

ANNUAL DEVELOPMENT ACTIVITY AND DISCLOSURE REPORT

For the Period Ending December 31, 2008

\$19,847,000
Town of Bridgeville, Delaware
Special Obligation Bonds
(Heritage Shores Special Development District)
Series 2005A
and
\$8,600,000
Town of Bridgeville, Delaware
Special Obligation Bonds
(Heritage Shores Special Development District)
Series 2005B

Prepared by:

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April 15, 2009

ANNUAL DEVELOPMENT ACTIVITY AND DISCLOSURE REPORT

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I. UPDATED INFORMATION

Information updated from the Annual Development and Activity Disclosure report dated June 30, 2008, is as follows:

- As of December 31, 2008, the town reports that \$1,623,805 had been expended for the construction of the commissioner's facilities, representing 100.0 percent of the amount to be funded with the Series 2005B Bonds.
- As of December 31, 2008, the developer reports that Lennar will not be building homes in the community on a going-forward basis. As a result, absorption is projected to change (the revised absorption schedule is provided herein on page 8).
- As of December 31, 2008, the developer reports that a total of 271 lots have been sold and closed with builders as compared to the previous reporting period ending June 30, 2008, in which the developer reported that 269 lots had been sold and closed with builders.
- As of December 31, 2008, the developer reports that 257 homes have been sold to homebuyers, and 251 homes have closed with homebuyers, as compared to the previous reporting period ending June 30, 2008, in which the developer reported that 252 homes had been sold to homebuyers and 241 homes had closed with homebuyers.
- Special taxes in the amount of \$1,200,000 were to be collected for fiscal year 2008-2009. Special taxes were due on September 30, 2008. As of December 31, 2008, the Town of Bridgeville reports that \$1,200,000 in special taxes had been collected, representing 100.0 percent of fiscal year 2008-2009 special taxes.
- As of December 31, 2008, partial prepayments in the amount of \$4,380,308 have been collected from 245 units. Of this amount, \$3,761,000, including a reserve fund credit of \$333,000, and \$822,000, including a reserve fund credit of \$72,000, were used to redeem a portion of the Series 2005B Bonds on July 1, 2007 and April 1, 2008, respectively.
- A portion of the Series 2005B Bonds in the amount of \$424,000, including a reserve fund credit of \$38,000, is expected to be redeemed on April 1, 2009.
- As of December 31, 2008, the amount of Series 2005A Bonds outstanding was \$19,768,000. The outstanding principal balance on the Series 2005B Bonds was \$4,000,000. Accordingly, the total amount of Series 2005 Bonds outstanding was \$23,768,000.

II. INTRODUCTION

The Town of Bridgeville, Delaware Special Obligation Bonds (Heritage Shores Special Development District) Series 2005A and Series 2005B (the “Series 2005 Bonds”), were issued pursuant to and under the provisions of Title 22 of the Delaware Code, Chapter 18 and Section 29A of Delaware Laws, Chapter 237, as amended (collectively, the “Act”), certain resolutions and ordinances of the Commissioners of the Town of Bridgeville (the “Commissioners”), an executive order of the President of the Commissioners and an Indenture of Trust dated as of June 1, 2005, by and between the Commissioners of Bridgeville (the “Town”) and M&T Trust Company of Delaware, as trustee.

The Heritage Shores Special Development District (the “Heritage Shores District”) encompasses approximately 745 acres of contiguous farmland within the southern portion of the town limits, which was annexed into the town in October of 2002. The district is located wholly within the incorporated limits of the town, which is located within Sussex County, Delaware. The district is approximately 30 miles from the resort beaches of Delaware, approximately 30 miles south of Dover, Delaware, and 75 miles south of Wilmington, Delaware.

According to the Limited Offering Memorandum, the Heritage Shores development is an age-restricted residential community originally planned to include approximately 982 single-family detached units and 724 single-family attached units. As of June 30, 2006, the developer increased the number of units to be constructed from 1,719 to 1,816 units. The development is currently expected to include 932 single-family detached units and 884 single-family attached units. The development is also planned to include a 32,000 square foot clubhouse, a 9,000 square foot aquatic center, and an 18-hole golf course.

The land in the district was to be developed by Passwaters Farm, LLC (the “Developer”), which is a joint venture owned directly or indirectly by Lennar Corporation and Brookfield Home Corporation. The developer reports that Brookfield Homes Corporation acquired Lennar Corporation’s interest in Passwaters Farm LLC on November 30, 2007.

According to the Limited Offering Memorandum, at the time of bond issuance, the proceeds from the Series 2005 Bonds, and additional bonds to be issued in the future, were expected to fund the acquisition and construction of the public facilities, which consist of certain public infrastructure improvements within the Heritage Shores Special Development District (the “Developer’s Facilities”), including road improvements, water and sewer system collection, treatment and distribution improvements, storm water management improvements, and related professional services. A portion of the proceeds from the Series 2005 Bonds, and additional bonds to be issued, were also expected to fund public improvements outside the special development district but benefiting the Heritage Shores District (the “Commissioner’s Facilities”), including the construction of a library and various machinery, equipment, improvements, software and other expenses of the town.

The information provided herein is not intended to supplement or otherwise relate to the information provided in the Limited Offering Memorandum and any such intent is expressly disavowed. Rather, this report responds to the specific requirements of the continuing disclosure agreement.

No representation is made as to the materiality or completeness of the information provided herein or as to whether other relevant information exists with respect to the period covered by this report. Other matters or events may have occurred or become known during or since that period that may be material. All information is provided as of December 31, 2008, unless otherwise stated, and no representation is made that the information contained in this report is indicative of information that may pertain since the end of the period covered by this report or in the future.

III. DEVELOPMENT ACTIVITY

A. OVERVIEW

The Heritage Shores Development is an approximately 745-acre, age restricted, master-planned residential community. As outlined in the Limited Offering Memorandum, the number of residential units was originally anticipated to include 1,706 residential units consisting of 982 single-family detached units and 724 single-family attached units. According to the developer, the number of residential units anticipated to be built has increased to 1,816 units made up of 932 single-family detached units and 884 single-family attached units, as shown in the table below. The development is also planned to include a 32,000 square foot clubhouse, a 9,000 square foot aquatic center, and an 18-hole golf course.

Table III-1
Number of Anticipated Units by Type

Marketing Name	Unit Type	Approximate Square Footage	Original Number of Units Planned	Revised Number of Units Planned
Villas/Lennar	Triplex	1,200-1,400	288	180
Villas/Brookfield	Triplex	1,200-1,400	n/a	180
Carriage/Lennar	Duplex	1,400-1,800	436	262
Carriage/Brookfield	Duplex	1,400-1,800	n/a	262
Garden/Lennar	SFD	1,690-1,810	190	178
Garden/Brookfield	SFD	1,860-1,940	191	178
Executive/Lennar	SFD	2,120-2,130	301	288
Executive/Brookfield	SFD	2,250-2,420	300	288
Total			1,706	1,816

The land in the district was to be developed by Passwaters Farm, LLC (the "Developer"), which is a joint venture owned directly or indirectly by Lennar Corporation and Brookfield Home Corporation. Ownership in Passwaters Farm initially consisted of Brookfield Washington, LLC (a 90% owned subsidiary of Brookfield Homes Holdings, Inc., wholly-owned subsidiary of Brookfield) and U.S. Home Corporation (a wholly-owned subsidiary of Lennar Corporation). Lennar had been acting as the managing member of the developer. Lennar sold all of its interest in Passwaters Farm, LLC on November 30, 2007 to Bridgeville AA, LLC, a wholly owned subsidiary of Brookfield Washington, LLC (the "Brookfield Subsidiary"). After giving effect to such acquisition, the Brookfield subsidiary and Brookfield each own a 50 percent ownership interest in the developer.

B. GOVERNMENT APPROVALS

According to the engineer's report included in the Limited Offering Memorandum, the town enacted Ordinance No. A02-8 on September 30, 2002, as amended on July 14, 2003, to establish the Residential Planned Community (RPC) zoning district. The concept development plan for the district titled "Revised RPC Concept Plan for Bridgeville South RPC District," was approved by the town on June 9, 2003. A preliminary site plan for the district titled "RPC Preliminary Site Plan for the Bridgeville South RPC District," was approved by the town on July 14, 2003. The town adopted Resolution 01-04 on February 9, 2004 that approved development, subdivision and infrastructure plans for the first phase of development of the Bridgeville South RPC District.

According to the engineer's report, Construction Infrastructure Plans titled, "Contract Drawings for Infrastructure Improvements Phase I Bridgeville South," have been approved by the town for Phase One.

Off-Property utilities including a water main, sanitary sewer force mains and a sanitary sewer interceptor have been designed by the town's engineer. The Certificate of Approval for the Off-Property water main, sanitary sewer force mains and sanitary sewer interceptor improvements was issued by the Delaware Department of Health and Social Services (DDHSS), Division of Public Health, Office of Drinking Water on December 12, 2003. The Utility Construction Permit was also issued for these improvements on December 29, 2003 by the Delaware Department of Transportation (DelDOT).

Table III-2 below shows the permit type, the permitting agency and date of approval as reported by the developer as of December 31, 2008.

Table III-2
Status of Permits and Approvals

Infrastructure	Date of Approval	Permitting Agency
Phase I - Construction Improvement Plans	March 2004	Town of Bridgeville
Phase II - Construction Improvement Plans	May 2005	Town of Bridgeville
Off-Property Utility Construction Permit	December 2003	DDHSS
Off-Property Utility Construction Permit	December 2004	DelDOT
Notice of Intent for storm water discharges	February 2004	DNREC
Sediment and Erosion Control Permit	November 2004	Sussex County Conservation District
Storm Water Management Plan	February 2004	Sussex County Conservation District
Traffic Impact Analysis/Entrance Construction Permit	January 2005	DelDOT
On-Property Road Plan	March 2004	DelDOT
Water System Approval	November 2004	DDHSS
Wetland Jurisdictional Determination/Construction Permit	February 2004	U.S. Army Corps of Engineers
Phase I - Residential Planned Community -Site Plan	February 2004	Town of Bridgeville
Phase II - Residential Planned Community -Site Plan	December 2005	Town of Bridgeville

C. STATUS OF PUBLIC IMPROVEMENTS

According to the Limited Offering Memorandum, the proceeds from the Series 2005 Bonds, and additional bonds to be issued in the future, were expected to fund the acquisition and construction of certain public infrastructure improvements within the Heritage Shores Special Development District (the "Developer's Facilities"). According to the Limited Offering Memorandum, the developer's facilities include construction of water lines and related appurtenances (within and outside the Heritage Shores District), construction of sewer lines and related appurtenances (within and outside the district), construction of fire hydrants and valves, sewer pump stations, storm drains, storm water management ponds, a water tower, roads (including curbs and gutters), and related grading, engineering, and stakeouts, lighting, landscaping, identifying monuments, signage, traffic signals, and sidewalks, and other public improvements and equipment to benefit the district.

As of December 31, 2008, the developer reports that \$20,800,140 had been expended for the construction of the developer's facilities, representing 100.0 percent of the amount to be funded with the Series 2005A Bonds. Table III-3 on the following page shows the public improvements, the original budget, budget changes, the revised budget and the amount spent by line item as reported by the developer as of December 31, 2008.

The developer reports that the developer's public improvements for all phases are anticipated to be completed by 2015.

Table III-3
Status of Developer's Facilities

Developer's Facilities	Original Budget	Budget Changes	Revised Budget	Spent to Date	Percent Complete
Entrance road improvements Rt. 13 and 546	\$430,000	\$1,167,954	\$1,597,954	\$1,597,954	100.0%
On-site main road	\$3,330,000	(\$304,572)	\$3,025,428	\$3,025,428	100.0%
Sewer & water along on-site main road	\$1,570,000	\$267,274	\$1,837,274	\$1,837,274	100.0%
Storm drain along on-site main road	\$450,000	\$148,976	\$598,976	\$598,976	100.0%
Off-site water & sewer	\$5,000,000	\$1,975,922	\$6,975,922	\$6,975,922	100.0%
On-site subdivision roads, side walks, curbs, and gutters	\$3,020,000	(\$385,011)	\$2,634,989	\$2,634,989	100.0%
On-Site water and sewer subdivision roads	\$3,620,000	(\$949,173)	\$2,670,827	\$2,670,827	100.0%
Storm drain along subdivision roads	\$700,000	\$104,633	\$804,633	\$804,633	100.0%
Sidewalk and driveway aprons	\$580,000	\$74,137	\$654,137	\$654,137	100.0%
Storm water ponds and connective pipes	\$2,100,000	(\$2,100,000)	\$0	\$0	0.0%
Total	\$20,800,000		\$20,800,140	\$20,800,140	100.0%

* Please note that expenditures on the public improvements in excess of the original budget for Series 2005A Bonds will be funded with interest earned on the Series 2005A Developer's Facilities Fund and future bonds.

According to the Limited Offering Memorandum, the proceeds from the Series 2005 Bonds, and additional bonds to be issued in the future, were expected to fund the acquisition and construction of public improvements outside the special development district but benefiting the Heritage Shores Special Development District (the "Commissioner's Facilities"). According to the Limited Offering Memorandum, the commissioner's facilities include the construction of a library, various machinery, equipment, improvements, software and other expenses of the town. As of March 31, 2009, the developer reports that the library is anticipated to be completed by mid-summer 2009.

As of December 31, 2008, the town reports that \$1,623,805 had been expended for the construction of the commissioner's facilities, representing 100.0 percent of the amount to be funded with the Series 2005B Bonds. Table III-4 below shows the public improvements, the original budget, budget changes, the revised budget and the amount spent by line item as reported by the town as of December 31, 2008.

Table III-4
Status of Commissioner's Facilities

Commissioner's Facilities	Original Budget	Budget Changes*	Revised Budget	Spent to Date	Percent Complete
Library	\$1,100,000	(\$122,590)	\$977,410	\$977,410	100.0%
Other Commissioner's Facilities	\$500,000	\$146,395	\$646,395	\$646,395	100.0%
Total	\$1,600,000	\$23,805	\$1,623,805	\$1,623,805	100.0%

* Please note that \$977,410 of the Series 2005B Bonds is allocated to the costs of constructing the library and \$622,590 is allocated to the costs of the commissioner's facilities other than the library. Interest earnings in the amount of \$23,805 on the Series 2005 Bond proceeds on deposit in the Commissioner's Facilities Fund will be used to pay a portion of the costs of the commissioner's facilities and, after the completion of the commissioner's facilities, applied in accordance with the terms of the trust indenture.

D. STATUS OF DEVELOPMENT

According to the engineer's report included in the Limited Offering Memorandum, the developer plans to develop the project in six to eight different phases. The mixture of attached and detached lots in the project is expected to vary in the different phases. Phase I of the project includes 167 lots to be built in two sub-phases, consisting of a total of 152 single-family detached lots, 15 single-family attached lots and a 10.75 acre lot for the district community clubhouse, aquatic center, and golf course pro shop. Phase II of the project includes 328 lots, consisting of 155 single-family detached lots and 173 single-family attached lots. Future phases of the development are expected to be designed and permitted in approximately 300-lot sections at a time. According to the developer, Phase IA of the project is complete. The developer also reports that Phases IB and II are in progress. As reported by the developer, Table III-5 below shows the anticipated construction schedule and the anticipated number of units for each phase of the development as of December 31, 2008.

Table III-5
Status of Construction

Construction Phase	Number of Units	Construction Began	Construction Complete	Anticipated Completion
Phase IA	91	April 2004	September 2008	
Phase IB	76	April 2005	-	2010
Phase II	328	April 2005	-	2012
Phase III	255	TBD	-	TBD
Future Phases	1,066	TBD	-	TBD
Total	1,816			

As reported by the developer, Table III-6 below shows the number of building permits issued and lots sold and closed with builders by residential product type and builder as of December 31, 2008.

Table III-6
Building Permits, Lot Sales and Closings

Builder	Unit Type	Building Permits Issued	Lots Sold to Builders	Lots Closed with Builders
Brookfield Homes	Cottage/ Duplex	18	26	26
	Terrace/ Triplex	26	18	18
	Garden	26	29	29
	Executive	32	39	39
Sub-total		102	112	112
Lennar Homes	Villa	41	16	16
	Carriage	34	30	30
	Garden	54	48	48
	Executive	74	65	65
Sub-total		203	159	159
Total		304	271	271

As reported by the developer, Table III-7 on the following page shows the number of homes sold and closed with homebuyers, and the average sales price by residential product type and builder as of December 31, 2008.

Table III-7
Status of Home Sales, Closings and Average Sales Price

Marketing Name	Product Type	Number of Units	Homes Sold	Homes Closed	Average Sales Price
Carriage/ Lennar	Triplex	180	30	30	\$229,330
Carriage/ Brookfield	Triplex	180	14	14	\$278,903
Villas/ Lennar	Duplex	262	16	16	\$228,750
Villas/ Brookfield	Duplex	262	24	24	\$293,279
Garden/ Lennar	SFD	178	48	48	\$361,553
Garden/ Brookfield	SFD	178	26	24	\$356,186
Executive/ Lennar	SFD	288	65	65	\$382,039
Executive/ Brookfield	SFD	288	31	30	\$416,424
Total		1,816	257	251	\$337,496

As of December 31, 2008, the developer reports that Lennar will not be building homes in the special development district on a going-forward basis. Table III-8 on the following page shows the revised absorption schedule provided by the developer as of December 31, 2008. Projected absorption is anticipated to change as a result of market conditions.

Table III-8
Revised Construction Schedule

Product Type	Average Annual Absorption Potential	Total Units	Year 4 2008	Year 5 2009	Year 6 2010	Year 7 2011	Year 8 2012	Year 9 2013	Year 10 2014	Year 11 2015	Year 12 2016	Year 13 2017	Year 14 2018
Villas	28	360	2	6	10	22	36	36	48	60	64	36	0
Carriage	35	524	0	6	15	18	48	48	48	60	60	50	123
Garden (TBD)	18	178	0	12	24	24	30	30	10	0	0	0	0
Garden (Brookfield)	16	178	0	10	12	15	30	31	30	21	0	0	0
Executive (TBD)	21	288	1	0	0	16	31	31	32	31	31	20	31
Executive (Brookfield)	22	288	0	0	13	30	30	30	30	30	46	40	0
Total		1,816	3	34	74	125	205	206	198	202	201	146	154
Cumulative			271	305	379	504	709	915	1,113	1,315	1,516	1,662	1,816

IV. TRUSTEE ACCOUNTS

The trustee for the Series 2005 Bonds is M&T Trust Company of Delaware. The balance as of December 31, 2007, interest paid, additional proceeds, disbursements and account balances for each fund as of December 31, 2008 are shown by the following table.

Table IV-1
Fund Balances

Account	Balance 12/31/07	Interest Paid	Additional Proceeds	Disburse- ments	Balance 12/31/08
Series B Capitalized Interest Account	\$0	\$13	\$0	\$13	\$0
Series A Debt Service Interest Fund	\$540,831	\$123	\$1,079,386	\$1,081,662	\$538,678
Series B Debt Service Interest Fund	\$123,999	\$69	\$215,898	\$237,467	\$102,500
Series A Debt Service Reserve Fund	\$1,824,278	\$44,921	\$0	\$0	\$1,869,198
Series B Debt Service Reserve Fund	\$429,213	\$9,876	\$0	\$72,000	\$367,089
Series A & B Developer's Facilities Fund	\$250,779	\$6,763	\$0	\$0	\$257,542
Series A & B Commissioner's Facilities Fund	\$1,178,732	\$25,801	\$0	\$1,204,533	\$0
Series A & B Administrative Expenses Fund	\$11,401	\$202	\$54,053	\$62,020	\$3,636
Series B Bond Redemption Fund	\$90	\$2	\$822,000	\$822,000	\$91
Series A & B Revenue Fund	\$939,948	\$20,690	\$1,198,004	\$1,446,049	\$712,593
Series B Prepay Principal Account	\$787,949	\$11,793	\$321,872	\$750,000	\$371,615
Total	\$6,087,219	\$120,253	\$3,691,213	\$5,675,744	\$4,222,942

- Additional proceeds to the Series A and B Debt Service Funds were transfers of special taxes from the Revenue Fund for the payment of debt service.
- Additional proceeds to the Administrative Expense Fund were transfers of special taxes for the payment of administrative expenses.
- Additional proceeds to the Series B Bond Redemption Fund were transfers of special tax prepayments from the Prepay Principal Account and the reserve credit from the Reserve Fund for the redemption of a portion of the Series B Bonds.
- Disbursements from the Series B Capitalized Interest Account represent transfers to the Series B Debt Service Fund to close the account.
- Disbursements from the Commissioner's Facilities Fund were payments for the costs associated with the construction of the commissioner's facilities.

Bond proceeds are invested in money market funds currently earning between 0.72 and 1.15 percent. Table IV-2 on the following page shows the approximate rate of return on the investments as of December 31, 2008.

Investment income on the Series 2005A and Series 2005B Reserve Funds shall be transferred to the Series 2005A and B Revenue Fund. Investment income on the Series 2005A Developer's Facilities Fund will remain in the fund and may be disbursed as provided for other funds in the account. Any remaining funds after the completion of the developer's facilities will be transferred to the Series 2005B Redemption Account until such time as all of the outstanding Series 2005B Bonds have been paid, and thereafter, shall be transferred to the Series 2005A Redemption Account until such time as all of the outstanding Series 2005A Bonds have been paid. Investment income on the Series 2005A Commissioner's Facilities Fund will remain in the fund and may be disbursed as provided for other funds in the account. Any remaining funds after the completion of the commissioner's facilities will be transferred to the Series 2005A and B Developer's Facilities Fund if that fund has not been closed, and thereafter, transferred to the Series 2005B Redemption Account until such time as all of the outstanding Series 2005B Bonds have been paid, and thereafter, shall be transferred to the Series 2005A Redemption Account until such time as all of the outstanding Series 2005A Bonds have been paid. Investment income in the Administrative Expense Fund will remain in that fund and be used for the purpose of paying administrative expenses. Investment income on the Series 2005B Principal Prepayment Fund will be applied to redeem the Series 2005B Bonds.

Table IV-2
Rate of Return

Account	Rate of Return
Series A Debt Service Reserve Fund	0.73%
Series B Debt Service Reserve Fund	0.73%
Developer's Facilities Fund	0.72%
Commissioner's Facilities Fund	1.15%
Administrative Expenses Fund	0.73%
Series A & B Revenue Fund	0.73%
Series B Prepay Principal Account	0.73%

V. DISTRICT OPERATIONS

A. SPECIAL TAX REQUIREMENT

A special tax is to be collected on the taxable property in the Heritage Shores Special Development District each fiscal year until the Series 2005 Bonds and any additional bonds have been paid in full in an amount equal to the "Special Tax Requirement." According to the Rate and Method of Apportionment of the Special Tax, the Special Tax Requirement shall be an amount equal to:

(A) the amount required in any fiscal year to pay (1) debt service and other periodic costs (including deposits to any sinking funds) on the Bonds to be paid from the special taxes collected in such fiscal year, (2) administrative expenses to be incurred in the fiscal year or incurred in any previous fiscal year and not paid by the Commissioners, (3) any amount required to replenish any Reserve Fund established in association with any Bonds, (4) a contingency, which may include an amount equal to the estimated delinquencies expected in payment of the special tax not otherwise taken into account or amounts required to establish or maintain any reserves, and (5) the costs of remarketing, credit enhancement, bond insurance, and liquidity facility fees (including such fees for instruments that serve as the basis of a Reserve Fund related to any indebtedness in lieu of cash), less (B) (1) any credits available pursuant to the Indenture of Trust, such as capitalized interest, reserves, and investment earnings on any account balances, and (2) any other revenues available to apply to the special tax requirement. The amounts in (3) and (4) above, shall not exceed an amount in aggregate that would result in an increase in the amount of the special tax requirement by an amount more than ten percent of the amounts included in (1) and (5) above.

Special taxes to be collected in 2008 will be billed on July 1, 2008 and due on September 30, 2008. The special taxes due on September 30, 2008 will be available to pay debt service on the bonds on January 1, 2009 and July 1, 2009. Accordingly, the payments on the bonds to be covered by the special taxes to be collected in 2008 are the payments due January 1, 2009 and July 1, 2009. The balance of this report explains the methodology for determining the special tax requirement.

Table V-1 on the following page provides a summary of the special tax requirement for fiscal year 2008-2009.

Table V-1
Special Tax Requirement
Fiscal Year 2008-2009

Debt Service	Series A Bonds	Series B Bonds	Total
Interest Payment, January 1, 2009	\$538,678	\$102,500	\$641,178
Interest Payment, July 1, 2009	\$538,678	\$102,500	\$641,178
Principal Payment, July 1, 2009	\$104,000	\$21,000	\$125,000
Total Debt Service	\$1,181,356	\$226,000	\$1,407,356
Administrative Expenses	\$22,914	\$4,636	\$27,550
Contingency	\$39,672	\$8,027	\$47,699
Sub-total expenses	\$1,243,941	\$238,664	\$1,482,605
Reserve Fund Investment Income	(\$36,430)	(\$7,117)	(\$43,546)
Prior Year Surplus	(\$192,767)	(\$46,291)	(\$239,059)
Special Requirement for 2008	\$1,014,744	\$185,256	\$1,200,000

Debt Service

Debt service includes interest on the Series A and Series B Bonds payable on January 1, 2009 and July 1, 2009. Each semi-annual interest payment on the Series A Bonds is \$538,678, equal to interest at 5.45 percent on the outstanding principal balance of \$19,768,000. There is a principal payment due on the Series A Bonds on July 1, 2009 in the amount of \$104,000. As a result, total debt service on the Series A Bonds to be paid from special taxes collected in 2008 is \$1,181,356.

Series B Prepayments and a Series B Reserve Fund Credit equal to \$3,428,000 and \$333,000, respectively, were used to redeem a portion of the Series 2005B Bonds on July 1, 2007. Additional Series B Prepayments and a Series B Reserve Fund Credit equal to \$750,000 and \$72,000, respectively, were used to redeem additional Series 2005B Bonds on April 1, 2008. There is a regularly scheduled principal payment on the Series 2005B Bonds on July 1, 2008. As a result, debt service on the Series B Bonds is estimated based on the outstanding principal balance of \$4,000,000 (i.e., \$8,600,000 – \$3,428,000 – \$333,000 – \$750,000 – \$72,000 – \$17,000 = \$4,000,000). Accordingly, each semi-annual interest payment is \$102,500, equal to interest at 5.125 percent on the outstanding principal balance of \$4,000,000. There is a principal payment due on the Series B Bonds on July 1, 2009 in the amount of \$21,000. As a result, total debt service on the Series B Bonds to be paid from special taxes collected in 2008 is \$226,000.

Aggregate debt service on the Series 2005 Bonds to be paid in 2009 from special taxes collected in 2008 is equal to \$1,407,356.

Administrative Expenses

Administrative expenses generally include the annual fees of the trustee, the annual charges of the administrator, legal expenses associated with the special development district and the estimated expenses of the town related to the billing and collection of the special tax. There are no remarketing, credit enhancement, bond insurance or liquidity facility fees at this time. Accordingly, the administrative expenses for the special development district for fiscal year 2007-2008 were \$27,000. Increasing this amount for inflation, the administrative expenses for the special development district for fiscal year 2008-2009 are estimated to be \$27,550.

Contingency

A contingency, equal to approximately three percent of expenses has been added to the Special Tax Requirement in the event that there are special tax delinquencies, unanticipated expenses or if investment income is less than estimated.

Reserve Fund Investment Income

As of March 31, 2008, the balance in the Series A Reserve Fund was \$1,831,207, which included the reserve requirement of \$1,821,479 and investment income of \$9,728. The investment income held in the Series 2005A Reserve Fund will be transferred to pay a portion of the debt service on the Series 2005A Bonds on July 1, 2008. Bond proceeds in the Series 2005A Reserve Fund equal to \$897,000 are invested in Federal Home Loan Mortgage Corporation Tri-Party Collateral Agreement earning 3.875 percent per annum that matures on June 15, 2008. Additional bond proceeds in the Series A Reserve Fund equal to the balance of the reserve requirement, \$924,479, are invested in a money market fund earning 2.32 percent per annum. At maturity, the bond proceeds currently invested in the Tri-Party Collateral Agreements are expected to be invested in a money market fund earning approximately 2.00 percent per annum. To be conservative, annual investment income is estimated based on the money market rate of 2.00 percent. This will result in estimated annual investment income of \$36,430 on the Series A Reserve Fund, which will be made available to pay debt service in 2008.

As of March 31, 2008, the balance in the Series B Reserve Fund was \$431,742, which included the reserve requirement of \$355,843, a reserve fund credit of \$72,000, which was used to call bonds on April 1, 2008, and investment income of \$3,899. The investment income held in the Series 2005B Reserve Fund will be transferred to pay a portion of the debt service on the Series 2005B Bonds on July 1, 2008. Bond proceeds in the Series 2005B Reserve Fund equal to \$155,000 are invested in Federal Home Loan Mortgage Corporation Tri-Party Collateral Agreement earning 3.875 percent per annum that matures on June 15, 2008. Additional bond proceeds in the Series B Reserve Fund equal to the balance of the reserve requirement, \$200,843, are invested in a money market fund earning 2.32 percent per annum. At maturity, the bond proceeds currently invested in the Tri-Party Collateral Agreement is expected to be invested in a money market fund earning approximately 2.00 percent per annum. To be conservative, annual investment income is estimated based on the money market rate of 2.00 percent. This will result in estimated annual investment income of \$7,117 on the Series B Reserve Fund, which will be made available to pay debt service in 2008.

Surplus from Prior Year

The estimated surplus from the prior year that may be applied to pay debt service and administrative expenses for the Series 2005A and B Bonds for fiscal year 2008-2009 is shown in Table V-2 below. Debt service includes interest on the Series A and Series B Bonds payable on July 1, 2008. Each interest payment on the Series A Bonds is \$540,831, equal to interest at 5.45 percent for six months on the outstanding principal balance of \$19,847,000. Each interest payment on the Series 2005B Bonds is \$102,936, equal to interest at 5.125 percent for six months on the outstanding principal balance of \$4,017,000. There are principal payments of \$79,000 and \$17,000 on the Series 2005A and Series 2005B Bonds, respectively, on July 1, 2008. As a result, aggregate debt service on the Series 2005 Bonds is equal to \$739,766.

Special taxes totaling \$1,477,667 were to be collected in 2007. As of December 31, 2007, \$1,477,667 in special taxes had been collected and transferred to the trustee. As of March 31, 2008, the balance in the Series A and B Revenue Fund was \$949,521.

As of March 31, 2008, the balances in the Series 2005A and Series 2005B Debt Service Interest Funds were \$122 and \$69, respectively. These funds will be made available to pay debt service on July 1, 2008.

As mentioned above, as of March 31, 2008, the balance in the Series A Reserve Fund was \$1,831,208, which included the reserve requirement of \$1,821,479 and investment income of \$9,728. The investment income held in the Series 2005A Reserve Fund will be transferred to pay a portion of the debt service on the Series 2005A Bonds on July 1, 2008. Likewise, As of March 31, 2008, the balance in the Series B Reserve Fund was \$431,742, which included the reserve requirement of \$355,843, a reserve fund credit of \$72,000, which was used to call bonds on April 1, 2008, and investment income of \$3,899. The investment income held in the Series 2005B Reserve Fund will be transferred to pay a portion of the debt service on the Series 2005B Bonds on July 1, 2008. Based on the investment contracts mentioned above, an additional \$13,312 and \$2,506 in investment income will be earned on the Series 2005A and Series 2005B Reserve Funds, respectively, through June 30, 2008. As of March 31, 2008, the balances in the Series 2005A and Series 2005B Capitalized Interest Accounts were zero and \$13, respectively. These funds will be made available to pay debt service on July 1, 2008.

Table V-2
Surplus from Prior Year

Debt Service	Series A Bonds	Series B Bonds	Total
Interest Payment, July 1, 2008	\$540,831	\$102,936	\$643,766
Principal Payment, July 1, 2008	\$79,000	\$17,000	\$96,000
Total Debt Service	\$619,831	\$119,936	\$739,766
<i>Available Funds:</i>			
Series A & B Revenue Fund at March 31, 2008	(\$789,723)	(\$159,798)	(\$949,521)
Available Debt Service Interest Fund at March 31, 2008	(\$122)	(\$69)	(\$191)
Available Reserve Fund Investment Income at March 31, 2008	(\$9,728)	(\$3,899)	(\$13,627)
Reserve Fund Investment Income thru June 30, 2008	(\$13,312)	(\$2,506)	(\$15,818)
Available Capitalized Interest Account at March 31, 2008	\$0	(\$13)	(\$13)
Subtotal funds available	(\$812,884)	(\$166,285)	(\$979,169)
Available Administrative Expense Fund	(\$2,615)	(\$529)	(\$3,144)
Balance of Prior Year Administrative Expenses Due	\$2,902	\$587	\$3,489
Administrative Expense Fund (Surplus)/Deficit	\$286	\$58	\$344
(Surplus)/Deficit from Prior Year	(\$192,767)	(\$46,291)	(\$239,059)

As of March 31, 2008, the balance in the Administrative Expense Fund was \$3,144. Administrative expenses for fiscal year 2007-2008 were estimated to be \$27,000. As of March 31, 2008, \$31,742 in administrative expenses had been paid by the trustee for fiscal year 2007-2008. According to the trustee, there is an additional \$3,489 in outstanding administrative expenses to be paid for fiscal year 2007-2008.

As a result, there is a prior year surplus of \$192,767 ($\$789,723 + \$122 + \$9,728 + \$13,312 + \$0 + \$2,615 - \$540,831 - \$79,000 - \$2,902 = \$192,767$) for the Series A Bonds and \$46,291 ($\$159,798 + \$69 + \$3,899 + \$2,506 + \$13 + \$529 - \$102,936 - \$17,000 - \$587 = \$46,291$) for the Series B Bonds. Accordingly, the aggregate surplus from the prior year is \$239,059, which may be made available to be applied to pay debt service and administrative expenses for fiscal year 2008-2009.

Summary

Total special service area expenses to be paid from special taxes collected in 2009 are estimated to be \$1,243,941. Funds available to pay these expenses, other than special taxes, are estimated at \$229,197, resulting in a special tax requirement of \$1,014,744.

B. DELINQUENT SPECIAL TAXES

Special taxes in the amount of \$1,477,667 were to be collected for fiscal year 2007-2008. As of December 31, 2007, \$1,477,667 in special taxes had been collected and transferred to the trustee. As a result, there were no delinquent special taxes outstanding for collection year 2007.

Special taxes in the amount of \$1,200,000 were to be collected for fiscal year 2008-2009. Special taxes were due on September 30, 2008. As of December 31, 2008, the Town of Bridgeville reports that \$1,200,000 in special taxes had been collected, representing 100.0 percent of fiscal year 2008-2009 special taxes to be collected. As a result, there are no delinquent special taxes outstanding at this time.

C. COLLECTION EFFORTS

There are no collection efforts underway at this time.

VI. DISTRICT FINANCIAL INFORMATION

The information provided in this section is intended to meet the requirements for the annual report as provided for in Section 2(a) of the Continuing Disclosure Agreement. The items listed below are in the same order as the items required for the annual report as listed in the Continuing Disclosure Agreement.

All information in this section is provided as of December 31, 2008, unless otherwise stated.

A. DISTRICT FINANCIAL STATEMENTS

Per Section 2(a)(ii) of the Continuing Disclosure Agreement, dated June 1, 2005, the audited 2008 annual financial statements for the Town of Bridgeville for the period ending June 30, 2008, will be provided under separate cover.

The unaudited 2008 annual financial statements for the Heritage Shores Special Development District for the period ending June 30, 2008, which have been prepared by the Administrator, will also be provided under separate cover.

B. FUND BALANCES

The fund balances in the funds and accounts provided for in the Indenture of Trust are included in Table IV-1 of Section IV, "Trustee Accounts," of this report.

C. CHANGES TO THE RATE AND METHOD OF APPORTIONMENT

There have been no changes to the Rate and Method of Apportionment of Special Taxes.

D. CHANGES IN AD VALOREM REAL PROPERTY TAX RATES

According to the Town of Bridgeville, the 2007 and 2008 ad valorem tax rate for the town was \$1.73 per \$100 of assessed value. Accordingly, there was no change in the ad valorem tax rate from 2007 to 2008. As of March 27, 2009, the town reports that the 2009 ad valorem tax rate for the town has not yet been approved.

Table VI-1
Ad Valorem Tax Rates

Area	2007 Rate	2008 Rate
Bridgeville	\$1.730	\$1.730

Source: Town of Bridgeville Finance Department

E. TOTAL SPECIAL TAXES AND PREPAYMENTS

Special taxes in the amount of \$1,477,667 were to be collected for fiscal year 2007-2008. As of December 31, 2007, \$1,477,667 in special taxes had been collected and transferred to the trustee.

The special tax requirement for fiscal year 2008-2009 is \$1,200,000, as explained in Section V, "District Operations," of this report. As of December 31, 2008, the town reports that \$1,200,000 in special taxes had been collected for fiscal year 2008-2009.

As of December 31, 2008, partial prepayments in the amount of \$4,380,308 have been collected from

245 units. Of this amount, \$3,761,000, including a reserve fund credit of \$333,000, and \$822,000, including a reserve fund credit of \$72,000, were used to redeem a portion of the Series 2005B Bonds on July 1, 2007 and April 1, 2008, respectively. A portion of the Series 2005B Bonds in the amount of \$424,000, including a reserve fund credit of \$38,000, is expected to be redeemed on April 1, 2009.

F. SPECIAL TAXES TO BE COLLECTED

Special taxes in the amount of \$1,200,000 were to be collected for fiscal year 2008-2009, as explained in Section V, “District Operations,” of this report. Special taxes were due September 30, 2008.

G. SPECIAL TAX COLLECTIONS

Table VI-2 below shows the special taxes due and collected for fiscal years 2007-2008 and 2008-2009 as reported by the finance director for the town as of December 31, 2008.

**Table VI-2
Special Taxes Due and Collected**

	2007-2008	2008-2009
Special Taxes Due	\$1,477,667	\$1,200,000
Special Taxes Collected	\$1,477,667	\$1,200,000
Percent Collected	100.0%	100.0%

H. DELINQUENT SPECIAL TAXES

Table VI-3 below shows the delinquent annual assessment for fiscal years 2007-2008 and 2008-2009. The delinquent special taxes do not amount to more than ten percent of the special taxes due in any year.

**Table VI-3
Delinquent Special Taxes**

	2007-2008	2008-2009	Total
Six months delinquent	\$0	\$0	\$0
One year delinquent	\$0	\$0	\$0
Two years delinquent	\$0	\$0	\$0
Total	\$0	\$0	\$0

I. FORECLOSURE PROCEEDINGS

Table VI-4 on the following page shows the special taxes subject to foreclosure proceedings.

Table VI-4
Special Taxes Subject
to Foreclosure Proceedings

	2007-2008	2008-2009	Total
Subject to foreclosure but not yet instituted	\$0	\$0	\$0
Foreclosure instituted but not concluded	\$0	\$0	\$0
Judgment obtained but not yet collected	\$0	\$0	\$0
Judgment collected	\$0	\$0	\$0
Total	\$0	\$0	\$0

J. SPECIAL TAX PREPAYMENTS

Table VI-5 below shows the amount of bonds redeemed with special tax prepayments. As of December 31, 2008, partial prepayments in the amount of \$4,380,308 have been collected from 245 units. Of this amount, \$3,761,000, including a reserve fund credit of \$333,000, and \$822,000, including a reserve fund credit of \$72,000, were used to redeem a portion of the Series 2005B Bonds on July 1, 2007 and April 1, 2008, respectively. Of the 245 units that have been partially prepaid, 166 are single-family detached units and 79 are single-family attached units.

Table VI-5
Special Tax Prepayments as of December 31, 2008

	Series 2005A	Series 2005B	Total
Bonds redeemed (7/1/07)	\$0	\$3,761,000	\$3,761,000
Bonds redeemed (5/1/08)	\$0	\$822,000	\$822,000
Total	\$0	\$4,583,000	\$4,583,000

A portion of the Series 2005B Bonds in the amount of \$424,000 is expected to be redeemed on April 1, 2009. The \$424,000 of Series 2005B Bonds to be redeemed includes \$386,000 from special tax prepayments received and a reserve fund credit in the amount of \$38,000.

K. BONDS OUTSTANDING

Table VI-6 below shows the amount of Series 2005A and Series 2005B Bonds outstanding as of December 31, 2008.

Table VI-6
Bonds Outstanding

	Total
Series 2005A Bonds	\$19,768,000
Series 2005B Bonds	\$4,000,000
Total	\$23,768,000

L. PRINCIPAL AND INTEREST PAID AND DUE ON THE BONDS

Table VI-7 below shows the principal and interest paid on the bonds in the bond year ending July 1, 2009.

Table VI-7
Interest and Principal Paid
Bond Year Ending July 1, 2009

	Series A Bonds	Series B Bonds	Total
Interest Payment, January 1, 2009	\$538,678	\$102,500	\$641,178
Interest Payment, July 1, 2009	\$538,678	\$91,635	\$630,313
Principal Payment, July 1, 2009	\$104,000	\$19,000	\$123,000
Total Debt Service	\$1,181,356	\$213,135	\$1,394,491

Table VI-8 below shows the principal and interest due on the bonds in the bond year ending July 1, 2010.

Table VI-8
Interest and Principal Due
Bond Year Ending July 1, 2010

	Series A Bonds	Series B Bonds	Total
Interest Payment, January 1, 2010	\$535,844	\$91,148	\$626,992
Interest Payment, July 1, 2010	\$535,844	\$91,148	\$626,992
Principal Payment, July 1, 2010	\$130,000	\$24,000	\$154,000
Total Debt Service	\$1,201,688	\$206,296	\$1,407,984

M. AMENDMENTS TO THE CONTINUING DISCLOSURE AGREEMENT

There have not been any amendments to the Continuing Disclosure Agreement.

N. SIGNIFICANT AMENDMENTS TO LAND USE

As of December 31, 2008, there have not been any significant amendments to land use entitlements or legal challenges to the construction of the facilities of which the administrator has actual knowledge.

O. CHANGES TO THE CONSTRUCTION OF THE FACILITIES

As of December 31, 2008, there have not been any changes in the types of public facilities constructed from those stated in the Limited Offering Memorandum. A full description of the types of public facilities and the status of completion is provided in Section III, "The Development," of this report.

VII. SIGNIFICANT EVENTS

A. DEVELOPER'S SIGNIFICANT EVENTS

Developer significant events include the following:

- (i) failure to pay any real property taxes (including special taxes) levied within the district on a parcel owned by the developer, or any affiliate thereof;
- (ii) material damage to or destruction of any development of improvements within the district;
- (iii) material default by the developer, or any affiliate thereof, on any loan with respect to the construction or permanent financing of the district development;
- (iv) material default by the developer, or any affiliate thereof, on any loan secured by the property within the district owned by the developer, or any affiliate thereof;
- (v) the filing of the developer, or any affiliate thereof, or any owners of more than 25 percent interest in the developer, or a subsidiary of the developer, or any affiliate thereof, is unable to pay its debts as they become due; and
- (vi) the filing of any lawsuit against the developer with claim for damages in excess of \$1,000,000 or which may adversely affect the completion of district development, or litigation in excess of \$1,000,000 or which would materially adversely affect the financial condition of the developer.

Inquiries have been made with Passwaters Farm, LLC regarding the occurrence of any significant event and they have reported that to their knowledge, no significant events have occurred as of December 31, 2008.

B. LISTED EVENTS

Listed events generally include the following:

- (i) delinquency in payment when due of any principal or interest on the bonds;
- (ii) occurrence of any default under the indenture;
- (iii) amendment to the indenture modifying the rights of the bond owners;
- (iv) giving of notice of optional or unscheduled redemption of bonds;
- (v) defeasance of bonds or any portion thereof;
- (vi) any change in the rating, if any, on the bonds;
- (vii) adverse tax opinions or events affecting the tax-exempt status of the bonds;
- (viii) any unscheduled draws on any credit enhancement reflecting financial difficulties;

- (ix) any change or substitution in the provider of any credit enhancement reflecting financial difficulties;
- (x) the release, substitution or sale of property securing repayment of the bonds (including property leased, mortgaged or pledged as security); and
- (xi) the continuing disclosure event notices provided to the administrator by the owner as particularly set forth in owner's continuing disclosure agreement so long as the owner owns property in the district.

The administrator does not have knowledge of any listed event as of the date of this report.