

**CONTRACT FOR NON-POTABLE WATER SERVICE
BETWEEN
DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-C
AND
CASTLE HILLS GOLF CORP.**

THE STATE OF TEXAS §
 §
COUNTY OF DENTON §

THIS CONTRACT FOR NON-POTABLE WATER SERVICE (the "Contract") made and entered into as of the 1st day of July, 1997 (the "Contract Date"), by and between DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-C ("1-C"), a conservation and reclamation district created pursuant to Article XVI, Section 59 of the Constitution of the State of Texas, and CASTLE HILLS GOLF CORP., a Texas corporation ("CHGC").

W I T N E S S E T H:

WHEREAS, 1-C is a duly incorporated political subdivision of the State of Texas operating under the Constitution and laws of the State of Texas; and

WHEREAS, CHGC desires that 1-C undertake steps to develop a dual delivery system to provide non-potable water service to the Property described in Exhibit "A" (the "Property"); and

WHEREAS, 1-C proposes to provide raw water for the Project pursuant to a contract with Denton County Fresh Water Supply District No. 1-A, a true and correct copy of which is attached hereto as Exhibit "B"; and

WHEREAS, Denton County Fresh Water Supply District No. 1-A proposes ("1-A") to obtain raw water pursuant to a contract with the Upper Trinity Regional Water District, a true and correct copy of which is attached hereto as Exhibit "C" (the "1-A Contract"); and

WHEREAS, 1-C and CHGC each represent to the other that they are authorized to enter into and perform the terms and conditions of this Contract.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, 1-C agrees to provide non-potable water service to CHGC pursuant to the terms and conditions of this Contract hereinafter set forth.

ARTICLE 1

GENERAL PROVISIONS

Section 1.1 Non-Potable Water Sales. 1-C agrees to deliver to CHGC non-potable water in accordance with the specifications and restrictions of this Article. 1-C agrees to provide non-potable water to meet volume and demand requirements of CHGC as provided herein.

Section 1.2 Water Supply Limitations. Delivery of non-potable water to meet the requirements of CHGC is subject to, and limited by, available supply and deliverability, as determined by 1-C. Such delivery shall not be unreasonably withheld. 1-C will use its best efforts to furnish and remain in position to furnish water sufficient for all reasonable non-potable water requirements of CHGC; however, the obligation of 1-C shall be limited to the amount of non-potable water available from the System of 1-C; and, provided further that the maximum rate of delivery shall be consistent with the capacities and abilities of 1-C's facilities, and shall not exceed the amounts fixed on an equitable and uniform basis by the Upper Trinity Regional Water District.

Section 1.3 Quantity. Beginning January 1, 1998, 1-C agrees to deliver non-potable water under this Contract to CHGC at its Point of Delivery, as shown in Exhibit "D", which is attached hereto and made a part hereof for all purposes. The minimum quantity of water to be purchased by CHGC shall be 80 million gallons per year at a minimum price of \$40,000 per year. CHGC shall have the right to require four additional increments of no less than 10 million gallons each per year upon the payment of an additional \$5,000 for each 10 million gallons per year, and one additional increment of no less than 30 million gallons per year upon the payment of an additional \$18,000 per year. The payment of the annual sum for each increment shall be made prior to the use by CHGC of any water within such increment. If CHGC uses any water within each increment. If CHGC uses any water prior to payment of the annual sum for the respective increment, or if CHGC uses water in excess of the increments to which it is entitled, it shall pay the sum of \$1.50 per 1,000 gallons for such water.

Section 1.4 Maximum Daily Amounts. Notwithstanding any other provision of this Contract to the contrary, the maximum amount of water to be delivered under this Contract in any 24-hour period shall not exceed the following amounts:

1,000,000 gallons average per day, but in no event to exceed 7,000,000 gallons in any 7-day period from the effective date of this Contract until October, 1998;

550,000 gallons average per day thereafter, but in no event to exceed 3,850,000 gallons in any 7-day period; provided, however, that if CHGC constructs a 9-hole addition to the 21-hole golf course, this maximum shall increase to a daily average maximum of 950,000 gallons and a weekly maximum of 6,650,000 gallons.

Section 1.5 Calendar Year Calculations. On January 1 of each year, CHGC shall pay 1-C a sum, in cash, equal to the minimum amount of water CHGC is entitled to receive during the forthcoming calendar year. If, for any reason, the amount of water used by CHGC during the calendar year exceeds the minimum amount for which CHGC has made payment, 1-C shall be entitled to interrupt delivery of water under this Contract until it is paid by CHGC in full for the next minimum increment of water. If, for any reason, the amount of water used by CHGC in a calendar year exceeds the sum of the minimum increments (to-wit: 150,000,000 gallons per year), all additional water delivered to CHGC under this Contract shall be at the price of \$1.50 per 1,000 gallons. 1-C shall deliver an invoice to CHGC each month for the amount of water in excess of 150,000,000 gallons for the respective calendar year, and the invoice shall be paid by CHGC within 30 days of said invoice.

Section 1.6 Demand Meters. 1-C shall install a rate-of-flow meter at the cost and expense of CHGC to regulate and measure use of water under this Contract. This meter shall be installed at the Point of Delivery.

Section 1.7 Changes in Demand. CHGC shall give reasonable notice to 1-C of anticipated changes in peak day requirements, so 1-C can assure adequate water supply and pumping capacity. Such notice shall be given at least six (6) months in advance if the requested change, when considered with other pending or contemporaneous requests, does not require construction of additional facilities. 1-C may waive the six (6) month notice requirement for good cause shown. If construction of additional facilities is required, such advance notice as will be necessary to allow for financing, design and construction of the needed facilities shall be given.

Section 1.8 Other Water Supplies. CHGC shall not secure any of its water supply requirements from a source other than 1-C; provided, however, that if 1-C is unable to deliver the water contemplated in Paragraph 1.3 above for more than 10 consecutive days, CHGC may give 10 days' prior written notice to 1-C of the default, during which time 1-C shall have the opportunity to cure the default. If 1-C fails to cure this default prior to the expiration of 10 days following the receipt of the notice of default, CHGC may obtain its water from other sources.

Section 1.9 Resale. CHGC hereby agrees not to resell water purchased from 1-C unless CHGC has received prior written approval from 1-C.

Section 1.10 Other Contracts.

a. 1-C reserves the right to supply non-potable water from its System to additional customers under contracts similar to this Contract, on terms and conditions acceptable to 1-C, provided that such contracts do not impair the ability of 1-C to meet its obligations under this Contract.

b. 1-C shall not obligate itself to sell or deliver non-potable water from its System to an additional customer if, in the judgment and discretion of 1-C, such sale would jeopardize 1-C's ability to meet its obligation to transport and deliver non-potable water from the System to CHGC in the minimum amounts set forth in Section 1.3.

c. The parties hereto recognize and acknowledge that it is the policy and practice of 1-C that any other person that desires to receive service from the System shall contract directly with 1-C to become a customer of 1-C.

d. 1-C will not alter or amend the 1-A Contract in a manner which would hereby adversely affect the ability of 1-C to perform its obligations under this Contract without the prior written approval of CHGC.

Section 1.11 Quality. The water to be delivered by the District and received by CHGC shall be non-potable water or treated effluent from the System. CHGC has satisfied itself that such water will be suitable for its needs.

Section 1.12 Raw Water of Treated Wastewater Effluent. To the extent practicable and as permitted by applicable laws and regulations of the State or federal government, 1-C shall deliver either untreated raw water or treated wastewater effluent as requested by CHGC.

Section 1.13 Points of Delivery.

a. 1-C agrees to deliver water contracted for by CHGC at Point of Delivery as designated in Exhibit "B" attached hereto. 1-C shall cause the initial delivery facilities identified in Exhibit "B" to be constructed.

b. Unless otherwise mutually agreed to, 1-C shall be responsible for the design, contracting, construction and financing of facilities and acquisition of any right-of-way for additional or future Points of Delivery for non-potable water from the System.

Section 1.14 Metering Equipment.

a. 1-C will furnish, install, operate, and maintain, at the expense of CHGC, the necessary equipment and devices of standard type required for measuring the quantity of non-potable water delivered under this Contract from the System to CHGC through its Point of Delivery. The Point of Delivery shall be the point at which the water is released into the surface storage pond shown on Exhibit "D", which is attached hereto. Such meters and other equipment so installed shall remain the property of 1-C. 1-C shall inspect, calibrate, and adjust its meters at least annually as necessary to maintain accurate measurements of the quantity of non-potable water being delivered. CHGC shall have access to the metering equipment at all reasonable times for inspection and examination; however, the reading, calibration, and adjustment thereof shall be done only by employees or agents of 1-C. If requested, CHGC may witness such reading, calibration and adjustment of meters. All readings of meters will be entered upon proper books of record maintained by 1-C. CHGC may have access to said record books during normal business hours.

b. CHGC may request, in writing, that 1-C calibrate any meter or meters in the presence of the CHGC. 1-C will make up to two (2) such calibrations in any fiscal year at no charge to CHGC. All requested calibrations in excess of two (2) will be made at the expense of CHGC, except when the accuracy of the meter is beyond the limits of commercial accuracy in which case 1-C shall bear such expense. If, for any reason, any meter is out of service or out of repair, or if, upon any test, the percentage of inaccuracy of any meter is found to be in excess of commercial accuracy [which unless otherwise agreed to shall be considered to be plus or minus two (2% \pm) percent], registration thereof shall be corrected for a period of time extending back to the time when such inaccuracy began, if such time is ascertainable, and if not ascertainable, then for a period extending back one-half ($\frac{1}{2}$) of the time elapsed since the date of the last calibration, but in no event further back than a period of six (6) months.

Section 1.15 Unit of Measurement. The unit of measurement for non-potable water delivered from the System hereunder shall be 1,000 gallons, U.S. Standard Liquid Measure.

Section 1.16 Access. CHGC agrees to provide ingress and egress for 1-C employees and agents at reasonable times to all its premises inside or outside the boundaries of the Property to install, operate, inspect, test, and maintain facilities owned or maintained by 1-C in a manner that does not unreasonably interfere with golf course operations.

Section 1.17 Reporting Requirements. Approximately sixty days after the end of each fiscal year, CHGC shall furnish in writing to 1-C the following information:

a. The number of gallons of non-potable raw water used for the following purposes during the fiscal year just ended:

- i. Irrigation
- ii. Make-up water for lakes and ponds
- iii. Other purposes

b. The number of gallons of non-potable treated wastewater effluent used for the following purposes during the fiscal year just ended:

- i. Irrigation
- ii. Make-up water for lakes and ponds
- iii. Other purposes

c. An estimate of the projected annual water requirements from the System by CHGC for each of the next five (5) years for non-potable raw water and non-potable treated wastewater effluent, respectively;

d. An estimate of Demand for the calendar year following the calendar year covered by the report.

The purpose of this Section is to permit 1-C to accumulate statistical data which will enable it to plan for adequate service, and to facilitate plans for betterment and future facilities expansion.

Section 1.18 Water Conservation, Drought Contingency Plan.

a. 1-C has acquired on an uninterruptible basis non-potable raw water and treated wastewater effluent from Denton County Fresh Water Supply District No. 1-A. However, if either source of such water to 1-A's supplies, the Upper Trinity Regional Water District, exercises its right to limit, curtail or interrupt delivery of water to 1-C, 1-C may make corresponding curtailments to CHGC deliveries. 1-C will give reasonable notice to CHGC of intent to limit, curtail or interrupt delivery of water and will make reasonable effort to supply substitute water. In the event 1-C cannot provide the volume of water set forth in Paragraph 1.3 above due to a water moratorium or other governmental limitations which prevents 1-C from providing such water, 1-C shall provide CHGC rights to irrigation water up to the maximum amounts set forth in this Contract.

b. CHGC agrees that non-potable water supplies or services may be limited or curtailed pursuant to this Section and Section 1.2. 1-C and CHGC agree to coordinate the implementation of any action to limit or curtail water supplies to minimize

adverse impact on CHGC; on adequacy of service; and, to promote public understanding of the need for, and terms of, such limitation or curtailment.

c. It is the policy of 1-C to prepare, adopt and maintain a regional water conservation plan which incorporates loss reduction measures and demand management practices which insure that the available supply of the System is used in an economically efficient and environmentally sensitive manner. Similarly, it is the policy of 1-C to prepare, adopt and maintain a drought and emergency contingency plan for water supply to customers. CHGC agrees to cooperate in the implementation of both plans to adopt and enforce such or similar plans for use within its jurisdiction.

ARTICLE 2

FISCAL PROVISIONS

Section 2.1 Annual Requirements. Subject to the terms and provisions of this Contract, 1-C will provide and pay for the cost of the acquisition, construction and improvement of the System and all System facilities.

Section 2.2 Prompt Payment/Disputed Bills. CHGC hereby agrees that it will make payments to 1-C required by this Contract within 20 days of the date an invoice is delivered by 1-C by CHGC. If CHGC, at any time, disputes the amount to be paid by it to 1-C, CHGC shall nevertheless promptly make such payment or payments; but, if it is subsequently determined by agreement or court decision that such disputed payments should have been less, or more, 1-C shall promptly revise and reallocate the charges in such manner that CHGC will recover its overpayment or 1-C will recover the amount due it. All amounts due and owing to 1-C by CHGC or due and owing to CHGC by 1-C shall, if not paid when due, bear interest at the rate of ten (10%) percent per annum from the date when due until paid.

Section 2.3 Delinquent Bills. 1-C shall, to the extent permitted by law, suspend the delivery of water from the System if CHGC remains delinquent in any payments due hereunder for a period of sixty days, and shall not resume delivery of water while CHGC is so delinquent. However, 1-C shall pursue all legal remedies against CHGC to enforce and protect the rights of 1-C. If CHGC is delinquent, CHGC shall not be relieved of the liability to 1-C for the payment of all amounts which would have been due hereunder had no default occurred. If any amount due and owing 1-C by CHGC is placed with an attorney for collection, CHGC shall pay to 1-C all attorneys fees, in addition to all other payments provided for herein, including interest.

ARTICLE 3

MISCELLANEOUS PROVISIONS AND SPECIAL CONDITIONS

Section 3.1 Future Customers. In anticipation of additional customers in the future, certain facilities in the Project will be oversized in excess of capacity requirements currently projected for CHGC.

Section 3.2 Operation and Maintenance of System. 1-C will continuously operate and maintain the System in an efficient manner and in accordance with good business and engineering practices, and at reasonable cost and expense. 1-C recognizes its right and duty to operate the various facilities of the System in the most prudent and economical manner for the benefit of all customers.

Section 3.3 Project Schedule. It is the intent of the parties that the Project will be placed in operation as soon as practicable, and 1-C agrees to cause the design and construction of the Project to occur in a timely fashion, subject to the other terms and conditions in this Contract.

Section 3.4 Permits, Financing and Applicable Laws. It is understood that any obligations on the part of 1-C to acquire, construct, and complete the Project and other System facilities and to provide non-potable water from the Project and other System facilities to CHGC, and shall be subject to all present and future valid laws, orders, rules, and regulations of the United States of America, the State of Texas, and any regulatory body having jurisdiction.

Section 3.5 Title to Water; Indemnification. Title to all water supplied CHGC shall be in 1-C up to Point of Delivery, at which point title shall pass to the receiving CHGC. 1-C and CHGC agree to save and hold each other harmless from all claims, demands, and causes of action which may be asserted by anyone on account of the transportation and delivery of said water while title remains in such party.

Section 3.6 Rights-of-Way.

a. CHGC hereby grants to 1-C without additional cost to 1-C, the perpetual use of the streets, easements, and rights-of-way under its control for the construction, operation, and maintenance of the System and the Project.

b. CHGC agrees that with prior written approval, 1-C may use streets, alleys and public rights-of-way within CHGC's boundaries for pipeline purposes to provide water to other customers without charges or tolls, provided that 1-C makes the necessary

repairs to restore to their original condition the streets, alleys or public rights-of way so used. Such contemplated use shall be exercised in a manner designed to minimize the disruption of golf operations.

Section 3.7 Insurance. 1-C agrees to carry and arrange for fire, casualty, public liability, and/or other insurance, including self insurance, on the System for purposes and in amounts which, as determined by 1-C, ordinarily would be carried by a privately owned utility company owning and operating such facilities, except that 1-C shall not be required to provide liability insurance except to insure itself against risk of loss due to claims for which it can, in the opinion of 1-C's legal counsel, be liable under the Texas Tort Claims Act for any similar law or judicial decision. Such insurance will provide, to the extent feasible and practicable, for the restoration of damaged or destroyed properties and equipment, to minimize the interruption of the services of such facilities. All premiums for such insurance shall constitute an operation and maintenance expense of the System.

Section 3.8 Indemnification. To the extent permitted by law, 1-C shall and does hereby indemnify CHGC against any and all claims or causes of action arising out of its use of the right-of-way granted in Section 3.6(a) hereof, and its use of its right to ingress and egress granted in Section 1.16 of this Contract.

ARTICLE 4

Section 4.1 Force Majeure. If by reason of force majeure 1-C shall be rendered unable wholly or in part to carry out its obligations under this Contract, other than the obligation of CHGC to make the payments required under this Contract; then, if such party shall give notice and full particulars of such force majeure in writing to the other parties within a reasonable time after occurrence of the event or cause relied on, the obligation of the party giving such notice, so far as it is affected by such force majeure, shall be suspended during the continuance of the inability then claimed, but for no longer period, and any such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "Force Majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of public enemy, orders of any kind of the Government of the United States of America or the State of Texas, or any Civil or military authority, insurrection, riots, epidemics, landslides, lightning, earthquake, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accidents to machinery, pipelines or canals, partial or entire failure of water supply, or on account of any other causes not reasonably within the control of the party claiming such inability.

Section 4.2 Limitations and Conditions.

a. To provide the services and to perform the obligations contemplated in this Contract, it is the intent of CHGC and 1-C to allow 1-C to contract with other parties for sources of raw water and treated wastewater effluent. Obligation of the District to deliver water under this Contract is expressly subject to the District entering into such contracts. Further, it is expressly understood that such contracts may require the District to compensate such other parties, or for 1-C to participate with other parties in the construction of certain additional facilities in order for 1-C to carry out its obligations under this Contract. 1-C retains the right and option to construct its own facilities rather than to contract with others, if in 1-C's judgment such facilities, if constructed by 1-C, would all 1-C to provide more dependable or economical service to CHGC.

b. If 1-C determines that it will be necessary to participate with other parties in the construction of facilities in order to fulfill its obligations under this Contract, CHGC hereby agrees that such participation is as much a part of the Project as if separate facilities were constructed by 1-C. Furthermore, any cost, rates, fees or charges applicable to pumping, transportation or treatment of water by others, and charges for other services rendered by other parties at the request of 1-C for the benefit of the Project and System shall constitute operation and maintenance expense of the System as defined herein.

Section 4.3 Modification. No change, amendment or modification of this Contract shall be made or be effective which will affect adversely the prompt payment when due of all moneys required to be paid by CHGC under this Contract or any similar contract.

Section 4.4 Addresses and Notice. Unless otherwise provided herein, any notice, communication, request, reply or advice (herein severally and collectively, for convenience, called "Notice") herein provided or permitted to be given, made or accepted by any party to any other party must be in writing, and may be given or be served by depositing the same in the United States mail postpaid and registered or certified and addressed to the party to be notified, with return receipt requested, or by delivering the same to an officer of such party, or by prepaid telegram when appropriate, addressed to the party to be notified. Notice deposited in the mail in the manner hereinabove described shall be conclusively deemed to be effective, unless otherwise stated herein, from and after the expiration of three days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the parties shall, until changed as hereinafter provided, be as follows:

If to 1-C, to:

Denton County Fresh Water Supply District No. 1-C
c/o Leonard & Hurt, P.C.
Suite 900
600 N. Pearl Street
Dallas, Texas 75201-2872

If to Castle Hills Golf Corp.

c/o Samuel R. Bonney
3838 Oak Lawn
Suite 800
Dallas, Texas 75219

The parties hereto shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least fifteen (15) days written notice to the other parties hereto.

Section 4.5 State or Federal Laws, Rules, Orders or Regulations. This Contract is subject to all applicable Federal and state laws and any applicable permits, ordinances, rules, orders and regulations of any local, state or federal governmental authority having or asserting jurisdiction, but nothing contained herein shall be construed as a waiver of any right to question or contest any such law, ordinance, order, rule or regulation in any forum having jurisdiction.

Section 4.6 Severability. The parties hereto specifically agree that in case any one or more of the sections, subsections, provisions, clauses or words of this contract or the application of such sections, subsections, provisions, clauses or words to any situation or circumstance should be, or should be held to be, for any reason, invalid or unconstitutional, under the laws or constitutions of the State or the United States of America, or in contravention of any such laws or constitutions such invalidity, unconstitutionality or contravention shall not affect any other sections, subsections, provisions, clauses or words of this Contract or the application of such sections, subsections, provisions, clauses or words to any other situation or circumstance, and it is intended that this Contract shall be severable and shall be construed and applied as if any such invalid or unconstitutional section, subsection, provision, clause or word had not been included herein, and the rights and obligations of the parties hereto shall be construed and remain in force accordingly.

Section 4.7 Venue. All amounts due under this Contract, including, but not limited to, payments due under this Contract or damages for the breach of this Contract, shall be paid and be due in Denton County, Texas. It is specifically agreed among the parties to this Contract that Denton County, Texas, is the place of performance of this Contract; and in the event that any legal proceeding is brought to enforce this Contract or any provision hereof, the same shall be brought in Denton County, Texas

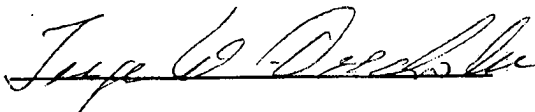
Section 4.8 Term of Contract. This Contract shall be effective on, and from, the date this Contract is executed by both parties. This Contract shall continue in force and effect until December 31, 2037. The Contract may be renewed or extended one additional period of 40 years at the option of CHGC and under the same terms and conditions as this Agreement. Thereafter, CHGC shall have the option to extend the Contract for an additional 19 years under the same terms and conditions as this Agreement. 1-C's obligation to provide the contract for services shall commence from the date that 1-C, in writing, deems the Project operational and functional to deliver non-potable water to CHGC.

IN WITNESS WHEREOF, the parties hereto acting under the authority of their respective governing bodies have caused this Contract to be duly executed in several counterparts, each of which shall constitute an original, all as of the day and year first above written, which date is the Contract Date.

DENTON COUNTY FRESH WATER SUPPLY
DISTRICT NO. 1-C



ATTEST:



CASTLE HILLS GOLF CORP.

By: 

ATTEST:

