: See Note B

The accompanying notes are an integral part of these consolidated financial statements – contractual basis.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS

December 31, 2017 and 2016

NOTE A - DESCRIPTION OF BUSINESS

The accompanying consolidated financial statements – contractual basis as of December 31, 2017 and 2016 present the consolidated balance sheets – contractual basis, related consolidated statements (all on a contractual basis) of operations, changes in member’s equity, and cash flows of Bright Realty, LLC, a Texas Limited Liability Company, its subsidiaries and variable interest entities for which it is the primary beneficiary (“the Company”). The summary of significant accounting policies and footnotes to the consolidated financial statements – contractual basis of the Company should be read in conjunction with the consolidated financial statements – contractual basis. The Company, a commercial real estate entity based in Dallas, Texas, was established in Texas on December 30, 2011. The sole member of Bright Realty, LLC is Bright Industries, LLC (“BILL”).

The Company’s significant operating subsidiaries include the following:

- BRECO Services, LLC (“Services”)
 - Bright Realty Brokerage, LLC (“Brokerage”)
 - Bright Realty Management, LLC (“Management”)
 - Infinity Lawn and Landscape, LLC (“Infinity”)
- Bright Realty Development, LLC (“Development”)
 - Castle Hills Village Shops, LLC (“CHVS”)
 - BRECO Res SF CH, LLC (“Residential”)
- Bright Realty Lands, LLC (“Lands”)
 - BRECO Lands CH, LLC (“Lands CH”)

The Company offers landscaping, brokerage and leasing, tenant representation, construction management, and property management services. The Company also offers a diverse group of properties for lease, including office, multifamily housing, retail, and mixed-use. In addition, the Company develops and sells single family residential lots, and engages in the acquisition, investment, leasing and sale of land.

On July 31, 2017, the Company sold a controlling 65% interest in Realm MF CH Phase I, LLC (“Realm MF”) and Discovery CH, LLC (“Discovery”) to BILL in exchange for a reduction of \$15,000,000 of its note payable to BILL. The Company also recognized a gain on sale of assets to related party of \$7,386,482 for the consideration paid in excess of 65% interest in the net assets of Realm MF and Discovery. The assignment reduced the Company’s fixed assets by \$62,852,474, cash, receivables and other assets by \$1,255,788 and liabilities by \$52,395,157. Discovery was determined to be a Variable Interest Entity (“VIE”), but the Company is not the primary beneficiary of the VIE and has recorded an equity interest in Discovery. The Company is a guarantor of the Discovery loan with Berkadia Commercial Mortgage, LLC. See Note E for additional details on the Company’s guarantee.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements – contractual basis as of December 31, 2017 and 2016 include the balances of the Company. All significant intercompany transactions and balances have been eliminated upon consolidation.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Consolidation of Variable Interest Entities

CH PH 7, LLC (“PH 7”), CH PH 8, LLC (“PH 8”), CH PH 9, LLC (“PH 9”), SEC JWH, LLC (“SEC JWH”), 4920 Hwy 121, LLC (“4920”), 2300 Parker, LLC (“2300”), 264 John Jones, LLC (“264”), and 615 FM 2281, LLC (“615”), subsidiaries of Development, were determined to be VIEs under the Company. The Company has the power to direct the activities of the VIEs, and has an economic interest to absorb future losses or receive future benefits of the entities. The consolidated financial statements – contractual basis include the VIEs’ assets and liabilities with the Company. The VIEs’ equity, owned by an affiliate and third parties outside the Company, is recorded as a non-controlling interest.

Contractual Basis Method of Accounting

The accompanying consolidated financial statements - contractual basis have been prepared for the purposes of complying with the reporting requirements of contracts between the Company and its lenders. Accordingly, the consolidated financial statements – contractual basis have been prepared on a contractual basis and are not intended to be presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). However, the contractual basis requires that financial statements be reported in accordance with GAAP, with the exception of gain on sales of assets to related parties.

Reclassifications

The Company has reclassified certain amounts in the prior year consolidated financial statements – contractual basis to conform to the 2017 presentation.

The Company reclassified \$220,544 trade payables to related party payables and \$6,125,520 of customer deposits to related party customer deposits for the year ended December 31, 2016. Additionally, \$82,181 of 2016 trade receivables were reclassified to related party receivables. The reclassification has no impact on the Company’s financial position, results of operations, or cash flows.

Liquidity

Management believes that it has sufficient resources to fund its operations over the next twelve months from existing cash balances, rental operations and expected lot, land, and building sales. Should additional cash needs arise, such needs will be funded through draws on the Company’s revolving promissory note with BILL and/or additional contributions from BILL.

Investment in Related Party

The Company owns a 35% investment in Realm MF, a related party. The Company recognizes a proportionate share of income and losses from Realm MF under the equity method of accounting. The Company uses the equity method to account for investments in entities it does not control, but over which it has the ability to exercise significant influence. Under the equity method, investments are initially recognized on the consolidated balance sheet at cost and are subsequently adjusted to reflect the Company’s proportionate share of net earnings or losses, distributions received and certain other adjustments, as appropriate.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Real Estate Inventory

Condominium inventory is stated at cost. Cost includes amounts incurred for land, direct and other construction costs, interest and property taxes.

Land under development is stated at cost. Interest and property taxes are capitalized until such time as the land under development is deemed to be substantially complete. Once the Company has substantially completed development, the land is transferred to lot inventory for sale to homebuilders. The Company capitalized \$967,430 and \$2,115,769 of interest in 2017 and 2016, respectively.

Lot and land inventory was originally recorded based on its fair value at the date of contribution by the owners. Subsequent additions are stated at cost. Maintenance and administrative costs incurred on undeveloped land are expensed as incurred. Upon the commencement of active development and construction, direct costs are capitalized as incurred.

Land, buildings, and improvements are stated at cost. Expenditures for significant renovations, additions, renewals, and betterments that extend the economic useful lives of the assets are capitalized; expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation of commercial and apartment buildings above podiums are computed using the straight-line method over 39 years. Podiums under apartment buildings are depreciated using the straight-line method over 100 years. Tenant improvements are capitalized and depreciated using the straight-line method over the life of the related lease. Furniture, fixtures, and equipment, inclusive of capital leases, are capitalized and depreciated using the straight-line method over estimated useful lives ranging from 3 to 7 years.

Cash and Restricted Cash

Cash consists exclusively of bank deposits. The Company has cash balances placed with federally insured institutions which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risks on such accounts. The Company's restricted cash balance as of December 31, 2017 is \$1,208,656 related to its loan with Plains Capital Bank. The restricted funds were advanced on the CH PH 12, LLC ("PH 12") loan and are exclusively for the development of PH 12.

Supplemental Cash Flow Disclosure

The Company paid interest, net of capitalized amounts, of \$4,519,757 and \$2,896,051 during 2017 and 2016, respectively. Additionally, the Company paid income taxes of \$214,964 and \$399,786 during 2017 and 2016, respectively.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Company's non-cash investing and financing activity for capital expenditures funded by capital lease borrowings was \$224,795 and \$- for the years ended December 31, 2017 and 2016, respectively. Additionally, accruals for construction in progress were \$1,645,027 and \$- as of December 31, 2017 and 2016. Finally, the Company sold a \$7,613,518 investment in Discovery in exchange for \$15,000,000 forgiveness of note payable to related party. This transaction resulted in the non-cash gain on sale to related party of \$7,386,482.

Trade Receivables, Net

Trade receivables outstanding longer than the contractual terms, usually sixty days, are considered past due. Trade receivables are presented net of the allowance for doubtful accounts of \$93,714 and \$228,389 as of December 31, 2017 and 2016, respectively. Allowance for doubtful accounts is based on past experience, condition of aged receivables, and current economic conditions. The Company writes off trade receivables when they become uncollectible, and payments subsequently received on such receivables are credited to bad debt expense in the period the payment is received.

Receivables from Water District, Net

The Company has receivables from the Denton County Fresh Water Supply District (the "Water District"), a political subdivision of the State of Texas, of \$6,223,479 and \$10,017,243 as of December 31, 2017 and 2016, respectively. The receivables held are for the establishment of infrastructure on behalf of the Water District and will be paid from future ad valorem taxes generated within the Water District over a period of one to three years, depending on the ad valorem tax base of the sub-districts. Receivables are reduced by an allowance for amounts that may become uncollectible in the future.

Deferred Loan Costs, Net

Deferred loan costs are amortized on a straight-line basis over the term of the loan as a component of interest expense, which approximates the effective interest rate method. Loan amortization expenses were \$507,121 and \$203,918 for the years ended December 31, 2017 and 2016, respectively. During the construction period, amortization of deferred loan costs are capitalized as construction in progress.

Other Assets, Net

Other assets are primarily comprised of leasing commissions, deferred rent receivables, and other miscellaneous prepaid and other assets. Leasing commissions paid are capitalized and amortized on a straight-line basis over the life of the related lease. Deferred rent receivables arise from the straight-line recognition of rent revenues.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Impairment of Long-Lived Assets

The Company records impairment losses on long-lived assets when events or circumstances indicate that the assets might be impaired and the estimated undiscounted cash flows to be generated by those assets are less than the carrying amounts of those assets. Assets are recorded at cost, net of reductions for impairment. No impairment losses were recognized for the years ended December 31, 2017 and 2016.

Customers' Deposits

Customers' deposits primarily consist of deposits made to the Company for options to purchase developed lots. Income from forfeited land deposits is recognized upon default by the buyer, as defined in the purchase agreement. Customers' deposits also include tenant security deposits. Security deposits are collected from tenants upon commencement of a lease agreement. Upon receipt of cash, the Company records a corresponding tenant security deposit liability. Revenue from forfeited security deposits is recognized upon termination of the lease agreement.

Other Accrued Liabilities

Other accrued liabilities are primarily comprised of accrued property taxes, accrued interest, and accrued state income tax.

Revenue Recognition

Revenues from lot, land, and condominium sales are recognized using the full-accrual method when the lot, land, or condominium is sold, profit is determinable, title passes to the buyer, there are no significant obligations on the part of the Company, and the buyer's commitment to pay is supported by a substantial initial and continuing investment. Recovery of home owner association dues and property taxes recorded as expenses in current and prior years are also included in revenues from lot, land, and condominium sales. Gains or losses on sales of real estate may be deferred in whole or in part until the requirements for gain recognition have been met.

Rental revenue from leasing activities is recognized using the straight-line method. The rental revenues for certain leases, which contain rent abatements and contractual increases, are recognized on a straight-line basis over the initial term of the related leases. Accordingly, the difference between rental income on a straight-line basis and rent contractually due to the Company is presented as a deferred rent receivable in other assets in the accompanying consolidated balance sheets. Property operating cost recoveries from tenants of common area maintenance, real estate taxes, and other recoverable costs are recognized in the period when the expenses are incurred.

Revenues from landscaping services are recognized in accordance with contract terms or at the time services are performed.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Development and management fees are generated primarily through fees from related parties, and are recognized in accordance with contract terms at the time the services are performed or at completion of development.

Fair Value of Financial Instruments

The Company's financial instruments include cash, trade receivables, net, loans payable, note payable to related party, other accrued liabilities, related party payable, and receivables from the Water District. The carrying value of the financial instruments approximates fair value as of December 31, 2017 and 2016.

Advertising

The Company expenses advertising costs as incurred. The total advertising expense amounted to \$1,084,621 and \$1,054,564 for the years ended December 31, 2017 and 2016, respectively.

Income Taxes

Income or loss of the Company is included in its member's and partners' tax returns. Accordingly, no provision is made for federal income taxes in the accompanying consolidated financial statements – contractual basis. The Company estimated state income tax expense of \$235,882 and \$96,533 for the years ended December 31, 2017 and 2016, respectively. The Company has not incurred any penalties or interest for income taxes for 2017 and 2016.

As required by the uncertain tax position guidance, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements – contractual basis is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company does not have any uncertain tax positions as of December 31, 2017 and 2016.

Use of Estimates

The preparation of financial statements – contractual basis requires management to make estimates and assumptions that affect the amounts reported in the financial statements – contractual basis and accompanying notes. Actual results could differ from those estimates.

Non-controlling Interests

Interests held in consolidated entities by parties other than the Company are reflected as non-controlling interests on the consolidated balance sheets – contractual basis and statements of operations – contractual basis. Non-controlling interests represent the non-controlling parties' share of the underlying net assets of the Company's consolidated subsidiaries.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 is applicable for fiscal years beginning after December 15, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted in the fiscal year beginning after December 15, 2016. The Company is currently evaluating the impact of the new guidance.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842) Section A” which supersedes existing lease guidance under current GAAP. The new standard requires entities to record on the balance sheet certain leases previously classified as operating leases. This accounting standard, which is effective for the Company beginning with the year ended December 31, 2020, may be early adopted and is to be applied retrospectively. The Company is currently assessing the impact this guidance will have on its financial statements – contractual basis.

NOTE C - FIXED ASSETS

The categories of land, buildings, and improvements as of December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 762,161	\$ 3,175,910
Buildings	21,853,193	80,048,589
Improvements	6,702,181	9,603,574
Construction in progress	14,471,952	12,603,367
Capital leases	1,833,526	1,829,522
Furniture, fixtures, and equipment	<u>2,129,036</u>	<u>2,458,710</u>
Land, buildings, and improvements	47,752,049	109,719,672
Less accumulated depreciation – capital leases	(1,064,631)	(813,728)
Less accumulated depreciation - other	<u>(9,949,713)</u>	<u>(9,945,485)</u>
Land, buildings, and improvements, net	<u>\$36,737,705</u>	<u>\$ 98,960,459</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$2,682,989 and \$2,555,491, respectively, and includes depreciation of capital leases. Construction in progress relates to various development projects.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE D - INVESTMENT IN NON-CONSOLIDATED AFFILIATE

On September 6, 2013, Lands CH contributed cash of \$2,943,525 to Fund I to become a 99.0% limited partner of Fund I. Fund I's principal purpose is to assemble a portfolio of real property development assets, most likely concentrated in the Castle Hills area of the Dallas-Fort Worth Metroplex. Fund I contributed cash of \$2,850,000 to PH 7 on the same day to have a 99.9% interest in PH 7. Refer to Note I for discussion of PH 7 as a variable interest entity.

On December 30, 2013, Lands CH contributed additional cash of \$3,479,184 to Fund I to remain the 99.0% limited partner of Fund I. Fund I contributed cash of \$3,479,184 to PH 8 on the same day to have a 48.0% interest in PH 8. CHPC Commercial, Ltd., a third party, contributed land for \$3,765,763 to receive a 51.9% non-controlling interest of PH 8. Refer to Note I for discussion of PH 8 as a variable interest entity.

Due to the fact that the Company's contributions to Fund I were ultimately contributed to PH 7 and PH 8 the Company has netted their investment in Fund I with their ultimate investment in PH 7 and PH 8. Therefore, the only information shown for non-controlling interest is the third party interest in PH 7 and PH 8.

NOTE E - LOANS PAYABLE

Loans payable as of December 31, 2017 and 2016 consist of the following:

- Frontier Term Loan:

The Company entered into a term loan with Frontier State Bank on January 11, 2012 for a commitment of \$20,000,000 at a rate of Wall Street Journal Prime Rate with a floor of 5% per annum for the purpose of paying off and refinancing existing loans. Principal payments of \$250,000 plus interest are due on the last day of each calendar quarter with additional principal reduction payments made within five days of notice from the lender to reduce the loan to value ratio to below 25% of the appraisal value of the real estate inventory. The term loan is collateralized by a portion of the real estate inventory held by the Company. On September 30, 2014, the Company restated and amended the note. The amendment increased the funds available to the Company by \$5,382,701 and extended the loan to July 31, 2019. Interest rates remained the same as the original loan. The total amount outstanding as of December 31, 2017 and 2016 was \$15,420,000 and \$16,450,000, respectively. The loan is guaranteed by the owners Chris Bright ("Chris") and Clay Bright ("Clay"), and BILL.

- CHVS First United Bank Term Loan:

On May 19, 2016, CHVS entered into a term loan with First United Bank ("FUB") for \$15,250,000 at the greater of WSJ Prime rate plus .5% or 4% for the purpose of paying off and refinancing an existing credit agreement. The rate as of December 31, 2016 was 4.25%. CHVS pays interest only through May 19, 2017; thereafter, monthly installments of principal and interest, based upon a 25 year amortization until maturity on May 19, 2021. Upon maturity, all outstanding principal and accrued interest is due. The term loan, which is guaranteed by BRECO, is secured by the rental real estate property of CHVS. The total amount outstanding as of December 31, 2017 and 2016 was \$15,098,701 and \$15,250,000, respectively.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE E - LOANS PAYABLE - Continued

- CHVS Phase 5 Construction Loan:

On May 19, 2016, CHVS entered into a construction loan with FUB containing a term loan commitment of \$6,400,000 at the greater of WSJ Prime rate plus .5% or 4% for the purpose of financing the construction of the fifth phase of the CHVS rental real estate. The rate as of December 31, 2016 was 4.25%. CHVS pays interest only through May 19, 2017; thereafter, monthly installments of principal and interest, based upon a 25 year amortization until maturity on May 19, 2021. Upon maturity, all outstanding principal and accrued interest is due. The term loan, which is guaranteed by BRECO, is secured by the rental real estate property of CHVS. The total amount outstanding as of December 31, 2017 and 2016 was \$5,417,448 and \$1,508,917, respectively.

- PH 9 Line of Credit:

On April 2, 2015, PH 9, a subsidiary of Residential, entered into a credit facility with Plains Capital Bank containing a term loan commitment of \$11,662,500 at the lesser of the maximum rate allowed by law or a variable rate of WSJ Prime plus .50% with a floor of 3.50% for the purpose of financing the construction of single family residential lots. The rate as of December 31, 2015 was 4.00%. PH 9 pays only interest through March 31, 2016; thereafter, a principal payment of \$1,890,000 plus accrued interest shall be due and payable no later than April 1, 2016, which was paid from the initial takedown of the lots in the first quarter of 2016. Quarterly principal payments of \$945,000 plus accrued interest are due on or before July 1, 2016, and on the same day of each October, January, April and July thereafter, and one final payment of the outstanding principal balance of this credit facility, including accrued and unpaid interest, on July 1, 2018. The line of credit, which is guaranteed by BILL, is secured by the land which is to be developed into lots. The total amount outstanding as of December 31, 2016 was \$3,540,941. The loan was paid in full in 2017.

- Discovery Phase I Mezzanine Credit Facility:

On November 17, 2014, Realm MF entered into a mezzanine construction loan with SBNP SIA, LLC containing a loan commitment of \$12,000,000 at a fixed rate of 12.5% for the purpose of financing the construction of apartment units owned by the Discovery. Realm MF pays 8% interest only while accruing 4.5% interest until maturity on November 17, 2017. The loan can be extended through November 17, 2019 by exercising two separate one year extensions. Upon maturity, all outstanding principal and accrued interest is due. Management intends to extend the loan or refinance in 2017 with a permanent loan when stabilization is achieved. The loan is secured by a pledge of all ownership interests in the Discovery and is guaranteed by BILL. The total amount outstanding as of December 31, 2016 was \$11,146,961. The outstanding amount of accrued interest as of December 31, 2016 was \$672,165. The outstanding principal and accrued interest were paid in full in 2017.

- Discovery Phase I Senior Credit Facility:

On November 17, 2014, the Discovery entered into a construction loan with Mutual of Omaha Bank containing a loan commitment of \$43,000,000 at a variable rate of LIBOR 30 plus 2.75% for the purpose of financing the construction of apartment units. The rate as of December 31, 2016 was 3.52%. The Discovery paid interest only through maturity on November 17, 2017. The total amount outstanding as of December 31, 2016 was \$42,455,795. The loan was paid in full in 2017 through refinancing with Berkadia Commercial Mortgage.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE E - LOANS PAYABLE - Continued

- Discovery Phase I Berkadia Credit Facility:

On July 17, 2017, the Discovery entered into a loan with Berkadia Commercial Mortgage, LLC containing a loan commitment of \$51,375,000 at a fixed rate of 4.30% for the purpose of refinancing the Discovery Phase I Senior Credit Facility and Discovery Phase I Mezzanine Credit Facility. The Discovery pays interest only through July 2021 and then makes principal and interest payments of \$254,240 monthly thereafter until maturity on August 1, 2027. Upon maturity, all outstanding principal and accrued interest is due. The loan, which is guaranteed by the Company, is non-recourse except for the following conditions, which trigger a guaranty of repayment of all indebtedness by the Company: 1) failure to comply with the single-asset entity requirement, 2) an unauthorized transfer, 3) occurrence of bankruptcy with the consent of the Company, and 4) fraud. The loan is secured by the land, fixtures, leases, rents and improvements of the Discovery. The Berkadia loan was sold along with the assets of Discovery on July 31, 2017.

- SEC JWH Line of Credit:

On September 24, 2015, SEC JWH, a subsidiary of Development, entered into a credit facility with PlainsCapital Bank containing a term loan commitment of \$4,029,750 at the lesser of the maximum rate allowed by law or a variable rate of WSJ Prime plus 1.00% with a floor of 4.25% for the purpose of financing the construction of commercial lots. The rate as of December 31, 2016 was 4.75%. SEC JWH pays interest monthly with quarterly principal payments of \$167,906 beginning on or before June 24, 2017, and on the same day of each September, December, March, and June thereafter, and one final payment of the outstanding principal balance of this credit facility, including accrued and unpaid interest on September 24, 2018. The line of credit is secured by the land which is to be developed into lots. The total amount outstanding as of December 31, 2016 was \$381,782. The loan was paid in full in 2017.

- CH PH 11, LLC ("PH11") Line of Credit:

On February 17, 2016, PH 11, a subsidiary of Residential, entered into a credit facility with First United Bank containing a term loan commitment of \$24,158,662 at the lesser of the maximum rate allowed by law or a variable rate of WSJ Prime plus .50% for the purpose of financing the construction of single family residential lots. The rate as of December 31, 2016 was 4.00%. PH 11 pays interest monthly through February 17, 2020. In addition to monthly interest payments, a principal payment of \$2,450,250 shall be due and payable no later than July 31, 2017. Quarterly principal payments of \$2,450,250 are due on or before October 31, 2017, January 31, 2018, April 30, 2018, July 31, 2018, January 31, 2019, April 17, 2019, and July 17, 2019 thereafter, and one final payment of \$2,106,412 on October 31, 2019. Principle payments will be paid from the takedown of the lots. The line of credit is secured by the land which is to be developed into lots. The total amount outstanding as of December 31, 2017 and 2016 was \$19,449,803 and \$12,534,304, respectively.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE E - LOANS PAYABLE - Continued

- 4920 Line of Credit:

On March 9, 2016, 4920 entered into a construction loan with Texas Bank and Trust Company containing a term loan commitment of \$3,072,000 at a fixed rate of 4.50% for the purpose of financing the construction of a retail building. 4920 pays only interest through March 9, 2018. Thereafter, 4920 pays monthly installments of principal and interest of \$17,075 until maturity on March 9, 2019. Upon maturity, all outstanding principal and accrued interest is due. The construction loan, which is guaranteed by the Company, is secured by the rental real estate property of 4920. The total amount outstanding as of December 31, 2016 was \$2,481,692. The asset was sold and the debt was retired from sales proceeds in 2017.

- PH 12 Line of Credit:

On September 20, 2016, PH12, a subsidiary of Residential, entered into a credit facility with Plains Capital Bank containing a term loan commitment of \$5,175,000 at the lesser of the maximum rate allowed by law or a variable rate of WSJ Prime plus .50% with a floor of 4.25% for the purpose of financing the construction of single family residential lots. The rate as of December 31, 2016 was 4.25%. PH 12 pays only interest through August 31, 2017. Quarterly principal payments of \$1,050,000 plus accrued interest are due on or before August 31, 2017, and on the same day of each March, June, September, and December thereafter, and one final payment of the outstanding principal balance of this credit facility, including accrued and unpaid interest, on August 31, 2019. The line of credit is secured by the land which is to be developed into lots. The total amount outstanding as of December 31, 2017 and 2016 was \$3,901,235 and \$1,192,364, respectively.

- CH PH 11, LLC PID Loan

On November 7, 2016, PH 11, a subsidiary of Residential, entered into a credit facility with First United Bank containing a term loan commitment of \$2,500,000 at the rate of 4% per annum until November 7, 2021, thereafter, the rate will be a variable rate of WSJ Prime plus .50%. The rate as of December 31, 2016 was 4.25%. PH 11 pays interest monthly through July 31, 2018; thereafter, principal and interest shall be amortized over 10 years, with annual installments of principal and interest due beginning July 31, 2019 and continuing annually until and including July 31, 2028. The balance as of December 31, 2016 was \$2,500,000. The loan was paid in full in 2017.

- 2300 Parker, LLC ("2300") Line of Credit:

On December 21, 2016, 2300, a subsidiary of Retail, entered into a credit facility with First United Bank containing a term loan commitment of \$2,190,000 at the greater of WSJ Prime rate plus .5% or 4% for the purpose of financing the construction of commercial lots. The rate as of December 31, 2016 was 4.00%. 2300 pays interest monthly through December 21, 2018. The entire principal and interest remaining unpaid are due and payable on December 21, 2018. The line of credit is secured by the land which is to be developed into lots. The balance as of December 31, 2017 and 2016 was \$826,064 and \$1,029,782, respectively.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE E - LOANS PAYABLE - Continued

- 264 John Jones Line of Credit:

On April 26, 2017, 264, a subsidiary of Retail, entered into a construction loan with Texas Bank and Trust Company containing a term loan commitment of \$2,320,000 for the purpose of financing the construction of a retail building. 264 pays only interest at a fixed rate of 4.50% through October 25, 2018. Thereafter, 264 pays monthly installments of principal and interest at the lesser of the maximum rate allowed by law or a fixed rate of the WSJ Prime plus 1.0% in effect on October 26, 2018, based upon a 25 year amortization until maturity on March 9, 2019. Upon maturity, all outstanding principal and accrued interest is due. The construction loan, which is guaranteed by the Company, is secured by the rental real estate property of 264. The total amount outstanding as of December 31, 2017 was \$1,584,224.

- 615 FM 2281 Line of Credit:

On September 28, 2017, 615, a subsidiary of Retail, entered into a construction loan with Texas Bank and Trust Company containing a term loan commitment of \$3,512,000 for the purpose of financing the construction of a retail building. 615 pays only interest at a fixed rate of 4.75% through March 27, 2019. Thereafter, 615 pays monthly installments of principal and interest at the lesser of the maximum rate allowed by law or a fixed rate of the WSJ Prime plus .75% in effect on March 28, 2019, based upon a 25 year amortization until maturity on March 9, 2019. Upon maturity, all outstanding principal and accrued interest is due. The construction loan, which is guaranteed by the Company, is secured by the rental real estate property of 264. The total amount outstanding as of December 31, 2017 was \$753,128.

- BRECO Revolver LOC

On October 12, 2017, BRECO entered into a revolving line of credit with First United Bank containing a revolving commitment of \$3,000,000. The rate will be a variable rate of WSJ Prime plus .50%. The rate as of December 31, 2017 was 5.00%. BRECO pays interest monthly through October 12, 2018 when the entire amount of principal and interest remaining unpaid will become due and payable. The balance as of December 31, 2017 was \$1,595,844.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE E - LOANS PAYABLE - Continued

- Capital Leases and Equipment Notes:

The Company periodically enters into capital leases and notes payable summarized below:

Capital Leases

<u>Lender</u>	<u>Origination Date</u>	<u>Maturity Date</u>	<u>Rate</u>	<u>2017 Balance</u>
PNC	6/1/2015	5/31/2019	5.18%	\$ 50,287
John Deere Mowers	3/15/2016	2/15/2021	4.25%	625,389
John Deere Z Track	3/15/2016	2/15/2021	4.25%	21,232
John Deere Verticutter	3/15/2017	3/15/2022	4.25%	24,510
John Deere Z Track	5/1/2017	4/1/2022	4.25%	29,075
John Deere Compact Excavator	5/1/2017	4/1/2022	4.25%	<u>41,370</u>
Total				<u>\$791,863</u>

Future minimum capital lease payments as of December 31, 2017 are as follows:

2018	\$259,778
2019	251,031
2020	231,844
2021	45,709
2022	<u>3,501</u>
Total payments	791,863
Less interest:	<u>(60,526)</u>
Total	<u>\$731,337</u>

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE E - LOANS PAYABLE - Continued

Equipment Notes				
<u>Lender</u>	<u>Origination Date</u>	<u>Maturity Date</u>	<u>Rate</u>	<u>2017 Balance</u>
Texas Security Bank	Various	Various	7.50%	\$ 4,706
Ford Motor Credit	1/12/2015	1/31/2020	0.00%	8,805
Holt Texas	3/19/2015	3/31/2020	2.68%	38,851
Ford Motor Credit	5/31/2016	4/30/2021	7.89%	36,915
Ditchwitch Financial Services	2/15/2016	2/15/2020	5.59%	39,077
Wells Fargo Equipment Finance	5/31/2016	4/30/2021	5.00%	44,072
Wells Fargo Equipment Finance	12/28/2015	11/28/2020	0.00%	50,302
Ford Motor Credit	1/17/2017	1/17/2022	4.90%	49,295
Ford Motor Credit	1/17/2017	1/17/2022	4.90%	<u>44,047</u>
Total				<u>\$316,070</u>

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE E - LOANS PAYABLE - Continued

Future minimum note payments are included in the future minimum debt payment schedule below.

Summary of outstanding loans payable as of December 31:

	<u>2017</u>	<u>2016</u>
Loans Supporting:		
Frontier Term Loan	\$15,420,000	\$ 16,450,000
CHVS First United Bank Term Loan	15,098,701	15,250,000
CHVS Phase 5 Construction Loan	5,417,448	1,508,917
PH 9 Credit Facility	-	3,540,941
Discovery Phase I Mezzanine Credit Facility	-	11,146,961
Discovery Phase I Senior Credit Facility	-	42,455,795
SECJWH Credit Facility	-	381,782
PH 11 Credit Facility	19,449,803	12,534,304
4920 Term Loan	-	2,481,692
PH 12 Credit Facility	3,901,235	1,192,364
PH 11 PID Loan	-	2,500,000
2300 Parker Credit Facility	826,064	1,029,782
264 John Jones Credit Facility	1,584,224	-
615 FM 2281 Credit Facility	753,128	-
BRECO Revolving LOC	1,595,844	-
Discovery Capital Lease	-	94,403
Infinity Capital Leases	791,863	926,674
Infinity Equipment Notes	316,070	349,858
Bright Realty Note payable to related party	1,913,248	16,913,248
SECJWH Partner Loan	-	5,000
264 John Jones Partner Loan	1,000	-
2300 Parker Partner Loan	<u>-</u>	<u>10,000</u>
Total loans payable	67,068,628	128,771,721
Less: deferred loan cost, net	<u>226,130</u>	<u>962,916</u>
Loans payable, net	<u>\$66,842,498</u>	<u>\$127,808,805</u>

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE E - LOANS PAYABLE - Continued

Future Minimum Debt Payment Obligations as of December 31, 2017 are as follows:

2018	\$21,159,984
2019	26,005,367
2020	2,646,726
2021	537,897
2022	483,750
Thereafter	<u>16,234,904</u>
Total	<u>\$67,068,628</u>

NOTE F - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company leases office space to certain affiliates under common ownership and related parties. Lease agreements exist between the Company and Bright Executive Services, LLC (“BES”), American Legend, LLC (“ALHP”), Bright Equities, LLC (“Bright Equities”), and Castle Spirits. The Company recorded rental revenue from these tenants of \$1,254,576 and \$1,233,594 for base rent and recoveries included in rental revenue for the years ended December 31, 2017 and 2016, respectively.

The Company has a contract to be the property manager of The Discovery and recorded \$43,568 in management fee income from this contract during the year ended December 31, 2017. The Company also has a management agreement with Tres Mil and recorded \$72,000 in management fee income during December 31, 2017.

The Company also sold 146 and 147 lots during the years ended December 31, 2017 and 2016 to ALH for \$15,835,700 and \$20,183,900, respectively, included in lot, land, and condominium sales. The Company recorded landscaping revenue from Castle Hills Master Association (“CHMA”) of \$1,431,421 and \$1,298,188 for the years ended December 31, 2017 and 2016, respectively. The Company also recorded \$1,876,646 and \$1,979,173 of landscaping revenue from CHGC during the years ended December 31, 2017 and 2016, respectively. The Company also recorded \$167,095 and \$- in landscaping revenue from ALH for the years ended December 31, 2017 and 2016, respectively.

The Company incurred advertising costs to Bright Marketing, LLC (“Bright Marketing”) of \$1,043,932 and \$1,033,416 for the years ended December 31, 2017 and 2016, respectively. The Company also paid corporate overhead charges, which are allocated to BILL owned subsidiaries based on member’s equity and headcount, to BES of \$1,826,040 and \$1,833,120 for the years ended December 31, 2017 and 2016, respectively. Additionally, the Company paid \$84,250 for management expenses to Bright Equities in 2017.

The Company utilizes CHGC for certain event services. The Company recorded \$38,416 of event expenses for the year ended December 31, 2017.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE F - AFFILIATE AND RELATED PARTY TRANSACTIONS - Continued

The Company incurred homeowners' association costs of \$425,383 and \$476,195 in cost of lot, land, and condominium sales for the years ended December 31, 2017 and 2016, respectively, paid to CHMA. The Company also incurred \$17,160 and \$4,866 in advertising, landscaping, rent, and other miscellaneous expenses for the years ended December 31, 2017 and 2016, respectively, to CHMA.

The Company also had trade receivables of \$377,571 and \$82,181 from related parties and affiliates for rent and landscaping costs as of December 31, 2017 and 2016, respectively.

The Company has trade payables of \$143,473 and \$220,544 to related parties as of December 31, 2017 and 2016, respectively.

Included in related party customers' deposits are earnest money deposits received from ALH in the amount of \$3,576,690 and \$6,125,520 as of December 31, 2017 and 2016, respectively.

On December 31, 2011, the Company entered in a revolving promissory note for \$18,000,000 with BILL ("BILL Note") to finance operations. Unpaid principal of the BILL Note is due at maturity, December 1, 2020. The interest rate is 5% per annum. This is paid on the last day of each month. The balance outstanding for the BILL Note as of December 31, 2017 and 2016 was \$1,913,248 and \$16,913,248, respectively. Interest incurred on the revolving promissory notes to BILL was \$531,279 and \$989,309 for the years ended December 31, 2017 and 2016, respectively.

On September 23, 2015, SEC JWH received an interest free partner loan for \$5,000 from BRECO Retail CH, LLC. The loan was repaid from sales proceeds in 2017.

On December 21, 2016, 2300 Parker received an interest free partner loan for \$10,000 from BRECO Retail CH, LLC. The loan was repaid from sales proceeds in 2017.

On April 20, 2017, 264 received an interest free partner loan for \$1,000 from BRECO Retail CH, LLC. The loan remains outstanding at December 31, 2017.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE G - RENTAL REVENUE

The Company receives rent revenues from the leases of the CHVS mixed use retail property. The approximate future minimum rental revenues under non-cancelable operating leases with initial terms in excess of one year in effect as of December 31, 2017 are as follows:

2018	\$2,027,581
2019	1,675,477
2020	1,383,821
2021	1,055,012
2022	959,039
Thereafter	<u>1,711,360</u>
Total	<u>\$8,812,290</u>

Future rents of \$3,367,391 are due from various affiliates and related parties of CHVS. These amounts do not include revenue which may be due from tenants for recovery of certain operating costs.

NOTE H - VARIABLE INTEREST ENTITIES

On September 6, 2013, the Company entered into an LLC agreement with an affiliate to form PH 7, where the Company owns a 0.10% interest in PH 7 and is the manager. The Company also guarantees the debt of PH7. The single purpose of PH 7 is to develop the tract of land owned by the Company, and sell single family lots to ALH and another homebuilder. Once the affiliate receives a stated preferred return, the Company receives cash flow and income in excess of its ownership interest. The Company received cash flow and net income in excess of its ownership in PH7 in 2015. PH 7 was determined to be a VIE and the Company was determined to be the primary beneficiary as discussed in Note B. The consolidated financial statements – contractual basis reflect the inclusion of PH 7's assets of \$-0- and \$18,317 in cash, liabilities of \$-0- and \$18,317, and member's equity of \$-0- and \$-0- as of December 31, 2017 and 2016, respectively. The assets of PH 7 can only be used to settle obligations of PH 7. The results of cash flows of PH 7 are included in the Company's consolidated financial statements – contractual basis beginning January 1, 2013.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE H - VARIABLE INTEREST ENTITIES - Continued

On December 30, 2013, the Company entered into an LLC agreement with an affiliate and third party to form PH 8, where the Company owns a 0.10% interest in PH 8 and is the manager. The Company also guarantees the debt of PH8. The single purpose of PH 8 is to develop the tracts of land owned by the Company and contributed by the third party, and sell single family lots to ALH and another homebuilder. Once third party investors receive a stated preferred return, the Company receives a share of cash flow and income in excess of its ownership interest. The Company received cash flow and net income in excess of its ownership in PH8 in 2016. PH 8 was determined to be a VIE and the Company was determined to be the primary beneficiary as discussed in Note B. The consolidated financial statements – contractual basis reflect the inclusion of PH 8's assets of \$-0- and \$75,436 in cash and \$-0- and \$-0- in lot inventory and other assets, liabilities of \$-0- and \$42,666, member's equity of \$-0- and \$24,253, and non-controlling interests owned by third party of \$-0- and \$8,517 as of December 31, 2017 and 2016, respectively. The assets of PH 8 can only be used to settle obligations of PH 8. The creditors of PH 8 have no recourse to the general credit of the Company. The results of cash flows of PH 8 are included in the Company's consolidated financial statements – contractual basis beginning January 1, 2014.

On March 20, 2015, the Company entered into an LLC agreement with third parties to form PH 9, where the Company owns a 0.10% interest in PH 9 and is the manager. The Company also guarantees the debt of PH 9. The single purpose of PH 9 is to purchase and develop a tract of land, and sell single family lots to ALH and another homebuilder. Once third party investors receive a stated preferred return, the Company receives cash flow and income in excess of its ownership interest. PH 9 was determined to be a VIE and the Company was determined to be the primary beneficiary as discussed in Note B. The consolidated financial statements – contractual basis reflect the inclusion of PH 9's assets of \$104,837 and \$865,114 in cash and \$-0- and \$6,454,323 in construction in progress and other assets, liabilities of \$9,000 and \$5,312,950, member's equity of \$47,984 and \$2,200, and non-controlling interests owned by third party of \$47,853 and \$2,004,287 as of December 31, 2017 and 2016 respectively. The assets of PH 9 can only be used to settle obligations of PH 9. The results of cash flows of PH 9 are included in the Company's consolidated financial statements – contractual basis beginning January 1, 2015.

On September 10, 2015, the Company entered into an LLC agreement with third parties to form SEC JWH, where the Company owns a 0.10% interest in SEC JWH and is the manager. The Company also guarantees the debt of SECJWH. The single purpose of SECJWH is to purchase and develop a tract of land, and sell commercial lots. Once third party investors receive a stated preferred return, the Company receives cash flow and income in excess of its ownership interest. SEC JWH was determined to be a VIE and the Company was determined to be the primary beneficiary as discussed in Note B. The consolidated financial statements – contractual basis reflect the inclusion of SEC JWH's assets of \$99,099 and \$213,140 in cash and \$1,335,101 and \$2,107,046 in construction in progress and other assets, liabilities of \$62,480 and \$450,494, member's equity of \$338,188 and \$2,101, and non-controlling interests owned by third party of \$1,033,532 and \$1,867,591 as of December 31, 2017 and 2016, respectively. The assets of SEC JWH can only be used to settle obligations of SEC JWH. The results of cash flows of SEC JWH are included in the Company's consolidated financial statements – contractual basis beginning January 1, 2015.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE H - VARIABLE INTEREST ENTITIES - Continued

On March 3, 2016, the Company entered into an LLC agreement with third parties to form 4920 HWY 121, LLC (“4920”), where the Company owns a 0.3960% interest in 4920 and is the manager. The single purpose of 4920 is to purchase and develop a tract of land, and construct a retail building on the land. Once third party investors receive a stated preferred return, the Company receives cash flow and income in excess of its ownership interest. 4920 was determined to be a VIE and the Company was determined to be the primary beneficiary. The consolidated financial statements – contractual basis reflect the inclusion of 4920 HWY 121’s assets of \$31,428 and \$145,363 in cash and \$6,459 and \$2,952,719 in construction in progress and other assets, liabilities of \$- and \$2,565,131, member’s equity of \$4,889 and \$2,000, and non-controlling interests owned by third party of \$32,998 and \$530,951 as of December 31, 2017 and 2016, respectively. The assets of 4920 HWY 121 can only be used to settle obligations of 4920 HWY 121. The results of cash flows of 4920 HWY 121 are included in the Company’s consolidated financial statements – contractual basis beginning January 1, 2016.

On December 13, 2016, the Company entered into an LLC agreement with third parties to form 2300 Parker, LLC, where the Company owns a 0.10% interest in 2300 Parker and is the manager. The single purpose of 2300 Parker is to purchase and develop a tract of land, and construct a retail building on the land. Once third party investors receive a stated preferred return, the Company receives cash flow and income in excess of its ownership interest. 2300 Parker was determined to be a VIE and the Company was determined to be the primary beneficiary. The consolidated financial statements – contractual basis reflect the inclusion of 2300 Parker’s assets of \$162,214 and \$186,700 in cash and \$1,883,923 and \$1,583,854 in construction in progress, liabilities of \$1,204,598 and \$1,039,824, member’s equity of \$842 and \$731, and non-controlling interests owned by third party of \$840,697 and \$730,000 as of December 31, 2017 and 2016, respectively. The assets of 2300 Parker can only be used to settle obligations of 2300 Parker. The results of cash flows of 2300 Parker are included in the Company’s consolidated financial statements – contractual basis beginning January 1, 2016.

On April 12, 2017, the Company entered into an LLC agreement with third parties to form 264 John Jones, LLC (“264”), where the Company owns a 0.862% interest in 264 and is the manager. The single purpose of 264 is to purchase and develop a tract of land, and construct a retail building on the land. Once third party investors receive a stated preferred return, the Company receives cash flow and income in excess of its ownership interest. 264 was determined to be a VIE and the Company was determined to be the primary beneficiary. The consolidated financial statements – contractual basis reflect the inclusion of 264’s assets of \$438,682 in cash and \$2,271,297 in construction in progress and other assets, liabilities of \$2,130,345, member’s equity of \$4,997, and non-controlling interests owned by third party of \$574,637 as of December 31, 2017. The assets of 264 can only be used to settle obligations of 264. The results of cash flows of 264 are included in the Company’s consolidated financial statements – contractual basis beginning January 1, 2017.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE H - VARIABLE INTEREST ENTITIES - Continued

On September 14, 2017 the Company entered into an LLC agreement with third parties to form 615 FM 2281, LLC (“615”), where the Company owns a 0.4208% interest in 615 and is the manager. The single purpose of 615 is to purchase and develop a tract of land, and construct a retail building on the land. Once third party investors receive a stated preferred return, the Company receives cash flow and income in excess of its ownership interest. 615 was determined to be a VIE and the Company was determined to be the primary beneficiary. The consolidated financial statements – contractual basis reflect the inclusion of 615 FM 2281’s assets of \$32,723 in cash and \$1,481,687 in construction in progress and other assets, liabilities of \$801,455, member’s equity of \$3,000, and non-controlling interests owned by third party of \$709,955 as of December 31, 2017. The assets of 615 FM 2281 can only be used to settle obligations of 615 FM 2281. The results of cash flows of 615 FM 2281 are included in the Company’s consolidated financial statements – contractual basis beginning January 1, 2017.

NOTE I - COMMITMENTS AND CONTINGENCIES

Litigation

The Company is involved from time to time in various claims and legal actions in the ordinary course of business. Management does not believe that the impact of such matters will have a material adverse effect on the Company’s financial position or results of operations when resolved.

NOTE J - MAJOR CUSTOMERS

For the years ended December 31, 2017 and 2016, respectively, ALH accounted for 68% and 56% of the Company’s total lot, land, and condominium sales. Additionally, three third-party homebuilders account for approximately 17% of the remaining lot, land, and condominium sales for the year ended December 31, 2017 as compared to 16% at December 31, 2016.

NOTE K - SUBSEQUENT EVENTS

On January 17, 2018, the Company entered into an LLC agreement with a third party to form CH PH 10, LLC (“PH 10”), where the Company owns a 59.06% interest in PH 10 and is the manager. The Company and the third party each contributed land into PH 10 that was subsequently contributed to CH PH 10A, LLC (“PH 10A”) for the purpose of the closing of a \$32,838,500 construction loan with Texas Capital Bank and development of the land into single family lots. The Company guarantees the debt of PH 10A. PH 10 and 10A were determined to be VIE’s and the Company was determined to be the primary beneficiary.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTRACTUAL BASIS - CONTINUED

December 31, 2017 and 2016

NOTE K - SUBSEQUENT EVENTS - Continued

On January 23, 2018, the Company entered into an LLC agreement with ALH to form CH RWR, LLC (“CHRWR”), where the Company owns a 50.00% interest in CHRWR and is the manager. The Company and ALH each contributed cash into CHRWR for the purpose of the closing of a \$21,000,000 master guidance line facility with First United Bank for the purpose of purchasing for rent homes built by ALH. The Company guarantees the debt of CHRWR. CHRWR was determined to be a VIE and the Company was determined to be the primary beneficiary.

The Company has evaluated its financial statements – contractual basis for subsequent events through March 21, 2018, the date the financial statements – contractual basis were available to be issued. The Company is not aware of any subsequent events that would require recognition or disclosure in the financial statements – contractual basis.

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Bright Realty, LLC

December 31, 2016 and 2015

Bright Realty, LLC

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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Report of Independent Certified Public Accountants

Grant Thornton LLP
1717 Main Street, Suite 1800
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

The Members
Bright Realty, LLC

We have audited the accompanying consolidated financial statements of Bright Realty, LLC (a Texas Limited Liability Company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in member's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bright Realty, LLC and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Dallas, Texas
March 13, 2017

Bright Realty, LLC

CONSOLIDATED BALANCE SHEETS

December 31,

ASSETS	<u>2016</u>	<u>2015</u>
Real estate inventory		
Land under development	\$ 24,320,761	\$ 17,651,841
Lot inventory	14,444,914	9,363,601
Land inventory	<u>40,180,678</u>	<u>42,301,101</u>
Total real estate inventory	78,946,353	69,316,543
Fixed assets		
Land, buildings, and improvements	109,719,672	77,837,185
Accumulated depreciation	<u>(10,759,213)</u>	<u>(8,222,270)</u>
Total fixed assets, net	98,960,459	69,614,915
Total real estate inventory and fixed assets, net	177,906,812	138,931,458
Cash	9,474,768	2,835,986
Restricted cash	-	250,764
Trade receivables, net	576,723	800,349
Receivables from water district, net	10,017,243	11,038,290
Other assets, net	<u>1,292,532</u>	<u>1,504,012</u>
Total assets	<u>\$199,268,078</u>	<u>\$155,360,859</u>
LIABILITIES AND MEMBER'S EQUITY		
Liabilities		
Related party payable	\$ -	\$ 1,328
Trade payables	1,599,941	7,409,405
Customers' deposits	8,852,767	7,788,009
Other accrued liabilities	5,031,114	3,474,655
Loans payable	110,880,557	67,952,080
Note payable to affiliate	<u>16,928,248</u>	<u>17,356,077</u>
Total liabilities	143,292,627	103,981,554
Commitments and contingencies (Note I)		
Member's equity	50,817,289	44,794,906
Non-controlling interests	<u>5,158,162</u>	<u>6,584,399</u>
Total member's equity and non-controlling interests	<u>55,975,451</u>	<u>51,379,305</u>
Total liabilities and member's equity	<u>\$199,268,078</u>	<u>\$155,360,859</u>

The accompanying notes are an integral part of these consolidated financial statements.

Bright Realty, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31,

	<u>2016</u>	<u>2015</u>
Revenue		
Lot, land, and townhome sales	\$36,230,432	\$32,788,484
Rental revenue	4,319,842	3,071,479
Landscaping revenue	7,659,819	4,620,667
Lease commission revenue	961,558	446,723
Management and development fee revenue	<u>6,603,457</u>	<u>646,802</u>
Total revenues	55,775,108	41,574,155
Expenses		
Cost of lot, land, and townhome sales	20,989,165	16,327,159
Cost of landscaping materials	2,788,339	222,477
Wages and other direct employment expenses	7,906,133	6,352,318
Administrative expenses	3,867,476	4,295,761
Abandonment of project costs	6,100	5,458
Repairs and maintenance expense	937,627	1,353,715
Utilities	481,025	294,467
Advertising expense	1,054,564	1,263,346
Insurance expense	361,969	284,069
Property tax expense	2,325,867	1,677,431
Depreciation and amortization expense	<u>2,628,520</u>	<u>1,516,190</u>
Total expenses	<u>43,346,785</u>	<u>33,592,391</u>
Income before taxes and other expenses, net	12,428,323	7,981,764
Interest expense, net	<u>3,966,405</u>	<u>2,551,450</u>
Income from operations before income taxes	8,461,918	5,430,314
Income taxes	<u>96,533</u>	<u>281,277</u>
Total net income	8,365,385	5,149,037
Net income attributable to non-controlling interests	<u>2,218,803</u>	<u>1,567,316</u>
Net income attributable to Bright Realty, LLC	<u>\$ 6,146,582</u>	<u>\$ 3,581,721</u>

The accompanying notes are an integral part of these consolidated financial statements.

Bright Realty, LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY

For the years ended December 31, 2016 and 2015

	<u>Bright Realty, LLC</u>	<u>Non-controlling interests</u>	<u>Total</u>
Balance on January 1, 2015	\$48,549,734	\$ 3,735,188	\$52,284,922
Distributions	(7,495,989)	(2,255,905)	(9,751,894)
Contributions	159,440	3,537,800	3,697,240
Net income	<u>3,581,721</u>	<u>1,567,316</u>	<u>5,149,037</u>
Balance on December 31, 2015	44,794,906	6,584,399	51,379,305
Distributions	(164,594)	(5,023,702)	(5,188,296)
Contributions	40,395	1,378,662	1,419,057
Net income	<u>6,146,582</u>	<u>2,218,803</u>	<u>8,365,385</u>
Balance on December 31, 2016	<u>\$50,817,289</u>	<u>\$ 5,158,162</u>	<u>\$55,975,451</u>

The accompanying notes are an integral part of these consolidated financial statements.

Bright Realty, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Net income attributable to Bright Realty, LLC	\$ 6,146,582	\$ 3,581,721
Net income attributable to non-controlling interests	2,218,803	1,567,316
Adjustments to reconcile net income to net cash		
Depreciation of real estate and real estate commission	2,620,447	1,516,190
Amortization of loan costs	203,918	99,386
Bad debt expense	(2,612)	(163,265)
Non-cash interest expense	898,260	-
Changes in operating assets and liabilities:		
Real estate inventory	(9,629,810)	(6,421,855)
Related party payable	(1,328)	(251,569)
Other assets and trade receivables	372,761	(175,300)
Customers' deposits	1,064,758	4,167,383
Other accrued liabilities and trade payables	<u>(4,253,005)</u>	<u>(6,732,090)</u>
Net cash (used in) provided by operating activities	(361,226)	10,652,097
Cash flows from investing activities		
Changes in receivables from water district	1,021,047	(2,448,690)
Change in restricted cash	250,764	2,082,250
Additions to land, buildings, and improvements	<u>(31,696,250)</u>	<u>(36,008,626)</u>
Net cash used in investing activities	(30,424,439)	(36,375,066)
Cash flows from financing activities		
Equity contributions members	40,395	159,440
Equity distributions to members	(164,594)	(3,185,455)
Equity contributions from non-controlling interests	1,378,662	3,537,800
Equity distributions to non-controlling interests	(5,023,702)	(2,255,905)
Loan origination costs paid	(191,393)	(23,220)
Increase in loans payable	72,908,440	36,308,100
Increase in note payable to affiliate	10,000	5,000
Repayment of loans payable	(31,095,532)	(13,280,824)
Repayment of loans payable to affiliate	<u>(437,829)</u>	<u>(1,050,000)</u>
Net cash provided by financing activities	<u>37,424,447</u>	<u>20,214,936</u>
Net increase (decrease) in cash	6,638,782	(5,508,033)
Cash, excluding restricted cash at beginning of period	<u>2,835,986</u>	<u>8,344,019</u>
Cash, excluding restricted cash at end of period	\$ <u>2,474,768</u>	\$ <u>2,835,986</u>
NON-CASH AND SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest, net of capitalized amount	\$ 2,896,051	\$ 1,691,462
Cash paid for taxes	\$ 399,786	\$ -
Transfer of land to land, buildings, and improvements related to discontinued operations	\$ -	\$ 4,310,534

The accompanying notes are an integral part of these consolidated financial statements.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE A - DESCRIPTION OF BUSINESS

The accompanying consolidated financial statements as of December 31, 2016 and 2015 present the consolidated balance sheets, related consolidated statements of operations, changes in member's equity, and cash flows of Bright Realty, LLC, a Texas Limited Liability Company, and its subsidiaries ("the Company"). The summary of significant accounting policies and footnotes to the consolidated financial statements of the Company should be read in conjunction with the consolidated financial statements. The Company, a commercial real estate entity based in Dallas, Texas, was established in Texas on December 30, 2011. The sole member of Bright Realty, LLC is Bright Industries, LLC ("BILL").

The Company's significant operating subsidiaries include the following:

- BRECO Services, LLC ("Services")
 - Bright Realty Brokerage, LLC ("Brokerage")
 - Bright Realty Management, LLC ("Management")
 - Infinity Lawn and Landscape, LLC ("Infinity")
- Bright Realty Development, LLC ("Development")
 - Castle Hills Village Shops, LLC ("CHVS")
 - BRECO Res SF CH, LLC ("Residential")
 - Realm MF CH Phase I, LLC ("Realm MF")
 - Discovery CH, LLC ("the Discovery")
- Bright Realty Lands, LLC ("Lands")
 - BRECO Lands CH, LLC ("Lands CH")

The Company offers landscaping, brokerage and leasing, tenant representation, construction management, and property management services. The Company also offers a diverse group of properties for lease, including office, multifamily housing, retail, and mixed-use. In addition, the Company develops and sells single family residential lots, and engages in the acquisition, investment, leasing and sale of land.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements as of December 31, 2016 and 2015 include the balances of the Company. All significant intercompany transactions and balances have been eliminated upon consolidation.

Reclassification

2015 cost of landscaping materials decreased and repairs and maintenance increased by \$934,536 to properly eliminate intercompany transactions and conform with current year presentation. The reclassification has no impact on the Company's financial position, results of operations, or cash flows.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In April 2015, the FASB issued ASU 2015-03, Interest-imputations of interest (Subtopic 835-30) as part of its initiative to reduce complexity in accounting standard. The standard is applicable for the fiscal years beginning after December 15, 2015. To simplify presentation of debt issuance costs, the amendments in this ASU require debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. Unamortized deferred financing costs of \$1,180,225 have been recorded as a reduction to the carrying amount of the construction loan payable from the adoption of ASU 2015-03.

Discontinued Operations

On February 25, 2015, management of BILL elected that the Company make a distribution of all assets and liabilities of CHGC, LLC (“CHGC”) to BILL effective January 1, 2015. These items are disclosed as a transfer of land on the Statement of Cash Flows

Liquidity

Management believes that it has sufficient resources to fund its operations over the next twelve months from existing cash balances, rental operations and expected lot, land, and building sales. Should additional cash needs arise, such needs will be funded through draws on the Company’s revolving promissory note with BILL and/or additional contributions from BILL.

Consolidation of Variable Interest Entities

CH PH 7, LLC (“PH 7”), CH PH 8, LLC (“PH 8”), CH PH 9, LLC (“PH 9”), SEC JWH, LLC (“SEC JWH”), 4920 Hwy 121, LLC (“4920”), and 2300 Parker, LLC (“2300”), subsidiaries of Development, were determined to be Variable Interest Entities (“VIE”) under the Company. The Company has the power to direct the activities of the VIEs, and has an economic interest to absorb future losses or receive future benefits of the entities. The consolidated financial statements include the VIEs’ assets and liabilities with the Company. The VIEs’ equity, owned by an affiliate and third parties outside the Company, is recorded as a non-controlling interest.

Real Estate Inventory

Townhome inventory is stated at cost and consists of townhomes under construction. Cost includes amounts incurred for land, direct and other construction costs, interest and property taxes.

Land under development is stated at cost. Interest and property taxes are capitalized until such time as the land under development is deemed to be substantially complete. Once the Company has substantially completed development, the land is transferred to lot inventory for sale to homebuilders. The Company capitalized \$2,115,769 and \$1,349,133 of interest in 2016 and 2015, respectively.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Lot and land inventory was originally recorded based on its fair value at the date of contribution by the owners. Subsequent additions are stated at cost. Maintenance and administrative costs incurred on undeveloped land are expensed as incurred. Upon the commencement of active development and construction, direct costs are capitalized as incurred.

Land, buildings, and improvements are stated at cost. Expenditures for significant renovations, additions, renewals, and betterments that extend the economic useful lives of the assets are capitalized; expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation of commercial buildings is computed using the straight-line method over 39 years. Depreciation of apartment buildings above podiums is computed using the straight-line method over 27.5 years. Podiums under apartment buildings are depreciated using the straight-line method over 100 years. Tenant improvements are capitalized and depreciated using the straight-line method over the life of the related lease. Furniture, fixtures, and equipment are capitalized and depreciated using the straight-line method over estimated useful lives ranging from 3 to 7 years.

Cash and Restricted Cash

Cash consists exclusively of bank deposits. The Company has cash balances placed with federally insured institutions which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risks on such accounts. The Company's restricted cash balance as of December 31, 2015 is \$250,764 related to its loan with American Bank of Texas. This loan was paid off in the current year. Therefore, the Company is no longer required to maintain a restricted cash balance.

Trade Receivables, Net

Trade receivables outstanding longer than the contractual terms, usually sixty days, are considered past due. Trade receivables are presented net of the allowance for doubtful accounts of \$228,389 and \$228,182 as of December 31, 2016 and 2015, respectively. Allowance for doubtful accounts is based on past experience, condition of aged receivables, and current economic conditions. The Company writes off trade receivables when they become uncollectible, and payments subsequently received on such receivables are credited to bad debt expense in the period the payment is received.

Receivables from Water District, Net

The Company has receivables from the Denton County Fresh Water Supply District (the "Water District"), a political subdivision of the State of Texas, of \$10,017,243 and \$11,038,290 as of December 31, 2016 and 2015, respectively. The receivables held are for the establishment of infrastructure on behalf of the Water District and will be paid from future ad valorem taxes generated within the Water District over a period of one to three years, depending on the ad valorem tax base of the sub-districts.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Receivables will be reduced by an allowance for amounts that may become uncollectible in the future.

Deferred Loan Costs, Net

Deferred loan costs are amortized on a straight-line basis over the term of the loan as a component of interest expense, which approximates the effective interest rate method. Loan amortization expenses were \$203,918 and \$99,386 for the years ended December 31, 2016 and 2015, respectively. During the construction period, amortization of deferred loan costs are capitalized as construction in progress.

Other Assets, Net

Other assets are primarily comprised of leasing commissions, deferred rent receivables, and other miscellaneous prepaid and other assets. Leasing commissions paid are capitalized and amortized on a straight-line basis over the life of the related lease. Deferred rent receivables arise from the straight-line recognition of rent revenues.

Impairment of Long-Lived Assets

The Company records impairment losses on long-lived assets when events or circumstances indicate that the assets might be impaired and the estimated undiscounted cash flows to be generated by those assets are less than the carrying amounts of those assets. Assets are recorded at cost, net of reductions for impairment. No impairment losses were recognized for the years ended December 31, 2016 and 2015.

Customers' Deposits

Customers' deposits primarily consist of deposits made to the Company for options to purchase developed lots. Income from forfeited land deposits is recognized upon default by the buyer, as defined in the purchase agreement. Customers' deposits also include tenant security deposits. Security deposits are collected from tenants upon commencement of a lease agreement. Upon receipt of cash, the Company records a corresponding tenant security deposit liability. Revenue from forfeited security deposits is recognized upon termination of the lease agreement.

Other Accrued Liabilities

Other accrued liabilities are primarily comprised of accrued property taxes, accrued interest, and accrued state income tax.

Revenue Recognition

Revenues from lot, land, and townhome sales are recognized when the lot, land, or townhome is sold, profit is determinable, title passes to the buyer, there are no significant obligations on the part of the Company, and the buyer's commitment to pay is supported by a substantial initial and continuing investment. Recovery of home owner association dues and property taxes recorded as expenses in current and prior years are also included in revenues from lot, land, and townhome sales.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Rental revenue from leasing activities is recognized using the straight-line method. The rental revenues for certain leases, which contain rent abatements and contractual increases, are recognized on a straight-line basis over the initial term of the related leases. Accordingly, the difference between rental income on a straight-line basis and rent contractually due to the Company is presented as a deferred rent receivable in other assets in the accompanying consolidated balance sheets. Property operating cost recoveries from tenants of common area maintenance, real estate taxes, and other recoverable costs are recognized in the period when the expenses are incurred.

Revenues from landscaping services are recognized in accordance with contract terms or at the time services are performed.

Development and management fees are recognized in accordance with contract terms, at the time the services are performed or at completion of development.

Fair Value of Financial Instruments

The Company's financial instruments include cash, trade receivables, net, loans payable, note payable to affiliate, other accrued liabilities, related party payable, and receivables from the Water District. The carrying value of the financial instruments approximates fair value as of December 31, 2016 and 2015.

Advertising

The Company expenses advertising costs as incurred. The total advertising expense amounted to \$1,054,564 and \$1,263,346 for the years ended December 31, 2016 and 2015, respectively.

Income Taxes

Income or loss of the Company is included in its member's and partners' tax returns. Accordingly, no provision is made for federal income taxes in the accompanying consolidated financial statements. The Company estimated state income tax expense of \$96,533 and \$281,277 for the years ended December 31, 2016 and 2015, respectively. The Company has not incurred any penalties or interest for income taxes for 2016 and 2015.

As required by the uncertain tax position guidance, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company does not have any uncertain tax positions as of December 31, 2016 and 2015.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Non-controlling Interests

Interests held in consolidated entities by parties other than the Company are reflected as non-controlling interests on the consolidated balance sheets and statements of operations. Non-controlling interests represent the non-controlling parties' share of the underlying net assets of the Company's consolidated subsidiaries.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 is applicable for fiscal years beginning after December 15, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is permitted in the fiscal year beginning after December 15, 2016. The Company is currently evaluating the impact of the new guidance.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842) Section A" which supersedes existing lease guidance under current GAAP. The new standard requires entities to record on the balance sheet certain leases previously classified as operating leases. This accounting standard, which is effective for the Company beginning with the year ended December 31, 2020, may be early adopted and is to be applied retrospectively. The Company is currently assessing the impact this guidance will have on its financial statements.

NOTE C - FIXED ASSETS

The categories of land, buildings, and improvements as of December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 3,175,910	\$ 3,250,230
Buildings	80,048,589	21,525,048
Improvements	9,603,574	6,244,499
Construction in progress	12,603,367	44,415,025
Capital leases	1,829,522	729,196
Furniture, fixtures, and equipment	<u>2,458,710</u>	<u>1,673,187</u>
Land, buildings, and improvements	109,719,672	77,837,185
Less accumulated depreciation – capital leases	(813,728)	(564,271)
Less accumulated depreciation - other	<u>(9,945,485)</u>	<u>(7,657,999)</u>
Land, buildings, and improvements, net	<u>\$ 98,960,459</u>	<u>\$69,614,915</u>

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE C - FIXED ASSETS - Continued

Depreciation expense for the years ended December 31, 2016 and 2015 was \$2,555,491 and \$1,451,232, respectively, and includes depreciation of capital leases. Construction in progress relates to various development projects.

NOTE D - INVESTMENT IN NON-CONSOLIDATED AFFILIATE

On September 6, 2013, Lands CH contributed cash of \$2,943,525 to Fund I to become a 99.0% limited partner of Fund I. Fund I's principal purpose is to assemble a portfolio of real property development assets, most likely concentrated in the Castle Hills area of the Dallas-Fort Worth Metroplex. Fund I contributed cash of \$2,850,000 to PH 7 on the same day to have a 99.9% interest in PH 7. Refer to Note I for discussion of PH 7 as a variable interest entity.

On December 30, 2013, Lands CH contributed additional cash of \$3,479,184 to Fund I to remain the 99.0% limited partner of Fund I. Fund I contributed cash of \$3,479,184 to PH 8 on the same day to have a 48.0% interest in PH 8. CHPC Commercial, Ltd., a third party, contributed land for \$3,765,763 to receive a 51.9% non-controlling interest of PH 8. Refer to Note I for discussion of PH 8 as a variable interest entity.

Due to the fact that the Company's contributions to Fund I were ultimately contributed to PH 7 and PH 8 the Company has netted their investment in Fund I with their ultimate investment in PH 7 and PH 8. Therefore, the only information shown for non-controlling interest is third party interest in PH 7 and PH 8.

NOTE E - LOANS PAYABLE

Loans payable as of December 31, 2016 and 2015 consist of the following:

- Frontier Term Loan:

The Company entered into a term loan with Frontier State Bank on January 11, 2012 for a commitment of \$20,000,000 at a rate of Wall Street Journal Prime Rate with a floor of 5% per annum for the purpose of paying off and refinancing existing loans. Principal payments of \$250,000 plus interest are due on the last day of each calendar quarter with additional principal reduction payments made within five days of notice from the lender to reduce the loan to value ratio to below 25% of the appraisal value of the real estate inventory. The term loan is collateralized by a portion of the real estate inventory held by the Company. On September 30, 2014, the Company restated and amended the note. The amendment increased the funds available to the Company by \$5,382,701 and extended the loan to July 31, 2019. Interest rates remained the same as the original loan. The total amount outstanding as of December 31, 2016 and 2015 was \$16,450,000 and \$17,570,000, respectively. The loan is guaranteed by the owners Chris Bright ("Chris") and Clay Bright ("Clay"), and BILL.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE E - LOANS PAYABLE - Continued

- CHVS Term Loan:

On September 13, 2012, CHVS entered into a term loan with American Bank of Texas (“ABT”) for \$8,250,000 at a fixed rate of 5.0% for the purpose of paying off and refinancing an existing credit agreement. CHVS pays monthly installments of principal and interest, based upon a 25 year amortization until maturity on September 13, 2017. Upon maturity, all outstanding principal and accrued interest is due. The term loan, which is guaranteed by Chris, Clay, and BILL is secured by the rental real estate property of CHVS. The total amount outstanding as of December 31, 2015 was \$7,618,394. This loan was paid in full with proceeds from the CHVS First United Bank Term Loan.

- CHVS Phase III Construction Loan:

On September 13, 2012, CHVS entered into a construction loan with ABT containing a term loan commitment of \$6,450,000 at a fixed rate of 5.0% for the purpose of financing the construction of the third phase of the CHVS rental real estate. CHVS pays monthly installments of principal and interest, based upon a 25 year amortization until maturity on September 13, 2017. Upon maturity, all outstanding principal and accrued interest is due. The construction loan, which is guaranteed by Chris, Clay, and BILL, is secured by the rental real estate property of CHVS. The total amount outstanding as of December 31, 2015 was \$6,056,181. The loan was paid in full with proceeds from the CHVS First United Bank Term Loan.

- CHVS Phase IV Construction Loan:

On April 3, 2013, CHVS entered into a construction loan with NexBank SSB containing a term loan commitment of \$1,700,000 at a fixed rate of 5.0% for the purpose of financing the construction of the fourth phase of the CHVS rental real estate. CHVS pays monthly installments of principal and interest, based upon a 30 year amortization until maturity on April 3, 2019. Upon maturity, all outstanding principal and accrued interest is due. The construction loan, which is guaranteed by Chris, Clay, and BILL, is secured by the rental real estate property of CHVS. The total amount outstanding at December 31, 2015 was \$1,655,775. This loan was paid in full with the proceeds from the CHVS First United Bank Term Loan.

- CHVS First United Bank Term Loan:

On May 19, 2016, CHVS entered into a term loan with First United Bank (“FUB”) for \$15,250,000 at the greater of WSJ Prime rate plus .5% or 4% for the purpose of paying off and refinancing an existing credit agreement. The rate as of December 31, 2016 was 4.25%. CHVS pays interest only through May 19, 2017; thereafter, monthly installments of principal and interest, based upon a 25 year amortization until maturity on May 19, 2021. Upon maturity, all outstanding principal and accrued interest is due. The term loan, which is guaranteed by BRECO, is secured by the rental real estate property of CHVS. The total amount outstanding as of December 31, 2016 was \$15,250,000.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE E - LOANS PAYABLE - Continued

- CHVS Phase 5 Construction Loan:

On May 19, 2016, CHVS entered into a construction loan with FUB containing a term loan commitment of \$6,400,000 at the greater of WSJ Prime rate plus .5% or 4% for the purpose of financing the construction of the fifth phase of the CHVS rental real estate. The rate as of December 31, 2016 was 4.25%. CHVS pays interest only through May 19, 2017; thereafter, monthly installments of principal and interest, based upon a 25 year amortization until maturity on May 19, 2021. Upon maturity, all outstanding principal and accrued interest is due. The term loan, which is guaranteed by BRECO, is secured by the rental real estate property of CHVS. The total amount outstanding as of December 31, 2016 was \$1,508,917.

- CHGV Phase 3 Credit Facility:

On July 23, 2014, BRCH Villas, LLC ("CHGV"), a subsidiary of Residential, entered into a credit facility with PlainsCapital Bank containing a term loan commitment of \$4,684,000 at the greater of WSJ Prime rate plus .5% or 3.75% for the purpose of financing the construction of single family residential lots adjacent to CHGC. CHGV pays only interest through June 1, 2015; thereafter, a principal payment of \$478,380 plus interest is due July 1, 2015 with principal payments of \$717,570 plus interest due quarterly beginning October 1, 2015 through October 1, 2016 and one final payment of the outstanding principal balance of this credit facility, including accrued and unpaid interest on January 1, 2017. The credit facility, which is guaranteed by BILL, is secured by the land which is to be developed into lots. The credit facility is cross-collateralized with the CHGC Credit Facility, CHGC Fitness Center and Clubhouse Renovation Credit Facility and CHGC Off-Site Credit Facility, described below. The total amount outstanding at December 31, 2015 was \$2,052,911. The loan was paid in full during 2016.

- PH 8 Line of Credit:

On December 30, 2013, PH 8, a subsidiary of Residential, entered into a credit agreement with Housing Capital Company containing a term loan commitment of \$12,300,000 at the lesser of the maximum rate allowed by law or Prime Rate as announced by U.S. Bank National Association plus 0.75%, for the purpose of financing the construction of single family residential lots. The rate at December 31, 2015 was 4.25%. The line of credit, which was guaranteed by BILL, is secured by the land which is to be developed into lots. The total amount outstanding as of December 31, 2015 was \$962,520. PH 8 paid monthly interest through the maturity date of December 30, 2016 when the line of credit was paid in full.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE E - LOANS PAYABLE - Continued

- PH 9 Line of Credit:

On April 2, 2015, PH 9, a subsidiary of Residential, entered into a credit facility with Plains Capital Bank containing a term loan commitment of \$11,662,500 at the lesser of the maximum rate allowed by law or a variable rate of WSJ Prime plus .50% with a floor of 3.50% for the purpose of financing the construction of single family residential lots. The rate as of December 31, 2015 was 4.00%. PH 9 pays only interest through March 31, 2016; thereafter, a principal payment of \$1,890,000 plus accrued interest shall be due and payable no later than April 1, 2016, which was paid from the initial takedown of the lots in the first quarter of 2016. Quarterly principal payments of \$945,000 plus accrued interest are due on or before July 1, 2016, and on the same day of each October, January, April and July thereafter, and one final payment of the outstanding principal balance of this credit facility, including accrued and unpaid interest, on July 1, 2018. The line of credit, which is guaranteed by BILL, is secured by the land which is to be developed into lots. The total amount outstanding as of December 31, 2016 and 2015 was \$3,540,941 and \$8,608,017, respectively.

- Discovery Phase I Mezzanine Credit Facility:

On November 17, 2014, Realm MF entered into a mezzanine construction loan with SBNP SIA, LLC containing a loan commitment of \$12,000,000 at a fixed rate of 12.5% for the purpose of financing the construction of apartment units owned by the Discovery. Realm MF pays 8% interest only while accruing 4.5% interest until maturity on November 17, 2017. The loan can be extended through November 17, 2019 by exercising two separate one year extensions. Upon maturity, all outstanding principal and accrued interest is due. Management intends to extend the loan or refinance in 2017 with a permanent loan when stabilization is achieved. The loan is secured by a pledge of all ownership interests in the Discovery and is guaranteed by BILL. The total amount outstanding as of December 31, 2016 and 2015 was \$11,146,961 and \$10,248,701, respectively. The outstanding amount of accrued interest as of December 31, 2016 and 2015 was \$672,165 and \$166,894, respectively.

- Discovery Phase I Senior Credit Facility:

On November 17, 2014, the Discovery entered into a construction loan with Mutual of Omaha Bank containing a loan commitment of \$43,000,000 at a variable rate of LIBOR 30 plus 2.75% for the purpose of financing the construction of apartment units. The rate as of December 31, 2016 and 2015 was 3.52% and 3.10%, respectively. The Discovery pays interest only through maturity on November 17, 2017. The loan can be extended through November 17, 2019 by exercising two separate one year extensions. Upon maturity, all outstanding principal and accrued interest is due. Management intends to extend the loan or refinance in 2017 with a permanent loan when stabilization is achieved. The loan is secured by the land, fixtures, leases, rents and improvements of the Discovery and is guaranteed by BILL. The total amount outstanding as of December 31, 2016 and 2015 was \$42,455,795 and \$11,280,225, respectively.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE E - LOANS PAYABLE - Continued

- SEC JWH Line of Credit:

On September 24, 2015, SEC JWH, a subsidiary of Development, entered into a credit facility with PlainsCapital Bank containing a term loan commitment of \$4,029,750 at the lesser of the maximum rate allowed by law or a variable rate of WSJ Prime plus 1.00% with a floor of 4.25% for the purpose of financing the construction of commercial lots. The rate as of December 31, 2016 and 2015 was 4.75% and 4.50%, respectively. SEC JWH pays interest monthly with quarterly principal payments of \$167,906 beginning on or before June 24, 2017, and on the same day of each September, December, March, and June thereafter, and one final payment of the outstanding principal balance of this credit facility, including accrued and unpaid interest on September 24, 2018. The line of credit is secured by the land which is to be developed into lots. The total amount outstanding as of December 31, 2016 and 2015 was \$381,782 and \$2,706,450, respectively.

- CH PH 11, LLC ("PH11") Line of Credit:

On February 17, 2016, PH 11, a subsidiary of Residential, entered into a credit facility with First United Bank containing a term loan commitment of \$24,158,662 at the lesser of the maximum rate allowed by law or a variable rate of WSJ Prime plus .50% for the purpose of financing the construction of single family residential lots. The rate as of December 31, 2016 was 4.00%. PH 11 pays interest monthly through February 17, 2020. In addition to monthly interest payments, a principal payment of \$2,450,250 shall be due and payable no later than July 31, 2017. Quarterly principal payments of \$2,450,250 are due on or before October 31, 2017, January 31, 2018, April 30, 2018, July 31, 2018, January 31, 2019, April 17, 2019, and July 17, 2019 thereafter, and one final payment of \$2,106,412 on October 31, 2019. Principle payments will be paid from the takedown of the lots. The line of credit is secured by the land which is to be developed into lots. The total amount outstanding as of December 31, 2016 was \$12,534,304.

- 4920 Line of Credit:

On March 9, 2016, 4920 entered into a construction loan with Texas Bank and Trust Company containing a term loan commitment of \$3,072,000 at a fixed rate of 4.50% for the purpose of financing the construction of a retail building. 4920 pays only interest through March 9, 2018. Thereafter, 4920 pays monthly installments of principal and interest of \$17,075 until maturity on March 9, 2019. Upon maturity, all outstanding principal and accrued interest is due. The construction loan, which is guaranteed by the Company, is secured by the rental real estate property of 4920. The total amount outstanding as of December 31, 2016 was \$2,481,692.

- PH 12 Line of Credit:

On September 20, 2016, CH PH 12, LLC ("PH12"), a subsidiary of Residential, entered into a credit facility with Plains Capital Bank containing a term loan commitment of \$5,175,000 at the lesser of the maximum rate allowed by law or a variable rate of WSJ Prime plus .50% with a floor of 4.25% for the purpose of financing the construction of single family residential lots. The rate as of December 31, 2016 was 4.25%. PH 12 pays only interest through August 31, 2017. Quarterly principal payments of \$1,050,000 plus accrued interest are due on or before August 31, 2017, and on the same day of each March, June, September, and December thereafter, and one final payment of the outstanding principal balance of this credit facility, including accrued and unpaid interest, on August 31, 2019. The line of credit is secured by the land which is to be developed into lots. The total amount outstanding as of December 31, 2016 was \$1,192,364.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE E - LOANS PAYABLE - Continued

- CH PH 11, LLC PID Loan

On November 7, 2016, PH 11, a subsidiary of Residential, entered into a credit facility with First United Bank containing a term loan commitment of \$2,500,000 at the rate of 4% per annum until November 7, 2021, thereafter, the rate will be a variable rate of WSJ Prime plus .50%. The rate as of December 31, 2016 was 4.25%. PH 11 pays interest monthly through July 31, 2018; thereafter, principal and interest shall be amortized over 10 years, with annual installments of principal and interest due beginning July 31, 2019 and continuing annually until and including July 31, 2028. The balance as of December 31, 2016 was \$2,500,000.

- 2300 Parker, LLC ("2300") Line of Credit:

On December 21, 2016, 2300, a subsidiary of Retail, entered into a credit facility with First United Bank containing a term loan commitment of \$2,190,000 at the greater of WSJ Prime rate plus .5% or 4% for the purpose of financing the construction of commercial lots. The rate as of December 31, 2016 was 4.00%. 2300 pays interest monthly through December 21, 2018. The entire principal and interest remaining unpaid are due and payable on December 21, 2018. The line of credit is secured by the land which is to be developed into lots. The balance as of December 31, 2016 was \$1,029,782.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE E - LOANS PAYABLE - Continued

- Equipment Notes and Capital Leases:

The Company periodically enters into notes payable and capital leases summarized below:

Capital Leases

<u>Lender</u>	<u>Origination Date</u>	<u>Maturity Date</u>	<u>Rate</u>	<u>2016 Balance</u>
TCF & PNC	Various	Various	Various	\$ -
PNC	6/1/2015	5/31/2019	5.18%	103,279
John Deere Mowers	3/15/2016	2/15/2021	4.25%	796,531
John Deere Z Track	3/15/2016	2/15/2021	4.25%	26,864
Geneva Capital				<u>94,403</u>
				<u>\$1,021,077</u>

Equipment Notes

<u>Lender</u>	<u>Origination Date</u>	<u>Maturity Date</u>	<u>Rate</u>	<u>2016 Balance</u>
Texas Security Bank	Various	Various	7.50%	\$ 25,298
Ford Motor Credit	12/31/2014	1/31/2018	0.90%	15,298
Ford Motor Credit	1/12/2015	1/31/2020	0.00%	17,243
Holt Texas	3/19/2015	3/31/2020	2.68%	55,939
Ford Motor Credit	5/31/2016	4/30/2021	7.89%	36,458
Ditchwitch Financial Services	2/15/2016	2/15/2020	5.59%	64,650
Wells Fargo Equipment Finance	5/31/2016	4/30/2021	5.00%	56,541
Wells Fargo Equipment Finance	12/28/2015	11/28/2020	0.00%	<u>78,431</u>
				<u>\$349,858</u>

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE E - LOANS PAYABLE - Continued

Future minimum capital lease payments as of December 31, 2016 are as follows:

2017	\$ 257,309
2018	270,210
2019	258,891
2020	213,492
Thereafter	<u>21,175</u>
Total payments	1,021,077
Less interest:	<u>92,250</u>
Total	<u>\$ 928,827</u>

Future Minimum Debt Payment Schedule as of December 31, 2016 are as follows:

2017	\$ 65,078,034
2018	10,706,781
2019	18,050,385
2020	18,045,075
Thereafter	<u>16,891,446</u>
Total	<u>\$128,771,721</u>

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE E - LOANS PAYABLE - Continued

Summary of outstanding loans payable as of December 31:

	<u>2016</u>	<u>2015</u>
Loans Supporting:		
Frontier Term Loan	\$ 16,450,000	\$17,570,000
CHVS Term Loan	-	7,618,394
CHVS Phase III Construction Loan	-	6,056,181
CHVS Phase IV Construction Loan	-	1,655,775
CHVS First United Bank Term Loan	15,250,000	-
CHVS Phase 5 Construction Loan	1,508,917	-
CHGV Phase 3 Credit Facility	-	2,052,911
PH 8 Credit Facility	-	962,520
PH 9 Credit Facility	3,540,941	8,608,017
Discovery Phase I Mezzanine Credit Facility	11,146,961	10,248,701
Discovery Phase I Senior Credit Facility	42,455,795	11,280,225
SECJWH Credit Facility	381,782	2,706,450
PH 11 Credit Facility	12,534,304	-
4920 Term Loan	2,481,692	-
PH 12 Credit Facility	1,192,364	-
PH 11 PID Loan	2,500,000	-
2300 Parker Credit Facility	1,029,782	-
Discovery Capital Lease	94,403	-
Infinity Capital Leases	926,674	169,374
Infinity Equipment Notes	349,858	203,757
Bright Realty Note payable to affiliate	16,913,248	16,913,248
SECJWH Partner Loan	5,000	5,000
CHGC Offsite Loan	-	437,829
2300 Parker Partner Loan	<u>10,000</u>	<u>-</u>
Total loans payable	128,771,721	86,488,382
Less: deferred loan cost, net	<u>962,916</u>	<u>1,180,225</u>
Loans payable, net	<u>\$127,808,805</u>	<u>\$85,308,157</u>

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE F - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company leases office space to certain affiliates under common ownership and related parties. Lease agreements exist between the Company and Bright Executive Services, LLC (“BES”), American Legend, LLC (“ALH”), Bright Equities, LLC, and Castle Spirits. The Company recorded rental revenue from these tenants of \$1,233,594 and \$1,314,077 for base rent and recoveries included in rental revenue for the years ended December 31, 2016 and 2015, respectively.

The Company also sold 225 and 147 lots during the years ended December 31, 2016 and 2015 to ALH for \$20,183,900 and \$12,994,050, respectively, included in lot, land, and townhome sales. The Company recorded landscaping revenue from Castle Hills Master Association (“CHMA”) of \$1,298,188 and \$1,489,938 for the years ended December 31, 2016 and 2015, respectively. The Company also recorded \$1,979,173 and \$2,021,367 of landscaping revenue from CHGC during the years ended December 31, 2016 and 2015, respectively.

The Company incurred advertising costs to Bright Marketing, LLC (“Bright Marketing”) of \$1,033,416 and \$1,179,965 for the years ended December 31, 2016 and 2015, respectively. The Company also paid corporate overhead charges, which are allocated to BILL owned subsidiaries based on member’s equity and headcount, to BES of \$1,833,120 and \$2,041,920 for the years ended December 31, 2016 and 2015, respectively.

The Company incurred homeowners’ association costs of \$476,195 and \$348,737 in cost of lot, land, and townhome sales for the years ended December 31, 2016 and 2015, respectively, paid to CHMA. The Company also incurred \$4,866 and \$21,210 in advertising, landscaping, rent, and other miscellaneous expenses for the years ended December 31, 2016 and 2015, respectively, to CHMA.

The Company also had trade receivables of \$82,181 and \$401,395 from related parties and affiliates for rent and landscaping costs as of December 31, 2016 and 2015, respectively.

Included in trade payables and other accrued liabilities are payables of \$220,544 and \$717,594 to affiliates under common ownership and related parties as of December 31, 2016 and 2015, respectively.

Included in customers’ deposits, are earnest money deposits received from ALH in the amount of \$6,125,520 and \$3,310,960 as of December 31, 2016 and 2015, respectively.

On December 31, 2011, the Company entered in a revolving promissory note for \$18,000,000 with BILL (“BILL Note”) to finance operations. Unpaid principal of the BILL Note is due at maturity, December 1, 2020. The interest rate as of December 31, 2016 and 2015 is 5% and 1.27% per annum, respectively. This is paid on the last day of each month. The balance outstanding for the BILL Note as of December 31, 2016 and 2015 was \$16,913,248 and \$16,913,248, respectively. Interest incurred on the revolving promissory notes to BILL was \$989,309 and \$861,895 for the years ended December 31, 2016 and 2015, respectively.

On September 23, 2015, SEC JWH received an interest free partner loan for \$5,000 from BRECO Retail CH, LLC. The loan will be repaid from sales proceeds in 2016.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE F - AFFILIATE AND RELATED PARTY TRANSACTIONS - Continued

On December 21, 2016, 2300 Parker received an interest free partner loan for \$10,000 from BRECO Retail CH, LLC. The loan will be repaid from sales proceeds in 2017.

On January 1, 2015, CHGV and the Company entered into a loan with CHGC containing a term loan commitment of \$487,069 at the lesser of the maximum rate allowed by law or 5.5%, for the purpose of financing the off-site construction of roads and infrastructure to access CHGV. CHGV pays monthly installments of principal and interest, based upon a 10 year amortization until maturity on March 15, 2019. Upon maturity, all outstanding principal and accrued interest is due. As of December 31, 2015, the outstanding balance was \$437,829. The loan was paid in full during 2016.

NOTE G - RENTAL REVENUE

The Company receives rent revenues from the leases of the CHVS mixed use retail property. The approximate future minimum rental revenues under non-cancelable operating leases with initial terms in excess of one year in effect as of December 31, 2016 are as follows:

2017	\$ 2,201,929
2018	1,985,599
2019	1,730,861
2020	1,452,100
Thereafter	<u>3,925,492</u>
Total	<u>\$11,295,981</u>

Future rents of \$4,881,673 are due from various affiliates and related parties of CHVS. These amounts do not include revenue which may be due from tenants for recovery of certain operating costs.

NOTE H - VARIABLE INTEREST ENTITIES

On September 6, 2013, the Company entered into an LLC agreement with an affiliate to form PH 7, where the Company owns a 0.10% interest in PH 7 and is the manager. The Company also guarantees the debt of PH7. The single purpose of PH 7 is to develop the tract of land owned by the Company, and sell single family lots to ALH and another homebuilder. Once the affiliate receives a stated preferred return, the Company receives cash flow and income in excess of its ownership interest. The Company received cash flow and net income in excess of its ownership in PH7 in 2015. PH 7 was determined to be a VIE and the Company was determined to be the primary beneficiary as discussed in Note B. The consolidated financial statements reflect the inclusion of PH 7's assets of \$18,317 and \$37,989 in cash, liabilities of \$18,317 and \$33,250, and member's equity of \$0 and \$4,739 as of December 31, 2016 and 2015, respectively. The assets of PH 7 can only be used to settle obligations of PH 7. The results of cash flows of PH 7 are included in the Company's consolidated financial statements beginning January 1, 2013.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE H - VARIABLE INTEREST ENTITIES - Continued

On December 30, 2013, the Company entered into an LLC agreement with an affiliate and third party to form PH 8, where the Company owns a 0.10% interest in PH 8 and is the manager. The Company also guarantees the debt of PH8. The single purpose of PH 8 is to develop the tracts of land owned by the Company and contributed by the third party, and sell single family lots to ALH and another homebuilder. Once third party investors receive a stated preferred return, the Company receives a share of cash flow and income in excess of its ownership interest. The Company received cash flow and net income in excess of its ownership in PH8 in 2016. PH 8 was determined to be a VIE and the Company was determined to be the primary beneficiary as discussed in Note B. The consolidated financial statements reflect the inclusion of PH 8's assets of \$75,436 and \$564,357 in cash and \$0 and \$7,661,816 in lot inventory and other assets, liabilities of \$42,666 and \$2,352,402, member's equity of \$24,253 and \$2,823,929, and non-controlling interests owned by third party of \$8,517 and \$3,049,842 as of December 31, 2016 and 2015, respectively. The assets of PH 8 can only be used to settle obligations of PH 8. The creditors of PH 8 have no recourse to the general credit of the Company. The results of cash flows of PH 8 are included in the Company's consolidated financial statements beginning January 1, 2014.

On March 20, 2015, the Company entered into an LLC agreement with third parties to form PH 9, where the Company owns a 0.10% interest in PH 9 and is the manager. The Company also guarantees the debt of PH9. The single purpose of PH 9 is to purchase and develop a tract of land, and sell single family lots to ALH and another homebuilder. Once third party investors receive a stated preferred return, the Company receives cash flow and income in excess of its ownership interest. PH 9 was determined to be a VIE and the Company was determined to be the primary beneficiary as discussed in Note B. The consolidated financial statements reflect the inclusion of PH 9's assets of \$865,114 and \$17,893 in cash and \$6,454,323 and \$12,642,601 in construction in progress and other assets, liabilities of \$5,312,950 and \$10,463,556, member's equity of \$2,200 and \$2,197, and non-controlling interests owned by third party of \$2,004,287 and \$2,194,741 as of December 31, 2016 and 2015 respectively. The assets of PH 9 can only be used to settle obligations of PH 9. The results of cash flows of PH 9 are included in the Company's consolidated financial statements beginning January 1, 2015.

On September 10, 2015, the Company entered into an LLC agreement with third parties to form SEC JWH, where the Company owns a 0.10% interest in SEC JWH and is the manager. The Company also guarantees the debt of SECJWH. The single purpose of SECJWH is to purchase and develop a tract of land, and sell commercial lots. Once third party investors receive a stated preferred return, the Company receives cash flow and income in excess of its ownership interest. SEC JWH was determined to be a VIE and the Company was determined to be the primary beneficiary as discussed in Note B. The consolidated financial statements reflect the inclusion of SEC JWH's assets of \$213,140 and \$29,794 in cash and \$2,107,046 and \$4,103,408 in construction in progress and other assets, liabilities of \$450,494 and \$2,790,136, member's equity of \$2,101 and \$3,250, and non-controlling interests owned by third party of \$1,867,591 and \$1,339,816 as of December 31, 2016 and 2015, respectively. The assets of SEC JWH can only be used to settle obligations of SEC JWH. The results of cash flows of SEC JWH are included in the Company's consolidated financial statements beginning January 1, 2015.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE H - VARIABLE INTEREST ENTITIES - Continued

On March 3, 2016, the Company entered into an LLC agreement with third parties to form 4920 HWY 121, LLC ("4920"), where the Company owns a 0.3960% interest in 4920 and is the manager. The single purpose of 4920 is to purchase and develop a tract of land, and construct a retail building on the land. Once third party investors receive a stated preferred return, the Company receives cash flow and income in excess of its ownership interest. 4920 was determined to be a VIE and the Company was determined to be the primary beneficiary. The consolidated financial statements reflect the inclusion of 4920 HWY 121's assets of \$145,363 in cash and \$2,952,719 in construction in progress and other assets, liabilities of \$2,565,131, member's equity of \$2,000, and non-controlling interests owned by third party of \$530,951 as of December 31, 2016. The assets of 4920 HWY 121 can only be used to settle obligations of 4920 HWY 121. The results of cash flows of 4920 HWY 121 are included in the Company's consolidated financial statements beginning January 1, 2016.

On December 13, 2016, the Company entered into an LLC agreement with third parties to form 2300 Parker, LLC, where the Company owns a 0.10% interest in 2300 Parker and is the manager. The single purpose of 2300 Parker is to purchase and develop a tract of land, and construct a retail building on the land. Once third party investors receive a stated preferred return, the Company receives cash flow and income in excess of its ownership interest. 2300 Parker was determined to be a VIE and the Company was determined to be the primary beneficiary. The consolidated financial statements reflect the inclusion of 2300 Parker's assets of \$186,700 in cash and \$1,583,854 in construction in progress, liabilities of \$1,039,824, member's equity of \$731, and non-controlling interests owned by third party of \$730,000 as of December 31, 2016. The assets of 2300 Parker can only be used to settle obligations of 2300 Parker. The results of cash flows of 2300 Parker are included in the Company's consolidated financial statements beginning January 1, 2016.

NOTE I - COMMITMENTS AND CONTINGENCIES

Litigation

The Company is involved from time to time in various claims and legal actions in the ordinary course of business. Management does not believe that the impact of such matters will have a material adverse effect on the Company's financial position or results of operations when resolved. Litigation with a general contractor was resolved in 2015 and did not have a material impact on the financial position of the Company.

Guarantees

The Company guarantees various loans related to the golf course for CHGC and BILL totaling \$6,283,439. The Company would be required to make payments on the loan under the guarantee if CHGC and BILL are unable to perform the obligations of the loans. As of December 31, 2016, the borrowers have enough liquidity to perform their obligations. The maximum undiscounted payments that the Company would be required to make under the guarantee is the outstanding balances of the loans. There are no recourse provisions for the Company to recover any amounts paid under the guarantee from third parties.

Bright Realty, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016 and 2015

NOTE J - MAJOR CUSTOMERS

In the year ended December 31, 2016, ALH accounted for 56% of the Company's total lot, land, and townhome sales, respectively. During the year ended December 31, 2015, ALH accounted for 40% of its total lot, land, and townhome sales. Additionally, two third-party homebuilders account for approximately 16% of the remaining lot, land, and townhome sales.

NOTE K - SUBSEQUENT EVENTS

The Company has evaluated its financial statements for subsequent events through March 13, 2017, the date the financial statements were available to be issued. The Company is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Bright Realty, LLC (.br)

Balance Sheet

Period = Sep 2018

Book = Accrual ; Tree = ysi_bs

Current Balance

Assets

Current Assets

Cash

Petty Cash-Green Bank	11,297.27
Green Bank Operating Cash	1,444,714.48
Ph9 Operating Acct	91,476.58
Infinity Operating Account	418,596.29
SEC JWH Operating Acct	50,953.98
CH PH 11 Operating Acct	260,666.00
CH PH 12 Operating Acct	153,378.93
4920 Hwy 121 Operating Acct	31,427.93
2300 Parker Operating Account	187,888.00
264 John Jones Operating Acct	538.73
615 FM 2881 Operating Account	459,340.76
CH RWR, LLC Operating Acct	23,592.98
CH PH 10A, LLC Operating Acct	2,175,657.65
BR-Cash Held By/For Affiliate	25,978.98
Restricted Cash	302,908.58

Total Cash

5,638,417.14

Accounts Receivable

Accounts Receivable - Rent	24,486.69
Accounts Receivable	1,658,997.80
Other Tenant Receivables	84,072.46
Tenant Finish Out Rec.	81,389.06
A/R - Broker Draw	75,869.73
Acrd Interest Receivable	51,729.13
A/R - DCFWSD	5,901,816.89
Allowance for Doubtful Accts - Rent	-7,718.50
Allowance for Doubtful Accts - Other	-63,646.83

Total Accounts Receivable

7,806,996.43

Prepaid Expenses

Deposits	15,700.00
Prop & Liability Insurance	173,612.06
Workers Comp Insurance	11,015.25
Leasing Commissions	278,442.37
Prepaid - Service Contracts	6,759.26
Software License	14,251.52

Total Prepaid Expenses

499,780.46

Inventory

Operating Supplies	89,700.00
Land & Building Held for Sale	6,085,172.34

Total Inventory

6,174,872.34

Bright Realty, LLC (.br)

Balance Sheet

Period = Sep 2018

Book = Accrual ; Tree = ysi_bs

	Current Balance
Work In Progress	
Tenant Related Project	387,924.75
WIP: Horizontal-Res	13,778,569.39
WIP: Horizontal-Com	1,558,468.26
WIP: Vertical-Res	1,032,479.15
WIP: Vertical-Com	22,406,001.16
Total Work In Progress	39,163,442.71
Total Current Assets	59,283,509.08
Fixed Assets	
Land	
Building Land	-2,079,319.94
Land - Mockingbird	24,790.51
Land for Development/Sale	36,830,017.59
Lot Inventory - Land	5,825,885.00
Lot Inventory - Capitalized Costs	52,679,912.63
Lot Inventory - COGS	-37,728,029.39
Total Land	55,553,256.40
Structures	
Building	31,775,004.26
Leasehold Improvements	144,896.75
Land Improvements	3,575,714.26
Building Improvements (Second Generation)	349,542.36
Tenant Improvements	2,715,041.67
Parking Lot Facilities	51,642.77
Total Structures	38,611,842.07
Accm Depr - Structures	
Accm Dep - Building	-4,320,365.51
Accm Dep - Leasehold Improvements	-51,313.55
Accm Dep - Land Improvements	-2,145,104.94
Accm Dep - Building Improvements	-286,573.25
Accm Dep - Tenant Improvements	-2,482,717.28
Accm Dep - Parking Lot Facilities	-45,977.05
Total Accm Depr - Structures	-9,332,051.58
Furniture, Fixtures and Equipment	
Automobiles and Motor Vehicles	437,651.74
Operating Equipment	709,294.03
FF&E	959,576.23
Capitalized Leased Equipment	1,831,567.84
Total Furniture, Fixtures and Equipment	3,938,089.84
Accumulated Depreciation - FF&E	
Accm Dep - Automobiles	-300,919.76
Accm Dep - Operating Equipment	-482,770.96

Bright Realty, LLC (.br)

Balance Sheet

Period = Sep 2018

Book = Accrual ; Tree = ysi_bs

	Current Balance
Accm Dep - FF&E	-764,725.90
Accm Dep - Cap Leased Equipment	-1,259,333.08
Total Accumulated Depreciation - FF&E	-2,807,749.70
Total Fixed Assets	85,963,387.03
Other Assets	
Long-Term Investments	
Investment in CHPC Commercial	1,100.00
Investment In Discovery CH, LLC	3,294,241.89
Investment in Sub	4,082,221.82
Investment in BRED Fund-I	-2,815,407.34
Total Long-Term Investments	4,562,156.37
Other Long-Term Assets	
Other	391,776.50
Loan Origination Costs	656,639.90
Accumulated Amort. - Loan Orig. Costs	-370,911.29
Deferred Rent (Straight Line)	409,930.27
Capitalized Tract Costs	60,466.92
Suspense	265,251.18
Total Other Long-Term Assets	1,413,153.48
Total Other Assets	5,975,309.85
Total Assets	151,222,205.96

Liabilities and Owner's Equity

Liabilities

Current Liabilities

Payables

Accounts Payable	741,442.70
Accounts Payable - Acc'd	269,065.73
Wages Payable	11,755.89
FSA Payable	5,848.73
Vacation Accrual	121,427.04
Retainage Payable	905,630.69
Ad Valorem Taxes Payable	2,013,136.62
Lot Ad Valorem Taxes Payable	574,501.96
Accrued Taxes Payable	227,499.97
Accrued Sales Taxes	5,361.33
Tenant Deposits	258,046.67
Unearned Rent	123,780.22
Other Unearned Income	7,652,894.93
Earnest Money Liability	10,187,744.00
Total Payables	23,098,136.48

Short Term Debt

Bright Realty, LLC (.br)

Balance Sheet

Period = Sep 2018

Book = Accrual ; Tree = ysi_bs

	Current Balance
Bank Advances	17,681,338.12
Partner Loans	1,000.00
Total Short Term Debt	17,682,338.12
Total Current Liabilities	40,780,474.60
Long Term Liabilities	
Long-Term Debt	
Notes Payable	36,126,549.65
Interco Revolver	1,913,247.81
Capital Lease Payable	619,948.20
Total Long Term Debt	38,659,745.66
Total Long Term Liabilities	38,659,745.66
Total Liabilities	79,440,220.26
Owner's Equity	
Capital	
Preferred Equity	8,650,000.00
Members Equity - BILL	55,197,234.26
Members Equity	5,300,323.60
Contribution - BRED Fund-I	6,329,184.00
Contribution - Song Dog	6,597,524.00
Contribution - Stratford Land Fund III	3,765,763.00
Class B - Members Contribution	6,092,800.00
Retained Earnings	9,584,657.58
Current Year Earnings	-739,803.69
Total Capital	100,777,682.75
Retained Earnings	
Distributions	-17,102,003.03
Distributions - NCI	-11,893,694.02
Total Retained Earnings	-28,995,697.05
Total Owner's Equity	71,781,985.70
Total Liabilities and Owners Equity	151,222,205.96
Total Of All Accounts	0.00

Income Statement

Period = Jul 2018-Sep 2018

Book = Accrual ; Tree = ysi_is

	Period to Date	%	Year to Date	%
Revenue				
Office Rent				
Base Rent - Office	274,646.04	2.37	819,750.25	2.03
Office Straight Line Adj	-3,194.55	-0.03	-12,720.82	-0.03
Pass Throughs / Reimbursements	109,096.49	0.94	342,372.60	0.85
Lease Cancellations	0.00	0.00	5,163.78	0.01
Allowance for Bad Debt (contra account)	1,281.89	0.01	1,666.67	0.00
Total Office Rent	381,829.87	3.30	1,156,232.48	2.86
Retail Rent				
Base Rent - Retail	366,112.38	3.16	985,812.70	2.44
Retail Straight Line Adj	38,269.09	0.33	31,965.49	0.08
Overage or Percentage Rents	12,984.05	0.11	44,213.47	0.11
Pass Through / Reimbursements	137,510.60	1.19	400,994.83	0.99
Rent Abatements (contra account)	-38,160.76	-0.33	-57,399.94	-0.14
Association Dues / Fees Income	4,214.59	0.04	12,446.82	0.03
Total Retail Rent	520,929.95	4.50	1,418,033.37	3.51
Multifamily Rent				
Gross Potential Rent	232,401.00	2.01	411,696.00	1.02
Less: Concessions	-3,285.00	-0.03	-3,285.00	-0.01
Less: Vacancy	-154,672.34	-1.34	-270,936.43	-0.67
Less: Loss/Gain to Lease	150.00	0.00	150.00	0.00
Total Multifamily Rent	74,593.66	0.64	137,624.57	0.34
Other Rent				
Storage Space	6,000.00	0.05	18,000.00	0.04
Other	15,600.00	0.13	15,600.00	0.04
Total Other Rent	21,600.00	0.19	33,600.00	0.08
Additional Tenant Service Income				
Application Fee	240.00	0.00	840.00	0.00
Pet Fee	109.86	0.00	109.86	0.00
Termination Fees	0.00	0.00	1,450.00	0.00
Move Out Fees	0.00	0.00	660.00	0.00
Total Additional Tenant Service Income	349.86	0.00	3,059.86	0.01
Landscaping Income				
Landscaping Service - Tax	1,023,493.99	8.84	3,042,855.56	7.52
Landscaping Install - Tax	1,087,702.33	9.40	2,260,757.13	5.59
Landscaping Repair - Tax	15,563.66	0.13	92,049.05	0.23
Other Service - Tax	22,035.00	0.19	140,183.43	0.35
Total Landscaping Income	2,148,794.98	18.56	5,535,845.17	13.69
Miscellaneous Income				
Signage	174,681.83	1.51	334,925.89	0.83
Late Charges / NSF Fees	1,735.92	0.02	2,787.61	0.01
Interest Income	2,500.00	0.02	2,500.00	0.01
Other	40,175.17	0.35	89,639.47	0.22
Management Fees	72,556.15	0.63	215,705.05	0.53
Developer Fees	206,071.52	1.78	390,071.52	0.96
Leasing Commissions - Ret	74,469.58	0.64	148,978.27	0.37
Leasing Commissions - Off	0.00	0.00	1,470.98	0.00
Leasing Commissions - Interco	-6,835.84	-0.06	-6,835.84	-0.02
Sales Commissions - Cmrl	368,100.00	3.18	489,936.34	1.21
Sales Commissions - Res	8,150.00	0.07	68,357.71	0.17

Income Statement

Period = Jul 2018-Sep 2018

Book = Accrual ; Tree = ysi_is

	Period to Date	%	Year to Date	%
Asset Management Fees	-15,000.00	-0.13	60,000.00	0.15
Bad Debt Expense - Other	-1,836.31	-0.02	4,213.51	0.01
Total Miscellaneous Income	924,768.02	7.99	1,801,750.51	4.46
Land Sales Income				
Lot Sales	6,614,182.08	57.14	19,261,726.65	47.63
Home Sales	0.00	0.00	3,563,966.50	8.81
Price Escalations	223,562.40	1.93	431,004.18	1.07
Marketing Fees	55,200.00	0.48	165,600.00	0.41
Amenity Fee	55,200.00	0.48	165,600.00	0.41
Property Tax/ HOA Recovery	18,834.50	0.16	34,994.86	0.09
Land Sales	535,000.00	4.62	6,484,211.00	16.04
Total Land Sales Income	7,501,978.98	64.81	30,107,103.19	74.45
Construction Management Income				
Reimbursable Construction Costs	0.00	0.00	244,645.50	0.60
Total Construction Management Income	0.00	0.00	244,645.50	0.60
Total Revenue	11,574,845.32	100.00	40,437,894.65	100.00
Expenses				
Operating Expenses				
Operating Expenses (Recoverable)				
Cleaning Expenses				
Routine Contract Services	9,317.76	0.08	30,284.98	0.07
Janitorial & Cleaning	24,893.70	0.22	75,916.24	0.19
Specialized Contract Services	0.00	0.00	652.75	0.00
Supplies / Materials / Miscellaneous	5,837.75	0.05	17,835.25	0.04
Trash Removal	15,402.75	0.13	36,266.08	0.09
Total Cleaning Expenses	55,451.96	0.48	160,955.30	0.40
Repairs / Maintenance				
Payroll/ Taxes/ Fringes	295,133.91	2.55	834,031.25	2.06
Elevator Service Contracts	3,117.84	0.03	7,774.92	0.02
HVAC Contracts / Materials	15,817.24	0.14	36,728.44	0.09
Electrical Contracts / Materials	699.69	0.01	5,795.92	0.01
Structural/Roofing	9,700.00	0.08	-12,625.31	-0.03
Plumbing	3,986.25	0.03	5,131.71	0.01
Fire & Life Safety	728.00	0.01	3,998.36	0.01
Make Ready	1,531.95	0.01	1,531.95	0.00
General Building R/M (Interior)	8,514.01	0.07	9,461.63	0.02
General Building R/M (Exterior)	3,198.25	0.03	25,315.47	0.06
Other	39,496.83	0.34	251,616.91	0.62
Auto R/M	0.00	0.00	327.00	0.00
Irrigation R/M	1,201.77	0.01	2,958.98	0.01
Maintenance Materials/Supplies	55,680.30	0.48	152,982.39	0.38
Total Repairs / Maintenance	438,806.04	3.79	1,325,029.62	3.28
Utilities				
Electricity	51,879.20	0.45	142,493.96	0.35
Electric-Vacant	7,054.63	0.06	8,597.62	0.02
Gas	370.65	0.00	3,692.94	0.01
Water	17,575.23	0.15	35,574.86	0.09
Sewer	1,068.41	0.01	2,151.84	0.01
Cable	1,160.79	0.01	3,434.37	0.01

Income Statement

Period = Jul 2018-Sep 2018

Book = Accrual ; Tree = ysi_is

	Period to Date	%	Year to Date	%
Internet	1,325.13	0.01	3,975.37	0.01
Telephone	3,991.64	0.03	11,187.05	0.03
Total Utilities	84,425.68	0.73	211,108.01	0.52
Roads / Grounds Expenses				
Landscaping	24,283.21	0.21	67,935.03	0.17
Lot Mowing	11,136.30	0.10	26,901.53	0.07
Other Grounds Expenses	32.97	0.00	632.97	0.00
Total Roads / Grounds Expenses	35,452.48	0.31	95,469.53	0.24
Security Expenses				
Contracts - Guard	38,353.75	0.33	113,106.86	0.28
Contracts - Monitoring	646.09	0.01	1,767.23	0.00
Total Security Expenses	38,999.84	0.34	114,874.09	0.28
Administrative				
Salary & Wages	880,041.18	7.60	2,644,792.99	6.54
Bonus	-4,278.57	-0.04	195,728.22	0.48
Payroll Taxes	71,185.76	0.62	235,548.25	0.58
Benefits	235,743.09	2.04	640,265.76	1.58
Contract Labor	423,657.88	3.66	1,038,619.63	2.57
Management Fees	10,183.75	0.09	23,649.99	0.06
Professional Fees	97,710.83	0.84	147,226.27	0.36
Consulting	40,195.56	0.35	127,041.97	0.31
Training/ Seminars	7,623.95	0.07	20,781.77	0.05
Dues/ Subscriptions	14,701.85	0.13	53,837.78	0.13
Computer Expense	41,587.12	0.36	91,504.05	0.23
Fuel/ Mileage	10,806.73	0.09	19,452.71	0.05
Resident Screening	66.00	0.00	66.00	0.00
Other Administrative Expenses	13,534.02	0.12	49,159.05	0.12
Supplies	294.51	0.00	661.18	0.00
Postage & Shipping	166.32	0.00	555.51	0.00
Association Dues	19,821.83	0.17	51,427.50	0.13
Payroll Reimbursement	-66,600.00	-0.58	-199,800.00	-0.49
Total Administrative	1,796,441.81	15.52	5,140,518.63	12.71
Fixed Expenses				
Real Estate Taxes	756,375.93	6.53	1,591,026.32	3.93
Building Insurance	70,994.63	0.61	142,138.69	0.35
Auto Insurance	5,738.87	0.05	63,925.37	0.16
Licenses / Fees / Permits	4,106.42	0.04	39,751.04	0.10
Total Fixed Expenses	837,215.85	7.23	1,836,841.42	4.54
Total Operating Expenses (Recoverable)	3,286,793.66	28.40	8,884,796.60	21.97
Operating Expenses (Non-Recoverable)				
Leasing/ New Business Expenses				
Fees & Commissions	83,365.96	0.72	124,688.01	0.31
Advertising / Promotions	124,798.57	1.08	430,333.68	1.06
Travel & Entertainment	23,370.41	0.20	49,573.79	0.12
Professional Fees	0.00	0.00	1,075.00	0.00
Other Leasing Costs	119.07	0.00	1,487.36	0.00
Total Leasing/ New Business Expenses	231,654.01	2.00	607,157.84	1.50
Other Non-Recoverable Expenses				
Legal Fees	8,943.84	0.08	46,904.37	0.12
Audit Fees	0.00	0.00	155,797.69	0.39

Income Statement

Period = Jul 2018-Sep 2018

Book = Accrual ; Tree = ysi_is

	Period to Date	%	Year to Date	%
Accounting/ Tax Prep	22,000.00	0.19	22,000.00	0.05
Asset Management Fees	-15,000.00	-0.13	60,000.00	0.15
Special Event/ Ceremony	31,164.63	0.27	148,637.27	0.37
Corporate Overhead	482,955.00	4.17	1,404,790.00	3.47
Expenses Capitalized	-96,937.50	-0.84	-172,445.40	-0.43
Total Other Non-Recoverable Expenses	433,125.97	3.74	1,665,683.93	4.12
Non-Recoverable Prop Mgmt Exp				
NR Exp - General Building R/M (Interior)	0.00	0.00	180.00	0.00
NR Exp - Electricity	877.07	0.01	1,188.54	0.00
Total Non-Recoverable Prop Mgmt Exp	877.07	0.01	1,368.54	0.00
Costs of Lot/Land Sales				
Cost of Land Sales	837,925.47	7.24	3,316,051.76	8.20
Cost of Lot Sales	4,988,404.53	43.10	14,656,112.53	36.24
Cost of Home Sales	0.00	0.00	3,564,893.50	8.82
Sales Commissions	125,657.99	1.09	688,367.11	1.70
School Foundation	31,522.00	0.27	134,080.52	0.33
Closing Costs	2,341.92	0.02	47,903.54	0.12
COS - Rollback Taxes	0.00	0.00	158,000.00	0.39
Ad Valorem Taxes - Carried Lots	103,995.96	0.90	615,675.77	1.52
HOA Dues - Carried Lots	187,138.04	1.62	315,381.92	0.78
PID Assessment Interest	50.89	0.00	31,772.20	0.08
Incentives	0.00	0.00	54,943.87	0.14
Total Costs of Lot/Land Sales	6,277,036.80	54.23	23,583,182.72	58.32
Landscaping Costs				
Material Costs of Sales				
Seeds, Flowers, Shrubs	82,884.63	0.72	316,963.50	0.78
Sand, Gravel, Topdressing	-31,349.82	-0.27	88,951.65	0.22
Soil Mix	3,244.98	0.03	12,560.73	0.03
Mulch	7,962.48	0.07	83,429.09	0.21
Fertilizers	74,313.94	0.64	194,408.66	0.48
Applicants - Chemicals	76,115.42	0.66	247,673.96	0.61
Rocks	54,008.48	0.47	139,799.52	0.35
Pool Supplies	600.61	0.01	4,610.63	0.01
Irrigation Supplies	34,766.48	0.30	84,507.42	0.21
Equipment Supplies	27,245.99	0.24	29,711.66	0.07
Other Landscaping Supplies	232,578.35	2.01	396,027.07	0.98
Total Material Costs of Sales	562,371.54	4.86	1,598,643.89	3.95
Other Costs of Sales				
Waste Disposal	0.00	0.00	4,766.25	0.01
Drainage	2,006.40	0.02	13,125.79	0.03
Equipment Rental	53,037.80	0.46	89,063.25	0.22
Contract Services	361,544.96	3.12	899,254.97	2.22
Total Other Costs of Sales	416,589.16	3.60	1,006,210.26	2.49
I/C Landscaping Eliminated	-33,520.20	-0.29	-534,868.56	-1.32
Total Landscaping Costs	945,440.50	8.17	2,069,985.59	5.12
Total Operating Expenses (Non-Recoverable)	7,888,134.35	68.15	27,927,378.62	69.06
Total Operating Expenses	11,174,928.01	96.54	36,812,175.22	91.03
Non-Operating Expenses				
Amortization & Depreciation Expenses				
Amortization				

Bright Realty, LLC (.br)

Income Statement

Period = Jul 2018-Sep 2018

Book = Accrual ; Tree = ysi_is

	Period to Date	%	Year to Date	%
Leasing Commissions Amortization	16,388.36	0.14	27,694.43	0.07
Loan Costs	27,453.25	0.24	60,286.19	0.15
Total Amortization	43,841.61	0.38	87,980.62	0.22
Depreciation				
Building	208,895.91	1.80	536,069.57	1.33
Leasehold Improvements	2,414.97	0.02	5,574.27	0.01
Land Improvements	61,240.65	0.53	181,369.06	0.45
Building Improvements	6,286.60	0.05	18,859.84	0.05
Tenant Improvements	25,768.25	0.22	82,234.31	0.20
Garage / Parking Lot Facilities	1,392.77	0.01	4,178.33	0.01
Operating Equipment	21,724.62	0.19	69,981.74	0.17
FF&E and Other	2,274.63	0.02	29,209.05	0.07
Auto	16,133.43	0.14	50,554.26	0.12
Capital Leased Equipment	63,432.96	0.55	194,702.46	0.48
Total Depreciation	409,564.79	3.54	1,172,732.89	2.90
Total Amortization & Depreciation Expenses	453,406.40	3.92	1,260,713.51	3.12
Interest Income	-93.35	0.00	-301.25	0.00
Interest Expense	23,619.01	0.20	71,057.06	0.18
Interest Expense - External	806,731.15	6.97	2,391,255.03	5.91
Bank Fees	216.90	0.00	575.48	0.00
Ground Rent	7,884.00	0.07	24,306.83	0.06
Income Tax Expenses	32,499.99	0.28	145,493.96	0.36
Loss (gain) on disposal of component	0.00	0.00	-25,194.35	-0.06
Minority Interest	157,299.46	1.36	497,616.85	1.23
Total Financial Income & Expenses	1,028,157.16	8.88	3,104,809.61	7.68
Total Non-Operating Expenses	1,481,563.56	12.80	4,365,523.12	10.80
Total Expenses	12,656,491.57	109.34	41,177,698.34	101.83
Net Income	-1,081,646.25	-9.34	-739,803.69	-1.83

Bright Realty, LLC (.br)

Income Statement

Period = Jul 2018-Sep 2018

Book = Accrual ; Tree = cashflow

	Period to Date	%	Year to Date	%
Rent Income	1,081,236.21	0.00	2,829,873.39	0.00
Tenant Service Income	-55,071.74	0.00	207,220.84	0.00
Landscaping Income	2,148,453.13	0.00	5,537,960.69	0.00
Land Sales Income	6,737,893.98	0.00	34,246,921.33	0.00
Fee and Misc. Income	978,816.10	0.00	9,128,677.79	0.00
(Additions to)/Payments on Misc. A/R	-524,684.24	0.00	62,941.00	0.00
TOTAL Income From Operations	10,366,643.44	0.00	52,013,595.04	0.00
Costs of Sales	539,266.07	0.00	-101,184,505.52	0.00
Recoverable - Cleaning	-55,451.96	0.00	-160,955.30	0.00
Recoverable - Repair and Maint.	-438,806.04	0.00	-1,325,029.62	0.00
Recoverable - Utilities	-84,425.68	0.00	-211,108.01	0.00
Recoverable - Grounds	-35,452.48	0.00	-95,469.53	0.00
Recoverable - Security	-38,999.84	0.00	-114,874.09	0.00
Recoverable - Administrative	-1,813,342.83	0.00	-5,107,171.45	0.00
Recoverable - Fixed	14,834.21	0.00	-2,196,724.24	0.00
Landscaping Costs	-945,440.50	0.00	-2,069,985.59	0.00
Non-Recoverable Prop Mgmt Exp	-877.07	0.00	-1,368.54	0.00
Non-Recoverable Advertising and Bus. Promo	-231,654.01	0.00	-607,157.84	0.00
Non-Recoverable - Other	-66,962.97	0.00	-450,873.72	0.00
Non-Recoverable - Corporate	-482,955.00	0.00	-1,404,790.00	0.00
Income Tax	0.00	0.00	-56,993.99	0.00
Increase In/(Payments On) Misc. A/P	600,584.26	0.00	-643,253.90	0.00
TOTAL Operating Expenses	-3,039,683.84	0.00	-115,630,261.34	0.00
TOTAL Cash From Operations	7,326,959.60	0.00	-63,616,666.30	0.00
Net Portfolio Income/ Expense	-998,158.17	0.00	-3,080,088.17	0.00
TOTAL Operational financing activities	-998,158.17	0.00	-3,080,088.17	0.00
TOTAL Operating Cash Flow	6,328,801.43	0.00	-66,696,754.47	0.00
Capitalized Tenant Costs	-286,800.70	0.00	-515,223.72	0.00
Fixed Assets	942,457.71	0.00	-13,177,056.13	0.00
Development and Construction	-15,293,151.89	0.00	75,737,113.91	0.00
Developer Advances	52,622.06	0.00	321,661.94	0.00
TOTAL Investing Activities	-14,584,872.82	0.00	62,366,496.00	0.00
Investment: from Parent (in Subs)	10,150,401.24	0.00	16,963,242.63	0.00
TOTAL Intra-group Financing	10,150,401.24	0.00	16,963,242.63	0.00
Owner Capital	-463,874.74	0.00	-463,874.74	0.00
TOTAL Partner Financing	-463,874.74	0.00	-463,874.74	0.00
Net A/R-A/P Affiliates	0.00	0.00	200,000.00	0.00
TOTAL Cash Flow From Affiliates	0.00	0.00	200,000.00	0.00
TOTAL Cash Flow Before External Financing	1,430,455.11	0.00	12,369,109.42	0.00
Notes Payable - External	-3,297,829.37	0.00	-10,726,543.50	0.00
TOTAL External Financing	-3,297,829.37	0.00	-10,726,543.50	0.00
TOTAL Cash Flows Provided/(Used)	-1,867,374.26	0.00	1,642,565.92	0.00

APPENDIX H

FORM OF INVESTMENT LETTER

_____, 2019

City of Lewisville, Texas
Lewisville, Texas

Denton County Fresh Water Supply District No. 1-H
Lewisville, Texas

Raymond James & Associates, Inc.
Dallas, Texas

City of Lewisville, Texas
Combination Contract Revenue and Special Assessment
Utility System Bonds,
Series 2019
(Lewisville Castle Hills Public Improvement District No. 6 Project)

and

City of Lewisville, Texas
Combination Contract Revenue and Special Assessment
Road System Bonds,
Series 2019
(Lewisville Castle Hills Public Improvement District No. 6 Project)

Ladies and Gentlemen:

In connection with our purchase of \$_____ Combination Contract Revenue and Special Assessment Utility System Bonds, Series 2019 (Lewisville Castle Hills Public Improvement District No. 6 Project) (the "Utility Bonds") and \$_____ Combination Contract Revenue and Special Assessment Road System Bonds, Series 2019 (Lewisville Castle Hills Public Improvement District No. 6 Project) (the "Road Bonds", and together with the Utility Bonds, the "Bonds"), issued by the City of Lewisville, Texas (the "Issuer"), pursuant and subject to the terms and provisions of that certain Master Trust Agreement and First Supplemental Trust Agreement relating to the Utility Bonds, by and between the City of Lewisville, Texas and Wilmington Trust, N.A., as Trustee and the Ordinance of the City authorizing the issuance of the Utility Bonds, and pursuant to the Master Trust Agreement and First Supplemental Trust Agreement relating to the Road Bonds, by and between the City of Lewisville, Texas and Wilmington Trust, N.A., as Trustee, we certify, represent and warrant to you as follows:

1. We acknowledge that we have agreed to purchase the Bonds directly from the Issuer.
2. We are (a) a "qualified institutional buyer" within the meaning of Rule 144A promulgated under the Securities Act of 1933, as amended (the "Act") and (b) an "institutional investor" within the meaning of applicable state securities laws. We have experience and expertise in the purchase and ownership of obligations similar to the Bonds. We are duly and validly organized under the laws of our jurisdiction of incorporation or organization. We are capable of evaluating the merits and risks of the purchase of the Bonds on the bases of the information and review of the materials described in paragraph (3) below. We understand fully the nature of this particular investment in the Bonds and the risks associated with the investment, including the risks that no

secondary market may exist with respect to the Bonds. We can bear the economic risk of the purchase of the Bonds.

3. We have (a) received and thoroughly read and evaluated the Limited Offering Memorandum, including the appendices thereto, dated _____, 2019, relating to the offering of the Bonds, and (b) been given the opportunity (i) to ask questions of, and receive answers from, the management of the Issuer, Denton County Fresh Water Supply District No. 1-A, Denton County Fresh Water Supply District No. 1-G, and Bright Realty, LLC concerning their operations and financial conditions and the terms and conditions of the Bonds and (ii) to obtain such additional information (including, without limitation, financial information, appraisals, and projections) as we have requested and that we deem necessary in our decision to purchase the Bonds. We recognize that the Limited Offering Memorandum may not contain all information necessary or desirable for analyzing the risks involved in the purchase of the Bonds. We have relied on information contained in the Limited Offering Memorandum as part of our decision to purchase the Bonds. We are able and willing to bear the economic risks of the purchase and ownership of the Bonds.

4. We are purchasing the Bonds for our own account and not for the account of others or for resale. In any event, if we sell, or issue a participation in, any Bonds, we will comply with all applicable federal and state securities laws and, unless the Bonds have ever been rated in one of the four highest rating categories by a nationally recognized rating service, will offer and sell the Bonds only to one or more "qualified institutional buyers" (as defined in Rule 144A promulgated under the Act) and/or "accredited investors" (as defined in Rule 501 under Regulation D promulgated under the Act). We have no current intention of reselling or disposing of the Bonds or engaging in any "distribution" thereof, but retain the right to do so in the future.

5. We recognize that, except (i) as set forth in the Limited Offering Memorandum and (ii) as otherwise set forth in the Bond Purchase Agreement and the documents delivered pursuant thereto in connection with the issuance of the Bonds, no representations or warranties as to the accuracy or the adequacy of the information in the Limited Offering Memorandum or otherwise provided to us have been made by the Issuer, Winstead PC, as bond counsel, Hilltop Securities Inc., as financial advisor to the Issuer, or Bracewell LLP, as counsel to the Issuer, Raymond James & Associates, Inc. as the Placement Agent, or McCall, Parkhurst & Horton, LLP, as counsel to the Placement Agent.

6. We recognize that the statements set forth in this letter are being relied upon by the parties involved in the issuance and sale of the Bonds and such statements shall survive the execution and delivery to us of the Bonds and the instruments and documents contemplated thereby.

7. Purchaser understands that the Bonds are not rated by any nationally recognized rating service.

Sincerely,

[PURCHASER]

By _____

Name: _____

Title: _____

APPENDIX I

[FORM OF TRANSFEREE LETTER]

City of Lewisville, Texas
1197 W. Main at Civic Center
Lewisville, Texas 75209

Wilmington Trust, National Association
15950 North Dallas Parkway, Suite 550
Dallas, Texas 75248

**City of Lewisville, Texas
Combination Contract Revenue and Special Assessment
[Utility System] [Road System] Bonds,
Series 2019
(Lewisville Castle Hills Public Improvement District No. 6 Project)**

Ladies and Gentlemen:

In connection with the purchase of \$_____ par amount of the City of Lewisville, Texas Combination Contract Revenue and Special Assessment [Utility System] [Road System] Bonds, Series 2019 (Lewisville Castle Hills Public Improvement District No. 6 Project) (the "Bonds"), the undersigned purchaser of the Bonds (the "Purchaser") hereby acknowledges, represents and warrants to, and agrees with the City of Lewisville, Texas and Wilmington Trust, National Association, as Paying Agent/Registrar for the Bonds, as follows:

(i) The Purchaser is a "Qualified Institutional Buyer" (as defined in Rule 144A of the United States Securities and Exchange Commission under the Securities Act of 1933, as amended (the "ACT")) and/or an "Accredited Investor" (as defined in in Rule 501 under Regulation D under the Act) and is an "Institutional Investor" within the meaning of applicable state securities laws; and

(ii) The Purchaser is not acquiring the Bonds for more than one account or with a view to distribution thereof, provided that the Purchaser reserves the right to sell, pledge, dispose, convey or otherwise transfer the Bonds at some future date determined by the Purchaser, provided that any such transferee shall be required to execute a Transferee Letter in the form of this letter as a condition to any transfer of the Bonds.

Very truly yours,

[PURCHASER]

By: _____