

In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "CONCLUDING INFORMATION — Tax Exemption" herein.

\$21,335,000
POWAY UNIFIED SCHOOL DISTRICT
PUBLIC FINANCING AUTHORITY
2003 REVENUE BONDS

Dated: Date of Delivery**Due: September 1, as shown below**

The Poway Unified School District Public Financing Authority 2003 Revenue Bonds (the "Bonds") are being issued pursuant to an Indenture of Trust (the "Authority Indenture"), dated as of February 1, 2003, by and between Poway Unified School District Public Financing Authority (the "Authority") and U.S. Bank National Association, as trustee (the "Trustee") to (i) purchase four separate series of local obligations (each a "Series of Local Obligations," as more specifically defined herein). Bond proceeds will also be used to fund a Reserve Fund for the Bonds in an amount equal to 50% of the Reserve Requirement and to acquire a Surety Bond in an amount equal to 50% of the Reserve Requirement. Proceeds of the Local Obligations will be used (i) to acquire and construct certain school facilities as more fully described herein, (ii) to pay interest on the Local Obligations, and through such payment interest on the Bonds through September 1, 2003, and (iii) to pay the costs of issuing the Bonds and the Local Obligations.

The Bonds are limited obligations of the Authority. The Bonds are payable solely from Revenues (as defined herein) of the Authority and from certain other amounts on deposit in the funds and accounts under the Authority Indenture, other than the Program Fund, the Authority School Facilities Fund or the Rebate Fund and moneys received under the Financial Guaranty Insurance Policy and the Surety Bond. Revenues consist generally of the amounts received by the Trustee as the payment of each Series of Local Obligations, which payments are to be derived from Special Taxes received by CFD No. 2, CFD No. 3, CFD No. 5 and CFD No. 7 as more fully described herein. The payments on the Local Obligations are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due, assuming that the payments on the Local Obligations are made when due. A default in the payment of one Series of Local Obligations does not constitute a default under the others, and each Series of the Local Obligations is secured by a different source of revenues. An event of default under one Series of the Local Obligations may result in insufficient Revenues with which to pay the principal of and interest on the Bonds. See "SOURCES OF PAYMENT FOR THE BONDS" herein.

The Bonds will be issued in the denominations of \$5,000 or any integral multiple thereof. Interest is payable on September 1, 2003, and semiannually thereafter on March 1 and September 1 each year. The Bonds will be initially issued only in book-entry form and registered to Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository of the Bonds. Principal and interest (and premium, if any) on the Bonds is payable by the Trustee, as registrar, paying agent and trustee for the Bonds to DTC, which remits such payments to its Participants for subsequent distribution to the registered owners as shown on the Trustee's books as of the fifteenth day of the calendar month immediately preceding each interest payment date. See "THE BONDS" herein and in Appendix G — "BOOK-ENTRY-ONLY PROVISIONS."

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.



The Bonds are subject to optional redemption, special mandatory redemption from proceeds of redemption of Local Obligations as a result of prepayment of Special Taxes (as defined herein) and mandatory sinking fund redemption as described herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, POWAY UNIFIED SCHOOL DISTRICT (THE "SCHOOL DISTRICT"), THE COUNTY OF SAN DIEGO (THE "COUNTY"), THE STATE OF CALIFORNIA (THE "STATE") OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE SCHOOL DISTRICT NOR GENERAL OBLIGATIONS OF THE AUTHORITY, BUT ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM CERTAIN REVENUES AND CERTAIN AMOUNTS DEPOSITED BY THE AUTHORITY IN THE REVENUE FUND, BOND FUND, REDEMPTION FUND AND RESERVE FUND AS MORE FULLY DESCRIBED HEREIN.

This cover page contains certain information for general reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the Bonds involves risks which may not be appropriate for some investors. See "BONDOWNERS' RISKS" herein for a discussion of the risk factors that should be considered in evaluating the investment quality of the Bonds.

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their legality by Best Best & Krieger LLP, San Diego, California, Bond Counsel. In addition, certain legal matters will be passed upon for the Authority, the Districts and the School District by Best Best & Krieger LLP, as the general counsel for said entities. Certain matters will be passed upon for the Authority and the Districts by McFarlin & Anderson, Lake Forest, California, Disclosure Counsel. It is anticipated that the Bonds in definitive form will be available for delivery to DTC in New York, New York on or about March 20, 2003.

Stone & Youngberg LLC

Dated: March 6, 2003

\$21,335,000
POWAY UNIFIED SCHOOL DISTRICT
PUBLIC FINANCING AUTHORITY
2003 REVENUE BONDS

MATURITY SCHEDULE
\$13,405,000 SERIAL BONDS
Base CUSIP No. 73885N*

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP. No.</u>	<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP. No.</u>
2004	\$ 255,000	2.00%	1.10%	AA4	2014	\$ 640,000	3.75%	3.83%	AL0
2005	280,000	2.00	1.20	AB2	2015	695,000	3.875	3.95	AM8
2006	315,000	2.00	1.50	AC0	2016	755,000	4.00	4.05	AN6
2007	350,000	2.00	2.00	AD8	2017	815,000	4.125	4.20	AP1
2008	380,000	2.50	2.40	AE6	2018	880,000	4.25	4.30	AQ9
2009	415,000	3.00	2.85	AF3	2019	955,000	4.30	4.40	AR7
2010	455,000	3.00	3.10	AG1	2020	1,020,000	4.375	4.50	AS5
2011	500,000	3.50	3.35	AH9	2021	1,100,000	4.50	4.55	AT3
2012	540,000	3.50	3.55	AJ5	2022	1,190,000	4.60	4.65	AU0
2013	590,000	3.60	3.65	AK2	2023	1,275,000	4.625	4.70	AV8

\$2,850,000 4.70% Term Bonds Due September 1, 2025 Yield 4.78% CUSIP No. 73885NAX4

\$5,080,000 4.75% Term Bonds Due September 1, 2028 Yield 4.82% CUSIP No. 73885NAW6

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**POWAY UNIFIED SCHOOL DISTRICT
AND POWAY UNIFIED SCHOOL DISTRICT PUBLIC FINANCING AUTHORITY**

**BOARD OF EDUCATION
AND AUTHORITY BOARD OF DIRECTORS**

Linda Vanderveen, President
Jeff Mangum, Vice President
Andy Patapow, Clerk
Steve McMillan, Member
Penny Ranfile, Member

SCHOOL DISTRICT CHIEF ADMINISTRATION

Dr. Donald A. Phillips, Ed.D, Superintendent
John P. Collins, Deputy Superintendent
Keith L. Bradford, C.P.A., J.D., Associate Superintendent of Business Support Services

SPECIAL SERVICES

**BOND COUNSEL AND GENERAL COUNSEL TO THE
AUTHORITY, THE DISTRICTS AND THE SCHOOL DISTRICT**

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San Diego, California

DISCLOSURE COUNSEL

McFarlin & Anderson
Lake Forest, California

APPRAISER

Stephen G. White, MAI
Fullerton, California

SPECIAL TAX CONSULTANT & ADMINISTRATOR

David Taussig & Associates, Inc.
Newport Beach, California

TRUSTEE AND FISCAL AGENT

U.S. Bank National Association
Los Angeles, California

NO DEALER, BROKER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION WITH RESPECT TO THE BONDS, OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, ANY SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE AUTHORITY, THE SCHOOL DISTRICT, THE DISTRICTS, OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE DESCRIBED ON THE COVER PAGE OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE BONDS.

Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The information set forth herein has been furnished by the Authority, the School District, the Districts, or other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement 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 Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the School District, or the Districts, since the date hereof.

Other than with respect to information concerning Ambac Assurance Corporation ("Ambac Assurance") contained under the caption "BOND INSURANCE" and APPENDIX H - "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by Ambac Assurance and Ambac Assurance makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or be used, as a whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
General	1
Purpose of Issue	1
Authority for Issuance	1
The Authority	2
The Districts	2
The School District	3
Security for the Bonds	3
Appraisal	5
Reserve Fund	5
Financial Guaranty Insurance Policy	6
Sources of Payment for the Local Obligations	6
Additional Bonds; Additional Local Obligations	6
Description of the Bonds	6
Tax Exemption	7
Risk Factors Associated with Purchasing the Bonds	7
Forward Looking Statements	7
Professionals Involved in the Offering	8
Continuing Disclosure	8
Other Information	8
THE FINANCING PLAN	9
APPLICATION OF BOND PROCEEDS; ESTIMATED SOURCES AND USES OF FUNDS	9
THE BONDS	11
Authority for Issuance	11
General Provisions	11
Redemption	11
Transfer and Exchange of Bonds	13
The Trustee	14
Book-Entry and DTC	14
Estimated Debt Service Schedule	15
SOURCES OF PAYMENT FOR THE BONDS	15
General	15
Revenue Fund	16
Reserve Fund	18
Ownership of Local Obligations	19
The Local Obligations	20
Covenant for Superior Court Foreclosure	23
Authorized Investments	24
Refunding Bonds; Additional Local Obligations	25
No Acceleration	25
Sale of Local Obligations	25
Estimated Debt Service Coverage	25

BOND INSURANCE	31
Payment Pursuant to Financial Guaranty Insurance Policy	31
Ambac Assurance Corporation	31
Available Information	32
Incorporation of Certain Documents by Reference	32
THE DISTRICTS	33
General	33
Location and Description	35
Appraised Property Values	36
Estimated Appraised Value-to-Lien Ratios	36
Direct and Overlapping Debt	37
Overlapping Assessment and Maintenance Districts	45
Rates and Methods of Apportionment of Special Tax	47
Special Tax Delinquency	51
Special Taxes Are Not Within Teeter Plan	53
Estimated Assessed Value-to-Lien Ratios and Tax Burdens	53
BONDOWNERS' RISKS	56
The Bonds	56
The Local Obligations	57
THE AUTHORITY	64
CONCLUDING INFORMATION	65
Tax Exemption	65
Absence of Litigation	65
No General Obligation of Authority, School District or Districts	66
Legal Opinion	66
Ratings	66
Underwriting	66
Professional Fees	67
Additional Information	67
APPENDIX A – GENERAL INFORMATION ABOUT THE POWAY UNIFIED SCHOOL DISTRICT	A-1
APPENDIX B – RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX	B-1
APPENDIX C – SUMMARY APPRAISAL REPORT	C-1
APPENDIX D – SUMMARY OF LEGAL DOCUMENTS	D-1
APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT	E-1
APPENDIX F – PROPOSED FORM OF OPINION OF BOND COUNSEL	F-1
APPENDIX G – BOOK-ENTRY-ONLY PROVISIONS	G-1
APPENDIX H – SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY	H-1



CFD No. 7

CFD No. 2

CFD No. 2

Areas marked indicate developable property within the CFDs.

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Areas marked indicate developable property within the CFDs.

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OFFICIAL STATEMENT
\$21,335,000
POWAY UNIFIED SCHOOL DISTRICT PUBLIC FINANCING AUTHORITY
2003 REVENUE BONDS

INTRODUCTION

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

General

The purpose of this Official Statement, which includes the cover page and Appendices hereto (the "Official Statement"), is to provide certain information concerning the sale and issuance of the Poway Unified School District Public Financing Authority 2003 Revenue Bonds (the "Bonds").

The Bonds are being issued pursuant to an Indenture of Trust (the "Authority Indenture"), dated as of February 1, 2003, by and between the Authority and U.S. Bank National Association, as the trustee (the "Trustee"). See "THE BONDS – Authority for Issuance" herein.

Purpose of Issue

The Bonds are being issued for the purpose of providing funds to purchase four series of local obligations (each a "Series of Local Obligations"), consisting of (i) \$12,635,000 aggregate principal amount of Poway Unified School District Community Facilities District No. 2 (Subarea IV – Torrey Highlands) 2003 Special Tax Bonds ("CFD No. 2" and the "CFD No. 2 Local Obligations," respectively), (ii) \$5,485,000 aggregate principal amount of Poway Unified School District Community Facilities District No. 3 (Christopherhill Project) 2003 Special Tax Bonds ("CFD No. 3" and the "CFD No 3 Local Obligations," respectively), (iii) \$1,670,000 aggregate principal amount of Poway Unified School District Community Facilities District No. 5 (Santa Fe Valley Area IV) 2003 Special Tax Bonds ("CFD No. 5" and the "CFD No 5 Local Obligations," respectively) and (iv) \$1,545,000 aggregate principal amount of Poway Unified School District Community Facilities District No. 7 (Fairbank Highlands) 2003 Special Tax Bonds ("CFD No. 7" and the "CFD No. 7 Local Obligations," respectively and together with CFD No. 2 and the CFD No. 2 Local Obligations, CFD No. 3 and the CFD No 3 Local Obligations, CFD No. 5 and the CFD No 5 Local Obligations, are collectively referred to herein as the "Districts" and the "Local Obligations," respectively). Proceeds of the Bonds will also be used to fund a Reserve Fund for the Bonds in an amount equal to 50% of the Reserve Requirement and to acquire a Surety Bond (the "Surety Bond") in an amount equal to 50% of the Reserve Requirement. Proceeds of the Local Obligations will be used (i) to acquire and construct certain school facilities, all as further described under "APPLICATION OF BOND PROCEEDS; ESTIMATED SOURCES AND USES OF FUNDS," (ii) to pay interest on the Local Obligations, and through such payment interest on the Bonds through September 1, 2003, and (iii) to pay the costs of issuing the Bonds and the Local Obligations.

Authority for Issuance

The Bonds are authorized to be issued in accordance with the Marks-Roos Local Bond Pooling Act of 1985, as amended, constituting Article 4 (commencing with Section 6584), of Chapter 5, Division 7, Title 1 of the California Government Code and the Authority Indenture. The Authority Indenture only permits the issuance of additional debt on a parity with the Bonds for refunding purposes.

The Districts may issue bonds on a parity with the Local Obligations only for refunding purposes. See "SOURCES OF PAYMENT FOR THE BONDS – Refunding Bonds; Additional Local Obligations."

The Authority

The Authority is a joint exercise of powers agency organized under the joint exercise of powers act, constituting Article 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the "Joint Powers Act"). It is composed of the Poway Unified School District (the "School District") and Community Facilities District No. 1 of the Poway Unified School District ("CFD No. 1"). Pursuant to the Act, the Authority is authorized to issue revenue bonds to be repaid from the proceeds of public obligations and to provide financing and refinancing for public capital improvements, including for the Districts.

The Districts

The Districts were created by the School District pursuant to proceedings taken under the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the California Government Code) (the "Act"). Once duly established, a community facilities district is a legally constituted governmental entity established for the purpose of financing specific facilities and services within defined boundaries. Subject to approval by a two-thirds vote of the qualified voters within a community facilities district and compliance with the provisions of the Act, a community facilities district may issue bonds and may levy and collect special taxes to repay such bonded indebtedness.

The Districts were established and the levy of Special Taxes (the "Special Taxes" or the "Special Tax") on the real property within the boundaries of the respective Districts and the incurrence by the respective Districts of bonded indebtedness were authorized pursuant to the Act. Each District was established to finance the acquisition and construction of school facilities. The Districts have not previously issued Local Obligations or any bonded indebtedness.

CFD No. 2 includes several non-contiguous areas of land located in that portion of the School District within the boundaries of the City of San Diego. CFD No. 2 is located along the extension of Camino Ruiz south of Carmel Valley Road in the northern portion of the City of San Diego. CFD No. 2 originally encompassed approximately 1,071 gross acres but owners of approximately 470 gross acres requested creation of Community Facilities District No. 10 to finance both school facilities and other public facilities, and the approximately 470 gross acres is no longer subject to the CFD No. 2 Special Tax leaving approximately 601 gross acres (approximately 85 net acres) encompassing approximately 428 residential units. In addition, the owner of an approximately 150 unit apartment complex prepaid its Special Taxes and is no longer subject to the levy of Special Taxes. CFD No. 2 is located in the north part of Torrey Highlands Subarea IV, in the north part of the City of San Diego. As of January 1, 2003, all 428 single family homes (including 24 under construction) are subject to the Special Tax. See "THE DISTRICTS – General" herein.

CFD No. 3 includes a contiguous area of land located in that portion of the School District within an unincorporated area of the County of San Diego (the "County") known as Bernardo Springs. CFD No. 3 is approximately 156 gross acres (approximately 62 net acres) encompassing approximately 212 single-family detached units and 187 multi-family units. CFD No. 3 is located west of Interstate 15 and south of Camino Del Norte, east of Dove Canyon Road and on both sides of Camino San Bernardo. As of January 1, 2003, all 399 units are subject to the Special Tax. See "THE DISTRICTS – General" herein.

CFD No. 5 includes several non-contiguous areas of land located in that portion of the School District within an unincorporated area of the County. CFD No. 5 is approximately 166 gross acres (approximately 89 net acres) encompassing approximately 150 single-family detached units. CFD No. 5 is located west of Interstate 15, north of Camino Del Norte and west of Four Gee Road in the community

known as Santa Fe Valley. As of January 1, 2003, all 150 single family homes (including 5 homes under construction) are subject to the Special Tax. See "THE DISTRICTS – General" herein.

CFD No. 7 includes a contiguous area of **land** located in that portion of the School District within the boundaries of the City of San Diego. CFD No. 7 is approximately 228 gross acres (approximately 115 net acres) encompassing approximately 93 single-family homes. CFD No. 7 is located on the north side of Carmel Valley Road at Caminito Vistana which is west of Camino Ruiz. CFD No. 7 is located in the north part of Torrey Highlands Subarea IV, in the north part of the City of San Diego. As of January 1, 2003, all 93 single family homes are subject to the Special Tax. See "THE DISTRICTS – General" herein.

There are overlapping community facilities districts and assessment districts for facilities and services on properties within CFD No. 5 and 7 by the Rancho Santa Fe Community Services District, the Olivehain Municipal Water District and/or Santa Luz Community Facilities District. See "THE DISTRICTS – Direct and Overlapping Debt" herein.

The School District

Poway Unified School District (the "School District") is located in the central portion of the County. The School District was originally formed in 1962. The School District currently covers approximately 99.1 square miles. The School District includes the City of Poway and portions of the City of San Diego and the County, including the communities of Black Mountain Ranch, Carmel Mountain Ranch, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santaluz, Santa Fe Valley, Torrey Highlands and 4S Ranch. The School District currently operates twenty-one (21) elementary schools, five (5) middle schools, four (4) high schools, one (1) continuation high school and one (1) adult school. The School District's projected average daily attendance computed in accordance with State law for the 2002-03 academic year is approximately 31,405. As of January 1, 2003, approximately 32,475 students attended schools in the School District. The School District is the third largest school district in the County. See APPENDIX A.

Security for the Bonds

The Bonds. The Bonds are secured by the Revenues of the Authority and by any other amounts held in any fund or account established pursuant to the Authority Indenture, other than the Program Fund (including the Costs of Issuance Account therein), the Authority School Facilities Fund and the Rebate Fund. Generally, "Revenues" are (i) all amounts derived by the Authority from the Local Obligations; (ii) all moneys originally deposited with the Trustee for application for payment of principal or interest on the Bonds and all moneys held by the Trustee in the funds and accounts established herein for payment of the Bonds (excluding the Program Fund, the Authority School Facilities Fund and the Rebate Fund) and (iii) investment income with respect to the funds and accounts established under the Authority Indenture except for investment earnings on moneys held in the Program Fund, the Authority School Facilities Fund and the Rebate Fund. Subject only to the provisions of the Authority Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Revenues are pledged to secure the payment of each payment under the Surety Bond in accordance with the terms thereof and the provisions of the Authority Indenture. Said pledge of such assets, and the lien thereon created by the Authority Indenture, is junior and subordinate to the pledge of, and lien on, such assets to secure payment of the Bonds. The Authority Indenture permits the issuance of additional bonds secured by Revenues only to effect a refunding of the Bonds in whole or in part under certain circumstances described in the Authority Indenture. See "SOURCES OF PAYMENT FOR THE BONDS - General," "SOURCES OF PAYMENT FOR THE BONDS – Refunding Bonds; Additional Local Obligations" and APPENDIX D – "SUMMARY OF LEGAL DOCUMENTS."

See the section of this Official Statement entitled “**BONDOWNERS’ RISKS**” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.

Neither the faith and credit nor the taxing power of School District, the Districts, the State of California (the “State”) or any political subdivision thereof is pledged to the payment of the Bonds. The Authority has no taxing power. Except for the Revenues and moneys received under the Financial Guaranty Insurance Policy and the Surety Bond, no other revenues or taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the School District, general obligations of the Districts or general obligations of the Authority, but are limited obligations of the Authority payable solely from Revenues, certain amounts held under the Authority Indenture as more fully described herein and moneys received under the Financial Guaranty Insurance Policy and the Surety Bond.

The Local Obligations. The Local Obligations are being issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (the “Act”), to finance certain capital costs of the School District. The Local Obligations are being issued by the Districts pursuant to the Act and under separate Bond Indentures each dated as of February 1, 2003, each by and between the applicable District and U.S. Bank National Association, as Fiscal Agent for each Series of the Local Obligations.

The Local Obligations are limited obligations of each District, payable from the net amount of Special Tax (the “Special Taxes” or the “Special Tax”) levied on real property within the respective boundaries of each of the Districts minus amounts applied to pay the Administrative Expense Requirement. The Special Taxes are collected on the regular property tax bills sent to the owners of real property within the applicable District. See “**SOURCES OF PAYMENT FOR THE BONDS – The Local Obligations.**”

The amount of the Special Taxes to be levied annually on a parcel will depend on its classification in accordance with the applicable Rate and Method of Apportionment of Special Tax. See “**THE DISTRICTS – Rates and Methods of Apportionment of Special Taxes**” and APPENDIX B. Each of the Districts has covenanted for the benefit of the Authority that, under certain circumstances described herein, a District will commence judicial foreclosure proceedings with respect to delinquent Special Taxes on property within such District and will diligently pursue such proceedings to completion. See “**SOURCES OF PAYMENT FOR THE BONDS – Covenant for Superior Court Foreclosure.**”

Each District has covenanted in the applicable District Bond Indenture to levy in each Fiscal Year the Special Taxes on parcels of land within such District pledged to the repayment of the respective Local Obligations in an amount sufficient to pay annual debt service on the respective Local Obligations, and to pay the administrative expenses related to the applicable District, subject to the limitation of the Maximum Annual Special Tax that may be levied on such land within such District. Each District has also agreed to pay a portion of the administrative expenses of the Authority and to pay costs incurred due to a draw on the Surety Bond with respect to such District’s allocation of the Reserve Fund, subject to the limitation of the Maximum Annual Special Tax that may be levied on such land within such District. See “**THE DISTRICTS**” for a description of the Districts and a description of the Special Tax within each District. See also “**SOURCES OF PAYMENT FOR THE BONDS**” and “**SPECIAL RISK FACTORS**” herein.

The Local Obligations are special obligations of each District. The Local Obligations do not constitute a debt or liability of the School District, the State or of any political subdivision thereof, other than the applicable District. Each District shall only be obligated to pay the principal of the applicable Local Obligations, or the interest thereon, from the funds described herein, and neither the faith and credit nor the taxing power of the School District, the State of California or any of its political subdivisions is pledged to the payment of the principal of or the interest on the Local

Obligations. The Districts have no *ad valorem* taxing power. See “SOURCES OF PAYMENT FOR THE BONDS” and “BONDOWNERS’ RISKS” herein.

Appraisal

An MAI appraisal of the land and existing improvements for the development within the Districts dated November 22, 2002 (the “Appraisal”), was prepared by Stephen G. White, MAI of Fullerton, California (the “Appraiser”) in connection with issuance of the Bonds. The purpose of the appraisal was to estimate the minimum market value of the homes comprising each District, by means of a mass appraisal of all of the homes which were completed and under construction. The Appraisal is based on certain assumptions and limiting conditions. Subject to the assumptions and limiting conditions, and based on the general inspections of the properties and analysis of matters pertinent to value, the Appraiser estimates the minimum market value (subject to the lien of the Special Taxes) as of November 14, 2002, was as follows:

<u>District</u>	<u>Estimated Appraised Value</u>
CFD No. 2	\$298,060,000
CFD No. 3	184,500,000
CFD No. 5	139,740,000
CFD No. 7	<u>134,850,000</u>
Total	\$757,150,000

The minimum market values reported in the Appraisal results in estimated value-to-lien ratios of approximately 24:1 for CFD No. 2, approximately 32:1 for CFD No. 3, approximately 20:1 for CFD No. 5 and approximately 23:1 for CFD No. 7, calculated in each case with respect to all direct and overlapping tax and assessment debt as of the estimated closing date. The value-to-lien ratios of individual parcels will differ from the foregoing aggregate values. See “THE DISTRICTS – Appraised Property Values,” and “– Direct and Overlapping Debt,” and “BONDOWNERS’ RISKS – The Local Obligations - Appraised Values” herein and APPENDIX C – Summary Appraisal Report appended hereto for further information on the Appraisal and for assumptions and limiting conditions relating to the Appraisal.

Reserve Fund

Pursuant to the Authority Indenture, the Authority has established a separate Reserve Account of the Reserve Fund with respect to each Series of the Local Obligations. If the amounts in the Interest Account or the Principal Account of the Bond Fund, are insufficient to pay the principal of, including sinking fund payments, or interest on the Bonds when due, the Trustee will withdraw from the Reserve Fund moneys necessary for such purposes in the following priority and subject to the following limitations: (i) if the insufficiency was caused by a delinquency in the payment of a Local Obligation, the Trustee shall (a) transfer up to the amount of the delinquency from the Reserve Account of the Reserve Fund established for the District which issued such Local Obligation to the Interest Account or the Principal Account, as applicable, and (b) if and to the extent that the transfer made pursuant to (a) are insufficient to equal the deficiency, transfer up to the amount of the remaining deficiency pro rata from the other Reserve Accounts of the Reserve Fund. Initially the Reserve Fund will be funded, and the Reserve Requirement satisfied, 50% through proceeds of the Bonds and 50% through the delivery of the Surety Bond. Each District has agreed to pay costs to the extent the Surety Bond is drawn as a result of a delinquency on its Series of Local Obligations and not for any other purpose. The Reserve Requirement

as of any date of calculation will be in an amount required by the Authority Indenture. See "SOURCES OF PAYMENT FOR THE BONDS – Reserve Fund" and APPENDIX D – "SUMMARY OF LEGAL DOCUMENTS – Indenture of Trust."

Financial Guaranty Insurance Policy

Payments of principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy (the "Policy") to be issued simultaneously with the delivery of the Bonds by Ambac Assurance Corporation ("Ambac Assurance"). See "FINANCIAL GUARANTY INSURANCE POLICY" and APPENDIX H – "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY" herein.

Sources of Payment for the Local Obligations

The Local Obligations will be secured by Net Special Tax Revenues received by each District and pledged to repay the outstanding Local Obligations and by moneys in the applicable District Bond Service Fund, and the District Redemption Fund as established under each District Bond Indenture. "Net Special Tax Revenues" are comprised of Special Taxes levied and received on parcels of real property in each of the Districts, including net amounts collected from the redemption of delinquent Special Taxes less the Administrative Expense Requirement. The Special Taxes are included on the *ad valorem* property tax bills sent by the County each year to the owners of record of property within each District.

Each District has covenanted for the benefit of the Authority, as the owner of the Local Obligations that the District will take action with respect to delinquencies in the payment of Special Taxes, including commencing foreclosure action, all as set forth in the applicable District Bond Indenture. See "SOURCES OF PAYMENT FOR THE BONDS – Covenant for Superior Court Foreclosure."

Neither the faith and credit nor the taxing power of the School District, the County, the State or any political subdivision thereof is pledged to the payment of the Local Obligations. Except for the Net Special Tax Revenues, no other taxes are pledged to the payment of the Local Obligations. The Local Obligations are not general or special obligations of the School District nor general obligations of the Districts, but are limited obligations of each District payable solely from certain amounts deposited by such District in the Bond Service Fund and Redemption Fund as more fully described herein.

Additional Bonds; Additional Local Obligations

Additional Bonds payable from Revenues may only be issued for refunding purposes. The Districts have covenanted to issue Additional Local Obligations only for refunding purposes.

Description of the Bonds

The Bonds. The net proceeds of the Bonds will be used to acquire Local Obligations of each District and to fund the Reserve Fund, 50% with Bond proceeds and 50% with the Surety Bond. See "SOURCES OF PAYMENT FOR THE BONDS" and "THE DISTRICTS" herein.

Payments. Interest is payable on September 1, 2003, and semiannually thereafter on March 1 and September 1 each year. Principal of and premium, if any, on the Bonds shall be payable by the Trustee, as registrar, transfer agent and trustee. See "THE BONDS" and APPENDIX G – "BOOK-ENTRY-ONLY PROVISIONS" herein.

Redemption. The Bonds are subject to optional redemption on and after September 1, 2012, special mandatory redemption on and after September 1, 2003, and mandatory sinking fund redemption on and after September 1, 2024, at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the redemption date together, in certain cases, with a premium. See “THE BONDS – Redemption” herein. The Bonds are subject to mandatory redemption from proceeds of redemption of Local Obligations as a result of prepayment of Special Taxes and to mandatory sinking fund redemption as further described herein.

Registration, Transfers and Exchanges. The Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Bonds (the “Beneficial Owners”) under the book-entry system maintained by DTC. See “THE BONDS” and APPENDIX G – “BOOK-ENTRY-ONLY PROVISIONS.”

Tax Exemption

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the Bonds will be exempt from State personal income taxes. See “CONCLUDING INFORMATION – Tax Exemption” herein.

Risk Factors Associated with Purchasing the Bonds

Investment in the Bonds involves risks that may not be appropriate for some investors. See the section of this Official Statement entitled “BONDOWNERS’ RISKS” for a discussion of certain risk factors which should be considered, in addition to the other materials set forth herein, in considering the investment quality of the Bonds.

Forward Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as a “plan,” “expect,” “estimate,” “project,” “budget,” “anticipate” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the caption “THE DISTRICTS” therein.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AUTHORITY AND THE DISTRICTS AND THE SCHOOL DISTRICT DO NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Professionals Involved in the Offering

U.S. Bank National Association, Los Angeles, California will serve as the Trustee for the Bonds and as the Fiscal Agent for the Local Obligations and will perform the functions required of it under the Authority Indenture and each District Bond Indenture for the payment of the principal of and interest and any premium on the Bonds and the Local Obligations and all activities related to the redemption of the Bonds. Best Best & Krieger LLP, San Diego, California, is serving as Bond Counsel to the Authority and the Districts and general counsel to the School District. Stone & Youngberg LLC is acting as Underwriter in connection with the issuance and delivery of the Bonds and McFarlin & Anderson, Lake Forest, California, is acting as Disclosure Counsel.

The appraisal work was done by Stephen G. White, MAI of Fullerton, California. David Taussig & Associates, Inc., Newport Beach, California, is acting as special tax consultant, administrator and dissemination agent to the Authority and the Districts.

Except for some Special Tax Consultant fees paid from Special Taxes, payment of the fees and expenses of Bond Counsel, Disclosure Counsel, the Underwriter, the Special Tax Consultant, the Trustee, the Fiscal Agent, Ambac Assurance and the rating agencies is contingent upon the issuance of the Bonds.

Continuing Disclosure

The Authority and each District have covenanted in the Continuing Disclosure Agreement, the form of which is set forth in APPENDIX E – “Form of Continuing Disclosure Agreement” (the “Continuing Disclosure Agreement”), for the benefit of owners and beneficial owners of the Bonds, to provide certain financial and operating data relating to the Bonds, the Local Obligations, the Authority, the School District, and the Districts. The Annual Report will be delivered by not later than January 31, in each year, commencing with January 31, 2004 (the “Annual Report”) and to provide notices of the occurrence of certain enumerated events, if material.

The Annual Report will be filed by the Authority or the Districts, or David Taussig & Associates, Inc., as Dissemination Agent on behalf of the Authority and the Districts, with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State information depository, if any (collectively, the “Repositories”) with a copy to the Trustee, the Fiscal Agent and the Underwriter. Any notice of a material event will be filed by the Authority or the Districts, or the Dissemination Agent on behalf of the Authority and the Districts, with the Municipal Securities Rulemaking Board and the appropriate State repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in the Continuing Disclosure Agreement. The covenants of the Authority and each District in the Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the “Rule”); provided, however, a default under the Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Authority Indenture or the District Bond Indentures, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the Authority, a District or the Dissemination Agent to comply with the Continuing Disclosure Agreement will be an action to compel performance. The Authority, the School District and the Districts have not ever failed to comply, in any material respect, with an undertaking under the Rule. The Authority and the Districts have no prior undertaking under the Rule.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the Bonds, certain sections of the Authority Indenture, the District Bond Indentures, security for the Bonds, special risk factors, the Authority, the Districts, the School District, the development in each District and other information are included in this Official Statement. Such

descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Authority Indenture, the District Bond Indentures, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Authority Indenture, the District Bond Indentures, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Office of the Clerk of the Board of Education (the "Board") of the Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3098.

THE FINANCING PLAN

The Bonds are being issued for the purpose of providing funds to the Authority to purchase the Local Obligations. The proceeds from the sale of the Local Obligations to the Authority will be used, together with other available moneys, to finance a middle school, an elementary school and other eligible school facilities. Project Costs, as defined in each District Bond Indenture, includes the cost of design, acquisition, construction and installation of the school facilities and all costs relating thereto.

APPLICATION OF BOND PROCEEDS; ESTIMATED SOURCES AND USES OF FUNDS

The Bonds. The estimated sources and uses of Bond proceeds and other amounts received by the Authority are as follows:

Sources:

Authority Bond Amount	\$21,335,000.00
Underwriter's Discount	(234,685.00)
Net Original Issue Discount/Premium	<u>(144,686.60)</u>
Total	\$20,955,628.40

Uses:

Reserve Fund ⁽¹⁾	\$ 927,415.46
Acquisition of CFD No. 2 Local Obligations	11,148,151.71
Acquisition of CFD No. 3 Local Obligations	4,840,477.23
Acquisition of CFD No. 5 Local Obligations	1,473,829.68
Acquisition of CFD No. 7 Local Obligations	1,362,319.68
Capitalized Interest	399,610.39
Costs of Issuance	<u>803,824.25</u>
Total ⁽²⁾	<u>\$20,955,628.40</u>

⁽¹⁾ Initially, the Reserve Fund will be funded 50% through proceeds of the Bonds and 50% through a Surety Bond. See the description of the sources and uses of the Districts' Local Obligations below for the contribution from each District.

⁽²⁾ A portion of the proceeds of the CFD No. 3 Local Obligations, the CFD No. 5 Local Obligations and the CFD No. 7 Local Obligations will be deposited by such Districts in the Authority School Facilities Fund. A portion of the proceeds of the CFD No. 2 Local Obligations will be deposited in the CFD No. 2 School Facilities Fund held by the CFD No. 2 Fiscal Agent to be used to pay School Facilities Costs. A portion of the proceeds of each Local Obligation will be deposited by each District in the Costs of Issuance Account within the Authority Program Fund. See the description of the sources and uses of the Districts' Local Obligations below.

Each District will deposit moneys with the Trustee to pay its proportionate share of costs of issuance. Costs of issuance include legal fees, Underwriter's fees, Bond Counsel fees, the cost of the Appraisal, Special Tax Consultant fees, Trustee fees, Fiscal Agent fees, bond insurance fees, the premium

for the Surety Bond, rating agency fees, printing costs and other costs associated with issuance of the Bonds and the Local Obligations. Each District will also deposit moneys with the Trustee to pay interest on the applicable Local Obligations through September 1, 2003, and through such payment interest on the Bonds is capitalized through September 1, 2003. See the applicable description of the uses of Local Obligations below. 50% of the Reserve Requirement will be funded through the Surety Bond. See "Sources of Payment for the Bonds – Reserve Fund."

Local Obligations. The proceeds received from the Authority for the sale of the Local Obligations, together with certain Special Taxes previously collected, are expected to be used for capital costs of school facilities, all as provided below:

	<u>CFD No. 2</u>	<u>CFD No. 3</u>	<u>CFD No. 5</u>	<u>CFD No. 7</u>	<u>Total</u>
<i>Sources:</i>					
Local Obligations Bond Amount	\$12,635,000.00	\$5,485,000.00	\$1,670,000.00	\$1,545,000.00	\$21,335,000.00
Authority's Discount ⁽¹⁾	(138,985.00)	(60,335.00)	(18,370.00)	(16,995.00)	(234,685.00)
Net Original Issue Discount/ Premium	<u>(85,844.70)</u>	<u>(36,673.35)</u>	<u>(11,121.50)</u>	<u>(11,047.05)</u>	<u>(144,686.60)</u>
Total	\$12,410,170.30	\$5,387,991.65	\$1,640,508.50	\$1,516,957.95	\$20,955,628.40
<i>Uses:</i>					
Contribution to Authority for Reserve Fund ⁽²⁾	\$ 549,233.39	\$ 238,428.58	\$ 72,593.57	\$ 67,159.92	\$ 927,415.46
School Facilities Fund	11,148,151.71	4,840,477.23	1,473,829.68	1,362,319.68	18,824,778.30
Contribution to Authority for Capitalized Interest ⁽³⁾	236,744.91	102,431.22	31,165.80	29,268.46	399,610.39
Contribution to Authority for Costs of Issuance ⁽⁴⁾	<u>476,040.29</u>	<u>206,654.62</u>	<u>62,919.45</u>	<u>58,209.89</u>	<u>803,824.25</u>
Total	\$12,410,170.30	\$5,387,991.65	\$1,640,508.50	\$1,516,957.95	\$20,955,628.40

⁽¹⁾ Represents each District's proportionate share of the underwriter's discount.

⁽²⁾ Represents each District's proportionate share of the deposit to the Authority Reserve Fund.

⁽³⁾ Capitalized interest through September 1, 2003. This amount will be transferred to the Authority and held in the Interest Account of the Authority Bond Fund.

⁽⁴⁾ Contribution represents each District's proportionate share of costs of issuance, including bond insurance policy premium and surety bond premium.

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the Act, a Resolution of Issuance and the Authority Indenture. The Bonds are issued upon and primarily secured by certain Revenues derived from debt service payments on the Local Obligations. The Local Obligations are issued upon and primarily secured by certain Special Taxes levied against parcel of land with each District.

General Provisions

The Bonds will be dated the date of delivery thereof, and will be issued in the aggregate principal amount set forth on the cover hereof. The Bonds will bear interest from their dated date at the rates per annum set forth on the cover page hereof, payable semiannually on each March 1 and September 1, commencing September 1, 2003 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the cover page hereof. The Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof. When issued, the Bonds will be registered in the name of CEDE & CO., as nominee of The Depository Trust Company, New York, New York ("DTC") See APPENDIX G – "BOOK-ENTRY-ONLY PROVISIONS." So long as the Bonds are in book-entry only form, "Bondowners" or "Owners" means DTC and not the beneficial owners of the Bonds.

Principal and premium, if any, on the Bonds are payable in lawful money of the United States of America upon surrender of the Bonds at the principal corporate trust office of the Trustee. Interest on the Bonds (including the final interest payment upon maturity or early redemption) is payable by check of the Trustee mailed by first class mail to the registered Owners as shown on the Trustee's books as of the fifteenth day of the calendar month immediately preceding each interest payment date (whether or not such day is a business day).

Redemption

Optional Redemption. The Bonds maturing on and after September 1, 2013 may be redeemed prior to maturity, in whole or in part, pro rata among maturities and by lot within a maturity, at the option of the Authority, on any Interest Payment Date on and after September 1, 2012, from any source of funds, at the following redemption prices (expressed as a percentage of the principal amount of the Bonds to be redeemed), plus accrued interest to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
September 1, 2012 and March 1, 2013	102%
September 1, 2013 and any Interest Payment Date thereafter	100

Special Mandatory Redemption. All Bonds are subject to special mandatory redemption prior to maturity from proceeds received by the Authority as a result of redemption of Local Obligations caused by a prepayment of Special Taxes. The Bonds are subject to redemption in whole or in part, on any March 1 or September 1 upon payment of the redemption price thereof (computed upon the principal amount of the Bonds to be redeemed), plus accrued interest to the date of redemption:

Redemption Date	Redemption Price
September 1, 2003 through March 1, 2013	102%
September 1, 2013 and any Interest Payment Date thereafter	100

Mandatory Sinking Payment Redemption. The Bonds maturing on September 1, 2025, are subject to mandatory sinking redemption in part by lot, on September 1 in each year commencing September 1, 2024, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption in the aggregate respective principal amount and in the years shown on the following redemption schedule:

2025 TERM BONDS

Sinking Fund Redemption Date	Sinking Payments
2024	\$1,375,000
2025 (maturity)	1,475,000

The Bonds maturing on September 1, 2028, are subject to mandatory sinking redemption in part by lot, on September 1 in each year commencing September 1, 2026, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption in the aggregate respective principal amount and in the years shown on the following redemption schedule:

2028 TERM BONDS

Sinking Fund Redemption Date	Sinking Payments
2026	\$1,575,000
2027	1,695,000
2028 (maturity)	1,810,000

The amounts in the foregoing tables will be reduced in the manner specified in the Authority Indenture as a result of any partial optional or special mandatory redemption of the Bonds.

Selection of Bonds for Redemption. If less than all of the Outstanding Bonds of a maturity are to be redeemed, the Trustee shall select the Bonds to be redeemed from all Bonds of such maturity not previously called for redemption, by lot in any manner which the Trustee in its sole discretion shall deem appropriate. Upon surrender of Bonds redeemed in part only, the Authority will execute and the Trustee

will authenticate and deliver to the registered **Owner**, at the expense of the Authority, a new Bond or Bonds, of authorized denominations equal in **aggregate** principal amount and maturity to the unredeemed portion of the Bond or Bonds.

Purchase of Bonds In Lieu of Redemption. In lieu of any redemption, moneys in the Redemption Fund may be used and withdrawn by the Trustee for the purchase of Outstanding Bonds, upon the filing with the Trustee of a certificate of the Authority requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other expenses) as such certificate may provide, at a price not in excess of the principal amount thereof, which would otherwise be due if such Bonds were to be redeemed and accrued interest to the date of purchase.

Notice of Redemption. So long as the Bonds are held in book-entry form, notice of redemption will be mailed by the Trustee only to DTC and not to the Beneficial Owners (as defined in APPENDIX G) of Bonds under the DTC book-entry-only system. Neither the Authority nor the Trustee is responsible for notifying the Beneficial Owners, who are to be notified in accordance with the procedures in effect for the DTC book-entry system. Notice of redemption, containing the information required by the Authority Indenture will be mailed by first class mail, postage prepaid, by the Trustee at least 30 days but not more than 60 days prior to the redemption date. The Trustee must also give notice of redemption to each of certain Securities Depositories and Information Services specified in the Authority Indenture. The notice of redemption shall state the redemption date, the place or places of redemption, the CUSIP numbers and bond numbers of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective authorized denominations of the principal amount thereof to be redeemed. Neither the failure of any Bond Owner to receive such notice so mailed nor any defect in the notice so mailed will affect the sufficiency or the validity of the proceedings for redemption of such Bonds or the cessation of accrual of interest on the redemption date.

Effect of Notice of Redemption. From and after the date fixed for redemption, moneys for the redemption of the Bonds to be redeemed, together with interest to said date of redemption, shall be held by the Trustee so as to be available therefor on such date of redemption, and, if notice of redemption has been given and not canceled, then, from and after the date of redemption, interest represent by such Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds will be held in trust for the account of the Owners of the Bonds to be redeemed without liability for interest thereon. All liability of the Authority in respect of such Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities deposited with the Trustee for their payment.

Circumstances Leading to Redemption of Bonds Prior to Maturity. Bond purchasers should be aware of the following circumstances, among others, that may lead to redemption of Bonds prior to maturity:

- (i) Prepayment of all or part of any Special Taxes within a District;
- (ii) Issuance of refunding bonds - pursuant to the Act, the Authority may issue refunding bonds for the purpose of redeeming the Bonds; and
- (iii) Accumulation of investment income in the Bond Service Fund.

Transfer and Exchange of Bonds

Any Bond may be transferred upon the registration books by the Trustee upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. The Authority may charge a reasonable sum for each new bond issued upon any exchange and the Trustee will require the Bond Owner requesting a transfer or exchange to pay

upon any exchange and the Trustee will require the Bond Owner requesting a transfer or exchange to pay any tax or other governmental charge required to be paid with respect to a transfer. A new Bond or Bonds of like aggregate principal amount and maturity shall be delivered in exchange for any Bond or Bonds thus surrendered. The Trustee may decline to make such transfers or exchanges (i) during the period selected by the Trustee for the selection of Bonds for redemption or (ii) with respect to any Bond which has been selected for redemption.

The Trustee

U. S. Bank National Association has been appointed as the Trustee for the Bonds under the Authority Indenture. See APPENDIX D – “SUMMARY OF LEGAL DOCUMENTS – Indenture of Trust” hereto for a further description of the rights and obligations of the Trustee under the Authority Indenture.

Book-Entry and DTC

The Depository Trust Company (“DTC”), New York, NY, 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 Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX G – “Book-Entry-Only Provisions.”

Estimated Debt Service Schedule

The following table presents the debt service schedule for the Bonds, assuming no redemptions are made:

Table 1
Poway Unified School District Public Financing Authority
2003 Revenue Bonds
Annual Debt Service Schedule

Year Ending (September 1)	Principal	Interest	Total
2003		\$399,610.39	\$399,610.39
2004	\$255,000	893,538.76	1,148,538.76
2005	280,000	888,438.76	1,168,438.76
2006	315,000	882,838.76	1,197,838.76
2007	350,000	876,538.76	1,226,538.76
2008	380,000	869,538.76	1,249,538.76
2009	415,000	860,038.76	1,275,038.76
2010	455,000	847,588.76	1,302,588.76
2011	500,000	833,938.76	1,333,938.76
2012	540,000	816,438.76	1,356,438.76
2013	590,000	797,538.76	1,387,538.76
2014	640,000	776,298.76	1,416,298.76
2015	695,000	752,298.76	1,447,298.76
2016	755,000	725,367.52	1,480,367.52
2017	815,000	695,167.52	1,510,167.52
2018	880,000	661,548.76	1,541,548.76
2019	955,000	624,148.76	1,579,148.76
2020	1,020,000	583,083.76	1,603,083.76
2021	1,100,000	538,458.78	1,638,458.78
2022	1,190,000	488,958.78	1,678,958.78
2023	1,275,000	434,218.78	1,709,218.78
2024	1,375,000	375,250.00	1,750,250.00
2025	1,475,000	310,625.00	1,785,625.00
2026	1,575,000	241,300.00	1,816,300.00
2027	1,695,000	166,487.50	1,861,487.50
2028	1,810,000	85,975.00	1,895,975.00
	\$21,335,000	\$16,425,235.67	\$37,760,235.67

SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are secured by the Revenues of the Authority and by any other amounts held in any fund or account established pursuant to the Authority Indenture, other than the Program Fund, the Authority School Facilities Fund or the Rebate Fund. Revenues will be obtained primarily from all payments received by the Authority pursuant to the Local Obligations and all investment income with

respect to moneys held by the Trustee in the funds and accounts established under the Authority Indenture with respect to the Bonds, other than the Program Fund, the Authority School Facilities Fund and the Rebate Fund.

The Local Obligations are secured by a pledge of and lien on the Special Taxes of each District, all as further described herein.

The CFD No. 2 Local Obligations, the CFD No. 3 Local Obligations, the CFD No. 5 Local Obligations and the CFD No. 7 Local Obligations are independent obligations and the security for one obligation does not constitute security for the other. The payments due on each of the Local Obligations are scheduled to be sufficient, in the aggregate, to pay the principal of, premium, if any, and interest on, the Bonds, as they become due. A default in the payment of any Series of Local Obligations may result in insufficient Revenues with which to pay the principal of and interest on the Bonds when due.

The scheduled payment of the principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Ambac Assurance. See "BOND INSURANCE" herein and APPENDIX H hereto. Pursuant to the Authority Indenture, Ambac Assurance will be deemed to be the sole owner of the Bonds and the Local Obligations for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the owners of the Bonds or the Local Obligations are entitled to take pursuant to the Authority Indenture or the District Bond Indentures.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED SOLELY BY THE REVENUES PLEDGED THEREFOR IN THE AUTHORITY INDENTURE, FROM AMOUNTS ON DEPOSIT IN THE FUNDS AND ACCOUNTS UNDER THE AUTHORITY INDENTURE OTHER THAN THE PROGRAM FUND, THE AUTHORITY SCHOOL FACILITIES FUND AND THE REBATE FUND AND MONEYS RECEIVED UNDER THE FINANCIAL GUARANTY INSURANCE POLICY AND THE SURETY BOND. THE BONDS ARE NOT A DEBT OF THE DISTRICTS, THE SCHOOL DISTRICT, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AUTHORITY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICTS, THE SCHOOL DISTRICT, THE STATE OR ANY OF ITS POLITICAL SUBDIVISION IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE BONDS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE DISTRICTS, THE SCHOOL DISTRICT, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE FOR THE PAYMENT OF THE BONDS.

OWNERSHIP OF THE BONDS IS SUBJECT TO RISK. POTENTIAL INVESTORS ARE ADVISED TO CAREFULLY READ THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "BONDOWNERS' RISKS."

Revenue Fund

Flow of Funds. All of the Revenues, and any other amounts held in any fund or account established pursuant to the Authority Indenture, except funds held in the Program Fund (including the Costs of Issuance Account therein), the Authority School Facilities Fund and the Rebate Fund, have been pledged by the Authority to secure the full and timely payment of the principal of and interest and premium, if any, of the Bonds in accordance with their terms and the provisions of the Authority Indenture. The Authority is to collect and receive, or cause to be collected and receive by the Trustee, all such Revenues, and Revenues collected or received by the Authority, or collected and received by the Trustee on behalf of the Authority, shall be deemed to be held, and to have been collected or received, by the Authority, in trust, and shall be paid to the Trustee as set forth in the Authority Indenture. All Revenues, except for any Principal Repayment (which shall be directly deposited to the Redemption Account), shall be promptly transferred to the Trustee by the Authority and deposited by the Trustee upon

receipt thereof in the Revenue Fund established under the Authority Indenture which the Trustee shall maintain and hold in trust. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Authority Indenture.

The Authority shall establish with the Trustee a special fund designated the "Bond Fund" which the Trustee shall maintain and hold in trust. Within the Bond Fund, the Trustee shall establish special accounts designated as the "Principal Account," the "Interest Account" and the "Redemption Account." Such fund and accounts shall be held and maintained as separate and distinct funds and accounts. On each Interest Payment Date, the Trustee shall transfer Revenues then in the Revenue Fund into the following funds and accounts the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

- (a) The Trustee shall deposit in the Interest Account, if necessary, an amount which, together with the amounts then on deposit therein, is sufficient to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on the Bonds on such Interest Payment Date and any amounts of interest previously due and unpaid.
- (b) The Trustee shall, on September 1 of each year during the term of the Bonds, deposit in the Principal Account, if necessary, an amount which together with the amounts then on deposit therein, is sufficient to cause the aggregate amount on deposit in the Principal Account to equal the amount of principal and/or mandatory sinking account payment coming due and payable on the Bonds on such September 1 and any amount of principal previously due and unpaid.
- (c) On each Interest Payment Date on which the balance in the Reserve Fund is less than the Reserve Requirement, the Trustee shall transfer from the Revenue Fund an amount sufficient to increase the balance in the Reserve Fund to the Reserve Requirement.
- (d) On any Interest Payment Date the amount on deposit in the Revenue Fund is inadequate to make the transfers described in (a) and (b) above as a result of a default in the scheduled payment of principal of and/or interest on a Local Obligation, the Trustee shall immediately notify the Associate Superintendent, Business Support Services and Ambac Assurance of the amount of such payment default. In the event that the Trustee receives all or any portion of the principal of and/or interest on the Local Obligation the payment of which is in default, the Trustee shall disburse or transfer such funds in the following order of priority: (i) to pay to Ambac Assurance any outstanding costs relating to the Surety Bond resulting from such payment default, (ii) for deposit in the Reserve Fund such amount as shall be necessary to replenish the amount of any transfers of cash from the Reserve Fund to the Interest Account or the Principal Account resulting from such payment default and (iii) for deposit in the Revenue Fund any amount remaining following payment required pursuant to (i) and the transfer required pursuant to (ii).
- (e) The Trustee shall deposit into the Rebate Fund an amount, if any, to increase the amount on deposit in the Rebate Fund to the amount, if any, to be rebated to the United States Treasury, as directed in writing by the Authority.
- (f) The Trustee shall deposit in the Authority Administrative Expense Fund such amount as the Authority may direct by written certificate as necessary to pay Authority Administrative Costs.

- (g) On each Principal Payment Date following the deposits pursuant to clauses (a) through (f) above, moneys remaining in the Revenue Fund shall be deposited by the Trustee into the Residual Account. Amounts deposited into the Residual Account shall be paid to the Districts in proportion to the then outstanding par amount of the Local Obligations free and clear of any lien of the Authority Indenture. Amounts payable to CFD No. 3, CFD No. 5 and CFD No. 7 will be transferred to the Authority School Facilities Fund and amounts payable to CFD No. 2 will be transferred to the Fiscal Agent for the CFD No. 2 Bonds for deposit in the CFD No. 2 School Facilities Fund.

Costs of Issuance. Moneys in the Costs of Issuance Account in the Program Fund will be disbursed to pay costs of issuance of the Bonds and the Local Obligations. Any amounts remaining in the Costs of Issuance Account upon the earlier of payment in full of costs of issuance or six months after issuance of the Bonds will be transferred to the Authority School Facilities Fund and to the Fiscal Agent for the CFD No. 2 Bonds for the CFD No. 2 School Facilities Fund.

Authority Rebate Fund. The Authority is required to calculate "Excess Investment Earnings" in accordance with the requirements set forth in the Authority Indenture. The Authority shall calculate and deposit the same into the Authority Rebate Fund to the extent funds are available from any revenues which are legally available for such purpose. The Trustee is then required to use such amounts to make any required rebate payments to the United States Treasury which are necessary for the Authority to comply with the requirements of Section 148(f) of the Code. Moneys in the Authority Rebate Fund are not pledged to the payment of the Bonds.

Reserve Fund

The Authority Indenture provides that a Reserve Fund must be maintained in an amount equal to the Reserve Requirement. The Authority Indenture provides that the Reserve Requirement means, as of any date of calculation, an amount equal to the least of: (i) 10% of the original principal amount of the Bonds, (ii) maximum annual debt service on the Bonds or (iii) 125% of average annual debt service on the Bonds. Initially, the Reserve Requirement is equal to \$1,854,830.92.

On the Closing Date there shall be deposited in the Reserve Fund proceeds of the Bonds and the Surety Bond in an amount which aggregates to the Reserve Requirement. See APPENDIX D – "SUMMARY OF LEGAL DOCUMENTS – Indenture of Trust – Reserve Fund." The Authority Indenture authorizes the Authority to obtain a Surety Bond in place of fully funding the Reserve Fund. Accordingly, application has been made to Ambac Assurance for the issuance of a Surety Bond for the purpose of funding a portion of the Reserve Fund. The Bonds will only be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the Bonds. The Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the Authority is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Authority is subordinate to the Authority's obligations with respect to the Bonds.

In the event the amount on deposit, or credited to the Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under the letter of credit, insurance policy, surety bonds or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Authority Indenture provides that the Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Surety Bond and on the Additional Funding Instrument shall be paid from first available Revenues on a pro rat basis; (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Fund to the required level, after taking into account the amounts available under the Surety Bond and the Additional Funding Instrument shall be deposited from next available Revenues.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Surety Bond would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

The relevant District is required to pay the Authority the principal amount of any draws under the Surety Bond and to pay all related reasonable expenses incurred by the Authority. Provisions of the Authority Indenture regarding the Surety Bond are set forth in APPENDIX D hereto.

Moneys in the Reserve Fund shall be used solely for the purpose of (i) making transfers to the Bond Fund to pay the principal of, including mandatory sinking payments, and interest the Bonds when due, in the event that moneys in the Bond Fund are insufficient therefor or (ii) to the defeasance of the Bonds. In addition, cash amounts, if any, in the Reserve Fund may be applied in connection with an optional redemption or a special mandatory redemption or a defeasance of the Bonds in whole or in part, or when the balance therein equals the principal and interest due on the Bonds to and including maturity, or to pay the principal of and interest due on the Bonds to maturity.

Ownership of Local Obligations

Notwithstanding anything in this Authority Indenture to the contrary, following prior notice to each Rating Agency, the Authority may cause the Trustee to sell, from time to time, all or a portion of the Local Obligations (as shall be designated by the Authority at the time) and use the proceeds of such sale to purchase or redeem Outstanding Bonds, provided that the Authority shall deliver to the Trustee:

- (1) a certificate from an Independent Accountant or Independent Financial Consultant to the effect that, following the disposition of such Local Obligation(s), the Revenues to be paid to the Trustee (assuming the timely payment of the amounts due thereon with regard to any Local Obligations not then in default), together with interest and principal due on any Federal Securities pledges to the repayment of the Bonds or the Revenues then on deposit in the Funds and Accounts established thereunder (valuing any Permitted Investments held thereunder at the fair market value thereof), will be sufficient to pay the principal of and interest on the Bonds when due;
- (2) a certificate of Ambac Assurance consenting to the sale of such Local Obligation(s); and
- (3) an opinion of Bond Counsel to the effect that such sale of the Local Obligation(s) is authorized under the provisions of the Authority Indenture and will not adversely affect

the exclusion of interest on the Bonds from gross income for purposes of State or federal income taxation.

Upon compliance with the foregoing conditions, the Trustee shall sell such designated Local Obligations in accordance with the written request of the Authority and disburse the proceeds of such sale at the direction of the Authority to be applied to the redemption, purchase or defeasance of Bonds or upon the request of the Authority shall deposit such proceeds in the Revenue Fund or Redemption Fund to be applied to the redemption, purchase or defeasance of Bonds, as appropriate.

The Local Obligations

General. The Local Obligations and the interest thereon are secured and payable primarily from the Special Taxes to be levied and collected on all the real property within each District subject to the Special Taxes, including certain net proceeds, if any, of any foreclosure actions brought following a delinquency in the payment of the Special Tax, less the Administrative Expense Requirement ("Net Special Tax Revenues"), and amounts held in certain funds pursuant to the applicable District Bond Indenture.

The amount of Special Taxes that a District may levy in the boundaries of each District in any year is strictly limited by the maximum rates approved by the qualified electors within the District at the time of formation of the District. Each District is legally authorized under the Act, and has covenanted in the applicable District Bond Indenture, to annually cause the levy of the Special Taxes in an amount determined according to the applicable "Rate and Method of Apportionment of Special Taxes." See "Special Taxes" below. Each Rate and Method apportions the total amount of Special Taxes to be collected among the taxable parcels in the District as more particularly described herein. See "THE DISTRICTS – Rates and Methods of Apportionment of Special Tax" and APPENDIX B – "RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX" hereto.

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, the Special Taxes of each District are exempt from the tax rate limitations of California Constitution Article XIII A pursuant to Section 4 thereof as "special tax" authorized by a two-thirds vote of the qualified electors of each District. Consequently, each District has the power and is obligated to cause the levy and collection of the Special Taxes in an amount determined according to a methodology which the Board and the qualified electors in the District have approved the Special Taxes. See "Special Taxes" below. However, Article XIII C of the California Constitution may allow the voters in each District (or perhaps in the School District), under certain conditions, to adopt an ordinance by initiative which would reduce or appeal the Special Taxes. See "BONDOWNERS' RISKS – The Local Obligations – *Right to Vote on Taxes*" and "BONDOWNERS' RISKS – The Local Obligations – *Ballot Initiatives and Legislative Measures.*" See "THE DISTRICTS – Rates and Methods of Apportionment of Special Tax."

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE LOCAL OBLIGATIONS. EXCEPT FOR THE NET SPECIAL TAX REVENUES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE LOCAL OBLIGATIONS. THE LOCAL OBLIGATIONS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF EACH DISTRICT BUT ARE SPECIAL OBLIGATIONS OF EACH DISTRICT PAYABLE SOLELY FROM THE NET SPECIAL TAX REVENUES AND OTHER AMOUNTS PLEDGED UNDER THE DISTRICT BOND INDENTURES AS MORE FULLY DESCRIBED HEREIN.

Special Taxes. The levy of the Special Taxes was authorized by the landowners within the territory included in each District, as the then qualified electors of the District, at a special election held (i) on December 15, 1997, and July 27, 1998, for CFD No. 2, (ii) on September 22, 1997, for CFD No. 3,

(iii) on August 4, 1997, for CFD No. 5 and (iii) on August 24, 1998, for CFD No. 7. Pursuant to the Act, (i) a Notice of Special Tax Lien was recorded on December 23, 1997, as Document No. 1997-0653528 and a First Amended Notice of Special Tax Lien on August 5, 1998, as Document No. 1998-0490052 with respect to CFD No. 2, (ii) a Notice of Special Tax Lien was recorded on October 20, 1997, as Document No. 1997-052421, and a Notice of Partial Cancellation of Special Tax Lien on May 25, 1999, as Document No. 1999-0356146 with respect to CFD No. 3, (iii) a Notice of Special Tax Lien was recorded on August 8, 1997, as Document No. 1997-0381079, with respect to CFD No. 5 and (iv) a Notice of Special Tax Lien was recorded on September 3, 1998, as Document No. 1998-0565341, with respect to CFD No. 7, each in the Official Records of the County.

The Local Obligations are secured by, among other things, a pledge of Net Special Tax Revenues which include the scheduled payments for the Local Obligations and any prepayments of Special Taxes received by each District and net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of Special Taxes. Net Special Tax Revenues pledged to the repayment of the Local Obligations are Special Taxes less the Administrative Expense Requirement of the applicable District. Administrative Expenses include the cost of calculation and collection of the Special Taxes in each Fiscal Year and any other costs relating to the Local Obligations and the Bonds, including the fees and costs of the Fiscal Agent and the Trustee. Each District has covenanted in the applicable District Bond Indenture to levy the Special Taxes in each Fiscal Year that the applicable Series of Local Obligations are outstanding. The Special Taxes are to be apportioned, levied and collected according to the applicable Rate and Method of Apportionment approved by the qualified electors of the District. The Special Taxes will be levied each year in accordance with the applicable Rate and Method of Apportionment, including amounts sufficient to cover debt service on the Local Obligations, to pay Administrative Expenses and to pay costs with respect to the Surety Bond, if necessary. See "THE DISTRICTS – Rates and Methods of Apportionment of Special Tax."

The levies of Special Taxes are subject to certain limitations. For example, certain properties are exempt from the Special Tax pursuant to law or the Rate and Method of Apportionment. See "BONDOWNERS' RISKS – The Local Obligations – *Exempt Properties*." The annual levy of Special Taxes on each parcel within each District is constrained by the maximum Special Tax rate applicable to such parcel. See "THE DISTRICTS – Rates and Methods of Apportionment of Special Tax" and "BONDOWNERS' RISKS – The Local Obligations – *Maximum Rates*" herein.

The amount of the Special Taxes that can be levied and collected in future years will be dependent upon, among other factors, then existing development, the Special Tax rates imposed, and the level of delinquent Special Tax installments. See "BONDOWNERS' RISKS" herein.

The Special Taxes imposed by each District are customarily billed with *ad valorem* property taxes and collected by the County. When received, such Special Taxes will be transferred by each District to the applicable Fiscal Agent and deposited by such Fiscal Agent in the Special Tax Fund of such District to be held first for the payment of Administrative Expenses up to the Administrative Expense Requirement, then for payment of debt service on such District's issue of Local Obligations and then to payment of any Administrative Expenses in excess of the Administrative Expense Requirement.

Although the Special Tax, when levied, will constitute a lien on parcels subject to taxation within each District, it does not constitute a personal indebtedness of the owners of property within the District. There is no assurance that the owners of real property in a District will be financially able to pay the annual Special Tax or that they will pay such tax even if financially able to do so. See "BONDOWNERS' RISKS" herein.

Special Tax Fund. Net Special Tax Revenues include all scheduled payments and prepaid Special Taxes received by each District and the net proceeds of the redemption or sale of property sold as

a result of foreclosure of the lien of Special Taxes. As received, the Net Special Tax Revenues will be deposited in the applicable Special Tax Fund held by the Fiscal Agent.

Not later than 10 days after a District's receipt of Special Taxes and not later than five days prior to each Interest Payment Date, the District shall transfer them to the Fiscal Agent for deposit into the Special Tax Fund and from the Special Tax Fund the Fiscal Agent shall transfer the amounts received first in the Administrative Expense Fund to bring the balance to the Administrative Expense Requirement, next to the Interest Account of the Bond Service Fund an amount such that the balance in the Interest Account on each Interest Payment Date equals the amount of interest due or becoming due on such Interest Payment Date, next, to the Principal Account of the Bond Service Fund, an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of, and premium (if any) on, the Local Obligations coming payable on such Interest Payment Date, next to the Authority Trustee the amount, if any, necessary to make up any existing deficiency in the payment of the scheduled payment of interest on or principal of the Local Obligations. On or after September 2 of each year after making the deposits and transfers described above, upon receipt of written instructions from an Authorized Representative, the Fiscal Agent shall transfer from the Special Tax Fund to the Authority Trustee the District's proportionate share of any Excess Rebate Obligation that is or will be due and payable during the Bond Year commencing on such September 2. On or after September 2 of each year after making the deposits and transfers required under the foregoing, the Fiscal Agent will transfer from the Special Tax Fund to the Administrative Expense Fund and to the Authority Administrative Expense Fund in the priority set forth in the District Bond Indenture the amounts specified in such request to pay Administrative Expenses which the District and the Authority reasonably determines will become due and payable during such Bond Year.

To the extent that there are prepaid Special Taxes, each District shall determine the portion attributable to the Local Obligations and such amounts shall be used to redeem the applicable Local Obligations. Any Special Taxes remaining after the above transfers shall be held by the Fiscal Agent in the Special Tax Fund until the end of the applicable bond year. If an Authorized Representative provides written notice to the Fiscal Agent that all or some portion of moneys in the Special Tax Fund constitute Surplus Special Tax Revenues, the Fiscal Agent shall transfer the amount constituting Surplus Special Tax Revenues to the Surplus Special Tax Fund. Moneys in a Surplus Special Tax Fund may be disbursed to pay School Facilities Costs or to pay the principal of or interest on any other bonded indebtedness of a District incurred to finance the acquisition or construction of School Facilities.

Administrative Expense Fund. The Fiscal Agent will receive the transfer of Gross Taxes from each District from the Special Tax Fund and deposit in the Administrative Expense Fund an amount equal to the Administrative Expense Requirement (i.e. that amount specified by the District as necessary to meet Administrative Expenses until collection of Special Taxes in the next Fiscal Year). Such amounts include a proportionate share of the Authority's administrative expenses relating to the Bonds.

Pursuant to the District Bond Indentures, moneys in an Administrative Expense Fund will not be construed as a trust fund held for the benefit of the Authority as the owners of the Local Obligations and will not be available for the payment of debt service on the Local Obligations.

Bond Service Fund. The principal of and interest due on the Local Obligations until maturity, including mandatory sinking fund redemption but excluding other redemptions of Local Obligations, shall be paid by the Fiscal Agent from the Principal Account and the Interest Account of the Bond Service Fund, respectively. For the purpose of assuring that the payment of principal and interest on the Local Obligations will be made when due, after making the transfer to the Administrative Expenses Fund, on each March 1 and September 1, commencing September 1, 2003, Fiscal Agent will transfer amounts to pay interest and principal of the Local Obligations from the applicable Special Tax Fund first to the Interest Account and then to the Principal Account.

Redemption Fund. The Fiscal Agent shall upon receipt of Special Tax Revenues representing Prepayments together with written instructions of the District executed by an Authorized Representative, immediately transfer such Prepayment in the Interest Account of the Bond Service Fund and the Redemption Fund, as applicable, and utilize such funds to pay the interest and premium, if any, on and principal of Local Obligations to be redeemed pursuant to the Bond Indenture. Following the redemption of any Bonds, if any funds remain in the Redemption Fund, such funds shall be transferred to the Special Tax Fund. Proceeds from the redemption of Local Obligations will be used by the Authority to redeem the Bonds. See "THE BONDS – Redemption."

School Facilities Fund. CFD No. 3, CFD No. 5 and CFD No. 7 will transfer a portion of the proceeds of their respective Local Obligations to the Authority to be deposited in the Authority School Facilities Fund to be used to pay School Facilities Cost. A portion of the proceeds of the CFD No. 2 Local Obligations will be deposited in the CFD No. 2 School Facilities Fund held by the CFD No. 2 Fiscal Agent to be used to pay School Facilities Costs. All investment earnings on amounts in the Authority School Facilities Fund and the CFD No. 2 School Facilities Fund (other than excess investment earnings) will be retained therein and applied exclusively to pay the Project Costs.

Surplus Special Tax Fund. The Fiscal Agent shall from time to time, disburse moneys from the Surplus Special Tax Fund to pay School Facilities Costs or to pay the principal of or interest on any other bonded indebtedness of a District incurred to finance the acquisition or construction of other bonded indebtedness of a District incurred to finance the acquisition or construction of School Facilities. After the final payment or reimbursement of all School Facilities costs as certified by an Authorized Representative to the Fiscal Agent, the Fiscal Agent shall transfer excess moneys, if any, on deposit in, or subsequently deposited in, the Surplus Special Tax Fund to the Special Tax Fund and the Fiscal Agent shall apply the amounts so transferred in accordance with the District Bond Indenture.

District Payment to Authority Rebate Fund. On or after September 2 of each year, the Fiscal Agent will transfer from the Special Tax Fund to the Authority Trustee each District's proportionate share of the Excess Authority Rebate Liability that is or will be due and payable during the Bond Year commencing on such September 2.

Covenant for Superior Court Foreclosure

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of the Special Tax, each District may order the institution of a Superior Court action to foreclose the lien therefor within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at judicial foreclosure sale. Such judicial foreclosure action is not mandatory.

Under each Bond Indenture, on or before June 1 of each Fiscal Year, each District will review the public records of the County, to determine the amount of Special Taxes actually collected in such Fiscal Year and proceed as follows:

Individual Delinquencies. If each District determines that (i) any single parcel subject to the Special Tax is delinquent in the payment of the Special Taxes in the aggregate amount of \$5,000 or more or (ii) any single parcel or parcels under common ownership subject to the Special Taxes is delinquent in the payment of the Special Taxes in the aggregate of \$10,000 or more, each District shall, not later than 45 days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner. Each District shall cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than 90 days of such determination against any parcel for which a notice of delinquency was given and for which the Special Taxes remain delinquent.

Aggregate Delinquencies. If each District determines that it has collected less than 95% of the Special Taxes levied in such Fiscal Year, then each District shall, not later than 45 days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the owner of each delinquent parcel (regardless of the amount of such delinquency). Each District will cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than 90 days of such determination against any parcel for which a notice of delinquency was given and for which the Special Taxes remain delinquent.

It should be noted that any foreclosure proceedings commenced as described above could be stayed by the commencement of bankruptcy proceedings by or against the owner of the delinquent property. See “BONDOWNERS’ RISKS – Bankruptcy and Foreclosure Delay.”

No assurances can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. See “BONDOWNERS’ RISKS – The Local Obligations – *Bankruptcy and Foreclosure Delay.*” If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the applicable District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 120 days from the date of service of the Notice of Levy and 20 days from the subsequent notice of sale in which to redeem the property to be sold. If a judgment debtor fails to so redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made. The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price unless a lesser minimum bid price is authorized by the Owners of 75% of the principal amount of Local Obligations Outstanding.

No assurances can be given that the real property subject to sale or foreclosure will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Tax installment. The Act does not require the School District or the Districts to purchase or otherwise acquire any lot or parcel of property offered for sale or subject to foreclosure if there is no other purchaser at such sale. The Act does specify that the Special Tax will have the same lien priority in the case of delinquency as for *ad valorem* property taxes.

If delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Authority on the applicable Series of Local Obligations, which default or delay may result in a default or delay in payments to the Bondowners pending prosecution of foreclosure proceedings and receipt by the applicable District of foreclosure sale proceeds, if any. However, within the limits of the Rate and Method of Apportionment and the Act, each District may adjust the Special Taxes levied on all property within the District in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the Local Obligations and to pay costs relating to a draw on the Surety Bond. There is, however, no assurance that the maximum Special Tax rates will be at all times sufficient to pay the amounts required to be paid on the Local Obligations by the applicable District Bond Indenture.

Authorized Investments

Funds and accounts established under the Authority Indenture and each District Bond Indenture are held by the Trustee or Fiscal Agent, as applicable. Moneys in any of the funds and accounts shall be invested at the direction of the Authority or the applicable District in Permitted Investments (as applicable) which shall be deemed at all times to be a part of such funds and accounts. See APPENDIX D – “SUMMARY OF LEGAL DOCUMENTS” for a list of Permitted Investments.

Any income realized or loss resulting **from** such Permitted Investments shall be credited or charged to the fund from which such investment was **made**.

Refunding Bonds; Additional Local Obligations

Bonds payable from Revenues (“**Refunding Bonds**”) may only be issued for refunding purposes and only if issued to refund all of the Bonds. **Additional Local Obligations** may be issued for refunding purposes only. See APPENDIX D – “SUMMARY OF LEGAL DOCUMENTS.”

No Acceleration

The principal of the Bonds will not be **subject** to acceleration under the provisions of the Authority Indenture. The principal of the **Local Obligations** will not be subject to acceleration under the provisions of the District Bond Indentures.

Sale of Local Obligations

Upon satisfaction of certain conditions **set forth** in the Authority Indenture, the Trustee, at the direction of the Authority may sell, from time to time, **all** or a portion of an issue of Local Obligations and the proceeds of the sale of such Local Obligations **shall be** disbursed to the Authority or, upon the request of the Authority, deposited in the Revenue Fund. See APPENDIX D – “SUMMARY OF LEGAL DOCUMENTS – Indenture of Trust – Covenants of the Authority – Sale of Local Obligations.”

Estimated Debt Service Coverage

The following table illustrates the **estimated** coverage for the debt service on the Bonds. Estimated coverage is based on receipt by the **Authority** of scheduled payments of principal of and interest on the Local Obligations. In the event of **delinquencies** in Special Tax payments received by any of the Districts, the estimated coverage ratios **will not be** achieved. See the tables entitled “Special Tax Delinquencies” under “THE DISTRICTS – Special Tax Delinquency” herein for information of historical Special Tax delinquencies in the Districts.

Table 2
Poway Unified School District Public Financing Authority
Estimated Annual Revenue and Debt Service Coverage on Bonds

Bond Year	CFD No. 2	CFD No. 3	CFD No. 5	CFD No. 7	Aggregate	Annual	
Ending	Local Obligations	Local Obligations	Local Obligations	Local Obligations	Local Obligations	Debt Service	
September 1	Debt Service ⁽¹⁾	Debt Service ⁽¹⁾	Debt Service ⁽¹⁾	Debt Service ⁽¹⁾	Debt Service ⁽¹⁾	on Bonds ^{(2)*}	Coverage
2003	\$236,744.91	\$102,431.22	\$31,165.80	\$29,268.46	\$399,610.39	\$399,610.39	100%
2004	679,367.50	299,038.76	89,687.50	80,445.00	1,148,538.76	1,148,538.76	100
2005	691,367.50	302,638.76	94,287.50	80,145.00	1,168,438.76	1,168,438.76	100
2006	708,067.50	311,138.76	93,787.50	84,845.00	1,197,838.76	1,197,838.76	100
2007	724,367.50	319,438.76	98,287.50	84,445.00	1,226,538.76	1,226,538.76	100
2008	740,267.50	322,538.76	97,687.50	89,045.00	1,249,538.76	1,249,538.76	100
2009	754,642.50	330,038.76	101,937.50	88,420.00	1,275,038.76	1,275,038.76	100
2010	772,292.50	336,738.76	100,887.50	92,670.00	1,302,588.76	1,302,588.76	100
2011	789,192.50	343,138.76	104,837.50	96,770.00	1,333,938.76	1,333,938.76	100
2012	803,867.50	348,588.76	108,437.50	95,545.00	1,356,438.76	1,356,438.76	100
2013	822,667.50	358,688.76	106,862.50	99,320.00	1,387,538.76	1,387,538.76	100
2014	840,067.50	363,108.76	110,242.50	102,880.00	1,416,298.76	1,416,298.76	100
2015	855,817.50	371,921.26	113,367.50	106,192.50	1,447,298.76	1,447,298.76	100
2016	874,930.00	379,946.26	116,236.26	109,255.00	1,480,367.52	1,480,367.52	100
2017	892,130.00	387,146.26	118,836.26	112,055.00	1,510,167.52	1,510,167.52	100
2018	912,330.00	393,483.76	121,155.00	114,580.00	1,541,548.76	1,541,548.76	100
2019	935,230.00	403,921.26	123,180.00	116,817.50	1,579,148.76	1,579,148.76	100
2020	950,935.00	408,386.26	124,955.00	118,807.50	1,603,083.76	1,603,083.76	100
2021	974,466.26	417,011.26	126,455.00	120,526.26	1,638,458.78	1,638,458.78	100
2022	994,991.26	429,411.26	127,630.00	126,926.26	1,678,958.78	1,678,958.78	100
2023	1,012,561.26	435,381.26	133,490.00	127,786.26	1,709,218.78	1,709,218.78	100
2024	1,037,642.50	445,350.00	133,865.00	133,392.50	1,750,250.00	1,750,250.00	100
2025	1,059,337.50	453,900.00	138,930.00	133,457.50	1,785,625.00	1,785,625.00	100
2026	1,078,212.50	461,275.00	138,525.00	138,287.50	1,816,300.00	1,816,300.00	100
2027	1,103,800.00	472,275.00	142,825.00	142,587.50	1,861,487.50	1,861,487.50	100
2028	<u>1,126,062.50</u>	<u>481,850.00</u>	<u>146,650.00</u>	<u>141,412.50</u>	<u>1,895,975.00</u>	<u>1,895,975.00</u>	100
	\$22,371,358.69	\$9,678,786.42	\$2,944,208.32	\$2,765,882.24	\$37,760,235.67	\$37,760,235.67	

(1) Annual principal and interest on the Local Obligations does not include any interest earnings as a result of the investment of amounts held in the fund and accounts established under the Authority Indenture. Interest is capitalized through September 1, 2003.
(2) Includes annual principal and interest on the Bonds.

The ability of a District to make annual debt service payments on its Local Obligations is strengthened by its ability to levy Special Taxes up to their maximum rates in the event of delinquencies in such District. In the event that delinquencies occur in the receipt of Special Taxes, in any fiscal year, a District may increase the Special Tax levy up to the maximum rates in the following fiscal years if determined necessary to cure any delinquencies on its Local Obligations. Each District is only obligated to pay principal and interest on the Local Obligations it issued. If one District does not receive Special Taxes in the requisite amount, the Special Tax rate may be escalated only in that District and not in the other Districts. Purchasers of the Bonds should not assume that maximum Special Taxes may be levied in all Districts at one time. Although the Special Tax levy may be increased, the increase would not be available to cure any delinquencies for a period of one year or more. In addition, an increase in the Special Tax rates may affect the ability or willingness of property owners, to pay their Special Taxes. See “THE DISTRICTS – Rates and Methods of Apportionment of Special Taxes” and APPENDIX B hereto for a description of each District’s procedures for increasing the amount of Special Tax and “BONDOWNERS’ RISKS – The Local Obligations – *Insufficiency of Special Taxes.*” The following tables illustrate the estimated aggregate coverage for debt service on the Local Obligations individually by District, compared to the aggregate maximum Special Tax generating ability of the Districts. **The tables do not reflect the one year lag in receipt of any increased amount of Special Taxes following a delinquency in payment.**

Table 3
Estimated CFD No. 2 Debt Service Coverage
from Maximum Special Taxes

Bond Year Ending September 1	CFD No. 2 Est. Maximum Special Tax ⁽¹⁾	CFD No. 2 Local Obligation Debt Service ⁽²⁾	CFD No. 2 Estimated Local Obligation Coverage ⁽³⁾
2003	\$707,572.56	\$236,744.91	298.9%
2004	749,399.70	679,367.50	110.3%
2005	765,587.69	691,367.50	110.7%
2006	782,099.45	708,067.50	110.5%
2007	798,941.44	724,367.50	110.3%
2008	816,120.27	740,267.50	110.2%
2009	833,642.67	754,642.50	110.5%
2010	851,515.52	772,292.50	110.3%
2011	869,745.83	789,192.50	110.2%
2012	888,340.75	803,867.50	110.5%
2013	907,307.57	822,667.50	110.3%
2014	926,653.72	840,067.50	110.3%
2015	946,386.79	855,817.50	110.6%
2016	966,514.53	874,930.00	110.5%
2017	987,044.82	892,130.00	110.6%
2018	1,007,985.71	912,330.00	110.5%
2019	1,029,345.43	935,230.00	110.1%
2020	1,051,132.34	950,935.00	110.5%
2021	1,073,354.98	974,466.26	110.1%
2022	1,096,022.08	994,991.26	110.2%
2023	1,119,142.53	1,012,561.26	110.5%
2024	1,142,725.38	1,037,642.50	110.1%
2025	1,166,779.88	1,059,337.50	110.1%
2026	1,191,315.48	1,078,212.50	110.5%
2027	1,216,341.79	1,103,800.00	110.2%
2028	<u>1,241,868.63</u>	<u>1,126,062.50</u>	110.3%
	\$25,132,887.54	\$22,371,358.69	

⁽¹⁾ Estimated maximum Special Taxes as estimated by David Taussig & Associates, Inc. based upon the Rate and Method of Apportionment of Special Tax for CFD No. 2. Estimated Administrative Expense Requirement of \$60,000 without escalation has been subtracted annually from the estimated maximum Special Taxes.

⁽²⁾ Annual principal of and interest on the CFD No. 2 Local Obligations, as calculated by the Underwriter.

⁽³⁾ Estimated maximum Special Taxes divided by Local Obligations debt service.

Table 4
Estimated CFD No. 3 Debt Service Coverage
from Maximum Special Taxes

Bond Year Ending September 1	CFD No. 3 Est. Maximum Special Tax ⁽¹⁾	CFD No. 3 Local Obligation Debt Service ⁽²⁾	CFD No. 3 Estimated Local Obligation Coverage ⁽³⁾
2003	\$324,724.30	\$102,431.22	317.0%
2004	331,218.79	299,038.76	110.8%
2005	337,843.16	302,638.76	111.6%
2006	344,600.02	311,138.76	110.8%
2007	351,492.03	319,438.76	110.0%
2008	358,521.87	322,538.76	111.2%
2009	365,692.30	330,038.76	110.8%
2010	373,006.15	336,738.76	110.8%
2011	380,466.27	343,138.76	110.9%
2012	388,075.60	348,588.76	111.3%
2013	395,837.11	358,688.76	110.4%
2014	403,753.85	363,108.76	111.2%
2015	411,828.93	371,921.26	110.7%
2016	420,065.51	379,946.26	110.6%
2017	428,466.83	387,146.26	110.7%
2018	437,036.15	393,483.76	111.1%
2019	445,776.88	403,921.26	110.4%
2020	454,692.41	408,386.26	111.3%
2021	463,786.26	417,011.26	111.2%
2022	473,061.99	429,411.26	110.2%
2023	482,523.23	435,381.26	110.8%
2024	492,173.69	445,350.00	110.5%
2025	502,017.17	453,900.00	110.6%
2026	512,057.51	461,275.00	111.0%
2027	522,298.66	472,275.00	110.6%
2028	<u>532,744.63</u>	<u>481,850.00</u>	110.6%
	\$10,933,761.30	\$9,678,786.42	

⁽¹⁾ Estimated maximum Special Taxes as estimated by David Taussig & Associates, Inc. based upon the Rate and Method of Apportionment of Special Tax for CFD No. 3. Estimated Administrative Expense Requirement of \$20,000 escalated at 2% per year has been subtracted annually from the estimated maximum Special Taxes.

⁽²⁾ Annual principal of and interest on the CFD No. 3 Local Obligations, as calculated by the Underwriter.

⁽³⁾ Estimated maximum Special Taxes divided by Local Obligations debt service.

Table 5
Estimated CFD No. 5 Debt Service Coverage
from Maximum Special Taxes

Bond Year Ending September 1	CFD No. 5 Est. Maximum Special Tax ⁽¹⁾	CFD No. 5 Local Obligation Debt Service ⁽²⁾	CFD No. 5 Estimated Local Obligation Coverage ⁽³⁾
2003	\$100,186.32	\$31,165.80	321.5%
2004	102,190.05	89,687.50	113.9%
2005	104,233.85	94,287.50	110.5%
2006	106,318.52	93,787.50	113.4%
2007	108,444.89	98,287.50	110.3%
2008	110,613.79	97,687.50	113.2%
2009	112,826.07	101,937.50	110.7%
2010	115,082.59	100,887.50	114.1%
2011	117,384.24	104,837.50	112.0%
2012	119,731.93	108,437.50	110.4%
2013	122,126.57	106,862.50	114.3%
2014	124,569.10	110,242.50	113.0%
2015	127,060.48	113,367.50	112.1%
2016	129,601.69	116,236.26	111.5%
2017	132,193.72	118,836.26	111.2%
2018	134,837.60	121,155.00	111.3%
2019	137,534.35	123,180.00	111.7%
2020	140,285.03	124,955.00	112.3%
2021	143,090.74	126,455.00	113.2%
2022	145,952.55	127,630.00	114.4%
2023	148,871.60	133,490.00	111.5%
2024	151,849.03	133,865.00	113.4%
2025	154,886.01	138,930.00	111.5%
2026	157,983.73	138,525.00	114.0%
2027	161,143.41	142,825.00	112.8%
2028	<u>164,366.28</u>	<u>146,650.00</u>	112.1%
	<u>\$3,373,364.14</u>	<u>\$2,944,208.32</u>	

⁽¹⁾ Estimated maximum Special Taxes as estimated by David Taussig & Associates, Inc. based upon the Rate and Method of Apportionment of Special Tax for CFD No. 5. Estimated Administrative Expense Requirement of \$20,000 escalated at 2% per year has been subtracted annually from the estimated maximum Special Taxes.

⁽²⁾ Annual principal of and interest on the CFD No. 5 Local Obligations, as calculated by the Underwriter.

⁽³⁾ Estimated maximum Special Taxes divided by Local Obligations debt service.

Table 6
Estimated CFD No. 7 Debt Service Coverage
from Maximum Special Taxes

Bond Year Ending September 1	CFD No. 7 Est. Maximum Special Tax ⁽¹⁾	CFD No. 7 Local Obligation Debt Service ⁽²⁾	CFD No. 7 Estimated Local Obligation Coverage ⁽³⁾
2003	\$88,469.30	\$29,268.46	302.3%
2004	90,738.69	80,445.00	112.8%
2005	93,053.46	80,145.00	116.1%
2006	95,414.53	84,845.00	112.5%
2007	97,822.82	84,445.00	115.8%
2008	100,279.28	89,045.00	112.6%
2009	102,784.86	88,420.00	116.2%
2010	105,340.56	92,670.00	113.7%
2011	107,947.37	96,770.00	111.6%
2012	110,606.32	95,545.00	115.8%
2013	113,318.44	99,320.00	114.1%
2014	116,084.81	102,880.00	112.8%
2015	118,906.51	106,192.50	112.0%
2016	121,784.64	109,255.00	111.5%
2017	124,720.33	112,055.00	111.3%
2018	127,714.74	114,580.00	111.5%
2019	130,769.03	116,817.50	111.9%
2020	133,884.41	118,807.50	112.7%
2021	137,062.10	120,526.26	113.7%
2022	140,303.34	126,926.26	110.5%
2023	143,609.41	127,786.26	112.4%
2024	146,981.60	133,392.50	110.2%
2025	150,421.23	133,457.50	112.7%
2026	153,929.66	138,287.50	111.3%
2027	157,508.25	142,587.50	110.5%
2028	<u>161,158.41</u>	<u>141,412.50</u>	114.0%
	<u>\$3,170,614.10</u>	<u>\$2,765,882.24</u>	

⁽¹⁾ Estimated maximum Special Taxes as estimated by David Taussig & Associates, Inc. based upon the Rate and Method of Apportionment of Special Tax for CFD No. 7. Estimated Administrative Expense Requirement of \$25,000 without escalation has been subtracted annually from the estimated maximum Special Taxes.

⁽²⁾ Annual principal of and interest on the CFD No. 7 Local Obligations, as calculated by the Underwriter.

⁽³⁾ Estimated maximum Special Taxes divided by Local Obligations debt service.

Any increase in Special Taxes up to the maximum Special Tax by a District to cure delinquencies in such District is not available to cure delinquencies in the other Districts.

BOND INSURANCE

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$6,115,000,000 (unaudited) and statutory capital of \$3,564,000,000 (unaudited) as of December 31, 2002. Statutory capital consists of

Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor with respect to the principal of and interest on the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information may be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0300 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668 0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed on March 26, 2002;
- 2) The Company's Current Report on Form 8-K dated April 17, 2002 and filed on April 18, 2002;
- 3) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2002 and filed on May 13, 2002;
- 4) The Company's Current Report on Form 8-K dated July 17, 2002 and filed on July 19, 2002;
- 5) The Company's Current Report on Form 8-K dated August 14, 2002 and filed on August 14, 2002;
- 6) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2002 and filed on August 14, 2002;
- 7) The Company's Current Report on Form 8-K dated October 16, 2002 and filed on October 17, 2002;
- 8) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2002 and filed on November 14, 2002;

- 9) The Company's Current Report on Form 8-K dated November 18, 2002 and filed on November 20, 2002;
- 10) The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
- 11) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003; and
- 12) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

THE DISTRICTS

General

The Act provides an alternative method of financing certain public capital facilities and services within defined boundaries. A community facilities district established pursuant to the Act is a legally constituted governmental entity. Upon approval by a two-thirds vote of qualified voters and compliance with the provisions of the Act, a community facilities district may issue bonds and may levy and collect taxes to repay such bonded indebtedness.

Pursuant to the Act, the Board acting on behalf of each District adopted a Resolution stating its intent to establish such District, to authorize the level of Special Taxes within the boundaries of the District (to pay principal of and interest on the Local Obligations), to fund some of the facilities directly and to incur bonded indebtedness within the District.

Following public hearings conducted pursuant to the provisions of the Act, the Board adopted a resolution establishing each District and determining the necessary to incur bonded indebtedness to acquire and construct facilities within each District, and a resolution calling a special election to submit the levy of the Special Tax and incurring of the bonded indebtedness to the qualified voters of each District.

Under the Act, when less than twelve registered voters reside within the proposed boundaries of a community facilities district, each landowner of lands located within the boundaries of the proposed community facilities district is qualified to vote on the question of incurring such bonded indebtedness. A two-thirds favorable vote of the qualified voters voting on the question is necessary to authorize issuance of the bonds of a community facilities district.

CFD No. 2. On December 15, 1997, an election was held within CFD No. 2 in which the eligible voters, which were the owners of land included within the boundaries of CFD No. 2, approved by more than two-thirds vote the proposition authorizing the issuance of bonds in an aggregate principal amount not to exceed \$80,000,000 to finance the acquisition, construction and equipping of certain public school facilities to serve the area within CFD No. 2. On December 15, 1997, the Board declared the results of the election and established conditions precedent to the issuance of bonds of CFD No. 2. On November 17, 1997, the Board approved and authorized the execution of Subarea IV Torrey Highlands School Impact Mitigation Agreements, each by and between the School District and the various landowners. On July 27, 1998, the Board approved an amendment to a Mitigation Agreement. On January 12, 1998, the Board, acting as the Legislative Body of CFD No. 2, adopted Ordinance No. 98-4 authorizing the levy of Special Taxes in accordance with the rate and method of apportionment (the "Ordinance"). On July 27, 1998, the Board approved and authorized the execution of an amendment to the Mitigation Agreements entered into with two of the landowners. On July 27, 1998, an election was held within an area annexing to CFD No. 2 in which the eligible voters of the area to be annexed, approved by more than two-thirds vote the proposition authorizing the annexation of such property to CFD No. 2 and authorizing the issuance of bonds. On July 27, 1998, the Board declared the results of the election. A Notice of Special Tax was recorded on December 23, 1997, as Document No. 1997-0653528 with respect to the initial properties included within CFD No. 2, which notice included the parcels subject to future annexation.

CFD No. 2 originally encompassed approximately 1,071 gross acres but owners of approximately 470 gross acres requested creation of Community Facilities District No. 10 to finance both school facilities

and other public facilities, and the approximately 470 gross acres is no longer subject to the CFD No. 2 Special Tax leaving approximately 601 gross acres (approximately 85 net acres) encompassing approximately 428 residential units. In addition, the owner of an approximately 150 unit apartment complex prepaid its Special Taxes and is no longer subject to the levy of Special Taxes.

Pursuant to a resolution adopted on January 21, 2003, the Board, acting as the Legislative Body of CFD No. 2, authorized the issuance and delivery of the CFD No. 2 Local Obligations. The Local Obligations are being issued and delivered pursuant to the provisions of the Act and a District Bond Indenture to finance public school facilities.

CFD No. 3. On September 22, 1997, an election was held within CFD No. 3 in which the eligible voters, which were the owners of land included within the boundaries of CFD No. 3, approved by more than two-thirds vote the proposition authorizing the issuance of bonds in an aggregate principal amount not to exceed \$13,000,000 to finance the acquisition, construction and equipping of certain public school facilities to serve the area within CFD No. 3. The First Amended and Restated School Impact Mitigation Agreement pertaining to CFD No. 3, by and between the School District and the landowner in CFD No. 3 was recorded on September 3, 1997 in the office of the County Recorder. On September 22, 1997, the Board declared the results of the election and established conditions precedent to the issuance of bonds of CFD No. 3. On October 20, 1997, the Board, acting as the Legislative Body of CFD No.3, adopted Ordinance No. 98-3 authorizing the levy of Special Taxes in accordance with the rate and method of apportionment (the "Ordinance"). A Notice of Special Tax was recorded on October 20, 1997 as Document No. 1997-0524211.

Pursuant to a resolution adopted on January 21, 2003, the Board, acting as the Legislative Body of CFD No. 3, authorized the issuance and delivery of the CFD No. 3 Local Obligations. The Local Obligations are being issued and delivered pursuant to the provisions of the Act and a District Bond Indenture to finance public school facilities.

CFD No. 5. On August 4, 1997, an election was held within CFD No. 5 in which the eligible voters, which were the owners of land included within the boundaries of CFD No. 5, approved by more than two-thirds vote the proposition authorizing the issuance of bonds in an aggregate principal amount not to exceed \$5,000,000 to finance the acquisition, construction and equipping of certain public school facilities to serve the area within CFD No. 5. The School Impact Mitigation Agreement pertaining to CFD No. 5 by and between the School District and the landowners within CFD No. 5 was recorded on July 3, 1997. On August 4, 1997, the Board declared the results of the election and established conditions precedent to the issuance of bonds of CFD No. 5. On August 4, 1997, the Board, acting as the Legislative Body of CFD No. 5, adopted Ordinance No. 98-1 authorizing the levy of Special Taxes in accordance with the rate and method of apportionment (the "Ordinance"). A Notice of Special Tax was recorded on August 8, 1997, as Document No. 1997-0381079.

Pursuant to a resolution adopted on January 21, 2003, the Board, acting as the Legislative Body of CFD No. 5, authorized the issuance and delivery of the Local Obligations. The Local Obligations are being issued and delivered pursuant to the provisions of the Act and a District Bond Indenture to finance public school facilities.

CFD No. 7. On August 24, 1998, an election was held within CFD No. 7 in which the eligible voters, which were the owners of land included within the boundaries of CFD No. 7, approved by more than two-thirds vote the proposition authorizing the issuance of bonds in an aggregate principal amount not to exceed \$15,000,000 to finance the acquisition, construction and equipping of certain public school facilities to serve the area within CFD No. 7. On June 29, 1998, the Board approved and authorized the execution of a Fairbanks Highlands School Impact Mitigation Agreement pertaining to CFD No. 7 by and between the School District and the landowner within CFD No. 7. On August 24, 1998, the Board declared the results of the election and established conditions precedent to the issuance of bonds of CFD No. 7. On September 21, 1998, the Board, acting as the Legislative Body of CFD No. 7, adopted Ordinance No. 99-01 providing for the rate and method of apportionment and levying of the Special Tax, (the "Ordinance"). A Notice of Special Tax was recorded on September 3, 1998, as Document No. 1998-0565341.

Pursuant to a resolution adopted on January 21, 2003, the Board, acting as the Legislative Body of CFD No. 7, authorized the issuance and delivery of the Local Obligations. The Local Obligations are being issued and delivered pursuant to the provisions of the Act and a District Bond Indenture to finance public school facilities.

Location and Description

CFD No. 2. CFD No. 2 includes several **non-contiguous** areas of land located in that portion of the School District within the boundaries of the City of San Diego. CFD No. 2 is located along the extension of Camino Ruiz south of Carmel Valley Road in the northern portion of the City of San Diego. CFD No. 2 originally encompassed approximately 1,071 gross acres but owners of approximately 470 gross acres requested creation of Community Facilities District No. 10 to finance both school facilities and other public facilities, and the approximately 470 gross acres is no longer subject to the CFD No. 2 Special Tax leaving approximately 601 gross acres (approximately 85 net acres) encompassing approximately 428 residential units. CFD No. 2 is located in the north part of Torrey Highlands Subarea IV, in the north part of the City of San Diego. As of January 1, 2003, all 428 single family homes (including 22 under construction) are subject to the Special Tax.

CFD No. 2 is located approximately four miles east of Interstate 5 and approximately three miles west of Interstate 15. Extension of State Route 56 from Interstate 5 to Interstate 15 is fully funded and started construction in June 2001 with completion scheduled for the third quarter of 2004. When completed, State Route 56 will pass south of CFD No. 2. The area is bounded on the east by completed Rancho Peñasquitos subdivisions and on the north, south and west by undeveloped property, except for CFD No. 7 to the northeast.

CFD No. 2 is comprised of approximately 428 single-family detached units, with home sizes ranging from 2,156 square feet to 6,357 square feet. Lot sizes for detached homes range from approximately 4,200 square feet to 9,000 square feet, with a few homes with approximately 18,000 square foot lots. The area consists of rolling terrain with slopes and knolls.

As of November 14, 2002, one of the six merchant builder projects within CFD No. 2 was sold out. Of the five active merchant builder projects, (i) the merchant builder of 8 custom units has one model unit remaining to be sold, (ii) D.R. Horton Homes tract of 111 detached homes is built-out, and 14 homes, 12 of which were in escrow, were still owned by D.R. Horton Homes, and (iii) Cornerstone Communities tract of 69 detached homes has 11 homes under construction, and 7 completed-unsold homes in escrow; (iv) Barratt American Homes tract of 80 detached homes had 67 completed-sold homes, 2 completed-unsold homes in escrow and 11 homes nearing completion of construction; (v) and Greystone Homes tract of 108 detached homes had 101 closed sales and 7 completed homes remaining to be sold.

CFD No. 3. CFD No. 3 includes a **contiguous** area of land located in that portion of the School District within unincorporated San Diego County area. The homes are in the unincorporated area of Bernardo Springs. CFD No. 3 is approximately 156 gross acres (approximately 62 net acres) encompassing approximately 212 single-family detached units and 187 multi-family units. CFD No. 3 is located west of Interstate 15 and south of Camino Del Norte, east of Dove Canyon Road and on both sides of Camino San Bernardo. As of January 1, 2003, all 399 units are subject to the Special Tax.

CFD No. 3 is comprised of approximately 212 single-family detached units, with home sizes ranging from 1,904 square feet to 3,837 square feet and 187 attached units ranging in size from 977 square feet to 1,410 square feet. Lot sizes for detached homes range from approximately 3,500 square feet to approximately 7,000 square feet. The attached units have a density of approximately 17 units per acre. The area consists of rolling terrain with slopes and knolls.

As of November 14, 2002, the five merchant builder projects within CFD No. 3 were sold out and all 399 units were owned by individual homeowners.

CFD No. 5. CFD No. 5 includes several **non-contiguous** areas of land located in that portion of the School District within unincorporated San Diego County area. CFD No. 5 is approximately 166 gross acres (approximately 89 net acres) encompassing approximately 150 single-family detached units. CFD No. 5 is located west of Interstate 15, north of Camino Del Norte and west of Four Gee Road in the community known as Santa Fe Valley. As of January 1, 2003, all 150 single family homes (including 5 homes under construction) are subject to the Special Tax.

CFD No. 5 is comprised of approximately 166 gross acres (approximately 89 net acres) developed with approximately 150 single-family detached units, with home sizes ranging from 3,841 square feet to 5,373 square feet. Lot sizes are a minimum of 15,000 square feet. Each neighborhood consists of a gated community. The area consists of rolling terrain with slopes and knolls.

As of November 14, 2002, one tract of 97 detached homes had 84 completed-sold homes, 8 completed-unsold homes in escrow and 5 homes nearing completion. The tract of 53 detached homes was sold out by the merchant builder in 2002.

CFD No. 7. CFD No. 7 includes a contiguous area of land located in that portion of the School District within the boundaries of the City of San Diego. CFD No. 7 is approximately 228 gross acres (approximately 115 net acres) encompassing approximately 93 single-family homes. CFD No. 7 is located on the north side of Carmel Valley Road at Caminito Vistana which is west of Camino Ruiz. CFD No. 7 is located in the north part of Torrey Highlands Subarea IV, in the north part of the City of San Diego. As of January 1, 2003, all 93 single family homes are subject to the Special Tax.

CFD No. 7 is located approximately three miles east of Interstate 5 and approximately four miles west of Interstate 15. Extension of State Route 56 from Interstate 5 to Interstate 15 is fully funded and started construction in June 2001 with completion scheduled for the third quarter of 2004. When completed, State Route 56 will pass south of CFD No. 7. The area is bounded on the east by completed Rancho Peñasquitos subdivisions and on the north, south and west by undeveloped property, except for CFD No. 2 to the southeast.

CFD No. 7 is comprised of approximately 93 single-family detached units, with home sizes ranging from 3,883 square feet to 5,463 square feet. Lot sizes are a minimum of 1 acre. The area consists of rolling terrain with slopes and knolls.

As of November 14, 2002, the tract was sold out and all 93 units were owned by individual homeowners.

Appraised Property Values

An MAI appraisal of the land and existing improvements for the development within the Districts dated November 22, 2002 (the "Appraisal"), was prepared by Stephen G. White, MAI of Fullerton, California (the "Appraiser") in connection with issuance of the Bonds. The purpose of the appraisal was to estimate the minimum market value to the homes comprising each District, by means of a mass appraisal of all of the homes which were completed and under construction. The Appraisal is based on certain assumptions and limited conditions. Subject to the assumptions and limiting conditions, and based on the general inspections of the properties and analysis of matters pertinent to value, the Appraiser estimates the minimum market value (subject to the lien of the Special Taxes) as of November 14, 2002, was as follows:

District	Estimated Appraised Value
CFD No. 2	\$298,060,000
CFD No. 3	184,500,000
CFD No. 5	139,740,000
CFD No. 7	<u>134,850,000</u>
Total	\$757,150,000

The School District makes no representation as to the accuracy or completeness of the Appraisal. See APPENDIX C hereto for more information relating to the Appraisal.

Estimated Appraised Value-to-Lien Ratios

The appraised values, direct and overlapping debt and total tax burden on individual parcels varies between the Districts and also varies among parcels within each District. The value of individual parcels is significant because in the event of a delinquency in the payment of Special Taxes a District may foreclose only against delinquent parcels. The table below sets forth the estimated appraised property values and the estimated direct and overlapping land secured debt and estimated value-to-lien ratio for each District as a whole. All information in this section is based on the direct and overlapping debt outstanding as of December 1, 2002, as set forth in the tables below in the Section captioned "THE DISTRICTS – Direct and Overlapping Debt."

Table 7
Poway Unified School District Public Financing Authority
Estimated Average Value-to-Lien of Parcels
Subject to Special Tax

District	Minimum Appraised Value ⁽¹⁾	Amount of Local Obligations ⁽²⁾	Direct & Overlapping Tax and Assessment Debt ⁽³⁾	Estimated Value-to-Lien ⁽⁴⁾
CFD No. 2	\$298,060,000	\$12,635,000	\$0	24:1
CFD No. 3	184,500,000	5,485,000	372,292	32:1
CFD No. 5	139,740,000	1,670,000	5,329,845	20:1
CFD No. 7	<u>134,850,000</u>	<u>1,545,000</u>	<u>4,325,000</u>	<u>23:1</u>
Total	\$757,150,000	\$21,335,000	\$10,027,137	24:1

(1) Source: Appraisal.

(2) Corresponds to the amount of the Local Obligations issued by each District.

(3) Source: California Municipal Statistics, Inc Direct and Overlapping Debt Summary. See Tables 8 through 11 below.

(4) Represents the value-to-lien for each District based on the amount of Local Obligations and land secured direct and overlapping tax and assessment debt. Does not include certain general fund obligation debt.

See “– Direct and Overlapping Debt,” and “BONDOWNERS’ RISKS – The Local Obligations – Appraised Values” herein and APPENDIX C – “Summary Appraisal Report” appended hereto for further information on the Appraisal and for assumptions and limiting conditions relating to the Appraisal.

Direct and Overlapping Debt

Tables 8, 9, 10 and 11 below set forth the existing authorized indebtedness payable from taxes and assessments that may be levied within each District prepared by California Municipal Statistics Inc. and dated December 1, 2002 (each a “Debt Report”). Each Debt Report is included for general information purposes only. In certain cases, the percentages of debt calculations are based on assessed values, and the percentage values may change as assessed values of properties outside each District increase due to development. The Authority and the Districts believe the information is current as of its date, but makes no representation as to its completeness or accuracy. Other public agencies, such as the County or the City of San Diego may issue additional indebtedness at any time, without the consent or approval of the Authority, the School District or the Districts.

The Debt Reports generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Districts in whole or in part. Such long term obligations generally are not payable from property taxes, assessment or special taxes on land in the Districts. In many cases long term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency. Additional indebtedness could be authorized by the Authority, the School District, the City of San Diego or other public agencies at any time.

Property in each District is subject to special assessments, Special Taxes, and *ad valorem* property taxes. See “THE DISTRICTS – Direct and Overlapping Debt – Overlapping Assessment and Community Facilities Districts” below. Of the lien amounts reflected on the following table, only the Special Taxes and *ad valorem* property taxes are associated with any indebtedness.

The *ad valorem* tax rate for each parcel in the Districts ranges from 1.00745% to 1.01456% for Fiscal Year 2002-03. The tax rate in excess of the standard 1% general purpose *ad valorem* levy is attributable to various public agencies, including, Metropolitan Water District, San Diego County Water Authority, and Olivenhain Municipal Water District. The portions of these outstanding general obligation bonds allocable to each District are shown in the tables below.

The Authority and the Districts have not undertaken to commission annual appraisals of the market value of property in the District for purposes of the Annual Reports pursuant to the Continuing Disclosure Agreement, and information regarding property values for purposes of a direct and overlapping debt analysis which may be contained in such reports will be based on assessed values as determined by the County Assessor. See APPENDIX E hereto for the form of the CONTINUING DISCLOSURE AGREEMENT.

**Table 8
Community Facilities District No. 2
Direct and Overlapping Debt Summary**

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 2

2002-03 Local Secured Assessed Valuation: \$199,467,111

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 9/1/02</u>	
San Diego County Water Authority	0.099%	\$ 3,188	
Metropolitan Water District	0.017	85,435	
City of San Diego	0.199	31,223	
City of San Diego Open Space Park District	0.199	81,938	
Poway Unified School District Community Facilities District No. 2	100.	-	(1)
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$201,784	
Less: San Diego Open Space Park District		81,938	
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$119,846	
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>			
San Diego County General Fund Obligations	0.095%	\$ 474,223	
San Diego County Pension Obligations	0.095	231,905	
San Diego County Superintendent of Schools Obligations	0.095	1,964	
Palomar Community College District General Fund Obligations	0.424	41,298	
City of San Diego General Fund Obligations	0.199	1,114,927	
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,864,317	
 GROSS COMBINED TOTAL DEBT		 \$2,066,101	(2)
NET COMBINED TOTAL DEBT		\$1,984,163	

(1) Excludes Mello-Roos Act bonds to be sold.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2002-03 Assessed Valuation:

Direct Debt	- %
Total Gross Direct and Overlapping Tax and Assessment Debt	0.10%
Total Net Direct and Overlapping Tax and Assessment Debt	0.06%
Gross Combined Total Debt	1.04%
Net Combined Total Debt	0.99%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: \$0

Source: California Municipal Statistics, Inc.

Table 9
Community Facilities District No. 3
Direct and Overlapping Debt Summary

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 3

2002-03 Local Secured Assessed Valuation: \$162,147,880

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 9/1/02</u>	
San Diego County Water Authority	0.081%	\$ 2,608	
Metropolitan Water District	0.014	78,156	
Poway Unified School District Community Facilities District No. 3	100.	-	(1)
Olivenhain Municipal Water District Assessment District No. 96-1	1.764	372,292	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$453,056	
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>			
San Diego County General Fund Obligations	0.077%	\$384,370	
San Diego County Pension Obligations	0.077	187,965	
San Diego County Superintendent of Schools Obligations	0.077	1,592	
Palomar Community College District General Fund Obligations	0.345	33,603	
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$607,530	
COMBINED TOTAL DEBT		\$1,060,586	(2)

(1) Excludes Mello-Roos Act bonds to be sold.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2002-03 Assessed Valuation:

Direct Debt	- %
Total Direct and Overlapping Tax and Assessment Debt	0.28%
Combined Total Debt	0.65%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: \$0

Source: California Municipal Statistics, Inc.

Table 10
Community Facilities District No. 5
Direct and Overlapping Debt Summary

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 5

2002-03 Local Secured Assessed Valuation: \$95,650,137

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 9/1/02</u>
San Diego County Water Authority	0.047%	\$ 1,513
Metropolitan Water District	0.008	40,205
Poway Unified School District Community Facilities District No. 5	100.	- (1)
Rancho Santa Fe Community Services District Community Facilities District No. 1	17.606	5,110,142
Olivenhain Municipal Water District Assessment District No. 96-1	1.041	219,703
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$5,371,563
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>	<u>% Applicable</u>	<u>Debt 9/1/02</u>
San Diego County General Fund Obligations	0.045%	\$224,632
San Diego County Pension Obligations	0.045	109,850
San Diego County Superintendent of Schools Obligations	0.045	930
Palomar Community College District General Fund Obligations	0.203	19,772
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$355,184
COMBINED TOTAL DEBT		\$5,726,747 (2)

- (1) Excludes Mello-Roos Act bonds to be sold.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2002-03 Assessed Valuation:

Direct Debt	-	%
Total Direct and Overlapping Tax and Assessment Debt	5.62%	
Combined Total Debt	5.99%	

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: \$0

Source: California Municipal Statistics, Inc.

Table 11
Community Facilities District No. 7
Direct and Overlapping Debt Summary

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 7

2002-03 Local Secured Assessed Valuation: \$114,462,558

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 9/1/02</u>
San Diego County Water Authority	0.057%	\$ 1,835
Metropolitan Water District	0.010	50,256
City of San Diego	0.114	17,887
City of San Diego Open Space Park District	0.114	46,940
City of San Diego Santa Luz Community Facilities District No. 2, I.A. No. 3	100.	4,325,900
Poway Unified School District Community Facilities District No. 7	100.	- (1)
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$4,441,918
Less: San Diego Open Space Park District		46,940
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$4,394,978
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Diego County General Fund Obligations	0.054%	\$ 269,558
San Diego County Pension Obligations	0.054	131,819
San Diego County Superintendent of Schools Obligations	0.054	1,116
Palomar Community College District General Fund Obligations	0.243	23,668
City of San Diego General Fund Obligations	0.114	638,702
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,064,863
 GROSS COMBINED TOTAL DEBT		 \$5,506,781 (2)
NET COMBINED TOTAL DEBT		\$5,459,841

- (1) Excludes Mello-Roos Act bonds to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2002-03 Assessed Valuation:

Direct Debt	-	%
Total Gross Direct and Overlapping Tax and Assessment Debt ...	3.88%	
Total Net Direct and Overlapping Tax and Assessment Debt	3.84%	
Gross Combined Total Debt	4.81%	
Net Combined Total Debt	4.77%	

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: \$0

Source: California Municipal Statistics, Inc.

The tables below set forth estimated Fiscal Year 2002-03 overall tax rates projected to be applicable to a Detached Unit. The tables also set forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

Table 12
Community Facilities District No. 2
of the Poway Unified School District
Estimated Fiscal Year 2002-03 Tax Rates
(Detached Unit)

<u>Assessed Valuation and Property Taxes</u>	<u>Percent of Total AV</u>	<u>Amount</u>
Total Assessed Value ⁽¹⁾	\$587,359	
Homeowner's Exemption	(7,000)	
Net Assessed Value	\$580,359	
AD VALOREM PROPERTY TAXES		
General Purposes	1.00000%	
San Diego Zoological Exhibits	0.00500%	
San Diego City Public Safety Communication System	0.00211%	
MWD Remainder of SDCWA	0.00670%	
County Water Authority City of San Diego	0.00075%	
Total Ad Valorem Property Taxes	1.01456%	\$5,888.09
ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES⁽²⁾		
Poway Unified School District CFD No. 2		\$1,854.04
San Diego County Mosquito/Rat Control Zone A		3.00
Peanaquitos East Maintenance		13.16
Metropolitan Water Standby ⁽³⁾		11.50
CWA Water Availability Charge ⁽³⁾		<u>10.00</u>
ESTIMATED TOTAL PROPERTY TAXES		\$7,779.79
Projected Total Effective Tax Rate (as % of Net Assessed Value)		1.32%

⁽¹⁾ Median assessed value of Detached Units within CFD No. 2 taxed in Fiscal Year 2002-03.

⁽²⁾ All assessment rates are Fiscal Year 2002-03 amounts.

⁽³⁾ Assumes lot sizes of one acre or less.

Source: David Taussig & Associates, Inc.

Table 13
Community Facilities District No. 3
of the Poway Unified School District
Estimated Fiscal Year 2002-03 Tax Rates
(Detached Unit)

<u>Assessed Valuation and Property Taxes</u>	<u>Percent of Total AV</u>	<u>Amount</u>
Total Assessed Value ⁽¹⁾	\$537,734	
Homeowner's Exemption	<u>(7,000)</u>	
Net Assessed Value	\$530,734	
AD VALOREM PROPERTY TAXES		
General Purposes	1.00000%	
MWD Remainder of SDCWA	0.00670%	
CWA Olivenhain Water District	<u>0.00075%</u>	
Total Ad Valorem Property Taxes	1.00745%	\$5,346.88
ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES⁽²⁾		
Poway Unified School District CFD No. 3		\$1,526.18
Emergency Ambulance Service		20.76
County Service Area No. 83		88.06
Rancho Sante Fe Fire District		12.50
San Diego County Mosquito/Rat Control Zone B		2.28
County Assessment District No. 97-1 ⁽³⁾		2,012.00
Olivenhain Assessment District No. 96-1 ⁽⁴⁾		54.63
Olivenhain Sewer Charge		480.00
MWD Water Standby ⁽³⁾		11.50
County Water Authority Water Availability ⁽³⁾		<u>10.00</u>
ESTIMATED TOTAL PROPERTY TAXES		\$9,564.79
Projected Total Effective Tax Rate (as % of Net Assessed Value)		1.78%

⁽¹⁾ Median assessed value of Detached Units in CFD No. 3 taxed in Fiscal Year 2002-03.

⁽²⁾ All assessment rates are Fiscal Year 2002-03 amounts.

⁽³⁾ Assumes lot sizes of one acre or less.

⁽⁴⁾ Assumes the assignment of one (1) Benefit Unit.

Source: David Taussig & Associates, Inc.

Table 14
Community Facilities District No. 5
of the Poway Unified School District
Estimated Fiscal Year 2002-03 Tax Rates
(Detached Unit)

<u>Assessed Valuation and Property Taxes</u>	<u>Percent of Total AV</u>	<u>Amount</u>
Total Assessed Value ⁽¹⁾	\$678,667	
Homeowner's Exemption	(7,000)	
Net Assessed Value	\$671,667	
AD VALOREM PROPERTY TAXES		
General Purposes	1.00000%	
MWD Remainder of SDCWA	0.00670%	
CWA Olivehain Water District	<u>0.00075%</u>	
Total Ad Valorem Property Taxes	1.00745%	\$6,766.71
ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES⁽²⁾		
Poway Unified School District CFD No. 5		\$807.00
Emergency Ambulance Service		20.76
County Service Area No. 83A		88.06
Rancho Sante Fe Fire District		12.50
San Diego County Mosquito/Rate Control Zone B		2.28
Olivehain Assessment District No. 96-1 ⁽³⁾		54.63
MWD Water Standby ⁽⁴⁾		11.50
County Water Authority Water Availability ⁽⁴⁾		10.00
Rancho Sante Fe Sewer Service Charge		800.00
Rancho Sante Fe Community Services District No. 1		2,921.20
San Diego County Lighting Zone A		<u>2.50</u>
PROJECTED TOTAL PROPERTY TAXES		\$11,497.14
Projected Total Effective Tax Rate (as % of Net Assessed Value)		1.69%

⁽¹⁾ Median assessed value of Detached Units in CFD No. 5 taxed in Fiscal Year 2002-03.

⁽²⁾ All assessment rates are Fiscal Year 2002-03 amounts.

⁽³⁾ Assumes the assignment of one (1) Benefit Unit.

⁽⁴⁾ Assumes lot sizes of one acre or less.

Source: David Taussig & Associates, Inc.

Table 15
Community Facilities District No. 7
of the Poway Unified School District
Estimated Fiscal Year 2002-03 Tax Rates
(Detached Unit)

Assessed Valuation and Property Taxes	Percent of Total AV	Amount
Total Assessed Value ⁽¹⁾	\$1,241,950	
Homeowner's Exemption	(7,000)	
Net Assessed Value	\$1,234,950	
AD VALOREM PROPERTY TAXES		
General Purposes	1.00000%	
San Diego City Zoological	0.00500%	
San Diego City Public Safety Communications	0.00211%	
MWD Remained of SDCWA	0.00670%	
CWA City of San Diego	<u>0.00075%</u>	
Total Ad Valorem Property Taxes	1.01456%	\$12,529.31
ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES⁽²⁾		
Poway Unified School District CFD No. 7		\$1,220.10
City of San Diego SantaLuz Community Facilities District No. 2 IA-3 ⁽³⁾		4,191.46
San Diego County Mosquito/Rat Control Zone A		3.00
MWD Water Standby ⁽⁴⁾		11.50
County Water Authority Water Availability ⁽⁴⁾		<u>10.00</u>
PROJECTED TOTAL PROPERTY TAXES		\$17,965.37
Projected Total Effective Tax Rate (as % of Net Assessed Value)		1.45%

- (1) Median assessed value of Detached Units in CFD No. 7 taxed in Fiscal Year 2002-03.
(2) All assessment rates are Fiscal Year 2002-03 amounts.
(3) Assumes a unit size of 4,050 - 4,499 square feet.
(4) Assumes lot sizes of one acre or less.

Source: *David Taussig & Associates, Inc.*

Overlapping Assessment and Maintenance Districts

Metropolitan Water District Standby Charge. The Metropolitan Water District imposes an annual charge of \$11.50 per acre or \$11.50 per parcel if the parcel is less than an acre. This assessment is used for capital improvements to the distribution system and the construction and maintenance of reservoirs. This assessment was first levied in the 1992-93 tax year and will continue to be levied for an indefinite period. The Metropolitan Water District holds a public hearing once every year. Parcels with their own wells may be exempted from this assessment. (Applies within CFD No. 2, CFD No. 3, CFD No. 5 and CFD No. 7.)

County Water Authority Water Availability Standby Charge. The County Water Authority imposes an annual direct assessment of \$10.00 per acre, or \$10.00 per parcel if the parcel is less than an acre. This assessment is used to fund capital improvements and will continue to be levied for an indefinite period. (Applies within CFD No. 2, CFD No. 3, CFD No. 5 and CFD No. 7.)

San Diego County Mosquito/Rat Control Zone A and B. The San Diego County Department of Health imposes this annual direct assessment on all property within the County at the rate of \$2.28 per parcel in Zone A and \$3.00 per parcel in Zone B. This assessment is fixed unless there is a vote by registered voters to increase the assessment. This assessment is used for vector surveillance and control programs. The County Department of Environmental Health provides free services to residents to control mosquito breeding and rodent activity. (Applies within CFD No. 2, CFD No. 3, CFD No. 5 and CFD No. 7.)

Peñasquitos East Maintenance. The Peñasquitos East Maintenance District imposes an annual charge of \$13.16 per equivalent benefit unit. Currently all residential units are assessed as one (1) equivalent benefit unit. This charge is increased annually by the change in the Consumer Price Index. Revenue collected is used for maintenance of public right of ways, parks, medians, open spaces and community entrance signs. (Applies within CFD No. 2 only.)

County Assessment District No. 97-1. The County Assessment District is authorized to levy an assessment of \$2,012.00 per acre. This assessment supports the debt service on bonds issued to fund road, utility, water, sewer and storm drain improvements. Revenue from this assessment also maintains these improvements. (Applies within CFD No. 3 only.)

Olivenhain Municipal Water District Sewer Standby Charge. Olivenhain Municipal Water District imposes a sewer charge of \$480 per year for a single-family unit. The Sewer Standby Charge on vacant property is \$100 per year for each equivalent dwelling unit allocated to the property. The charge pays for the construction, maintenance and operation of sewer facilities. (Applies within CFD No. 3 only.)

County Service Area 69 Emergency Ambulance Services. County Service Area 69 collects an annual assessment of \$20.76 per residential unit. This assessment provides residents within the service area with emergency ambulance service as part of the 911 emergency response system. (Applies within CFD Nos. 3 and 5 only.)

County Service Area 83A Park Maintenance. The County Service Area is authorized to levy an assessment for park services. The assessment is currently \$88.06 per equivalent building unit. This rate is subject to inflation based on the Consumer Price Index. For residential property, a Detached Unit is considered 1 equivalent building unit, and an Attached Unit is considered 0.7 equivalent building unit. (Applies within CFD Nos. 3 and 5 only.)

Rancho Sante Fe Fire District Special Assessment. The Rancho Sante Fe Fire District established an assessment district that is authorized to levy an assessment for fire suppression services. The assessment is currently \$2.50 per equivalent building unit. The board has the option of raising this charge but does not expect to in the near future. Residential properties within the assessment district are assigned 2 equivalent building units if vacant and 5 equivalent building units if occupied. (Applies within CFD Nos. 3 and 5 only.)

Olivenhain Municipal Water District Assessment District No. 96-1. Olivenhain Municipal Water District formed Assessment District No. 96-1 to finance a water storage project. The special assessment is currently \$54.63 per year for an equivalent dwelling unit. The apportionment of equivalent dwelling units per parcel varies depending on how the property was originally assessed during the formation of the assessment district. (Applies within CFD Nos. 3 and 5 only.)

Rancho Sante Fe Sewer Service Charge. Rancho Sante Fe Water District imposes a sewer service charge of \$800 per year for a single-family unit. The charge pays for the construction, maintenance and operation of sewer facilities. (Applies within CFD No. 5 only.)

Rancho Sante Fe Community Service District No. 1 Zone 3. Rancho Santa Fe Water District formed this Community Facilities District to fund road, sewer, water line, treatment plant and storage facility improvements. The special tax rates for residential units in tax year 2002-03 vary by unit size and are (i) \$2,080.80 for less than 2,000 square feet, (ii) \$2,236.86 for 2,000 - 2,999 square feet, (iii) \$2,392.92 for 3,000 - 3,499 square feet, (iv) \$2,615.72 for 3,500 - 3,999 square feet, (v) \$2,730.28 for 4,000 - 4,499 square feet, (vi) \$2,921.94 for 4,500 - 4,999 square feet and (vii) \$3,188.50 for greater than 5,000 square feet. (Applies within CFD No. 5 only.)

San Diego County Lighting District Zone A. The County of San Diego imposes a charge to maintain and operate public street lighting in the unincorporated County. This charge is \$2.50 per benefit unit. Currently a single family detached unit is assessed as one (1) benefit unit. (Applies within CFD No. 5 only.)

City of San Diego SantaLuz Community Facilities District No. 2 Improvement Area 3. SantaLuz formed a Community Facilities District to finance road, water and sewer improvements. The special tax rates for residential units in tax year 2002-03 vary by unit size and are (i) \$2,487.57 for less than 2,250 square feet, (ii) \$3,007.99 for 2,250 - 2,749 square feet, (iii) \$3,205.25 for 2,750 - 3,149 square feet, (iv) \$3,599.73 for 3,150 - 3,749 square feet, (v) \$3,944.90 for 3,740 - 4,049 square feet, (vi) \$4,191.47 for 4,050 - 4,499 square feet, (vii) \$4,438.02 for 4,500 - 4,999 square feet, (viii) \$4,635.28 for 5,000 - 5,499 square feet, (ix) \$5,079.28 for 5,500 - 5,999 square feet, (x) \$5,530.46 for 6,000 - 6,499 square feet and (xi) \$5,964.48 for greater than 6,000 square feet. (Applies within CFD No. 7 only.)

The Districts have no control over the amount of additional debt payable from taxes or assessments levied on all or a portion of the property within a special district which may be incurred in the future by other governmental agencies, including, but not limited to, the County, the City of San Diego or any other governmental agency having jurisdiction over all or a portion of the property within the Districts. Furthermore, nothing prevents the owners of property within each District from consenting to the issuance of additional debt by other governmental agencies which would be secured by taxes or assessments on a parity with the Special Taxes. To the extent such indebtedness is payable from assessments, other special taxes levied pursuant to the Act or taxes, such assessments, special taxes and taxes will be secured by liens on the property within a district on a parity with a lien of the Special Taxes.

Accordingly, the debt on the property within each District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the Bonds are issued between the value of the property and the debt secured by the Special Taxes and other taxes and assessments which may be levied on such property. The incurring of such additional indebtedness could also affect the ability and willingness of the property owners within a District to pay the Special Taxes when due.

Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of the property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes. See "BONDOWNERS' RISKS – Appraised Values" and "BONDOWNERS' RISKS – The Local Obligations – Appraised/Assessed Value."

Rates and Methods of Apportionment of Special Tax

CFD No. 2 Rate and Method of Apportionment of Special Tax. The Board and the qualified elector of CFD No. 2 adopted and approved the Rate and Method of Apportionment of Special Tax for determining and apportioning annual amounts of Special Taxes and maximum annual amounts of Special Taxes as set forth in Exhibit A to the Resolution of Intention and the Resolution of Formation establishing CFD No. 2. A copy is included herein in APPENDIX B. Pursuant to the Rate and Method of Apportionment of Special Tax, the annual amount of Special Tax to be levied on each lot or parcel of land within CFD No. 2, is shown on the San Diego County Assessor's Maps. This Special Tax is to be levied (i) to pay debt service on the indebtedness of CFD No. 2, (ii) for the direct cost of authorized facilities, (iii) for the administrative expenses of CFD No. 2 incurred in administration of any bonded indebtedness of CFD No. 2 or the levy of the Special Tax, (iv) to establish or replenish any reserve fund, (v) lease payments for existing or future school facilities and (vi) any other payments permitted by law. Special Taxes are payable until 25 years after the last bond series is issued but in no event later than Fiscal Year 2045-46. All property within CFD No. 2 which is being taxed is classified as Developed Property.

\$767,572.56 in Special Taxes were levied on parcels within CFD No. 2 for Fiscal Year 2002-03. All of the foregoing Special Taxes were levied on Developed Property as defined in the Rate and Method of Apportionment for CFD No. 2. As of November 14, 2002, based on the Appraisal, Terrazzo at Torrey Del Mar LLC, the largest single taxpayer in CFD No. 2 in Fiscal Year 2002-03, was responsible for Special Taxes for approximately 18 of the detached units within CFD No. 2. As of November 14, 2002, based on the Appraisal, three other merchant builders were responsible for Special Taxes for approximately 32 of the detached units within CFD No. 2. The merchant builders are expected to complete and sell the remaining homes. The timing of sales cannot be predicted.

The table below summarizes the fiscal year 2002-03 CFD No. 2 Special Tax levy made in accordance with the Rate and Method of Apportionment:

Table 16
Poway Unified School District
Public Financing Authority
Community Facilities District No. 2
2002-03 Special Tax Levy

Land Use	Fiscal Year 2002-03 Applied Tax Rate	Units Levied	Special Taxes Levied ⁽¹⁾	Average Maximum Special Tax Rate	Fiscal Year 2002-03 Levy as Percent of Total
Developed Property	100.00%	414 ⁽²⁾	\$767,572.56	\$1,854.04	100.00%

⁽¹⁾ Totals may not add due to rounding. No Special Tax is levied on Senior Citizen Housing Units.

⁽²⁾ There are an additional 14 units completed or under construction as of November 14, 2002 which will be subject to the Special Tax levy in Fiscal Year 2003-04.

Source: David Taussig & Associates, Inc.

CFD No. 2 Special Taxes may be prepaid by paying the prepayment amount minus an amount based on the amount of Local Obligations which have been retired with respect to such parcel. The prepayment amount is \$30,274.64 for Fiscal Year 2002-03, with the amounts decreasing based on the year of prepayment. Funds received from prepayment of Special Taxes will be transferred to the Fiscal Agent for deposit into the Special Tax Fund to be applied for the purposes and in the priorities set forth in the District Bond Indenture. Such funds may be used at any time for the call and redemption of Local Obligations under the terms and conditions set forth in the District Bond Indenture. See "SOURCES OF PAYMENT FOR THE BONDS – The Local Obligations – *Redemption Fund.*"

CFD No. 3 Rate and Method of Apportionment of Special Tax. The Board and the qualified electors of CFD No. 3 adopted and approved the Rate and Method of Apportionment of Special Tax for determining and apportioning annual amounts of Special Taxes and maximum annual amounts of Special Taxes. A copy is included herein in APPENDIX B.

All taxable property within CFD No. 3 is classified as Developed Property.

The Rate and Method of Apportionment for CFD No. 3 further classifies Taxable Property by land use class: Detached Unit; Attached Unit; Senior Citizen Housing Unit; and Commercial Development. The Rate and Method of Apportionment of Special Tax provides that the Special Tax will be levied at an Initial Assigned Special Tax in the first year in which a parcel has been designated as Developed Property. For Fiscal Years thereafter the Assigned Annual Special Tax shall increase by 2% of the amount in effect the prior year.

\$344,724.30 in Special Taxes were levied on parcels within CFD No. 3 for Fiscal Year 2002-03. All of the foregoing Special Taxes were levied on Developed Property as defined in the Rate and Method of Apportionment for CFD No. 3. In Fiscal Year 2002-03, all units in CFD No. 3 were owned by individual homeowners thus the largest single taxpayer in CFD No. 3 in Fiscal Year 2002-03 was responsible for no more than approximately .44% of the total CFD No. 3 Special Tax Levy for Fiscal Year 2002-03.

The table below summarizes the fiscal year 2002-03 CFD No. 3 Special Tax levy made in accordance with the Rate and Method of Apportionment:

Table 17
Poway Unified School District
Public Financing Authority
Community Facilities District No. 3
2002-03 Special Tax Levy

Land Use	Fiscal Year 2002-03 Applied Tax Rate	Units Levied	Special Taxes Levied*	Average Maximum Special Tax Rate	Fiscal Year 2002-03 Levy as Percent of Total
Detached Unit	100.00%	212	\$227,004.06	\$1,070.77	65.85%
Attached Unit	<u>100.00%</u>	<u>187</u>	<u>117,720.24</u>	<u>629.52</u>	<u>34.15%</u>
TOTAL	NA	399	\$344,724.30	NA	100.00%

* Totals may not add due to rounding. No Special Tax is levied on a parcel categorized as a Senior Citizen Housing Unit or a Commercial Unit.

Source: David Taussig & Associates, Inc.

CFD No. 3 Special Taxes may be prepaid by paying the Gross Prepayment Amount minus the amount of regularly scheduled principal of Local Obligations retired with respect to such parcel. The prepayment amounts range from \$14,878.73 to \$24,207.91 for Fiscal Year 2002-03, with the amounts decreasing based on the year of prepayment. Funds received from prepayment of Special Taxes will be transferred to the Fiscal Agent for deposit into the Special Tax Fund to be applied for the purposes and in the priorities set forth in the District Bond Indenture. Such funds may be used at any time for the call and redemption of Local Obligations under the terms and conditions set forth in the District Bond Indenture. See "SOURCES OF PAYMENT FOR THE BONDS – The Local Obligations – Redemption Fund."

CFD No. 5 Rate and Method of Apportionment of Special Tax. The Board and the qualified electors of CFD No. 5 adopted and approved the Rate and Method of Apportionment of Special Tax for determining and apportioning annual amounts of Special Taxes and maximum annual amounts of Special Taxes. A copy is included herein in APPENDIX B.

Property within CFD No. 5 became classified as taxable Developed Property. All property within CFD No. 5 which is being taxed is classified as Developed Property. The classification of property within CFD No. 5 which is being taxed is determined based on the date by which a building permit was issued for the residential parcel, with the amount increasing based on the construction cost index. The Rate and Method of Apportionment for CFD No. 5 further classifies Developed Property by whether a Transfer Agreement has been performed. The Rate and Method of Apportionment of Special Tax provides that the Special Tax will be levied at the maximum Special Tax that is applicable to each parcel.

\$120,186.32 in Special Taxes were levied on parcels within CFD No. 5 for Fiscal Year 2002-03. All of the foregoing Special Taxes were levied on Developed Property as defined in the Rate and Method of Apportionment for CFD No. 5. As of November 14, 2002, based on the Appraisal, Bernardo Lakes, San Diego L.P., the largest single taxpayer in CFD No. 5 in Fiscal Year 2002-03, was responsible for Special Taxes for approximately 13 of the detached units within CFD No. 5, which would represent approximately 9% of the total CFD No. 5 Special Tax Levy for Fiscal Year 2003-04. The merchant builders are expected to complete and sell the remaining homes. The timing of sales cannot be predicted.

The table below summarizes the fiscal year 2002-03 CFD No. 5 Special Tax levy made in accordance with the Rate and Method of Apportionment:

Table 18
Poway Unified School District
Public Financing Authority
Community Facilities District No. 5
2002-03 Special Tax Levy

Land Use	Fiscal Year 2002-03 Applied Tax Rate	Units Levied	Special Taxes Levied	Average Maximum Special Tax Rate	Fiscal Year 2002-03 Levy as Percent of Total
Developed Property	100.00%	150	\$120,186.32	\$801.24	100.00%

Source: David Taussig & Associates, Inc.

CFD No. 5 Special Taxes may be prepaid by paying the Gross Prepayment Amount minus the amount of regularly scheduled principal of such Bonds retired with respect to such parcel. The prepayment amounts range from \$11,284.98 to \$11,389.69, with the prepayment amounts increasing based on the applicable construction cost index but declining based on the year of prepayment. Funds received from prepayment of Special Taxes will be transferred to the Fiscal Agent for deposit into the Special Tax Fund to be applied for the purposes and in the priorities set forth in the District Bond Indenture. Such funds may be used at any time for the call and redemption of Local Obligations under the terms and conditions set forth in the District Bond Indenture. See "SOURCES OF PAYMENT FOR THE BONDS – The Local Obligations – Redemption Fund."

CFD No. 7 Rate and Method of Apportionment of Special Tax. The Board and the qualified electors of CFD No. 7 adopted and approved the Rate and Method of Apportionment of Special Tax for determining and apportioning annual amounts of Special Taxes and maximum annual amounts of Special Taxes. A copy is included herein in APPENDIX B.

Property within CFD No. 7 became classified as Developed Property based on the date a building permit was issued. All property within CFD No. 7 which is being taxed is classified as Developed Property. The classification of property within CFD No. 7 which is being taxed is determined based on the date by which a building permit was issued for the parcel, with the amount increasing based on the construction cost index and at 2% per year after the initial year in which the Special Tax is levied. The Rate and Method of Apportionment of Special Tax provides that the Special Tax will be levied at the maximum Special Tax that is applicable to each parcel.

\$113,469.30 in Special Taxes were levied on parcels within the CFD No. 7 for Fiscal Year 2002-03. All of the foregoing Special Taxes were levied on Developed Property as defined in the Rate and Method of Apportionment for CFD No. 7. The largest single taxpayer in CFD No. 7 in Fiscal Year 2002-03, was responsible for approximately 2.15% of the total CFD No. 7 Special Tax Levy for Fiscal Year 2002-03.

The table below summarizes the fiscal year 2002-03 CFD No. 7 Special Tax levy made in accordance with the Rate and Method of Apportionment:

Table 19
Poway Unified School District
Public Financing Authority
Community Facilities District No. 7
2002-03 Special Tax Levy

Land Use	Fiscal Year 2002-03 Applied Tax Rate	Units Levied	Special Taxes Levied	Average Maximum Special Tax Rate	Fiscal Year 2002-03 Levy as Percent of Total
Developed Property	100.00%	93	\$113,469.30	\$1,220.10	100.00%

Source: David Taussig & Associates, Inc.

CFD No. 7 Special Taxes may be prepaid by paying the maximum Special Tax obligation applicable to a parcel as calculated in accordance with the Rate and Method of Apportionment of Special Tax, as well as any additional administrative expense and redemption premium associated with processing a prepayment. The prepayment amount is \$18,596.78 for parcels first categorized as Developed Property in Fiscal Year 1996-97, with the prepayment amounts increasing based on the construction cost index but declining based on the year of prepayment. Funds received from prepayment of Special Taxes will be transferred to the Fiscal Agent for deposit into the Special Tax Fund to be applied for the purposes and in the priorities set forth in the District Bond Indenture. Such funds may be used at any time for the call and redemption of Local Obligations under the terms and conditions set forth in the District Bond Indenture. See "SOURCES OF PAYMENT FOR THE BONDS – The Local Obligations – Redemption Fund."

The table below summarizes the foregoing Fiscal Year 2002-03 Community Facilities Special Tax levy by community facilities district:

Table 20
Poway Unified School District
Public Financing Authority
2002-03 Special Tax Levy by District

District	Fiscal Year 2002-03 Applied Tax Rate	Units Levied	Total Units	Special Taxes Levied	Average Maximum Special Tax Rate	Fiscal Year 2002-03 Levy as Percent of Total
CFD No. 2	100%	414	428	\$767,572.56	\$1,854.04	57.03%
CFD No. 3	100%	399	399	344,724.30	863.97	25.61%
CFD No. 5	100%	150	150	120,186.32	801.24	8.93%
CFD No. 7	100%	93	93	113,469.30	1,220.10	8.43%
TOTAL	NA	1,056	1,070	\$1,345,952.48	NA	100.00%

⁽¹⁾ All 1,070 units will be subject to the levy of Special Taxes in Fiscal Year 2003-04 and the aggregate Special Taxes levied will increase by 2% in each District and will increase in CFD No. 2 by the additional 14 units subject to the Special Tax in Fiscal Year 2003-04.

Source: David Taussig & Associates, Inc.

Special Tax Delinquency

The following tables illustrate the historical delinquencies for Special Taxes levied for CFD No. 2, CFD No. 3, CFD No. 5 and CFD No. 7 from Fiscal Year 1996-97 to and including Fiscal Year 2001-02.

**Table 21
Poway Unified School District
Public Financing Authority
Community Facilities District No. 2
Special Tax Delinquency History**

<u>Fiscal Year</u>	<u>Parcels Delinquent</u>	<u>Aggregate Special Tax</u>	<u>Fiscal Year Amount Delinquent ⁽¹⁾</u>	<u>Fiscal Year Delinquency Rate</u>	<u>Remaining Amount Delinquent as of 12/10/02</u>	<u>Remaining Delinquency Rate as of 12/10/02</u>
2000-01	NA	NA	NA	NA	NA	NA
2001-02	3	\$229,030.20	\$2,726.55	1.19%	\$908.85	0.40%

⁽¹⁾Reflects fiscal year delinquencies on or about June 30th of the indicated fiscal year.

Source: David Taussig & Associates, Inc.

**Table 22
Poway Unified School District
Public Financing Authority
Community Facilities District No. 3
Special Tax Delinquency History**

<u>Fiscal Year</u>	<u>Parcels Delinquent</u>	<u>Aggregate Special Tax</u>	<u>Fiscal Year Amount Delinquent ⁽¹⁾</u>	<u>Fiscal Year Delinquency Rate</u>	<u>Remaining Amount Delinquent as of 12/10/02</u>	<u>Remaining Delinquency Rate as of 12/10/02</u>
2000-01	5	\$ 72,006.11	\$3,113.95	4.32%	\$ 0.00	0.00%
2001-02	5	294,926.72	2,580.90	0.88%	1,218.47	0.41%

⁽¹⁾Reflects fiscal year delinquencies on or about June 30th of the indicated fiscal year.

Source: David Taussig & Associates, Inc.

**Table 23
Poway Unified School District
Public Financing Authority
Community Facilities District No. 5
Special Tax Delinquency History**

<u>Fiscal Year</u>	<u>Parcels Delinquent</u>	<u>Aggregate Special Tax</u>	<u>Fiscal Year Amount Delinquent ⁽¹⁾</u>	<u>Fiscal Year Delinquency Rate</u>	<u>Remaining Amount Delinquent as of 12/10/02</u>	<u>Remaining Delinquency Rate as of 12/10/02</u>
2000-01	NA	NA	NA	NA	NA	NA
2001-02	4	\$103,711.44	\$1,978.05	1.91%	\$0.00	0.00%

⁽¹⁾Reflects fiscal year delinquencies on or about June 30th of the indicated fiscal year.

Source: David Taussig & Associates, Inc.

Table 24
Poway Unified School District
Public Financing Authority
Community Facilities District No. 7
Special Tax Delinquency History

<u>Fiscal Year</u>	<u>Parcels Delinquent</u>	<u>Aggregate Special Tax</u>	<u>Fiscal Year Amount Delinquent ⁽¹⁾</u>	<u>Fiscal Year Delinquency Rate</u>	<u>Remaining Amount Delinquent as of 12/10/02</u>	<u>Remaining Delinquency Rate as of 12/10/02</u>
2000-01	NA	NA	NA	NA	NA	NA
2001-02	2	\$111,242.88	\$1,794.24	1.61%	\$598.08	0.54%

⁽¹⁾ Reflects fiscal year delinquencies on or about June 30th of the indicated fiscal year.

Source: David Taussig & Associates, Inc.

Special Taxes Are Not Within Teeter Plan

The Special Taxes are not encompassed within the alternate procedure for the distribution of certain property tax levies on the secured roll pursuant to Chapter 3, Part 8, Division 1 of the California Revenue and Taxation Code (Section 4701 et seq.), commonly referred to as the "Teeter Plan." The County of San Diego has adopted a Teeter Plan under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies with the County on the basis of the tax levy, rather than on the basis of actual tax collections. However, by policy, the County does not include special taxes, assessments, or reassessments in its Teeter Plan. The Special Taxes of each District are not included in the County's Teeter Plan.

Estimated Assessed Value-to-Lien Ratios and Tax Burdens

The assessed values, direct and overlapping land secured bonded indebtedness and total tax burden on the individual parcels vary among parcels within CFD No. 2, CFD No. 3, CFD No. 5 and CFD No. 7. The value of and tax burden on individual parcels is significant because in the event of a delinquency in the payment of Special Taxes a District may foreclose only against delinquent parcels.

The estimated assessed value-to-lien ratios for each of the parcels of Developed Property within CFD No. 2, CFD No. 3, CFD No. 5 and CFD No. 7 upon which a Special Tax was levied in Fiscal Year 2002-03 range from 5 to 1 to 46 to 1. The table below groups value-to-lien ratios by District and by land use classification.

**Table 25
Poway Unified School District
Public Financing Authority
Developed Property
Value-to-Lien Analysis⁽²⁾**

District ⁽¹⁾	2002-03 Assessed Value ⁽³⁾	Estimated 2002-03 Lien ⁽⁴⁾	Average Value-to-Lien Ratio
CFD No. 2			
SFD	\$ 174,610,441	\$12,635,000	14:1
CFD No. 3			
SFD	112,254,766	3,842,890	29:1
SFA	49,893,114	2,014,402	25:1
CFD No. 5			
Developed Property	95,649,117	6,994,991	14:1
CFD No. 7			
Developed Property	<u>115,733,458</u>	<u>5,870,000</u>	<u>20:1</u>
Total	\$548,140,896	\$31,357,283	NA

⁽¹⁾Key: SFD - Single Family Detached
SFA - Single Family Attached

⁽²⁾Developed Property only.

⁽³⁾Fiscal Year 2002-03 assessed value per the San Diego County Assessor's equalized assessment roll dated January 1, 2002.

⁽⁴⁾Reflects net direct and overlapping tax and assessment debt applicable to Developed Property only, including the estimated Local Obligations. Does not include debt supported by *ad valorem* taxes levied on parcels within the Districts.

Source: David Taussig & Associates, Inc.

The table below sets forth a summary of the estimated tax burden on parcels within CFD No. 2 based on 2002-03 assessed property values and 2002-03 tax and assessment levies within CFD No. 2.

**Table 26
Poway Unified School District
Public Financing Authority
Community Facilities District No. 2
Estimated Annual Tax Burdens**

Land Use Class	Minimum Annual Tax Burden	Maximum Annual Tax Burden	Median Tax as % of AV ⁽¹⁾
Detached Unit	\$2,385.20	\$15,330.56	1.44%

⁽¹⁾ Tax burden reflects *ad valorem* taxes, Special Taxes as initially enrolled on Fiscal Year 2002-03 property tax roll, prior to corrections and other direct assessments. Direct assessments have been estimated based on a sampling of direct assessments applicable to individual parcels in CFD No. 2. Approximately 8% of the taxable parcels in CFD No. 2 have tax burdens in excess of 2% of their assessed value.

Source: David Taussig & Associates, Inc.

The table below sets forth a summary of the estimated tax burden on parcels within CFD No. 3 based on 2002-03 assessed property values and 2002-03 tax and assessment levies within CFD No. 3.

**Table 27
Poway Unified School District
Public Financing Authority
Community Facilities District No. 3
Estimated Annual Tax Burdens**

Land Use Class	Minimum Annual Tax Burden	Maximum Annual Tax Burden	Median Tax as % of AV ⁽¹⁾
Detached Unit	\$7,221.58	\$10,611.18	1.69%
Attached Unit	3,186.24	6,764.68	1.96%
Median Aggregate Tax as % of AV			1.79%

⁽¹⁾ Tax burden reflects *ad valorem* taxes, Special Taxes as initially enrolled on Fiscal Year 2002-03 property tax roll, prior to corrections and other direct assessments. Direct assessments have been estimated based on a sampling of direct assessments applicable to individual parcels in CFD No. 3. Approximately 21% of the taxable parcels in CFD No. 3 have tax burdens in excess of 2% of their assessed value.

Source: David Taussig & Associates, Inc.

The table below sets forth a summary of the estimated tax burden on parcels within CFD No. 5 based on 2002-03 assessed property values and 2002-03 tax and assessment levies within CFD No. 5.

**Table 28
Poway Unified School District
Public Financing Authority
Community Facilities District No. 5
Estimated Annual Tax Burdens**

Land Use Class	Minimum Annual Tax Burden	Maximum Annual Tax Burden	Median Tax as % of AV ⁽¹⁾
Detached Unit	\$6,001.86	\$17,711.28	1.60%

⁽¹⁾ Tax burden reflects *ad valorem* taxes, Special Taxes as initially enrolled on Fiscal Year 2002-03 property tax roll, prior to corrections and other direct assessments. Direct assessments have been estimated based on a sampling of direct assessments applicable to individual parcels in CFD No. 5. Approximately 7% of the taxable parcels in CFD No. 5 have tax burdens in excess of 2% of their assessed value.

Source: David Taussig & Associates, Inc.

The table below sets forth a summary of the estimated tax burden on parcels within CFD No. 7 based on 2002-03 assessed property values and 2002-03 tax and assessment levies within CFD No. 7.

**Table 29
Poway Unified School District
Public Financing Authority
Community Facilities District No. 7
Estimated Annual Tax Burdens**

Land Use Class	Minimum Annual Tax Burden	Maximum Annual Tax Burden	Median Tax as % of AV ⁽¹⁾
Detached Unit	\$11,418.46	\$24,521.40	1.47%

⁽¹⁾ Tax burden reflects *ad valorem* taxes, Special Taxes as initially enrolled on Fiscal Year 2002-03 property tax roll, prior to corrections and other direct assessments. Direct assessments have been estimated based on a sampling of direct assessments applicable to individual parcels in CFD No. 7. None of the taxable parcels in CFD No. 7 have tax burdens in excess of 2% of their assessed value.

Source: David Taussig & Associates, Inc.

BONDOWNERS' RISKS

In addition to the other information contained in this Official Statement, the following risk factors should be carefully considered in evaluating the investment quality of the Bonds. The Authority and the Districts caution prospective investors that this discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the Districts to pay their Special Taxes when due. Any such failure to pay Special Taxes could result in the inability of the Districts to make full and punctual payments of debt service on the Local Obligations which could result in the inability of the Authority to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the Districts.

The Bonds

The ability of the Authority to pay the principal of and interest on the Bonds depends upon the receipt by the Trustee of sufficient Revenues from repayment of the Local Obligations, amounts on deposit in the Reserve Fund and interest earnings on amounts in the funds and accounts for the Bonds established by the Authority Indenture. A number of risks that could prevent the Districts from repaying the Local Obligations are outlined below.

Limited Secondary Market. There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the Authority and the Districts have committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Depletion of Reserve Fund The Reserve Fund is to be maintained at an amount equal to the Reserve Requirement (see "SECURITY FOR THE BONDS – Reserve Fund" herein). Funds in the Reserve Fund may be used to pay principal of and interest on the Bonds in the event the proceeds of the Local Obligations debt service are insufficient due to delinquencies in Special Tax payments. If funds in the Reserve Fund for the Bonds are depleted, the funds can be replenished from the applicable Local Obligation derived from the levy and collection of the Special Taxes that are in excess of the amount required to pay all amounts to be paid to the Bondowners pursuant to the applicable District Bond Indenture. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Taxes against property within the applicable District, at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Fund will be depleted and not be replenished by the levy of the applicable Local Obligations.

Loss of Tax Exemption. As discussed under the caption "CONCLUDING INFORMATION – Tax Exemption," the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of a failure of the Authority or the Districts to comply with certain provisions of the Code. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Authority has covenanted in the Authority Indenture and the Districts have covenanted in each District Bond Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Interest on the Bonds could become includable in gross income for purposes of Federal income taxation retroactive to the date the Bonds were issued, as a result of facts or omissions of the Authority or the Districts in violation of the Code. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the applicable District Bond Indenture.

Limitations on Remedies. Remedies available to the Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve

the tax-exempt status of the Bonds. See “**BONDOWNERS’ RISKS – The Bonds – No Acceleration Provisions,**” and “**BONDOWNERS’ RISKS – The Local Obligations – Billing of Special Taxes**” herein.

No Acceleration Provision. The Bonds do **not** contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Authority Indenture. Pursuant to the Authority Indenture, **any owner** of any of the Bonds is given the right for the equal benefit and protection of all owners **similarly** situated to pursue certain remedies. See APPENDIX D – “SUMMARY OF LEGAL DOCUMENTS.”

The Local Obligations

Risks of Real Estate Secured Investments Generally. The Bond Owners will be subject to the risks generally incident to an investment secured by **real estate**, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the Districts, the supply of or demand for **competitive** properties in such area, and the market value of property in the event of sale or foreclosure; (ii) **changes** in real estate tax rate and other operating expenses, governmental rules (including, without limitation, **zoning** laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) **natural** disasters (including, without limitation, earthquakes, fire and floods), which may result in **uninsured** losses.

The Local Obligations are Limited Obligations of the Districts. The Districts have no obligation to pay principal of and interest on the Local Obligations in the event Special Tax collections are delinquent, other than from funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Taxes are delinquent, nor are the Districts **obligated** to advance funds to pay such debt service on the Local Obligations.

Special Taxes are Not Personal Obligations. The current and future owners of land within the Districts are not personally liable for the payment of the Special Taxes. Rather, the Special Tax is an obligation only of the land within each District. **If the value** of the land within a District is not sufficient to fully secure the Special Tax, then the District has **no recourse** against the owner under the laws by which the Special Tax has been levied and the Local Obligations have been issued.

Appraised/Assessed Value. Prospective purchasers of the Bonds should not assume that the land within a District could be sold for the appraised or **assessed** amount described in this Official Statement at a foreclosure sale for delinquent Special Taxes. The Appraisal summarized in APPENDIX C hereto estimates the fee simple interest minimum market **value** of the residential property within each District. This value is merely the present opinion of the Appraiser, and is qualified by the Appraiser as stated in the Appraisal. The Authority and the Districts have **not sought** the present opinion of any other appraiser of the value of the Taxable Property. A different **present** opinion of such value might be rendered by a different appraiser.

The opinion of value relates to sale by a **willing** seller to a willing buyer, each having similar information and neither being forced by other **circumstances** to sell nor to buy. Consequently, the opinion is of limited use in predicting the selling price at a foreclosure sale, because the sale is forced and the buyer may not have the benefit of full information.

In addition, the opinion is a **present** opinion. It is based upon present facts and circumstances. Differing facts and circumstances may lead to **differing** opinions of value. The appraised market value is not evidence of future value because future **facts and** circumstances may differ significantly from the present.

No assurance can be given that if **any of the Taxable** Property in a District should become delinquent in the payment of Special Taxes, and **be foreclosed** upon, that such property could be sold for the amount of estimated market value thereof **contained** in the Appraisal or for the assessed value. See “THE DISTRICTS – Appraised Values.”

Value to Lien Ratios. Value to lien ratios **have** traditionally been used in land-secured bond issues as a measure of the “collateral” supporting the **willingness** of property owners to pay their special taxes and assessments (and, in effect, their general property **taxes as well**). The value to lien ratio is mathematically a fraction, the numerator of which is the value of the **property** (usually either the assessed value or a market value as determined by an appraiser) and the **denominator** of which is the “lien” of the assessments or special taxes. A value to lien ratio should not, **however,** be viewed as a guarantee of credit-worthiness. Land values are especially sensitive to economic **cycles**. A downturn of the economy may depress land values and hence the value-to-lien ratios. **Further,** the value-to-lien ratio cited for a bond issue is an

average. Individual parcels in a community facilities district may fall above or below the average, sometimes even below a 1:1 ratio. (With a 1:1 ratio, the land is worth less than the debt on it.) Although judicial foreclosure proceedings can be initiated rapidly, the process can take several years to complete, and the bankruptcy courts may impede the foreclosure action. Finally, local agencies may form overlapping community facilities districts or assessment districts. They typically do not coordinate their bond issuances. Debt issuance by another entity can dilute value-to-lien ratios. See "THE DISTRICTS – Direct and Overlapping Debt."

Limited Obligation. Neither the faith and credit nor the taxing power of the School District, the State or any political subdivision thereof other than each District is pledged to the payment of the Local Obligations. Except for the Special Taxes, no other taxes are pledged to the payment of the Local Obligations. The Local Obligations are not general or special obligations of the School District, the State or any political subdivision thereof nor general obligations of the Districts, but are special obligations of each District, payable solely from Net Special Taxes and the other assets pledged therefor under each District Bond Indenture.

Burden of Parity Liens, Taxes and Other Special Assessments on the Taxable Property. While the Special Taxes are secured by the Taxable Property, the security only extends to the value of such Taxable Property that is not subject to priority and parity liens and similar claims.

The tables in the section entitled "THE DISTRICTS – Direct and Overlapping Debt" state the presently outstanding amount of governmental obligations (with stated exclusions), the tax or assessment for which is or may become an obligation of one or more of the parcels of Taxable Property and furthermore states the additional amount of general obligation bonds the tax for which, if and when issued, may become an obligation of one or more of the parcels of Taxable Property. The tables do not specifically identify which of the governmental obligations are secured by liens on one or more of the parcels of Taxable Property.

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Taxes securing the Bonds.

In general, as long as the Special Taxes are collected on the County tax roll, the Special Taxes and all other taxes, assessments and charges also collected on the tax roll are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of proceedings to foreclose for delinquency of Special Taxes securing the Bonds, the Special Taxes will be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Special Taxes will generally be on a parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro-rata basis. Although the Special Taxes will generally have priority over non-governmental liens on a parcel of Taxable Property, regardless of whether the non-governmental liens were in existence at the time of the levy of the Special Taxes or not, this result may not apply in the case of bankruptcy.

While governmental taxes, assessments and charges are a common claim against the value of a parcel of Taxable Property, 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 pay the Special Taxes is a claim with regard to a hazardous substance. See "Hazardous Substances" below.

Disclosure to Future Purchasers. Each District recorded a Notice of the Special Tax Lien for the territory included in such District in the Office of the County Recorder of the County as described in "THE DISTRICTS – General." While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a commercial facility or residential units or the lending of money thereon. The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Taxes when due.

Utility Deregulation. The State of California in 2000 and 2001 experienced a crisis in the supply and pricing of electricity and gas. The crisis related to the State's deregulation of its energy markets. The crisis resulted in blackouts in several areas of the State in 2001 and further outages were predicted for the summer months when demand increases. No blackouts occurred in the summer of 2001 or 2002. The Districts are served by the San Diego Gas and Electric Company. Under the current terms of State regulation, San Diego Gas and Electric Company has been able to pass through significant portions of the substantial increase in the wholesale cost of gas and electricity to its customers. Other electrical utilities, such as Southern California Edison Company and Pacific Gas and Electric Company experienced a significant cash crisis and Pacific Gas and Electric Company submitted a Chapter 11 bankruptcy filing for protection from its creditors on April 6, 2001. The effect of the crisis on the local or State economy can not be predicted.

State Budget. As a result of the slowing State and United States economies, the State is experiencing serious budgetary shortfalls for the current fiscal year. Power purchases by the State from general fund appropriations have significantly reduced the State's cash reserves. In addition, the terrorist attacks of September 11, 2001 and subsequent hostilities have resulted in increased uncertainty regarding the economic and revenue outlook for the State. The effect of the State revenue shortfalls on the local or State economy or on the demand for, or value of, the property within the District cannot be predicted.

Special Tax Delinquencies. In order to pay debt service on the Local Obligations, it is necessary that the Special Taxes within each District be paid in a timely manner. Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Local Obligations are derived, are customarily billed to the properties within the Districts on the regular *ad valorem* property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular *ad valorem* property tax installments. The unwillingness or inability of a property owner to pay *ad valorem* property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future. If a substantial number of homeowners fail to pay the Special Taxes when due there could be significant special tax delinquencies.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the Local Obligations pending such sales or the prosecution of foreclosure proceedings and receipt by the District of the proceeds of sale. Such a delay could adversely affect the Authority's ability to pay principal of or interest on the Bonds.

See "SOURCES OF PAYMENT FOR THE BONDS – Covenant for Superior Court Foreclosure," for a discussion of the provisions which apply, and procedures which the Districts are obligated to follow under each District Bond Indenture, in the event of delinquencies in the payment of Special Taxes. See "Bankruptcy and Foreclosure Delay" below, for a discussion of limitations on each District's ability to foreclose on the lien of the Special Taxes in certain circumstances.

Bankruptcy and Foreclosure Delay. The payment of Special Taxes and the ability of a District to foreclose the lien of a delinquent Special Taxes as discussed in the section herein entitled "SOURCES OF PAYMENT FOR THE BONDS" may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a judicial foreclosure may be delayed due to congested local court calendars or procedural delays.

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the obligation to pay the Special Tax to become extinguished, bankruptcy of a property owner or of a partner or other equity owner of a property owner, could result in a stay of enforcement of the lien for the Special Taxes, a delay in prosecuting Superior Court foreclosure proceedings or adversely affect the ability or willingness of a property owner to pay the Special Taxes and could result in the possibility of delinquent Special Taxes not being paid in full. In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Special Tax, or any such delay or non-payment, would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds and the possibility of delinquent Special Taxes not being paid in

full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled *In re Glasply Marine Industries*. In that case, the court held that *ad valorem* property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. The court upheld the priority of unpaid taxes imposed after the filing of the bankruptcy petition as "administrative expenses" of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was to foreclose on the property and retain all of the proceeds of the sale except the amount of the pre-petition taxes.

According to the court's ruling, as administrative expenses, post-petition taxes would have to be paid, assuming that the debtor has sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise) it would at that time become subject to current *ad valorem* taxes.

The Act provides that the Special Taxes are secured by a continuing lien, which is subject to the same lien priority in the case of delinquency as *ad valorem* taxes. No case law exists with respect to how a bankruptcy court would treat the lien for the Special Taxes levied after the filing of a petition in bankruptcy. *Glasply* is controlling precedent for bankruptcy courts in the State. If the *Glasply* precedent was applied to the levy of the Special Tax, the amount of Special Tax received from parcels whose owners declare bankruptcy could be reduced.

It should also be noted that on October 22, 1994, Congress enacted 11 U.S. C. Section 362(b)(18), which added a new exception to the automatic stay for *ad valorem* property taxes imposed by a political subdivision after the filing of a bankruptcy petition. Pursuant to this new provision of law, in the event of a bankruptcy petition filed on or after October 22, 1994, the lien for *ad valorem* taxes in subsequent fiscal years will attach even if the property is part of the bankruptcy estate. Bondowners should be aware that the potential effect of 11 U.S. C. Section 362(b)(18) on the Special Taxes depends upon whether a court were to determine that the Special Taxes should be treated like *ad valorem* taxes for this purpose.

In addition, potential investors should be aware that judicial foreclosure proceedings are not summary remedies and can be subject to significant procedural and other delays caused by crowded court calendars and other factors beyond control of the District or the School District. Potential investors should assume that, under current conditions, it is estimated that a judicial foreclosure of the lien of Special Taxes will take up to two or three years from initiation to the lien foreclosure sale. At a Special Tax lien foreclosure sale, each parcel will be sold for not less than the "minimum bid amount" which is equal to the sum of all delinquent Special Tax installments, penalties and interest thereon, costs of collection (including reasonable attorneys fees), post-judgment interest and costs of sale. Each parcel is sold at foreclosure for the amounts secured by the Special Tax lien on such parcel and multiple parcels may not be aggregated in a single "bulk" foreclosure sale. If any parcel fails to obtain a "minimum bid," the District may, but is not obligated to, seek superior court approval to sell such parcel at an amount less than the minimum bid. Such Superior Court approval requires the consent of the owners of 75% of the aggregate principal amount of the Outstanding Bonds.

Other laws generally affecting creditors' rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six month period after termination of such military service to redeem property sold to enforce the collection of a tax or assessment, and a limitation on the interest rate on the delinquent tax or assessment to persons in military service if the court concludes the ability to pay such taxes or assessments is materially affected by reason of such service.

Exempt Properties. Certain parcels applicable (primarily the park site and open space areas) are exempt from the Special Tax in accordance with each Rate and Method of Apportionment and applicable provisions of the Act. The Act provides that properties or entities of the State, federal or local government are exempt from the Special Tax; provided, however, that property within the Districts acquired by a public entity through negotiated transactions, or by gift or devise, which is not otherwise exempt from the Special Tax will continue to be subject to the Special Tax. In addition, the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have

not been tested. If for any reason property subject to the Special Tax becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government, or another public agency, subject to the limitation of the maximum authorized rate of levy, the Special Tax may be reallocated to the remaining taxable properties within the Districts. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the timely payment of the Special Tax; however, the amount of Special Tax to be levied and collected from the property owner is subject to the Maximum Special Tax as set forth in each Rate and Method of Apportionment. If a substantial portion of land within the Districts became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Local Obligations when due and a default will occur with respect to the payment of such principal and interest.

The Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax. The Act would prohibit the Board from adopting a resolution to reduce the rate of the Special Tax or terminate the levy of the Special Tax unless the Board determined that the reduction or termination of the Special Tax "would not interfere with the timely retirement" of the Local Obligations. See " - Right to Vote on Taxes Act" below.

Maximum Rates. Within the limits of the each Rate and Method of Apportionment, each District may adjust the Special Tax levied on all property within the District to provide an amount required to pay debt service on its Local Obligations and other obligations of the District, and to pay all of its annual Administrative Expenses, costs relating to the Surety Bond and make its rebate payments to the United States government. However, the amount of the Special Tax that may be levied against particular categories of property within a District is subject to the maximum rates provided in the applicable Rate and Method of Apportionment. There is no assurance that the maximum rates will at all times be sufficient to pay the amounts required to be paid by the District Bond Indentures. See "SOURCES OF PAYMENT FOR THE BONDS - The Local Obligations" and "THE DISTRICTS - Rates and Methods of Apportionment of Special Tax."

Insufficiency of Special Taxes. Under each Rate and Method of Apportionment, the annual amount of Special Tax to be levied on each taxable parcel in the District will be based primarily on whether such parcel is developed or not and, for Developed Property, on the type of structure and square footage of buildings constructed. See APPENDIX B - "RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX."

District Formation. California voters, on June 6, 1978, approved an amendment ("Article XIII A") to the California Constitution. Section 4 of Article XIII A, requires a vote of two-thirds of the qualified electorate to impose "special taxes," or any additional *ad valorem*, sales or transaction taxes on real property. At an election held pursuant to the Act, more than two-thirds of the qualified electors within each District, consisting of the landowners within the boundaries of the applicable District, authorized such District to incur bonded indebtedness to finance the applicable project and approved the applicable Rate and Method of Apportionment. The Supreme Court of the State of California has not yet decided whether landowner elections (as opposed to resident elections) satisfy requirements of Section 4 of Article XIII A, nor has the Supreme Court decided whether the special taxes of a community facilities district constitute a "special tax" for purposes of Article XIII A.

Section 53341 of the Act requires that any action or proceeding to attack, review, set aside, void or annul the levy of a special tax or an increase in a special tax pursuant to the Act shall be commenced within 30 days after the special tax is approved by the voters. No such action has been filed with respect to the Special Tax.

Billing of Special Taxes. A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn can lead to problems in the collection of the special tax. In some community facilities districts the taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and the bonds issued by the district.

Under provisions of the Act, the Special Taxes are billed to the properties within each District which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, 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 property tax payments and installment payments of Special Taxes in the future. See "SOURCES OF PAYMENT FOR THE BONDS - Covenant for Superior Court Foreclosure," for a discussion of the provisions which apply, and procedures which each District is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

Collection of Special Tax. In order to pay debt service on the Bonds, it is necessary that the Special Tax levied against land within each District be paid in a timely manner so that debt service on the Local Obligations is paid in a timely manner. Each District has covenanted in the applicable District Bond Indenture under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the Local Obligations. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. In the event such superior court foreclosure is necessary, there could be a delay in principal and interest payments to the Authority as the owner of the Local Obligations pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. Although the Act authorizes the Board to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the Board with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See "SOURCES OF PAYMENT FOR THE BONDS - Covenant for Superior Court Foreclosure."

Seismic Conditions. The Districts are located in a seismically active region in Southern California. Active faults which could cause significant ground shaking over the Districts include, but are not limited to, the Rose Canyon fault zone (approximately 20 miles west), the Elsinore fault zone (approximately 23 miles northeast), the San Jacinto fault zone (approximately 45 miles northeast) and the San Andreas fault zone (approximately 72 miles northeast). Earthquakes of magnitude of 6 (Rose Canyon fault) to 8 (San Andreas fault) on the Richter scale are possible.

In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the Districts. As a result, the property owners may be unable or unwilling to pay the Special Taxes when due, and the Reserve Fund may eventually become depleted. In addition, the value of land in the Districts could be diminished in the aftermath of such natural events, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes. Development within the Districts has been built in accordance with applicable building codes, including requirements relating to seismic safety. No assurances can be given that any earthquake insurance will be obtained as to any of the improvements within the Districts.

Hazardous Substances. While government taxes, assessments, and charges are a common claim against the value of a taxed parcel, other less common claims can occur. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Taxes is a claim with regard to hazardous substances. 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, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance. The effect therefore, should any of the parcels be affected by a hazardous substance, would be to reduce the marketability and value 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.

Further, it is possible that liabilities may arise in the future with respect to any of the land within the Districts resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or 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 adversely affect

the value of a parcel and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

Special Taxes are not within Teeter Plan. The Special Taxes are not encompassed within the alternate procedure for the distribution of certain property tax levies on the secured roll pursuant to Chapter 3, Part 8, Division 1 of the California Revenue and Taxation Code (Section 4701 et seq.), commonly referred to as the "Teeter Plan." The County of San Diego has adopted a Teeter Plan under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies with the County on the basis of the tax levy, rather than on the basis of actual tax collections. However, by policy, the County does not include special taxes, assessments, or reassessments in its Teeter Plan. The Special Taxes of each District are not included in the County's Teeter Plan.

Right to Vote on Taxes Act. An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C ("Article XIII C") and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative have not yet been interpreted by the courts, although a number of lawsuits have been filed requesting the courts to interpret various aspects of the Initiative.

Among other things, Section 3 of Article XIII states that "... the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." The Act provides for a procedure, which includes notice hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

"Section 3 of Article XIII C of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution."

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Local Obligations.

It may be possible, however, for voters or the Districts to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Local Obligations but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Local Obligations.

Like its antecedents, Proposition 218 is likely to undergo both judicial and legislative scrutiny before its impact on the Districts and its obligations can be determined. Certain provisions of Proposition 218 may be examined by the courts for their constitutionality under both State and federal constitutional law. The Districts are not able to predict the outcome of any such examination. The Districts have covenanted in each District Bond Indenture not to modify the maximum authorized Special Taxes in a manner which would prohibit the District from levying the Special Tax in any Fiscal Year at such a rate as could generate Special Taxes in each Fiscal Year at least equal to 110% of Annual Debt plus the Administrative Expense Requirements.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The Districts do not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Local Obligations as well as the market for

the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

Ballot Initiatives and Legislative Measures. The Initiative was adopted pursuant to a measure qualified for the ballot pursuant to California's constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the State Legislature. The adoption of any such initiative or enactment of legislation might place limitations on the ability of the State, the School District or local districts to increase revenues or to increase appropriations or on the ability of a property owner to complete the development of the property.

Funds Invested in the County Investment Pool. On January 24, 1996, the United Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county and held that a state statute purporting to create a priority secured lien on a portion of such moneys was ineffective unless such moneys could be traced. Following payment of the Special Taxes to the School District on behalf of the Districts, or to the Trustee, such funds may be invested in the name of the Fiscal Agent or the Trustee, for a period of time in the County Investment Pool. In the event of a petition for the adjustment of County debts under Chapter 9 of the Federal Bankruptcy Code, a court might hold that the Bondowners or revenues, as applicable do not have a valid and/or prior lien on the Revenues or that the Authority does not have a valid and/or prior lien on the Special Taxes where such amounts are deposited in the County Investment Pool and may not provide the Bondowners or the Authority with a priority interest in such amounts. In that circumstance, unless the Bondowners or the Authority with a priority interest in such amounts. In that circumstances, unless the Bondowners or the Authority could "trace" the funds that have been deposited in the County Investment Pool, the Bondowners or the Authority would be unsecured (rather than secured) creditors of the County. There can be no assurance that the Bondowners or the Authority could successfully so "trace" the Special Taxes.

THE AUTHORITY

The Authority is a joint powers authority established by the School District and CFD No. 1 and constitutes a public instrumentality of the State. The Authority was formed for the public purpose of assisting in financing public capital improvements of the School District. The debts of the Authority are not an obligation of either the School District or CFD No. 1. The Authority was formed pursuant to a joint powers agreement approved and executed by the School District and CFD No. 1 dated as of October 21, 2002. The Authority is governed by a five-member Board of Directors which consists of all members of the Board. The President of the Board has been appointed the President of the Authority. The School District Superintendent acts as the Secretary of the Authority.

The Joint Powers Act provides for the issuance of revenue bonds of joint powers authorities, such as the Authority, to be repaid solely from the revenues of certain public obligations, such as the Local Obligations. The Authority has no taxing power. Pursuant the Joint Powers Act, the Authority is authorized to issue its revenue bonds for the purpose of financing, among other things, public capital improvement projects or to refund outstanding obligations of local entities.

The Bonds are being sold to provide money to enable the Authority to purchase the Local Obligations. On January 21, 2003, by the adoption of Resolution No. 48-2003, the Authority authorized the execution of the Authority Indenture and the purchase of the Local Obligations.

THE AUTHORITY IS NOT OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS, EXCEPT FROM REVENUES RECEIVED BY THE AUTHORITY. THE SCHOOL DISTRICT HAS NO LIABILITY WITH RESPECT TO THE PAYMENT OF THE BONDS, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR THE SCHOOL DISTRICT IS PLEDGED TO THE PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

The Authority may issue obligations other than the Bonds, which other obligations are and will be secured by instruments and revenues separate and apart from the Authority Indenture and the Bonds. The holders of such obligations of the Authority have no claim on the security of the Bonds and the owners of the Bonds will have no claim on the security of such other obligations issued by the Authority.

CONCLUDING INFORMATION

Tax Exemption

In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority and the Districts comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the Districts have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having a amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Bond, and under Treasury Regulations, the amount of tax exempt interest received will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

Absence of Litigation

No litigation is pending or threatened concerning the validity of the Bonds or the Local Obligations. There is no action, suit or proceeding known by the Authority or the Districts to be pending at the present time restraining or enjoining the delivery of the Bonds or the Local Obligations, or in any way contesting or affecting the validity of the Bonds or the Local Obligations or any proceedings of the

Authority or the Districts taken with respect to the execution thereof. No litigation certificates executed by the Authority and the Districts will be delivered to the Underwriter simultaneously with the delivery of the Bonds.

No General Obligation of Authority, School District or Districts

The Bonds are not general obligations of the Authority, School District or the Districts, but are limited obligations of the Authority payable from Revenues derived from the Local Obligations. The Local Obligations are not general obligations of the Districts, but are limited obligations of the Districts payable solely from proceeds of the Special Taxes and proceeds of the Local Obligations, including amounts in the Special Tax Fund and Bond Service Fund and investment income on funds held pursuant to the District Bond Indentures (other than as necessary to be rebated to the United States of America pursuant to Section 148(f) of the Code and any applicable regulations promulgated pursuant thereto). Any tax levied for the payment of the Local Obligations shall be limited to the Special Taxes to be collected within the applicable District.

Legal Opinion

All proceedings in connection with the issuance of the Bonds are subject to the approval as to their legality of Best Best & Krieger LLP, San Diego, California, Bond Counsel for the Authority and the Districts in connection with the Bonds and the Local Obligations. The unqualified opinion of Bond Counsel approving the validity of the Bonds will be attached to each Bond, and the form of such opinion is attached hereto as APPENDIX F. Bond Counsel's employment is limited to a review of legal procedures required for the approval of the Bonds and the Local Obligations and to rendering an opinion as to the validity of the Bonds and the Local Obligations and the exemption of interest on the Bonds from income taxation. Certain legal matters will also be passed upon by McFarlin & Anderson, Lake Forest, California, as Disclosure Counsel. Best Best & Krieger LLP will also pass upon certain legal matters for the Authority, the School District and the Districts as special counsel to these entities. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Ratings

Moody's Investors Service and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. are expected to assign a rating of "Aaa" and "AAA," respectively, to the Bonds, with the understanding that, upon delivery of the Bonds, the Financial Guaranty Insurance Policy will be issued by Ambac Assurance. Such ratings reflect only the views of such organizations and any explanation of the significance of such ratings should be obtained from the rating agency furnishing the same at the following addresses: Moody's Investors Service, 3 Embarcadero Center, Suite 920, San Francisco, California 94111 and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any of such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by either rating agency, if in the judgment of such rating agency, circumstances so warrant. Except as set forth in the Continuing Disclosure Agreement, the Authority and the Districts undertake no responsibility to bring to the attention of Owners of the Bonds any downward revision or withdrawal of a rating. The Authority and the Districts undertake no responsibility to oppose any such revision or withdrawal.

Underwriting

The Bonds are being purchased by Stone & Youngberg LLC (the "Underwriter") at a purchase price of \$20,955,628.40 (which represents the principal amount of the Bonds less Original Issue Discount of \$144,686.60 and less Underwriter's discount of \$234,685.00). The Bond Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such Bond Purchase Agreement.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

Professional Fees

Fees payable to certain professionals, including the Underwriter, McFarlin & Anderson, as Disclosure Counsel, Best Best & Krieger LLP, as Bond Counsel, U.S. Bank National Association, as the Trustee and as the Fiscal Agent, Ambac Assurance and the rating agencies are contingent upon the issuance of the Bonds. The fees of David Taussig & Associates, Inc., as Special Tax Consultant, are in part contingent upon the issuance of the Bonds. The fees of Stephen G. White, MAI, as Appraiser, are not contingent upon the issuance of the Bonds.

Additional Information

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority, the Districts or the School District and the purchasers or Owners of any of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the Authority and the School District and on behalf of the Districts.

POWAY UNIFIED SCHOOL DISTRICT PUBLIC
FINANCING AUTHORITY AND POWAY UNIFIED
SCHOOL DISTRICT ON BEHALF OF AND FOR
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NOS. 2, 3, 5
AND 7

By: /s/ Keith L. Bradford
Keith L. Bradford, Associate Superintendent of
the Poway Unified School District as Auditor and
Treasurer of the Poway Unified School District
Public Financing Authority and on behalf of CFD
No. 2, CFD No. 3, CFD No. 5 and CFD No. 7 of
the Poway Unified School District

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APPENDIX A

GENERAL INFORMATION ABOUT THE POWAY UNIFIED SCHOOL DISTRICT

The following information relating to the School District is included only for the purpose of supplying general information regarding the School District. Neither the faith and credit nor the taxing power of the School District has been pledged to payment of the Bonds, and the Bonds will not be payable from any of the School District's revenues or assets.

Introduction

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the School District. Additional information concerning the School District and copies of the most recent and subsequent audited financial reports of the School District may be obtained by contacting: Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3098, Attention: Associate Superintendent - Business Support Services.

General Information

The School District is a school district organized under the laws of the State of California. The School District was established in 1962. The School District provides education instruction for grades K-12 within an approximately 99.1 square mile area of San Diego County. The School District currently operates 21 (K-5) elementary schools, five (6-8) middle schools, four comprehensive high schools (9-12) and one continuation high school. The School District includes the City of Poway and portions of the City of San Diego in San Diego County, California. The School District's projected average daily attendance ("ADA") computed in accordance with State law for the 2002-03 academic year is approximately 31,405. As of January, 2001, the estimated population within the School District's boundaries was approximately 162,250 and as of January 2002, approximately 32,475 students attending schools in the School District. The pupil/teacher ratio is approximately 20:1 for grades K-3 and 30:1 for grades 4-12. The School District has implemented classroom size reduction in grades K through 3 and in such classes, the pupil/teacher ratio is approximately 20:1. There is a lower class size average for 9th grade English and Mathematics.

Administration and Enrollment

The School District is governed by the Board of Education. The five Board members are elected to four-year terms in alternate slates of three and two in elections held every two years. If a vacancy arises during any term, the vacancy is filled by an appointment by a majority vote of the remaining Board members and, if there is no majority, by a special election.

The Superintendent of the School District is responsible for administering the affairs of the School District in accordance with the policies of the Board. The School District also employs a Deputy Superintendent, four Area Superintendents for Learning Support Services, an Associate Superintendent of Business Support Services and an Assistant Superintendent of Personnel Support Services.

From fiscal year 1994-95 through fiscal year 2001-02, the School District's enrollment increased by 3,470, an average of approximately 2 percent per year. Information concerning enrollment for these years, as well as estimated fiscal year 2002-03 are set forth below:

**Poway Unified School District
Student Enrollment**

	Fiscal Year	Enrollment	District Average Daily Attendance	District Base Revenue Limit
<i>Historical</i>	1994-95	29,037	29,020	\$3,468.39
	1995-96	29,940	29,893	3,615.36
	1996-97	30,664	30,531	3,809.77
	1997-98	31,309	31,214	3,912.12
	1998-99 ⁽¹⁾	31,831	30,877	4,214.70
	1999-00	32,546	31,515	4,274.70
	2000-01	32,528	31,203	4,412.70
	2001-02	32,507	31,319	4,597.38
<i>Estimated</i>	2002-03	32,523	31,405	4,679.70

Source: California Department of Education and the School District.

⁽¹⁾ The decrease in the rate of growth from Fiscal Year 1997-98 is due to State legislation that changed the method of calculating ADA to eliminate excused absences from the total. The legislation also increased the Base Revenue Limit so that the change in methodology did not result in a loss of revenue for districts.

Labor Relations

As of August 1, 2002, the School District employed approximately 2,362 certificated professionals and approximately 1,616 classified employees. The certificated professionals, except management and some part-time employees, are represented by the bargaining unit as noted below:

**Poway Unified School District
District Employees**

Labor Organization	Approximate Number of Employees In Organization	Contract Expiration Date
Poway Federation of Teachers (PFT), Local 2357	1,750	6/30/02 ⁽¹⁾
Service Employees International Union	483	6/30/04
California School Employees Association	1,224	6/30/04

⁽¹⁾ The Poway Federation of Teachers contract expired June 30, 2002 but is still in effect as of September 1, 2002.

Source: The School District.

Retirement Programs

The School District participates in the State of California Teachers Retirement System ("STRS"). This plan covers certificated employees. The School District's contribution to STRS for Fiscal Year 1999-00 was \$7,853,513.41, in Fiscal Year 2000-01 was \$8,814,311.32, in Fiscal Year 2001-02 was \$9,265,362 and in Fiscal Year 2002-03 is budgeted at \$9,332,415. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The School District also participates in the State of California Public Employees Retirement Systems ("PERS"). This plan covers all classified personnel who are employed 1,000 or more hours per fiscal year. The School District's contribution to PERS since 1998 has been \$0.00. The contribution for Fiscal Year 2002-03 is budgeted at \$763,088.

Contribution rates to these two retirement systems vary annually depending on changes in actuarial assumptions and other factors, such as changes in retirement benefits. The contribution rates are based on statewide rates set by the STRS and PERS retirement boards. STRS has a substantial statewide unfunded liability. Since this liability has not been broken down by each school district, it is impossible to determine the School District's share.

Insurance

The School District maintains commercial insurance or self-insurance for property damage, general liability and workers' compensation in such amounts and with such retentions and other terms as the School District believes to be adequate based on actual risk exposure and as may be required by statute.

The State of California has authorized the School District to operate a Self-Insured Workers' Compensation Plan to finance liabilities arising from employee industrial injuries. Under this program, the Fund provides coverage for individual claims up to a limit of \$350,000. Commercial insurance is purchased to defray claim costs exceeding the self-insured retention level.

The School District operates a Self-Insurance Program to cover general liability claim losses up to a limit of \$100,000 per claim and property losses up to \$100,000 per claim. Lower self-insured retentions apply to boiler and machinery/energy systems breakdown (\$1,000 per claim) and crime losses (\$500 per claim). Excess property and liability insurance is acquired through a combination of pooling through a joint powers authority and purchase of commercial insurance and reinsurance policies.

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APPENDIX B

RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAX

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**RATE AND METHOD OF APPORTIONMENT FOR
COMMUNITIES FACILITIES DISTRICT NO. 2
OF THE POWAY UNIFIED SCHOOL DISTRICT**

An Annual Special Tax and a One-Time Special Tax shall be levied on and collected in Community Facilities District No. 2 ("CFD No. 2") of the Poway Unified School District (the "School District") in each Fiscal Year, in an amount determined through the application of the rate and method of apportionment described below. All of the real property in CFD No. 2, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

"Acre" or "Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

"Act" means the Mello-Roos Communities Facilities Act of 1982 as amended, being Chapter 2.5, Division 2 of Title 5 of the Government Code of the State of California.

"Administrative Expenses" means any ordinary and necessary expenses of the School District to carry out its duties as the legislative body of CFD No. 2.

"Annual Special Tax" means the Special Tax to be levied in each Fiscal Year on each Assessor's Parcel of Taxable Property to fund the Annual Special Tax Requirement.

"Annual Special Tax Requirement" means the amount required in any Fiscal Year to pay: (1) the debt service on all Bonds or other indebtedness or other periodic costs on the Bonds or other indebtedness of CFD No. 2, (2) the cost of acquisition or construction of future Facilities, (3) Administrative Expenses of CFD No. 2, (4) the costs associated with the release of funds from an escrow account, (5) any amount required to establish or replenish any reserve funds established in association with the Bonds or other indebtedness of CFD No. 2, (6) lease payments for existing or future Facilities, and (7) any other payments permitted by law.

"Assessor's Parcel" means a lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number.

"Assessor's Parcel Map" means an official map of the Assessor of the County designating parcels by Assessor's Parcel Number.

"Assessor's Parcel Number" means that number assigned to an Assessor's Parcel by the County Assessor for purposes of identification.

"Assigned Annual Special Tax" means the Annual Special Tax on an Assessor's Parcel of Developed Property determined pursuant to Section C.1.a.i. below.

"Assistant Superintendent of Business" means the Assistant Superintendent of Business of the School District or his/her designee.

"Attached Unit" means an Assessor's Parcel of Residential Property that consists of or shall consist of a building or buildings in which each of the individual Units have at least one common wall with another Unit.

"Board" means the Board of Education of the School District or its designee.

"Bonds" means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, which obligation may be incurred by CFD No. 2.

"Building Square Footage" or **"BSF"** for any Residential Property means the square footage of internal living space, exclusive of garages or other structures not used as living space, as determined by reference to the building permit application for such Assessor's Parcel.

"CFD No. 2" means Community Facilities District No. 2 established by the School District under the Act.

"County" means the County of San Diego.

"Detached Unit" means an Assessor's Parcel of Residential Property which is not an Attached Unit.

"Developed Property" means all Assessor's Parcels in CFD No. 2 for which building permits for new construction were issued on or before March 1 of the prior Fiscal Year.

"Exempt Property" means the property designated as being exempt from Special Taxes in Section H.

"Facilities" means those school facilities (including land for school sites and required environmental mitigation) and other facilities which the School District is authorized by law to construct, own or operate and which would service the properties within CFD No. 2.

"Final Subdivision Map" means a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates building sites, recorded in the County Office of the Recorder.

"Fiscal Year" means the period commencing on July 1 of any year and ending the following June 30.

"Gross Prepayment Amount" for any Assessor's Parcel of Developed Property means that gross prepayment amount calculated as provided in Section E.1.

"Index" means the Lee Saylor Class D Construction Index published by the State Allocation Board. In the event the Lee Saylor Class D Construction Index ceases to be published, the index used by the State Allocation Board in place of the school construction cost index, currently found in the monthly meeting agenda of the Lee Saylor Class D Construction Index shall be applied.

"Initial Assigned Annual Special Tax" means the Assigned Annual Special Tax for an Assessor's Parcel which has been designated as Developed Property for the first time in that Fiscal Year.

"Land Use Class" means any of the classes of Developed Property listed in Table 1.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C, that can be levied by CFD No. 2 in any Fiscal Year on Taxable Property.

"One-Time Special Tax" means the single payment Special Tax to be levied in any Fiscal Year on each Assessor's Parcel of Undeveloped Property.

"Partial Prepayment Amount" means the dollar amount required to prepay a portion of the Annual Special Tax obligation on any Assessor's Parcel, determined pursuant to Section F.

"Prepayment Amount" means the dollar amount required to prepay all of the Annual Special Tax obligation on any Assessor's Parcel, determined pursuant to Section E.

"Proportionately" means that the ratio of the actual Annual Special Tax levy to the applicable Maximum Annual Special Tax is equal for all applicable Assessor's Parcels.

"Residential Property" means all Assessor's Parcels of Developed Property for which the building permit was issued for purposes of constructing a Unit(s).

"Senior Citizen Housing Unit" means an Assessor's Parcel of Residential Property within CFD No. 2 designated as senior citizen housing, residential care facilities for the elderly, or multi-level care facilities for the elderly as referred to in California Government Code Section 65995.1. For purposes hereof, it shall be sufficient to designate units as Senior Citizen Housing if Senior Citizen Restrictions have been effected.

"Senior Citizen Restriction" means (i) a restriction limiting the use of Units to senior citizen housing under the Subarea Plan, a final map or other governmental entitlements, or a declaration of covenants, conditions and restrictions or any similar recorded instrument or (ii) licensing from appropriate agencies received for residential care facilities for the elderly or multi-level care facilities as those terms are defined in Health and Safety Code Section 1569.2 and Government Code Section 15432(d)(9), respectively.

"Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor' Parcel of Taxable Property.

"Subarea Plan" means the Torrey Highlands Subarea Plan, draft dated June 10, 1996, and any amendments or implementing resolutions with respect hereto that do not increase the number of Units or other development affecting the need for Facilities.

"Taxable Property" means all Assessor's Parcels within the boundaries of CFD No. 2 which are not exempt from the Special Tax pursuant to law or Section H below.

"Undeveloped Property" means all Assessor's Parcels in CFD No. 2 for which no building permit was issued on or before March 1 of the prior Fiscal Year.

"Unit" means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units. Each Unit shall be classified as either a Detached Unit or an Attached Unit.

SECTION B ASSIGNMENT TO LAND USE CLASSES

For each Fiscal Year, beginning with Fiscal Year 1996-97, all Taxable Property within CFD No. 2 shall be classified as Developed Property, Undeveloped Property or Exempt Property, and each Assessor's Parcel of Developed Property shall be assigned to a Land Use Class by reference to Table 1.

TABLE 1

<i>DEVELOPED PROPERTY LAND USE CLASSES FOR CFD NO. 2</i>	
Land Use Class	Land Use
1	Detached Unit
2	Attached Unit
3	Senior Citizen Housing Unit

SECTION C MAXIMUM SPECIAL TAX

1. Developed Property

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property in any Fiscal Year shall be the amount derived by the application of the Assigned Annual Special Tax, plus (ii) the amount of any portion of the One-Time Special Tax that is not collected at building permit with respect to an Assessor's Parcel of Undeveloped Property which may be levied on such Assessor's Parcel when classified as Developed Property in the following Fiscal Year. The Initial Assigned Annual Special Tax for each Assessor's Parcel of Developed Property in Fiscal Year 1996-97 shall be the amount determined by reference to Table 2.

TABLE 2

INITIAL ASSIGNED ANNUAL SPECIAL TAXES FOR DEVELOPED PROPERTY		
Land Use Class	Land Use	Initial Assigned Annual Special Tax 1996-97
1	Detached Unit	\$1,565 per Unit
2	Attached Unit	\$645 per Unit
3	Senior Citizen Housing Unit	\$0.00 per Unit

Each July 1, commencing July 1, 1997, the Initial Maximum Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Fiscal Year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending December 31 of the prior Fiscal Year. For Fiscal Years following the Fiscal Year in which the Initial Maximum Annual Special Tax was applied, the Assigned Annual Special Tax shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

2. Undeveloped Property Maximum Special Tax

The Maximum Special Tax for any Assessor's Parcel classified as Undeveloped Property in any Fiscal Year shall be the sum of the Annual Special Tax and the One-Time Special Tax applicable to such Assessor's Parcel in such Fiscal Year.

a. Annual Special Tax

The Annual Special Tax per acre of an Assessor's Parcel classified as Undeveloped Property in any Fiscal Year shall not exceed \$0.00 per arce.

b. One-Time Special Tax

The One-Time Special Tax shall be levied and collected for each Assessor's Parcel of Undeveloped Property on or before the date a building permit for Residential Property is issued for such Assessor's Parcel. The One-Time Special Tax shall be in an amount equal to \$1.84 per square foot of Building Square Footage for Land Use Classes 1 and 2 and \$0.30 per square foot of Building Square Footage for Land Use Class 3. On each March 1, commencing March 1, 1997, the amount of the One-Time Special Tax shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Fiscal Year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending December 31 of the prior Fiscal Year.

SECTION D
METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX

Commencing Fiscal Year 1996-97 and for each subsequent Fiscal Year, the Assistant Superintendent of Business shall determine the Annual Special Tax Requirement to be collected from Taxable Property in CFD No. 2 in such Fiscal Year. The Special Tax shall be levied as follows until the amount of the levy equals the Annual Special Tax Requirement:

First: The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Maximum Special Tax applicable to such Assessor's Parcel.

Second: If the sum of the amounts levied on Assessor's Parcels in the first step above is less than the Annual Special Tax Requirement, then the Annual Special Tax shall be levied on each Assessor's Parcel of Undeveloped Property up to the Maximum Special Tax applicable to such Assessor's Parcel to satisfy the Annual Special Tax Requirement.

SECTION E
PREPAYMENT OF ANNUAL SPECIAL TAX

The Annual Special Tax obligation of an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be prepaid. An owner of an Assessor's Parcel intending to prepay the Annual Special Tax obligation shall provide CFD No. 2 with written notice of intent to prepay. Within 30 days of receipt of such written notice, CFD No. 2 shall notify such owner of the Prepayment Amount of such Assessor's Parcel.

1. Prior to Issuance of Bonds

Prior to the issuance of any Bonds, the Prepayment Amount for each Assessor's Parcel of Developed Property shall be the amount equal to the Gross Prepayment Amount minus the amount of One-Time Special Tax paid with respect to such Assessor's Parcel. The Gross Prepayment Amount for Fiscal Year 1996-97 is (i) \$16,247 for each Detached Unit and (ii) \$6,940 for each Attached Unit. On each July 1, commencing July 1, 1997, the Gross Prepayment Amounts shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Fiscal Year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending December 31 of the Fiscal Year.

2. Subsequent to Issuance of Bonds

After the issuance of any Bonds, the Prepayment Amount for each Assessor's Parcel of Developed Property shall be the amount equal to the Gross Prepayment Amount (as calculated in Section E.1) minus (i) the amount of One-Time Special Tax paid and (ii) the percentage of principal retired in CFD No. 2 with respect to such Assessor's Parcel. The percentage shall be determined by multiplying (a) the amount of regularly scheduled principal that has been retired on such Bonds, times (b) the percentage determined by reference to Table 3.

TABLE 3

PRINCIPAL RETIREMENT PERCENTAGE FOR DEVELOPED PROPERTY		
Land Use Class	Land Use	Principal Retirement Percentage
1	Detached Unit	0.0430% per Unit
2	Attached Unit	0.0184% per Unit

**SECTION F
PARTIAL PREPAYMENT OF SPECIAL TAX**

At the time a residential Final Subdivision Map is recorded for any Taxable Property within CFD No. 2, the property owner filing said Final Subdivision Map for recordation concurrently may elect for all of the Assessor's Parcel created by said Final Subdivision Map to prepay all or any portion of the applicable future Maximum Special Taxes. In order to prepay all or any portion of the applicable future Maximum Special Taxes, the residential Final Subdivision Map must contain at least 25 Detached Units or 50 Attached Units. The partial prepayment of the Annual Special Tax shall be collected at the time of the issuance of a building permit. The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meanings:

- PP = the Partial Prepayment Amount
- P_E = the Prepayment Amount calculated according to Section E
- F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Annual Special Tax obligation.

The owner of any Assessor's Parcel who desires such partial prepayment shall notify the Board of (i) such owner's intent to partially prepay the Annual Special Tax obligation and, (ii) the percentage by which the Annual Special Tax obligation shall be prepaid. The Board shall provide the owner with a statement of the amount required for the partial prepayment of the Annual Special Tax obligation for an Assessor's Parcel within ten (10) working days of the request and may charge a reasonable fee for providing this service.

With respect to any Assessor's Parcel that is partially prepaid, the Board shall indicate in the records of CFD No. 2 that there has been a partial prepayment of the Annual Special Tax and shall cause a suitable notice to be recorded in compliance with the Act within 30 days of receipt of such partial prepayment of Annual Special Taxes, to indicate the partial prepayment of Annual Special Taxes and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease. The

portion of the Annual Special Tax with respect to any Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Annual Special Tax, shall continue to be levied on such Assessor's Parcel.

The amount of the Partial Prepayment Amount deposited in the applicable redemption fund may be in an amount able to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the applicable redemption fund to be used with the next prepayment of Bonds.

Notwithstanding the foregoing, no partial prepayment shall be allowed unless the amount of Maximum Annual Special Taxes that may be levied on Taxable Property within CFD No. 2 both prior to and after the proposed partial prepayment is at least 1.1 times annual debt service on all Outstanding Bonds.

SECTION G TERMINATION OF SPECIAL TAX

The Annual Special Tax shall be levied for a term of twenty-five (25) Fiscal Years after the last bond series is issued for CFD No. 2, but in no event shall the Annual Special Tax be levied later than Fiscal Year 2045-46.

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**RATE AND METHOD OF APPORTIONMENT FOR
COMMUNITIES FACILITIES DISTRICT NO. 3
OF THE POWAY UNIFIED SCHOOL DISTRICT**

An Annual Special Tax and a One-Time Special Tax shall be levied on and collected in Community Facilities District No. 3 ("CFD No. 3") of the Poway Unified School District (the "School District") in each Fiscal Year, in an amount determined through the application of the rate and method of apportionment described below. All of the real property in CFD No. 3, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

"Acre" or "Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

"Act" means the Mello-Roos Communities Facilities Act of 1982 as amended, being Chapter 2.5, Division 2 of Title 5 of the Government Code of the State of California.

"Administrative Expenses" means any ordinary and necessary expenses of the School District to carry out its duties as the legislative body of CFD No. 3.

"Annual Special Tax" means the Special Tax to be levied in each Fiscal Year on each Assessor's Parcel of Taxable Property to fund the Annual Special Tax Requirement.

"Annual Special Tax Requirement" means the amount required in any Fiscal Year to pay: (1) the debt service on all Bonds or other indebtedness or other periodic costs on the Bonds or other indebtedness of CFD No. 3, (2) the cost of acquisition or construction of future Facilities, (3) Administrative Expenses of CFD No. 3, (4) the costs associated with the release of funds from an escrow account, (5) any amount required to establish or replenish any reserve funds established in association with the Bonds or other indebtedness of CFD No. 3, (6) lease payments for existing or future Facilities, and (7) any other payments permitted by law.

"Assessor's Parcel" means a lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number.

"Assessor's Parcel Map" means an official map of the Assessor of the County designating parcels by Assessor Parcel Number.

"Assessor's Parcel Number" means that number assigned to an Assessor's Parcel by the County Assessor for purposes of identification.

"Assigned Annual Special Tax" means the Annual Special Tax on an Assessor's Parcel of Developed Property determined pursuant to Section C1 below.

"Assistant Superintendent" means the Assistant Superintendent of Business of the School District or his/her designee.

"Attached Unit" means an Assessor's Parcel of Residential Property that consists of or shall consist of a building or buildings in which each of the individual Units have at least one common wall with another Unit.

"Board" means the Board of Education of the School District or its designee.

"Bonds" means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, which obligation may be incurred by CFD No. 3.

"Building Square Footage" or **"BSF"** for an Residential Property means the square footage of internal living space, exclusive of garages or other structures not used as living space, as determined by reference to the building permit application for such Assessor's Parcel.

"Calendar Year" means the period commencing on January 1 of any year and ending on the following December 31.

"CFD No. 3" means Community Facilities District No. 3 (Christopherhill) established by the School District under the Act.

"Chargeable Covered and Enclosed Space" means the covered and enclosed space determined to be within the perimeter of a commercial or industrial structure, not including any storage areas incidental to the principal use of the development, garage, parking structure, enclosed walkway, or utility or disposal area. The determination of Chargeable covered and Enclosed Space shall be made by the building department of the County in accordance with the standard practice of the County.

"Commercial Development" means any Assessor's Parcel of Developed Property which is not Residential Property.

"County" means the County of San Diego.

"Detached Unit" means an Assessor's Parcel of Residential Property which is not an Attached Unit.

"Developed Property" means all Assessor's Parcels in CFD No.3 for which building permits for new construction was issued on or before January 1 of the prior Fiscal Year.

"Exempt Property" means the property designated as being exempt from Special Taxes in Section H.

"Facilities" means those facilities (including land) and other facilities which the School District is authorized by law to construct, own or operate and which would service the properties within CFD No. 3.

"Final Subdivision Map" means a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates building sites, recorded in the County Office of the Recorder.

"Fiscal Year" means the period commencing on July 1 of any year and ending the following June 30.

"Gross Prepayment Amount" for any Assessor's Parcel of Developed Property means that gross prepayment amount calculated as provided in Section E.1.

"Index" means the Lee Saylor Construction Cost Index for Class D Construction, the Marshall & Swift Construction Cost Index for Class D Construction or such other index as is used from time to time by the State Allocation Board to estimate school construction costs (collectively, the "SAB Index"), or in the absence of the SAB Index, the Engineering News Record, Construction Cost Index (Los Angeles Area) published by McGraw-Hill, Inc. ("ENR Index"), or in the absence of such ENR Index, an index which reasonably approximates increases in costs of school construction.

"Initial Assigned Annual Special Tax" means the Assigned Annual Special Tax for an Assessor's Parcel which has been designated as Developed Property for the first time in that Fiscal Year.

"Land Use Class" means any of the classes of Developed Property listed in Table 1.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C, that can be levied by CFD No.3 in any Fiscal Year on Taxable Property.

"Mitigation Agreement" means that certain First Amended and Restated Christopherhill School impact Mitigation Agreement dated as of August 1, 1997 between the District and ONA Homebuilding Partners, LLC, a California limited liability company, and recorded in the Official Records of San Diego County on September 3, 1997 as Document No. 1997-0427005

"Mitigation Credit" means credits issued by District pursuant to the Mitigation Agreement, as further defined therein.

"One-Time Special Tax" means the single payment Special Tax to be levied in any Calendar Year on each Assessor's Parcel of Undeveloped Property.

"Partial Prepayment Amount" means the dollar amount required to prepay a portion of the Annual Special Tax obligation on any Assessor's Parcel, determined pursuant to Section F.

"Prepayment Amount" means the dollar amount required to prepay all of the Annual Special Tax obligation on any Assessor's Parcel, determined pursuant to Section E.

"Proportionately" means that the ratio of the actual Annual Special Tax levy to the applicable Maximum Annual Special Tax is equal for all applicable Assessor's Parcels.

"Residential Property" means all Assessor's Parcels of Developed Property for which the building permit was issued for purposes of constructing a Unit(s).

"Senior Citizen Housing Unit" means an Assessor's Parcel of Residential Property within CFD No. 3 designated as senior citizen housing, residential care facilities for the elderly, or multi-level care facilities for the elderly as referred to in California Government Code 65995.1. For purposes hereof, it shall be sufficient to designate units as Senior Citizen Housing if Senior Citizen Restrictions have been effected.

"Senior Citizen Housing Restriction" means (i) a restriction limiting the use of Units to senior citizen housing under the Subarea Plan, a final map or other governmental entitlements, or a declaration of covenants, conditions and restrictions or any similar recorded instrument or (ii) licensing from appropriate agencies received for residential care facilities for the elderly or multi-level care facilities as those terms are defined in Health and Safety Code Section 1569.2 and Government Code Section 15432(d)(9), respectively.

"Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor' Parcel of Developed Property.

"Specific Plan" means the Christopherhill Specific Plan approved pursuant to County Resolution No. SPA 96-004 adopted August 21, 1996, and its Subsequent Environmental Impact Report and any amendments or implementing resolutions with respect thereto that do not increase the number of dwelling units or other development affecting the need for School Facilities planned for the Project.

"Taxable Property" means all Assessor's Parcels within the boundaries of CFD No.3 which are not exempt from the Special Tax pursuant to law or Section H below.

"Undeveloped Property" means all Assessor's Parcels in CFD No. 3 for which no building permit was issued on or before January 1 of the prior Fiscal Year.

"Unit" means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units.

SECTION B ASSIGNMENT TO LAND USE CLASSES

For each Fiscal Year, beginning with Fiscal Year 1997-98, all Taxable Property within CFD No. 3 shall be classified as Developed Property, Undeveloped Property or Exempt Property, and each Assessor's Parcel of Developed Property shall be assigned to a Land Use Class by reference to Table 1.

TABLE 1

DEVELOPED PROPERTY LAND USE CLASSES	
Land Use Class	Land Use
1	Detached Unit
2	Attached Unit
3	Senior Citizen Housing Unit
4	Commercial Development

**SECTION C
MAXIMUM SPECIAL TAX**

1. **Developer Property**

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property in any Fiscal Year shall be the sum of (i) the amount derived by the application of the Assigned Annual Special Tax, plus (ii) the amount of any portion of the One-Time Special Tax that is not collected at building permit with respect to an Assessor's Parcel of Undeveloped Property which may be levied on such Assessor's Parcel when classified as Developed Property in the following Fiscal Year. The Initial Assigned Annual Special Tax for each Assessor's Parcel of Developed Property in Fiscal year 1997-98 shall be the amount determined by reference to Table 2.

TABLE 2

FISCAL YEAR 1997-98 INITIAL ASSIGNED ANNUAL SPECIAL TAXES FOR DEVELOPED PROPERTY		
Land Use Class	Land Use	Initial Assigned Special Tax
1	Detached Unit	\$1,314 per Unit
2	Attached Unit	\$542 per Unit
3	Senior Citizen Housing Unit	\$0.00 per Unit
4	Commercial Development	\$0.00 per square foot of Chargeable Covered and Enclosed Space

Each January 1, commencing January 1, 1998, the Initial Assigned Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Fiscal Year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending December 31 of the prior Fiscal Year. For Fiscal Years following the Fiscal Year in which the Initial Maximum Annual Special Tax was applied, the Assigned Annual Special Tax shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year. The Annual Special Tax actually levied on any Assessor's Parcel cannot be paid with Mitigation Credits.

2. Undeveloped Property

The Maximum Annual Special Tax for any Assessor's Parcel classified as Undeveloped Property in any Fiscal Year shall be the sum of the Maximum Annual Special Tax and the One-Time Special Tax applicable to such Assessor's Parcel in such Fiscal Year.

a. Maximum Annual Special Tax

The Maximum Annual Special Tax per acre of an Assessor's Parcel classified as Undeveloped Property in Fiscal Year 1997-98 shall be the amount required to (i) pay debt service on bonds issued by CFD No. 3, (ii) pay Administrative Expenses for the Fiscal Year, and (iii) provide 110% debt service coverage and shall not exceed \$7,854 per acre. On each January 1, commencing January 1, 1998, the Maximum Annual Special Tax on each Assessor's Parcel of Undeveloped Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year. The Annual Special Tax actually levied on any Assessor's Parcel cannot be paid with Mitigation Credits.

b. One-Time Special Tax

The One-Time Special Tax shall be levied and collected for each Assessor's Parcel of Undeveloped Property on or before the date a building permit for Residential Property is issued for such Assessor's Parcel. The One-Time Special Tax shall be in an amount equal to \$1.84 per square foot of Building Square Footage for Land Use Classes 1 and 2 and \$0.30 per square foot of Building Square Footage for Land Use Class 3 and \$0.30 per square foot Chargeable Covered and Enclosed Space for Land Use Class 4. On each January 1, commencing January 1, 1998, the amount of the One-Time Special Tax shall be increased by the greater of the annual percentage change in the Index, or two percent (2.00%) of the amount in effect in the prior Fiscal Year. The annual percentage change in the index shall be calculated for the twelve (12) month ending December 31 of the prior Fiscal Year. All or any portion of the One-Time Special Tax with respect to any unit may, in lieu of cash, be paid with Mitigation Credits properly registered in the name of the party tendering such Mitigation Credits.

SECTION D
METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX

Commencing Fiscal Year 1997-98 and for each subsequent Fiscal Year, the Assistant Superintendent shall determine the Annual Special Tax Requirement to be collected from Taxable Property in CFD No. 3 in such Fiscal Year. The Special Tax shall be levied as follows until the amount of the levy equals the Annual Special Tax Requirement:

First: The Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Maximum Special Tax applicable to such Assessor's Parcel.

Second: If the sum of the amounts levied on Assessor's Parcels in the first step above is less than the Annual Special Tax Requirement, then the Special Tax shall be levied on each Assessor's Parcel of Undeveloped Property up to the Maximum Special Tax applicable to such Assessor's Parcel to satisfy the Annual Special Tax Requirement.

SECTION E
PREPAYMENT OF ANNUAL SPECIAL TAX

The Annual Special Tax obligation of an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be prepaid. An owner of an Assessor's Parcel intending to prepay the Annual Special Tax obligation shall provide CFD No. 3 with written notice of intent to prepay. Within 30 days of receipt of such written notice, CFD No. 3 shall notify such owner of the Prepayment Amount of such Assessor's Parcel.

1. Prior to Issuance of Bonds

Prior to the issuance of any Bonds, the Prepayment Amount for each Assessor's Parcel of Developed Property in Land Use Classes 1 and 2 shall be the amount equal to the Gross Prepayment Amount minus the amount of One-Time Special Tax paid with respect to such Assessor's Parcel. The Gross Prepayment Amount for Calendar Year 1997 shall be the amount determined by reference to Table 3 below:

TABLE 3

<i>CALENDAR YEAR 1997</i>		
<i>GROSS PREPAYMENT AMOUNT</i>		
Land Use Class	Land Use	Gross Prepayment Amount
1	Detached Unit	\$15,567
2	Attached Unit	\$6,628

On each January 1, commencing January 1, 1998, the Gross Prepayment Amounts shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Calendar Year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending December 31 of the prior Fiscal

Year. Prior to issuance of any Bonds, all or any portion of the Gross Prepayment Amount with respect to any Unit may, in lieu of cash, be paid with Mitigation Credits properly registered in the name of the party tendering such Mitigation Credits.

2. Subsequent to Issuance of Bonds

After the issuance of any Bonds, the Prepayment Amount for each Assessor's Parcel of Developed Property in Land Use Classes 1 and 2 shall be the amount equal to the Gross Prepayment Amount (as calculated in Section E.1) minus (i) the amount of One-Time Special Tax paid and (ii) the amount of regularly scheduled principal of such Bonds retired in CFD No 3 with respect to such Assessor's Parcel, which amount shall be determined by multiplying (a) the amount of regularly scheduled principal that has been retired on such Bonds, times (b) the percentage determined by reference to Table 4. Subsequent to issuance of Bonds, no portion of the Gross Prepayment Amount may be paid with Mitigation Credits.

TABLE 4

<i>PRINCIPAL RETIREMENT PERCENTAGE FOR DEVELOPED PROPERTY</i>		
Land Use Class	Land Use	Principal Retirement Percentage
1	Detached Unit	0.002500 per Unit
2	Attached Unit	0.001460 per Unit

**SECTION F
PARTIAL PREPAYMENT OF SPECIAL TAX**

At the time a residential Final Subdivision Map is recorded for any Taxable Property within CFD No. 3, the property owner filing said Final Subdivision Map for recordation concurrently may elect for all of the Assessor's Parcels created by said Final Subdivision Map to prepay all or any portion of the applicable future Maximum Special Taxes. In order to prepay all or any portion of the applicable future Maximum Special Taxes, the residential Final Subdivision Map must contain at least 25 Detached Units or 50 Attached Units. The partial prepayment of the Annual Special Tax shall be collected at the time of the issuance of a building permit. The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meanings:

- PP = the Partial Prepayment Amount
- P_E = the Prepayment Amount calculated according to Section E
- F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Annual Special Tax obligation.

The owner of any Assessor's Parcel who desires such partial prepayment shall notify the Board of (i) such owner's intent to partially prepay the Annual Special Tax obligation and, (iii) the percentage by which the Annual Special Tax obligation shall be prepaid. The Board shall provide the owner with a statement of the amount required for the partial prepayment of the Annual Special Tax obligation for an Assessor's Parcel within ten (10) working days of the request and may charge a reasonable fee for providing this service.

With respect to any Assessor's Parcel that is partially prepaid, the Board shall indicate in the records of CFD No. 3 that there has been a partial prepayment of the Annual Special Tax and shall cause a suitable notice to be recorded in compliance with the Act within 30 days of receipt of such partial prepayment of Annual Special Taxes, to indicate the partial prepayment of Annual Special Taxes and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease. The portion of the Annual Special Tax with respect to any Assessor's Parcel, equal to the outstanding percentage (1.00 – F) of the remaining Annual Special Tax, shall continue to be levied on such Assessor's Parcel.

The amount of the Partial Prepayment Amount deposited in applicable redemption fund may be in an amount able to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the applicable redemption fund to be used with the next prepayments of Bonds.

Notwithstanding the foregoing, no partial prepayment shall be allowed unless the amount of Maximum Annual Special Taxes that may be levied on Taxable Property within CFD No. 3 both prior to and after the proposed partial prepayment is at least 1.1 times annual debt service on all Outstanding Bonds.

SECTION G TERMINATION OF SPECIAL TAX

The Annual Special Tax shall be levied for a term of twenty-five (25) Fiscal Years after the last bond series is issued for CFD No. 3, but in no event shall the Annual Special Tax be levied later than Fiscal Year 2045-46.

SECTION H EXEMPTIONS

The Assistant Superintendent shall not levy a Special Tax on properties owned by the State of California, Federal or other local governments except as otherwise provided in Sections 53317.3, 53317.5 and 53340.1 of the Government Code, or on properties within the boundaries of CFD No. 3 which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization. Notwithstanding the above, the Assistant Superintendent shall not levy a Special Tax on properties owned by a homeowners' association or properties with public or utility easements making impractical their utilization for other than the purposes set forth in the easement.

SECTION I APPEALS

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the Assistant Superintendent not later than one (1) calendar year after having paid the first installment of the Special Tax that is disputed. The Assistant Superintendent shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the Assistant Superintendent's decision requires that the Special Tax for an Assessor's Parcel be modified or changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Annual Special Tax on the Assessor's Parcel in the subsequent Fiscal Year(s).

SECTION J MANNER OF COLLECTION

The Annual Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided however, that CFD No. 3 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations. The One-Time Special Tax shall be collected prior to the issuance of a building permit and if not so collected may be added to the levy on the tax rolls in the next following Fiscal Years.

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**RATE AND METHOD OF APPORTIONMENT FOR
COMMUNITIES FACILITIES DISTRICT NO. 5
OF THE POWAY UNIFIED SCHOOL DISTRICT**

An Annual Special Tax shall be levied on and collected in Community Facilities District No. 5 (the "CFD") of the Poway Unified School District (the "School District") in each Fiscal Year, in an amount determined through the application of the rate and method of apportionment described below. All of the real property in the CFD, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

"Act" means the Mello-Roos Communities Facilities Act of 1982 as amended, being Chapter 2.5, Division 2 of Title 5 of the Government Code of the State of California.

"Annual Special Tax" means the Special Tax to be levied in each Fiscal Year on each Assessor's Parcel of Developed Property.

"Assessor's Parcel" means a lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number.

"Assessor's Parcel Map" means an official map of the Assessor of the County designating parcels by Assessor Parcel Number.

"Assessor's Parcel Number" means that number assigned to an Assessor's Parcel by the County Assessor for purposes of identification.

"Assigned Annual Special Tax" means the Annual Special Tax on an Assessor's Parcel of Developed Property determined pursuant to Section C1 below.

"Assistant Superintendent" means the Assistant Superintendent of Business of the School District or his/her designee.

"Bonds" means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, which obligation may be incurred by the CFD.

"CFD" means Community Facilities District No. 5 established by the School District under the Act.

"County" means the County of San Diego.

"Detached Unit" means an Assessor's Parcel of Residential Property.

"Developed Property" means all Assessor's Parcels in the CFD for which building permits for new construction of a Residential Unit was issued on or before January 1 of the prior Fiscal Year.

"Exempt Property" means each Assessor's Parcel that is not Developed Property and the property designated as being exempt from Special Taxes in Section H.

"Final Subdivision Map" means a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates building sites, recorded in the County Office of the Recorder.

"Fiscal Year" means the period commencing on July 1 of any year and ending the following June 30.

"Gross Prepayment Amount" for any Assessor's Parcel of Developed Property means that gross prepayment amount calculated as provided in Section E.1.

"Index" means the Lee Saylor Construction Cost Index for Class D Construction, the Marshall & Swift Construction Cost Index for Class D Construction or such other index as is used from time to time by the State Allocation Board to estimate school construction costs (collectively, the "SAB Index"), or in the absence of the SAB Index, the Engineering News Record, Construction Cost Index (Los Angeles Area) published by McGraw-Hill, Inc. ("ENR Index"), or in the absence of such ENR Index, an index which reasonably approximates increases in costs of school construction.

"Initial Assigned Annual Special Tax" means the Assigned Annual Special Tax for an Assessor's Parcel which has been designated as Developed Property for the first time in that Fiscal Year.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C, that can be levied by the CFD in any Fiscal Year on an Assessor's Parcel of Developed Property.

"Partial Prepayment Amount" means the dollar amount required to prepay a portion of the Annual Special Tax obligation on any Assessor's Parcel, determined pursuant to Section F.

"Prepayment Amount" means the dollar amount required to prepay all of the Annual Special Tax obligation on any Assessor's Parcel, determined pursuant to Section E.

"Residential Unit" means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units.

"Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor' Parcel of Developed Property.

"Transfer Agreement" means the School Site Transfer Agreement and Escrow Instruction dated as of June 3, 1997 between the District and Phase One Development, Inc., a Memorandum of which was recorded July 3, 1997 as Document No. 1997-0315944.

SECTION B ASSIGNMENT TO LAND USE CLASSES

For each Fiscal Year, beginning with Fiscal Year 1997-98, each Assessor's Parcel within the CFD shall be classified as Developed Property or as Exempt Property.

SECTION C MAXIMUM SPECIAL TAX

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property in any Fiscal Year shall be the amount derived by the application of the Assigned Annual Special Tax.

The Initial Assigned Annual Special Tax for each Assessor's Parcel of Developed Property in Fiscal Year 1997-98 shall be:

- (i) \$1,685.00 if the Transfer Agreements has not been fully performed in consideration of an in-kind payment as provided in Transfer Agreement Sections 2.2 and 3.2; or
- (ii) \$690.00, if the Transfer Agreement has been fully performed in exchange for an in-kind payment as provided in Transfer Agreement Sections 2.2 and 3.2.

Each July 1, commencing July 1, 1998, the amount of the Initial Assigned Annual Special Tax shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Fiscal year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending November 30 of the prior Fiscal Year.

For Fiscal Years following the Fiscal Year in which the Initial Assigned Annual Special Tax was applied, the Assigned Annual Special Tax shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

SECTION D METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX

Commencing Fiscal Year 1997-98 and for each subsequent Fiscal Year, the Assistant Superintendent shall levy the Maximum Special Tax on each Assessor's Parcel of Developed Property.

SECTION E
PREPAYMENT OF ANNUAL SPECIAL TAX

The Annual Special Tax obligation of an Assessor's Parcel of Developed Property or an Assessor's Parcel of property for which a building permit has been issued may be prepaid in full. An owner of an Assessor's Parcel intending to prepay the Annual Special Tax obligation shall provide the CFD with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD shall notify such owner of the Prepayment Amount of such Assessor's Parcel.

1. Prior to Issuance of Bonds

Prior to the issuance of any Bonds, the Prepayment Amount for each Assessor's Parcel of Developed Property shall be the amount equal to the Gross Prepayment Amount in the Fiscal Year in which prepayment is made. The Gross Prepayment Amount for Fiscal Year 1997-98 is:

- (i) \$16,392 for each Residential Unit, if, at the time payment is due, the Transfer Agreement has not been fully performed in exchange for an in-kind payment as provided in Transfer Agreement Sections 2.2 and 3.2; or
- (ii) \$7,059 for each Residential Unit if, at the time payment is due, the Transfer Agreement has been fully performed in consideration of an in-kind payment as provided in Transfer Agreement Sections 2.2 and 3.2.

On each July 1, commencing July 1, 1998, the Gross Prepayment Amounts shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect in the prior Fiscal Year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending November 30 of the prior Fiscal Year.

2. Subsequent to Issuance of Bonds

After the issuance of any Bonds, the Prepayment Amount for each Assessor's Parcel of Developed Property shall be the amount equal to (i) the Gross Prepayment Amount (as calculated in Section E.1) minus (ii) the amount of regularly scheduled principal of such Bonds retired in the CFD with respect to such Assessor's Parcel, which amount shall be determined by multiplying (a) the amount of regularly scheduled principal that has been retired on such Bonds, times (b) 0.06667 (1/150).

SECTION F
PARTIAL PREPAYMENT OF SPECIAL TAX

At the time a residential Final Subdivision Map is recorded within the CFD, the property owner filing said Final Subdivision map for recordation concurrently may elect for all of the Assessor's Parcels created by said Final Subdivision Map to prepay a portion of the applicable future Annual Special Taxes. In order to prepay a portion of the applicable future Annual Special Taxes, residential Final Subdivision map must contain at least 9 Detached Units. The partial prepayment of the Annual Special Tax shall be collected at the time of the issuance of a building permit. The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meanings:

- PP = the Partial Prepayment Amount
- P_E = the Prepayment Amount calculated according to Section E
- F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Annual Special Tax obligation.

The owner of any Assessor's Parcel who desires such partial prepayment shall notify the Assistant Superintendent of (i) such owner's intent to partially prepay the Annual Special Tax obligation and, (iii) the percentage by which the Annual Special Tax obligation shall be prepaid. The Assistant Superintendent shall provide the owner with a statement of the amount required for the partial prepayment of the Annual Special Tax obligation for an Assessor's Parcel within ten (10) working days of the request and may charge a reasonable fee for providing this service.

With respect to any Assessor's Parcel that is partially prepaid, the Assistant Superintendent shall indicate in the records of the CFD that there has been a partial prepayment of the Annual Special Tax and shall cause a suitable notice to be recorded in compliance with the Act within 30 days of receipt of such partial prepayment of Annual Special Taxes, to indicate the partial prepayment of Annual Special Taxes and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease. The portion of the Annual Special Tax with respect to any Assessor's Parcel, equal to the outstanding percentage (1.00 – F) of the remaining Annual Special Tax, shall continue to be levied on such Assessor's Parcel.

The amount of the Partial Prepayment Amount deposited in applicable redemption fund may be in an amount able to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the applicable redemption fund to be used with the next prepayments of Bonds.

Notwithstanding the foregoing, no partial prepayment shall be allowed unless the amount of Maximum Annual Special taxes that may be levied on Developed Property within the CFD both prior to and after the proposed partial prepayment is at least 1.1 times annual debt service on all Outstanding Bonds.

SECTION G TERMINATION OF SPECIAL TAX

The Annual Special Tax shall be levied for a term of twenty-five (25) Fiscal Years after the last bond series is issued for the CFD, but in no event shall the Annual Special Tax be levied later than Fiscal Year 2045-46.

SECTION H EXEMPTIONS

The Assistant Superintendent shall not levy a Special Tax on (i) properties owned by the State of California, Federal or other local governments except as otherwise provided in Sections 53317.3, 53317.5 and 53340.1 of the Government Code, (ii) properties within the boundaries of the CFD which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) properties owned by a homeowners' association, (iv) properties set forth in the easement, or (v) properties that are not Developed Property. Only Developed Property shall be subject to Special Tax.

SECTION I APPEALS

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the Assistant Superintendent not later than one (1) calendar year after having paid the first installment of the Special Tax that is disputed. The Assistant Superintendent shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the Assistant Superintendent's decision requires that the Special Tax for an Assessor's Parcel be modified or changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Annual Special Tax on the Assessor's Parcel in the subsequent Fiscal Year(s).

SECTION J MANNER OF COLLECTION

The Annual Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided however, that CFD may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

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**RATE AND METHOD OF APPORTIONMENT
OF THE SPECIAL TAX
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 7
(FAIRBANKS HIGHLANDS)**

A One-Time Special Tax and an Annual Special Tax shall be levied on and collected in Community Facilities District No. 7 (Fairbanks Highlands) ("CFD No. 7") of the Poway Unified School District (the "School District") in amounts to be determined through the application of this Rate and Method of Apportionment of the Special Tax ("RMA"). All of the real property in CFD No. 7, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

"**Acreage**" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

"**Act**" means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Division 2 of Title 5 of the Government Code of the State of California.

"**Administrative Expenses**" means any ordinary and necessary expense incurred by the School District on behalf of CFD No. 7 directly related to the determination of the amount of the levy of special taxes, the collection of special taxes including the expenses of collecting delinquencies, the administration of Bonds, the cost of complying with disclosure requirements of applicable federal and state security laws and the Act, and the costs of the payment of the appropriate allocable share of salaries and benefits of any School District employee whose duties are directly related to the administration of CFD No. 7.

"**Annual Special Tax**" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Taxable Property pursuant to Section F.

"**Annual Special Tax Requirement**" means the amount required in any Fiscal Year to pay: (i) debt service on all Bonds or other indebtedness or other periodic costs on Bonds or other indebtedness of CFD No. 7, (ii) the cost of acquisition, construction, financing or equipping of authorized school facilities, (iii) Administrative Expenses, (iv) the costs associated with the release of funds from an escrow account, (v) any amount required to establish or replenish any reserve funds established in association with the Bonds or other indebtedness of CFD No. 7, (vi) lease payments for authorized school facilities, (vii) the accumulation of funds reasonably required for future debt service of Bonds and (viii) any other payments permitted by law.

"**Assessor's Parcel**" means a lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number.

"**Assessor's Parcel Map**" means an official map of the Assessor of the County designating parcels by Assessor's Parcel Number.

"**Assessor's Parcel Number**" means that number assigned to an Assessor's Parcel by the County Assessor for purposes of identification.

"**Assigned Annual Special Tax**" means the special tax of that name calculated as described in Section E below.

"**Assistant Superintendent**" means the Assistant Superintendent, Business Support Services of the School District or his/her designee.

"**Board**" means the Board of Education of the School District or its designee.

"**Bonds**" means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof incurred by CFD No. 7 or the School District.

"**Building Permit**" means a permit for the construction of one or more Units.

"**CFD No. 7**" means Community Facilities District No. 7 (Fairbanks Highlands) established by the School District under the Act.

"**County**" means the County of San Diego.

"**Developed Property**" means all Assessor's Parcels in CFD No. 7 for which a Building Permit(s) was issued prior to January 1 of the prior Fiscal Year.

"**Exempt Property**" means all Assessor's Parcels in CFD No. 7 which are designated as being exempt from special taxes in Section J.

"**Final Map**" means a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates building sites, recorded in the County Office of the Recorder.

"**Fiscal Year**" means the period commencing on July 1 of any year and ending the following June 30.

"**Gross Prepayment Amount**" for any Assessor's Parcel of Developed Property means that gross prepayment amount determined and adjusted as set forth in Section G.

"**Index**" means the Marshall & Swift Western Region Class D Wood Frame Index ("M&S Index"), and if the M&S Index ceases to be used by the State Allocation Board, a reasonably

comparable index used by the State Allocation Board to estimate increases or decreases in school construction costs, or in the absence of such an index, the Engineering News Record, Construction Cost Index (Los Angeles Area) published by McGraw-Hill, Inc.

"**Inflator**" means the percentage change in the Index as measured between the Index published in June of the prior Fiscal Year and the Index published in June of the Fiscal Year immediately preceding the prior Fiscal Year.

"**Maximum Special Tax**" means the maximum special tax, determined in accordance with Section C, that can be levied by CFD No. 7 on any Assessor's Parcel in any Fiscal Year.

"**One-Time Special Tax**" means the single payment special tax to be collected for an Assessor's Parcel of Undeveloped Property pursuant to Section D below.

"**Partial Prepayment Amount**" means the dollar amount required to prepay a portion of the Annual Special Tax obligation on any Assessor's Parcel, determined pursuant to Section H.

"**Prepayment Amount**" means the dollar amount required to prepay all of the Annual Special Tax obligation on any Assessor's Parcel, determined pursuant to Section G.

"**Prepayment Ratio**" means, with respect to an Assessor's Parcel, for each series of Bonds, the ratio of (i) the Assigned Annual Special Tax or portion thereof applicable to the Assessor's Parcel at the time each such series of Bonds was issued and which was used in providing the minimum debt service coverage required to issue such series of Bonds, as reasonably determined by the Assistant Superintendent, to (ii) the sum of all the Assigned Annual Special Taxes used in providing the minimum debt service coverage required to issue such series of Bonds, as reasonably determined by the Assistant Superintendent.

"**Proportionately**" means that the ratio of the Annual Special Tax to the Assigned Annual Special Tax is the same for all applicable Assessor's Parcels.

"**Taxable Property**" means all Assessor's Parcels in CFD No. 7 which are not designated as being exempt from special taxes pursuant to Section J.

"**Undeveloped Property**" means all Assessor's Parcels in CFD No. 7 for which no Building Permit was issued prior to January 1 of the prior Fiscal Year.

"**Unit**" means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units.

SECTION B PROPERTY CLASSIFICATION

For each Fiscal Year, beginning with Fiscal Year 1998-99, each Assessor's Parcel in CFD No. 7 shall be classified as Taxable Property or Exempt Property. Each Assessor's Parcel of Taxable Property shall be further classified as Developed Property or Undeveloped Property.

**SECTION C
MAXIMUM SPECIAL TAX**

1. Developed Property

In any Fiscal Year the Maximum Special Tax for each Assessor's Parcel of Developed Property shall be the sum of (i) any portion of the One-Time Special Tax not collected at the issuance of a Building Permit, which amount may be levied on such Assessor's Parcel when classified as Developed Property in any following Fiscal Year and (ii) the Assigned Annual Special Tax.

2. Undeveloped Property

In the Fiscal Year in which a Building Permit is issued for an Assessor's Parcel of Undeveloped Property, the Maximum Special Tax for such Assessor's Parcel shall be the applicable One-Time Special Tax.

**SECTION D
ONE-TIME SPECIAL TAX**

A One-Time Special Tax shall be paid once and in full for each Assessor's Parcel of Undeveloped Property prior to the issuance of a Building Permit for such Assessor's Parcel. The One-Time Special Tax in Fiscal Year 1998-99 shall be \$2,000 per Unit. Each July 1, commencing July 1, 1999, the One-Time Special Tax shall be increased by the greater of (i) zero percent (0.00%) and (ii) the Inflator.

**SECTION E
ASSIGNED ANNUAL SPECIAL TAX**

1. Developed Property

a. Assigned Annual Special Tax for New Developed Property

The Assigned Annual Special Tax applicable to an Assessor's Parcel in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property shall be \$1,075.30 per Unit in Fiscal Year 1998-99. Each July 1, commencing July 1, 1999, the Assigned Annual Special Tax applicable to an Assessor's Parcel in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property shall be increased by the greater of (i) two percent (2.00%) and (ii) the Inflator.

b. Assigned Annual Special Tax for Existing Developed Property

Each July 1, commencing the July 1 immediately following the Fiscal Year in which the Assessor's Parcel was first classified as Developed Property, the Assigned Annual Special Tax applicable to each such Assessor's Parcel shall be increased by two percent (2.00%).

2. Undeveloped Property

There is no Assigned Annual Special Tax applicable to Undeveloped Property.

**SECTION F
METHOD OF APPORTIONMENT OF ANNUAL SPECIAL TAXES**

Commencing with Fiscal Year 1998-99 and for each subsequent Fiscal Year, an Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Annual Special Tax Requirement.

**SECTION G
PREPAYMENT OF ANNUAL SPECIAL TAXES**

The Annual Special Tax obligation of an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a Building Permit has been issued may be prepaid. An owner of an Assessor's Parcel **intending** to prepay the Annual Special Tax obligation shall provide CFD No. 7 with written notice of **intent** to prepay. Within thirty (30) days of receipt of such written notice, the Assistant Superintendent shall reasonably determine the Prepayment Amount of such Assessor's Parcel and shall **notify** such owner of such Prepayment Amount.

1. Bond Proceeds Allocation

Prior to the calculation of any Prepayment Amount, a calculation shall be performed to determine the amount of Bond proceeds that are allocable to the Assessor's Parcel for which the Annual Special Tax obligation is to be prepaid, if any. For purposes of this analysis, Bond proceeds shall equal the par amount of Bonds. For each series of Bonds, Bond proceeds of such series shall be allocated to each Assessor's Parcel in an amount equal to the Bond proceeds times the Prepayment Ratio applicable to such Assessor's Parcel for such series of Bonds. If, after such allocations, the amount of Bond proceeds allocated to the Assessor's Parcel for which the Annual Special Tax obligation is to be prepaid is less than the sum of the Gross Prepayment Amounts applicable to such Assessor's Parcel less the sum of the Partial Prepayment Amounts actually paid with respect to such Assessor's Parcel, then the Prepayment Amount for such Assessor's Parcel shall be calculated pursuant to Section G.2. Otherwise, the Prepayment Amount shall be calculated pursuant to Section G.3.

The Gross Prepayment Amount shall be \$10,000 per Unit in Fiscal Year 1998-99. Each July 1, commencing July 1, 1999, the Gross Prepayment Amount per Unit shall be increased by the Inflator.

2. Prepayment Amount for Assessor's Parcel with Allocation of Bonds Less than Applicable Gross Prepayment Amounts

The Prepayment Amount for each Assessor's Parcel for which the Prepayment Amount is to be calculated pursuant to this Section G.2. shall be the sum of the Gross Prepayment Amounts applicable to such Assessor's Parcel less the sum of all the Partial Prepayment Amounts actually paid with respect to such Assessor's Parcel.

3. Prepayment Amount for Assessor's Parcel with Allocation of Bonds Equal to or More than Applicable Gross Prepayment Amounts

The Prepayment Amount for each Assessor's Parcel for which the Prepayment Amount is to be calculated pursuant to this Section G.3. shall be the amount calculated as shown below.

	Bond proceeds allocated to Assessor's Parcel
plus	A. Redemption Premium
plus	B. Defeasance
plus	C. Prepayment Fees and Expenses
less	D. Reserve Fund Credit
less	E. Regularly Retired Principal Credit
less	F. Partial Prepayment Credit
equals	Prepayment Amount

Detailed explanations of items A through E follow:

A. Redemption Premium

The Redemption Premium is calculated by multiplying (i) the principal amount of the Bonds to be redeemed with the proceeds of the Prepayment Amount by (ii) the applicable redemption premium, if any, on the Bonds to be redeemed.

B. Defeasance

The Defeasance is the amount needed to pay interest on the portion of the Bonds to be redeemed with the proceeds of the Prepayment Amount until the earliest call date of the Bonds to be redeemed, net of interest earnings to be derived from the reinvestment of the Prepayment Amount until the redemption date of the portion of the Bonds to be redeemed with the Prepayment Amount. Such amount of interest earnings will be calculated reasonably by the Board.

C. Prepayment Fees and Expenses

The Prepayment Fees and Expenses are the costs of the computation of the Prepayment Amount and an allocable portion of the costs of redeeming Bonds and recording any notices to evidence the prepayment and the redemption, as calculated reasonably by the Board.

D. Reserve Fund Credit

The Reserve Fund credit, if any, shall be calculated as the reduction in the applicable reserve fund requirements resulting from the redemption of Bonds with the Prepayment Amount.

E. Regularly Retired Principal Credit

The Regularly Retired Principal Credit is the total regularly scheduled retirement of principal that has occurred with respect to the Assessor's Parcel. For purposes of this calculation, it shall be assumed that the Annual Special Taxes actually collected from each Assessor's Parcel in any Fiscal Year are applied *prorata* to the regularly scheduled principal payment on the outstanding Bonds in the immediately following Fiscal Year based on each Assessor's Parcel's share of the total Annual Special Taxes which are actually collected from all Taxable Property in the current Fiscal Year and are applied to such regularly scheduled principal payment in the immediately following Fiscal Year. In no event shall any amount of Annual Special Taxes determined to have been used to make a regularly scheduled principal payment on the Bonds be adjusted for any increase in any index or other basis subsequent to the date of the applicable principal payment.

F. Partial Prepayment Credit

Partial prepayments of the Annual Special Tax obligation occurring subsequent to the issuance of Bonds will be credited in an amount equal to the greatest amount of principal of the Bonds that could have been redeemed with the Partial Prepayment Amount(s), taking into account Redemption Premium, Defeasance, Prepayment Fees and Expenses, and Reserve Fund Credit, if any, but exclusive of restrictions limiting early redemption on the basis of dollar increments, i.e., the full amount of the Partial Prepayment Amount(s) will be taken into account in the calculation.

The sum of all applicable partial prepayment credits is the Partial Prepayment Credit.

Notwithstanding any of the foregoing, no prepayment will be allowed unless the amount of Assigned Annual Special Taxes that may be levied on Taxable Property, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Bonds in each future Fiscal Year.

SECTION H PARTIAL PREPAYMENT OF ANNUAL SPECIAL TAX

At the time a Final Map is recorded for any Taxable Property, the owner filing said Final Map for recordation concurrently may elect for all of the Assessor's Parcels created by said Final Map to prepay a portion of the applicable Annual Special Tax obligation, provided that the Final Map contains at least 30 Units. The partial prepayment of the Annual Special Tax obligation for every Assessor's Parcel shall be collected prior to the issuance of a Building Permit.

The owner of any Assessor's Parcel who desires such partial prepayment shall notify the Assistant Superintendent of (i) such owner's intent to partially prepay the Annual Special Tax obligation and, (ii) the percentage by which the Annual Special Tax obligation shall be prepaid. The Assistant Superintendent shall provide the owner with a statement of the amount required for the partial prepayment of the Annual Special Tax obligation for an Assessor's Parcel within thirty (30) days of the request and may reasonably charge a reasonable fee for providing this service.

The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = P_G \times F.$$

These terms have the following meanings:

PP = the Partial Prepayment Amount

P_G = the Prepayment Amount calculated according to Section G

F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Annual Special Tax obligation.

Notwithstanding the foregoing, no partial prepayment shall be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property both prior to and after the proposed partial prepayment is at least 1.1 times annual debt service on all outstanding Bonds.

SECTION I TERMINATION OF ANNUAL SPECIAL TAX

The Annual Special Tax shall be levied for a term of thirty-five (35) Fiscal Years after the last bond series is issued, but in no event shall the Annual Special Tax be levied later than Fiscal Year 2038-39.

SECTION J EXEMPTIONS

The Assistant Superintendent shall not levy a special tax on Assessor's Parcels (i) owned by the State of California, Federal or other local governments except as otherwise provided in Sections 53317.3, 53317.5 and 53340.1 of the Government Code, (ii) used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii)

designated entirely for use by a homeowners' association, (iv) encumbered with public or utility or access easements making impractical their use for purposes other than those set forth in the easements, or (v) designated entirely as open space on a Final Map.

SECTION K APPEALS

Any owner of an Assessor's Parcel claiming that the amount or application of the special tax is not correct may file a written notice of appeal with the Assistant Superintendent not later than one (1) calendar year after having paid the first installment of the special tax that is being disputed. The Assistant Superintendent shall reasonably and promptly review the appeal, and if necessary, reasonably meet with the property owner, reasonably consider written and oral evidence regarding the amount of the special tax, and reasonably rule on the appeal. If the Assistant Superintendent's decision reasonably requires that the special tax for an Assessor's Parcel be reasonably modified or reasonably changed in favor of the property owner, a cash refund shall not be made (except for the last Fiscal Year of levy), but an adjustment shall be made to the Annual Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

SECTION L MANNER OF COLLECTION

The One-Time Special Tax shall be paid once and in full prior to the issuance of a Building Permit, provided that any portion of the One-Time Special Tax that is not collected at the issuance of a Building Permit may be levied on such Assessor's Parcel in any following Fiscal Year. The Annual Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided that CFD No. 7 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

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APPENDIX C
SUMMARY APPRAISAL REPORT

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SUMMARY APPRAISAL REPORT

COVERING

**Poway Unified School District
Community Facilities District Nos. 2, 3, 5 & 7**

DATE OF VALUE:

November 14, 2002

SUBMITTED TO:

Sandra G. Burgoyne
Poway Unified School District
13626 Twin Peaks Rd.
Poway, CA 92064-3098

DATE OF REPORT:

November 22, 2002

SUBMITTED BY:

Stephen G. White, MAI
1370 N. Brea Blvd., Suite 205
Fullerton, CA 92835

Stephen G. White, MAI



Real Estate Appraiser

1370 N. BREA BLVD., SUITE 205 · FULLERTON, CALIFORNIA 92835-4128
(714) 738-1595 · FAX (714) 738-4371

November 22, 2002

Sandra G. Burgoyne
Poway Unified School District
13626 Twin Peaks Rd.
Poway, CA 92064-3098

Re: Community Facilities District
Nos. 2, 3, 5 & 7

Dear Ms. Burgoyne:

In accordance with your request and the District's authorization, I have completed a Limited Appraisal of the taxable properties within the four above-referenced Community Facilities Districts (CFD's). These properties consist of a total of 1,070 homes, mostly detached but including two tracts of attached homes, and mostly completed homes but for two tracts with a total of 16 homes under construction. CFD No. 2 comprises six tracts with a total of 428 homes, CFD No. 3 comprises five tracts with a total of 399 homes, CFD No. 5 comprises two tracts with a total of 150 homes, and CFD No. 7 comprises one tract with a total of 93 homes.

The purpose of this appraisal is to estimate the minimum market value of the homes comprising these CFD's, by means of a mass appraisal of all of the homes which are completed and under construction. The appraisal also reflects the benefits to the homes of the public facilities which will be funded by the proposed bond financing, as well as the tax rates between 1.0% and 2.0% that include the special taxes, to the existing and future homeowners.

Based on the general inspections of the properties and analysis of matters pertinent to value, the following conclusions of minimum market value have been arrived at, subject to the Assumptions and Limiting Conditions, and as of November 14, 2002:

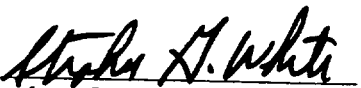
CFD No. 2:	\$298,060,000
CFD No. 3	\$184,500,000
CFD No. 5:	\$139,740,000
CFD No. 7:	<u>\$134,850,000</u>
	\$757,150,000

**(SEVEN HUNDRED FIFTY-SEVEN MILLION
ONE HUNDRED FIFTY THOUSAND DOLLARS)**

MS. SANDRA G. BURGOYNE
NOVEMBER 22, 2002
PAGE 2

The following is the balance of this 36-page **Summary Appraisal Report** which includes the Certification, Assumptions and Limiting Conditions, definitions, property data, exhibits, valuation and market data from which the **value conclusions** were derived.

Sincerely,



Stephen G. White, MAI
(State Certified General Real Estate
Appraiser No. AG 013311)

SGW:sw
Ref: 02059

TABLE OF CONTENTS

PAGES

Certification.....	5
Assumptions and Limiting Conditions.....	6-7
Purpose and Use of the Appraisal, Scope of the Appraisal, Date of Value, Property Rights Appraised, Definition of Market Value.....	8

INTRODUCTION

Location Map, General Location, Overview of CFD Nos. 2, 3, 5 & 7.....	9-10
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CFD NO. 2

Map of CFD.....	11
Collins Ranch.....	12
Valencia Collection.....	13
Villamontes.....	13-14
Terrazo.....	14-16
Palma Real.....	16-17
Barcelona.....	17-18
Total for CFD No. 2.....	18

CFD NO. 3

Map of CFD.....	19
Haven.....	20
Sitella.....	20-21
Patina.....	21-22
Copperwood.....	22-23
Cameo.....	23
Total for CFD No. 3.....	24

CFD NO. 5

Map of CFD.....	25
Bel Etage.....	26-27
Savenna.....	27-28
Total for CFD No. 5.....	28

CFD NO. 7

Map of CFD.....	29
Fairbanks Highlands.....	30

ADDENDA


Tabulation of Residential Land Sales.....	31-32
Qualifications of Appraiser.....	33-35

CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
3. I have no present or prospective interest in the properties that are the subject of this report, and no personal interest with respect to the parties involved.
4. I have no bias with respect to the properties that are the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
8. I and/or my associate, John Hockman, have made a personal but only a general inspection of the properties that are the subject of this report.
9. No one provided significant professional assistance to the person signing this report.
10. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.



Stephen G. White, MAI
(State Certified General Real Estate
Appraiser No. AG013311)

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal has been based upon the following assumptions and limiting conditions:

1. No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the properties is assumed to be good and marketable unless otherwise stated.
2. The properties are appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. All engineering studies, if applicable, are assumed to be correct. Any plot plans or other illustrative material in this report are included only to help the reader visualize the property.
6. It is assumed that there are no hidden or unapparent conditions of the properties, subsoil, or structures that render them more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
7. It is assumed that the properties are in full compliance with all applicable federal, state and local environmental regulations and laws unless the lack of compliance is stated, described and considered in the appraisal report.
8. It is assumed that the properties conform to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents and other legislative or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in the report is based.
10. It is assumed that the use of the land and improvements are confined within the boundaries or property lines of the properties described and that there is no encroachment or trespass unless noted in the report.
11. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the properties, was not observed by the appraiser. However, the appraiser is not qualified to detect such substances. The presence of such substances may affect the value of the properties, but the values estimated in

ASSUMPTIONS AND LIMITING CONDITIONS, Continuing

this appraisal are based on the **assumption** that there is no such material on or in the property that would cause a **loss in value**. No responsibility is assumed for such conditions or for any expertise or **engineering** knowledge required to discover them. The client should retain an expert in **this field**, if desired.

12. Possession of this report, or a **copy thereof**, does not carry with it the right of publication, unless otherwise authorized. It is understood and agreed that this report will be utilized in the **Official Statement**, as required for the **bond issuance**.
13. The appraiser, by reason of this **appraisal**, is not required to give further consultation or testimony or to be in **attendance in court** with reference to the property in questions unless arrangements have **previously** been made.

SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS

1. This appraisal is of the **minimum market value** of the subject properties, based on a mass appraisal of the **completed homes and homes under construction**.

PURPOSE AND USE OF THE APPRAISAL

The purpose of this appraisal is to estimate the aggregate minimum market value of the taxable properties located within Community Facilities District Nos. 2, 3, 5 & 7 of the Poway Unified School District. This Summary Appraisal Report is to be used as required in the bond issuance.

SCOPE OF THE APPRAISAL

It is the intent of this Limited Appraisal that all appropriate data considered pertinent in the valuation of the subject properties be collected, confirmed and reported in a Summary Appraisal Report, in conformance with the Uniform Standards of Professional Appraisal Practice. This has included a general inspection of the subject properties and their surroundings; review of various maps and documents relating to the properties and their tracts; obtaining of pertinent property data on the subject properties from a variety of sources; obtaining of comparable home sales from a variety of sources; and analysis of all of the data to the minimum market value conclusions.

DATE OF VALUE

The date of value for this appraisal is November 14, 2002.

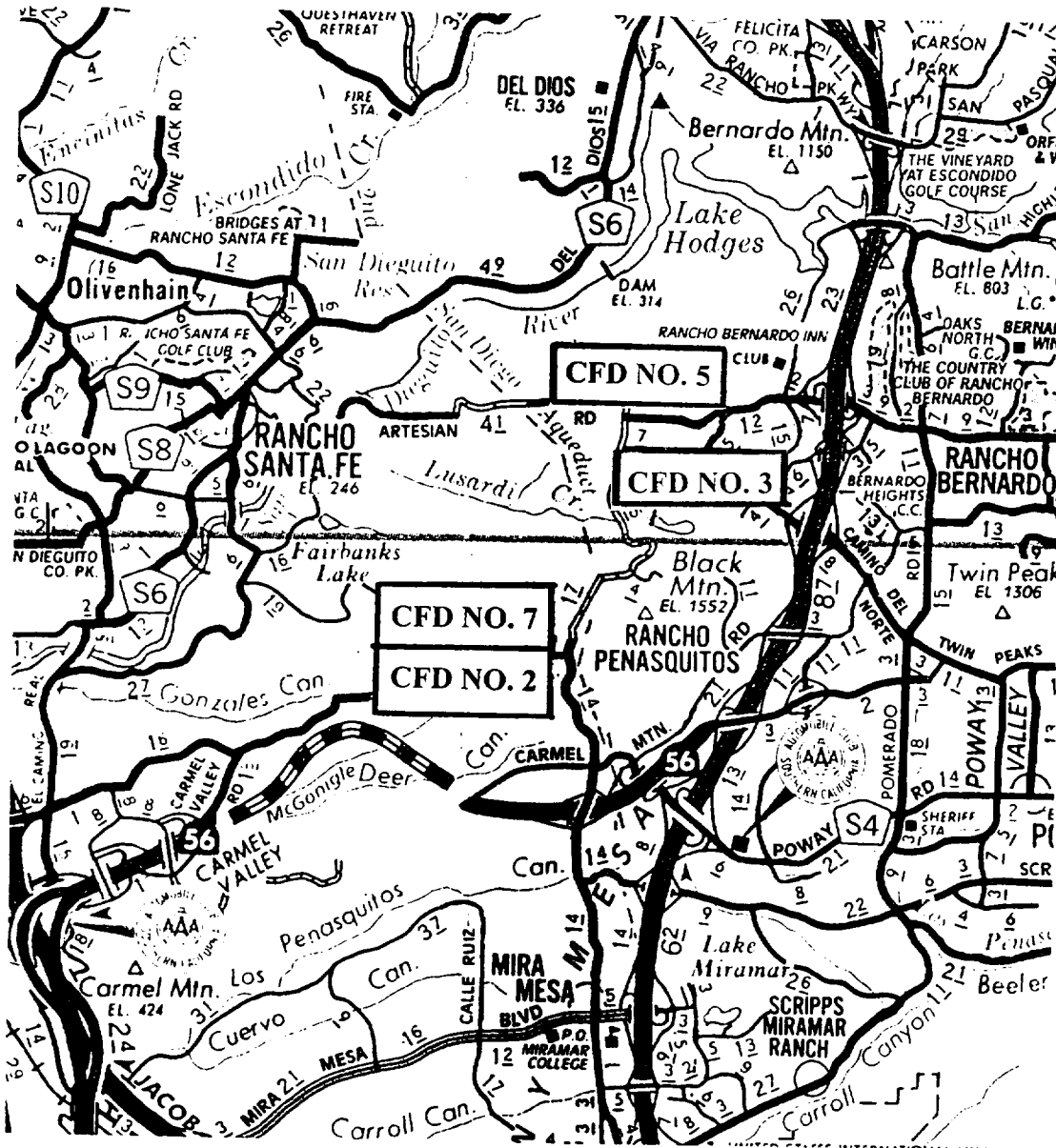
PROPERTY RIGHTS APPRAISED

This appraisal is of the fee simple interest in the subject properties, subject to the special tax and assessment liens.

DEFINITION OF MARKET VALUE

The most probable price, as of a specified date, in cash or in terms equivalent to cash, or in other precisely revealed terms for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to fair sale, with the buyer and seller each acting prudently, knowledgeably and for self-interest, and assuming that neither is under undue duress.

LOCATION MAP



INTRODUCTION

GENERAL LOCATION

The map on the opposite page indicates the approximate locations of the four Community Facilities Districts (CFD's) which comprise the subject properties in this appraisal.

CFD No. 2 has portions which are located north and south of Carmel Valley Rd., and also east and west of Camino Ruiz. These locations are in the north part of Torrey Highlands Subarea IV, which is within the north end of the City of San Diego.

CFD No. 3 is located south of Camino Del Norte, east of Dove Canyon Rd. and on both sides of Camino San Bernardo. This location is in unincorporated San Diego County area, adjacent to the east of the newly developing community of 4S Ranch, and within the Bernardo Springs area of the community of Rancho Bernardo.

CFD No. 5 is located north of Camino Del Norte and west of Four Gee Rd., in the community known as Santa Fe Valley, which is within unincorporated San Diego County area.

CFD No. 7 is located on the north side of Carmel Valley Rd. at Caminito Vistana which is west of Camino Ruiz. This location is also within the north part of Torrey Highlands Subarea IV, in the north part of the City of San Diego.

OVERVIEW OF CFD NOS. 2, 3, 5 & 7

CFD No. 2 consists of six tracts of homes which are called Collins Ranch, Valencia Collection, Villamontes, Terrazo, Palma Real, and Barcelona. These six tracts comprise a total of 428 detached homes. Five of the tracts consist of completed homes and Palma Real has 11 homes which are currently under construction and nearing completion.

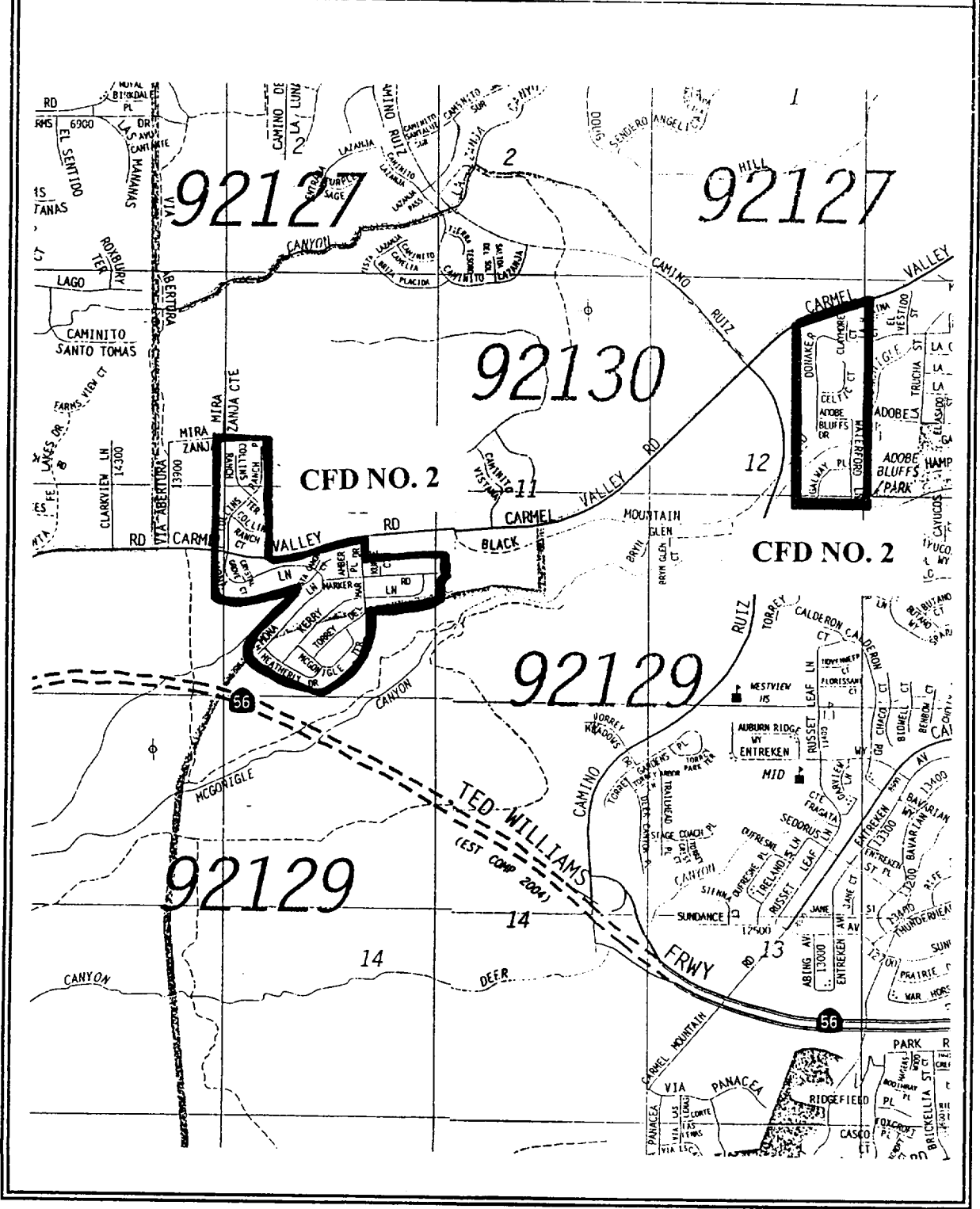
CFD No. 3 consists of five tracts of homes which are called Haven, Sitella, Patina, Copperwood, and Cameo. These five tracts comprise a total of 399 completed homes, of which 212 are detached homes and 187 are attached homes.

CFD No. 5 consists of two tracts of homes which are called Bel Etage and Savenna. These two tracts comprise a total of 150 detached homes, with 145 completed homes and 5 homes currently under construction and nearing completion.

CFD No. 7 consists of one tract of homes called Fairbanks Highlands. This tract comprises 93 completed detached homes.

Each of the tracts comprising the CFD's is discussed in greater detail on the following pages.

MAP OF CFD NO. 2



CFD NO. 2

COLLINS RANCH

Property Data

This is a tract of 52 detached homes located on the north side of Carmel Valley Rd. at Collins Ranch Pl. in the City of San Diego. These homes are described as Lots 1 to 52 of Map 13978-Torrey Del Mar, and also described as APN 306-260-01 to 33 and 306-261-01 to 19.

These homes were built in 2001 and 2002 by D.R. Horton Homes, and the tract was sold out by the builder in July 2002. There are four floor plans with sizes of 3,953 s.f., 4,464 s.f., 4,884 s.f. and 5,540 s.f. (up to 6,357 s.f.). Amenities of this tract include a gated entry, a community pool and spa with outdoor fireplace and barbecue, and many good views. The lots are a minimum size of $\pm 9,000$ s.f., with a typical and average size of closer to 10,000 s.f.

Valuation

The initial builder base pricing in late 2000 and early 2001 ranged from \$749,990 to \$919,990 or an average of \$812,000, and later ranged from \$859,990 to \$909,990 or an average of \$895,000. There were 23 closed builder sales from February through July 2002 which ranged in price from \$823,500 to \$1,160,000 or an average of \$949,000.

There have also been 3 closed resales in this tract. A 3,953 s.f. plan which originally sold for \$1,025,000 in December 2000 resold in June 2002 for \$1,089,000; a 4,884 s.f. plan which originally sold for \$974,000 in February 2002 resold in October 2002 for \$1,225,000; and another 4,884 s.f. plan resold in August 2002 for \$1,150,000, though the original sale price from the builder is not known.

There are also 3 current listings in this tract. The 3,953 s.f. plan which resold in June 2002 is now available at \$1,269,000 to \$1,299,000; a 5,540 s.f. plan which originally sold for \$929,990 in May 2002 is now available at \$1,199,000 to \$1,299,000; and another 5,540 s.f. plan which originally sold for \$946,000 in June 2002 is now available at \$1,380,000.

Considering the upward value trend over the past year and more, as well as the homeowner upgrades which have taken place since the original purchase from the builder, as evidenced by the resales and current listings, I have concluded on an average minimum market value for these homes of \$1,100,000 which results in the following:

$$52 \text{ homes @ } \$1,100,000 = \$57,200,000$$

VALENCIA COLLECTION

Property Data

This is a tract of 8 detached semi-custom homes located on the south side of Carmel Valley Rd. at Mona Ln. in the City of San Diego. These homes are described as Lots 54, 55, 58 to 61, and Parcels A and B of Map 13978-Torrey Del Mar, and also described as APN 306-262-01, 02, 05 to 08, 29 & 30.

These homes were built in 2002 by Johnson-Beucler Communities, and all but the model home were sold by the builder from December 2001 through early October 2002. There are two floor plans with sizes of 5,032 s.f. and 5,572 s.f. Amenities of this tract include some views to several of the lots. The lots are a minimum size of ±10,000 s.f., and up to ±18,000 s.f.

Valuation

The 7 sales by the builder, from December 2001 through October 2002, ranged from \$897,000 to \$1,500,000 or an average of \$1,090,000. Reportedly, the 1 remaining model home is available at \$1,400,000 including the furniture. In addition, a 5,572 s.f. home which sold in March 2002 at \$1,134,000 was listed for resale at \$1,299,000 but this was withdrawn in early July.

Considering the upward value trend over the past year, as well as the homeowner upgrades which have taken place since the original purchase from the builder, as evidenced by the withdrawn listing and other data in this area, I have concluded on an average minimum market value for these homes of \$1,150,000 which results in the following:

$$8 \text{ homes @ } \$1,150,000 = \$9,200,000$$

VILLAMONTES

Property Data

This is a tract of 111 detached homes located on the south side of Carmel Valley Rd. at Torrey Del Mar Dr. and just east of the Valencia Collection tract, in the City of San Diego. These homes are described as Lots 62 to 103, 107 to 172 and Parcels 1 to 3 of Map 13978-Torrey Del Mar; and also described as APN 306-262-09 to 25; 306-263-01 to 25, 29 to 34 & 40 to 42; 306-270-01 to 46; and 306-271-01 to 14.

These homes were built in 2001 and 2002 by D.R. Horton Homes, and the tract is built-out but is still being sold-out, with 14 homes still owned by D.R. Horton. There are three floor plans with sizes of 2,156 s.f., 2,344 s.f. and 2,712 s.f. Amenities of this tract include a number of lots with views. The lots are a minimum and typical size of ±4,200 s.f.

VILLAMONTES, Continuing

Valuation

The initial builder base pricing in late 2000 and early 2001 ranged from \$455,990 to \$495,990 or an average of \$476,000, and by April 2001 ranged from \$472,990 to \$512,990 or an average of \$493,000. Lot premiums ranged up to \$90,000. There were 47 closed builder sales from January through September 2002 which ranged in price from \$460,000 to \$587,500 or an average of \$513,000. While these prices would include premiums and upgrades, it is noted that these prices would have been set many months prior to the closing date. There are escrows on 12 of the unsold homes, with two homes still available, but the pricing was not disclosed.

There has been 1 resale of a 2,156 s.f. plan which sold for \$640,000 and closed in November 2002. There are also 2 current listings in this tract. A 2,156 s.f. plan which originally sold for \$480,000 in August 2001 is now available at \$550,000 to \$599,876; and a 2,712 s.f. plan which originally sold for \$596,500 in October 2001 is now available at \$699,000.

Considering the upward value trend over the past year and more, as well as the homeowner upgrades which have taken place since the original purchase from the builder, as evidenced by the resale and current listings, I have concluded on an average minimum market value for the 97 completed-sold homes of \$600,000. For the 14 completed-unsold homes, I have considered a 12% discount to reflect the bulk ownership by the builder, for holding costs, sales costs and profit. This results in an average of ±\$530,000 for these 14 homes.

Based on the foregoing, the following value indication results:

97 completed-sold homes @ \$600,000 =	\$58,200,000
14 completed-unsold homes @ \$530,000 =	<u>\$ 7,420,000</u>
	\$65,620,000

TERRAZO

Property Data

This is a tract of 69 detached homes located along portions of Mona Ln. and Kerry Ln., southwest of Marker Rd. and adjacent to the south/southwest of the Villamontes tract, in the City of San Diego. These homes are described as Lots 177 to 224, 240 to 252 and 265 to 272 of Map 13978-Torrey Del Mar; and also described as APN 306-271-19 to 36; 306-272-01 to 16 & 19 to 28; and 306-273-01 to 21 & 34 to 37.

Cornerstone Communities commenced construction in 2001 and there are still 11 homes under construction which will be completed from late November to late

TERRAZO, Continuing

December 2002. There are now 51 completed-sold homes, 7 completed-unsold homes due to close escrow from late November to late December, and the 11 homes under construction which will be completed and sold by late December. There are three floor plans with sizes of 3,094 s.f., 3,570 s.f. and 3,845 s.f. Amenities of this tract include only a few lots with views. The lots are a minimum size of ±5,000 s.f. and a typical size of closer to 6,000 s.f.

Valuation

The initial builder base pricing in March 2001 ranged from \$568,990 to \$634,990 or an average of \$601,000. As of April 2002, the builder pricing for the 10 homes in the last two phases ranged from \$600,990 to \$679,990 or an average of \$637,000. There were 20 closed builder sales in September and October 2002 which ranged in price from \$567,000 to \$847,000 or an average of \$649,000. While these prices would include premiums and upgrades, it is noted that these prices would have been set many months prior to the closing date.

There is 1 current listing in this tract, which is of a 3,845 s.f. plan. It originally sold in December 2001 at \$625,500 and is currently available at \$789,900.

Considering the upward value trend over the past year and more, as well as the homeowner upgrades which have taken place since the original purchase from the builder, as evidenced by the current listings and other data in the area, I have concluded on an average minimum market value for the 51 completed-sold homes of \$650,000. For the 7 completed-unsold homes, for conservative valuation purposes I have used the 12% discount, even though these are all in escrow and are due to close by late December. This results in an average of ±\$570,000 for the 7 homes.

For the 11 homes under construction which are ±90% completed, I have considered a conservative valuation based on the finished lot value plus the approximate costs expended thus far. Based on the land sales in the Tabulation of Residential Land Sales in the Addenda section at the end of this report, and considering the subject lot sizes of ±5,000 s.f. minimum, the size and pricing of the subject homes, and the date of the land sales, a supportable range is well over \$240,000 but under \$290,000 per finished lot. Alternatively, considering a supportable but conservative finished lot ratio of 42-43% and an average base home price of ±\$630,000, the following indication results:

$$\$630,000 \times .42-.43 = \$265,000 \text{ to } \$271,000/\text{fin. lot}$$

I have concluded on a finished lot value of \$270,000. Then, considering the average home size of ±3,500 s.f., and a cost amount of 90% of ±\$70.00 per s.f. costs or \$63.00 per s.f., the cost indication is \$220,000. Adding this to the finished lot value of \$270,000, the indication is an average of \$490,000 for the 11 homes under construction.

TERRAZO, Continuing

Based on the foregoing, the following value indication results:

51 completed-sold homes @ \$650,000 =	\$33,150,000
7 completed-unsold homes @ \$570,000 =	\$ 3,990,000
11 homes under construction @ \$490,000 =	<u>\$ 5,390,000</u>
	\$42,530,000

PALMA REAL

Property Data

This is a tract of 80 detached homes located at the southwest corner of Torrey Del Mar Dr. and Marker Rd. and extending to the southwest, to the west of the Villamontes tract and to the south of the Terrazo tract, in the City of San Diego. These homes are described as Lots 173 to 176, 225 to 239, 253 to 264 and 273 to 321 of Map 13978-Torrey Del Mar; and also described as APN 306-271-15 to 18 & 37 to 69; 306-272-17, 18 & 29 to 52; and 306-273-22 to 33 & 38 to 42.

Barratt American Homes commenced construction in 2001 and there are still 11 homes under construction which will be completed in December 2002. There are now 67 completed-sold homes including the 3 models, 2 completed-unsold homes due to close escrow by the end of November, and the 11 homes under construction which will be completed and sold by mid-December. There are three floor plans with sizes of 2,700 s.f., 3,200 s.f. and 3,675 s.f. Amenities of this tract include only a few lots with views. The lots are a minimum and typical size of ±5,000 s.f.

Valuation

The initial builder base pricing in January 2001 ranged from \$500,000 to \$550,000 or an average of \$525,000. As of April 2001, the pricing had increased to \$555,900 to \$629,900 or an average of \$596,000. The base pricing for the last phase ranged from \$610,900 to \$685,900 or an average of \$651,000. Information on 20 builder sales which closed from June through October 2002 indicated prices from \$548,000 to \$698,000 or an average of \$625,000. While these prices would include premiums and upgrades, it is noted that these prices would have been set many months prior to the closing date.

The 3 models are currently listed on behalf of the investors who purchased them in December 2001. The current asking prices are \$736,000, \$795,000 and \$830,900, or an average of \$787,000. In addition, there is a current listing of a 2,700 s.f. plan at \$699,000 to \$739,000 which originally sold in June 2001 at \$576,000, and a current listing of a 3,675 s.f. plan at \$779,900 which originally sold in December 2001 at \$624,000.

PALMA REAL, Continuing

Considering the upward value trend over the past year and more, as well as the homeowner upgrades which have taken place since the original purchase from the builder, as evidenced by the current listings and other data in the area, I have concluded on an average minimum market value for the 67 completed-sold homes of \$680,000. For the 2 completed-unsold homes, for conservative valuation purposes I have used the 12% discount, even though these two escrows are due to close by the end of November. This results in an average of ±\$600,000 for the 2 homes.

For the 11 homes under construction which are mostly 80-90% completed, a supportable value range for the finished lot value is well over \$240,000 but under \$290,000 per finished lot. Or, considering a finished lot ratio of 42-43% and an average base home price of \$650,000, the following indication results:

$$\$650,000 \times .42-.43 = \$273,000 \text{ to } \$279,500/\text{fin. lot}$$

I have concluded on a finished lot value of \$275,000. Then, considering the average home size of ±3,200 s.f., and a cost amount of 80% of ±\$70.00 per s.f. costs or \$56.00 per s.f., the cost indication is \$179,000. Adding this to the finished lot value of \$275,000, the indication is an average of \$454,000, rounded down to \$450,000 for the 11 homes under construction.

Based on the foregoing, the following value indication results:

67 completed-sold homes @ \$680,000 =	\$45,560,000
2 completed-unsold homes @ \$600,000 =	\$ 1,200,000
11 homes under construction @ \$450,000 =	<u>\$ 4,950,000</u>
	\$51,710,000

BARCELONA

Property Data

This is a tract of 108 detached homes located on the south side of Carmel Valley Rd., just east of Camino Ruiz, in the City of San Diego. These homes are described as Lots 1 to 5, 10 to 14 & 17 to 26 of Map 14044, Lots 1 to 84 of Maps 14154 and 14236, and Parcels 1 to 4 of MR 27, Page 297, and also described as APN 306-250-01 to 05, 10 to 14, 17 to 26 & 28 to 31; 306-280-01 to 30; 306-281-01 to 16; and 306-282-01 to 38.

These homes were built in 2001 and 2002 by Greystone Homes, and the tract is being sold out by the builder during November 2002. As of November 14, there are 101 closed sales and 7 homes still owned by Greystone, with sales due to close by November 25. There are four floor plans with sizes of 2,715 s.f., 3,422 s.f., 3,773 s.f. and 3,883 s.f. Amenities of this tract include many lots with views and/or

BARCELONA, Continuing

backing to open space. The lots are a minimum size of $\pm 7,000$ s.f., and a typical size of closer to 8,000 s.f.

Valuation

The initial builder base pricing in February 2001 ranged from \$574,000 to \$643,500 or an average of \$603,000, and as of May 2001 the prices had increased slightly to \$584,000 to \$650,000 or an average of \$625,000. Available information on 23 closed builder sales from July through November 14, 2002 indicates a price range of \$559,000 to \$760,500 or an average of \$672,000.

Thus far, there have been no resales in this tract and there are no current listings for resales.

Considering the upward value trend over the past year and more, as well as the homeowner upgrades which have taken place since the original purchase from the builder, as evidenced by the resales and current listings in other of the subject tracts, I have concluded on an average minimum market value for the 101 completed-sold homes of \$670,000.

For the 7 completed-unsold homes which are still owned by the builder, even though in escrow and due to close by the end of November, for conservative valuation purposes I have considered the 12% discount which results in an average of \$590,000 for these 7 homes.

Based on the foregoing, the following indication results:

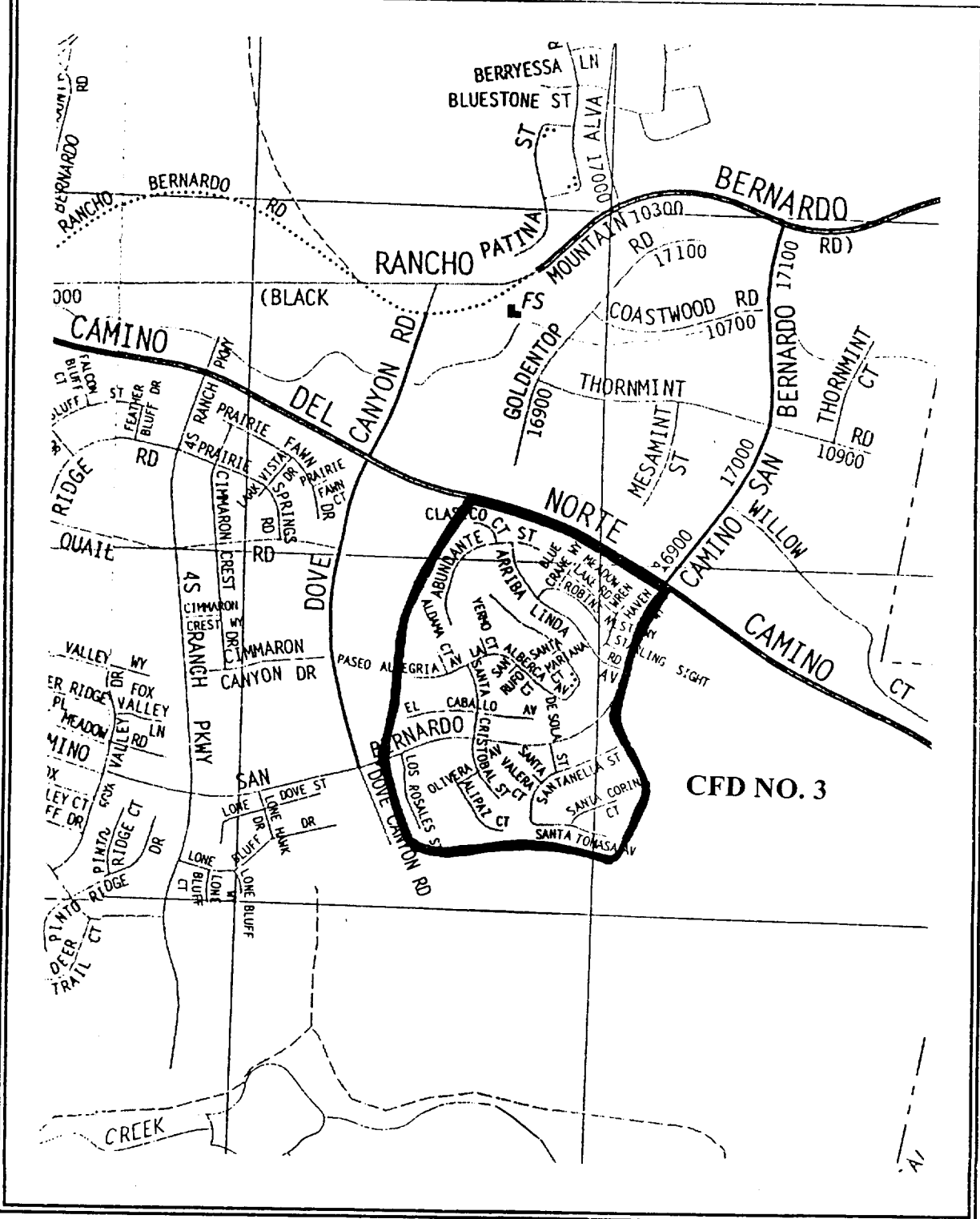
101 completed-sold homes @ \$670,000 =	\$67,670,000
7 completed-unsold homes @ \$590,000 =	<u>\$ 4,130,000</u>
	\$71,800,000

TOTAL FOR CFD NO. 2

The total value indication for CFD No. 2 is calculated as follows:

Collins Ranch:	\$ 57,200,000
Valencia Collection:	\$ 9,200,000
Villamontes:	\$ 65,620,000
Terrazo:	\$ 42,530,000
Palma Real:	\$ 51,710,000
Barcelona:	<u>\$ 71,800,000</u>
	\$298,060,000

MAP OF CFD NO. 3



CFD NO. 3

HAVEN

Property Data

This is a tract of 82 attached paired homes located on the south side of Camino Del Norte, $\pm\frac{1}{4}$ mile east of Dove Canyon Rd., in the unincorporated area of Bernardo Springs. These homes are described as Lots 1 to 82 of Map 14117, and also described as APN 678-512-01 to 60 and 678-513-01 to 22.

These homes were built in 2000 and 2001 by D.R. Horton Homes, and the tract was sold out by the builder by mid-2002. There are three floor plans with sizes of 1,904 s.f., 1,947 s.f. and 2,142 s.f. Amenities of this tract include a private recreation area with pool, spa, cabana and shower facilities. The lots are a minimum and typical size of $\pm 3,500$ s.f.

Valuation

The builder base pricing as of January 2001 was \$315,990 to \$330,990 or an average of \$323,000. By April 2001 the pricing had increased slightly to \$324,990 to \$336,990 or an average of \$329,000. Information on 13 of the more recent builder sales from April 2001 through May 2002 indicated a price range of \$318,990 to \$385,000 or an average of \$346,000.

There have been 3 closed resales in this tract, and all were of the 2,142 s.f. plan. Two of the sales closed in May 2002 for \$381,000 and \$385,000, and the third sale closed in July 2002 at \$409,000. In addition, there is one current listing in the tract, which is a 1,947 s.f. plan at \$399,000.

Considering the upward value trend over the past year and more, as well as the homeowner upgrades which have taken place since the original purchase from the builder, as evidenced by the resales and current listing, I have concluded on an average minimum market value for these homes of \$350,000 which results in the following:

$$82 \text{ homes @ } \$350,000 = \$28,700,000$$

SITELLA

Property Data

This is a tract of 105 attached condominium homes located on the westerly side of Camino San Bernardo, from Camino Del Norte south to Arriba Linda Ave., in the unincorporated area of Bernardo Springs. These homes are described as Units of

SITELLA, Continuing

Map 14094, and also described as APN 678-450-19-01 to 21; 678-450-20-01 to 21; 678-450-21-01 to 24; 678-450-22-01 to 18; and 678-450-24-01 to 21.

These homes were built in 2001 and 2002 by D.R. Horton Homes, and the tract was sold out by the builder by mid-2002. There are three floor plans with sizes of 977 s.f., 1,104 s.f. and 1,410 s.f. Amenities of this tract include a gated entry to the community, and private or fenced rear yards for each unit. The overall density of the project is ±17 dwelling units per acre.

Valuation

The builder base pricing as of January 2001 was \$201,990 to \$235,990 or an average of \$219,000. By April 2001 the pricing had increased slightly to \$199,990 to \$265,990 or an average of \$234,000. Information on the last 15 builder sales which took place from March 2002 through May 2002 indicated a price range of \$243,500 to \$328,000 or an average of \$275,000.

There have been 9 closed resales in this tract from April through November 2002, including 2 of the 977 s.f. plan, 6 of the 1,104 s.f. plan and 1 of the 1,410 s.f. plan. These resales have ranged in price from \$270,000 to \$365,000 or an average of \$301,000. In addition, there are 3 current listings in the tract, two 977 s.f. plans at \$295,000 and \$329,876, and a 1,104 s.f. plan for \$329,876.

Considering the upward value trend over the past year and more, as well as the homeowner upgrades which have taken place since the original purchase from the builder, as evidenced by the resales and current listing, I have concluded on an average minimum market value for these homes of \$300,000 which results in the following:

$$105 \text{ homes @ } \$300,000 = \$31,500,000$$

PATINA

Property Data

This is a tract of 99 detached homes located on the northerly side of Camino San Bernardo at Santa Cristobal St. and extending east to Arriba Linda Ave., in the unincorporated area of Bernardo Springs. These homes are described as Lots 1 to 99 of Map 13725, and also described as APN 678-460-01 to 26; 678-461-01 to 35; and 678-462-01 to 38.

These homes were built in 2000 and 2001 by Centex Homes, and the tract was sold out by the builder in 2001. There are four floor plans which range in size from 2,687

PATINA, Continuing

s.f. to 3,837 s.f. Amenities of this tract include good views to many of the lots. The lots are $\pm 6,000$ s.f. minimum, with many being much larger.

Valuation

The builder pricing in early to mid-2000 generally ranged from \$430,000 to \$510,000 or an average of near \$470,000. There have been 6 resales during 2002, taking place from February through October, which have ranged from \$535,000 to \$725,000 or an average of \$627,000. These resales have included 5 of the two smaller floor plans and 1 of the largest floor plan. In addition, there are 7 current listings in the tract which range in price from \$675,000 to \$759,900 or an average of \$719,000. All but one of these listings is of the two largest floor plans.

Considering the upward value trend over the past year and more, as evidenced by the resales, current listings and other data in the general area, I have concluded on an average minimum market value for these homes of \$630,000 which results in the following:

$$99 \text{ homes @ } \$630,000 = \$62,370,000$$

COPPERWOOD

Property Data

This is a tract of 62 detached homes located on the south side of Camino San Bernardo at Los Rosales St. and Santa Cristobal St., just east of Dove Canyon Rd., in the unincorporated area of Bernardo Springs. These homes are described as Lots 167 to 228 of Map 13727, and also described as APN 678-480-01 to 62.

These homes were built in 1999 and 2000 by Greystone Homes, and the tract was sold out by the builder in 2000. There are three floor plans with sizes of 2,451 s.f., 2,634 s.f. and 2,861 s.f. Amenities of this tract include good views to many of the lots. The lots are $\pm 5,000$ s.f. minimum, with many being much larger.

Valuation

The original builder pricing in 1999 and 2000 generally ranged from the high \$300,000's to the mid-\$500,000's, but mostly in the \$400,000's. Since August 2001 there have been 6 resales which have ranged from \$475,000 to \$625,000 or an average of \$545,000. These resales have included 1 of the small floor plans and 5 of the largest floor plans. In addition, there is one pending sale of the largest floor plan which had an asking price of \$575,000 but the sale price is unknown. There is also a pending resale in escrow with a back-up offer, which is the largest floor plan, and with a price near \$575,000.

COPPERWOOD, Continuing

Considering the upward value trend over the past year and more, as evidenced by the resales, current listings and other data in the general area, I have concluded on an average minimum market value for these homes of \$530,000 which results in the following:

$$62 \text{ homes @ } \$530,000 = \$32,860,000$$

CAMEO

Property Data

This is a tract of 51 detached homes located on the south side of Camino San Bernardo at De Sola St., in the unincorporated area of Bernardo Springs. These homes are described as Lots 108 to 158 of Map 13726, and also described as APN 678-470-01 to 23 and 678-471-01 to 28.

These homes were built in 2000 to 2002 by Richmond American Homes, and the tract was sold out by the builder in early 2002. There are three floor plans with sizes of 3,358 s.f., 3,493 s.f. and 3,608 s.f. Amenities of this tract include good views to many of the lots. The lots are $\pm 7,000$ s.f. minimum, with many being much larger.

Valuation

The builder base pricing in early 2001 ranged from \$525,060 to \$554,490 or an average of \$538,000. The last 25 builder sales took place from November 2001 through March 2002, and ranged in price from \$487,500 to \$664,000 or an average of \$562,000.

There have only been two resales in this tract during 2002. A 3,493 s.f. plan which originally sold in June 2001 at \$512,500 resold in July 2002 at a price of \$585,000, and a 3,608 s.f. plan which originally sold in December 2001 at \$592,000 resold in May 2002 at a price of \$644,000. There are no current listings in this tract.

Considering the upward value trend over the past year and more, as well as the owner upgrades since original purchase from the builder, as evidenced by the resales and other data in the general area, I have concluded on an average minimum market value for these homes of \$570,000 which results in the following:

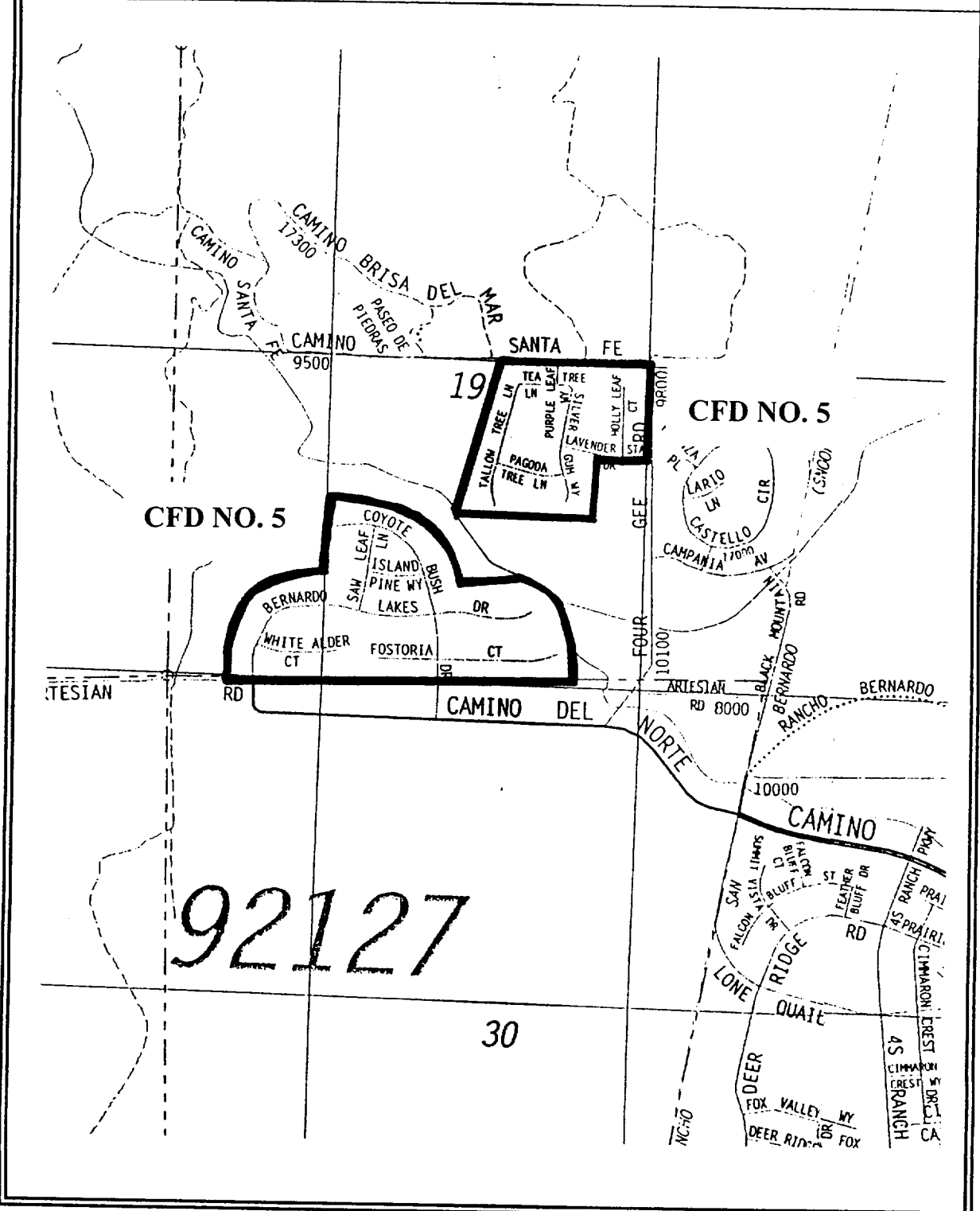
$$51 \text{ homes @ } \$570,000 = \$29,070,000$$

TOTAL FOR CFD NO. 3

The total value indication for CFD No. 3 is calculated as follows:

Haven:	\$ 28,700,000
Sitella:	\$ 31,500,000
Patina:	\$ 62,370,000
Copperwood:	\$ 32,860,000
Cameo:	<u>\$ 29,070,000</u>
	\$184,500,000

MAP OF CFD NO. 5



CFD NO. 5

BEL ETAGE

Property Data

This is a tract of 97 detached homes located just north of Camino Del Norte, east and west of Coyote Bush Dr., in an unincorporated area called Santa Fe Valley. These homes are described as Lots 1 to 97 of Map 13734; and also described as APN 678-410-01 to 15; 678-411-01 to 25; 678-412-01 to 32; and 678-420-01 to 25.

Colrich Communities commenced construction in 1999 and there are still 5 homes under construction which are $\pm 90\%$ completed. There are now 84 completed-sold homes, 8 completed-unsold homes due to close escrow from late November to mid-December, and the 5 homes under construction which will be completed and sold by late December. There are four floor plans with sizes of 3,841 s.f., 4,216 s.f., 4,461 s.f. and 4,739 s.f. Amenities of this tract include a gated entry. The lots are a minimum size of $\pm 15,000$ s.f. with many lots being closer to 20,000 s.f.

Valuation

The builder base pricing in January 2001 ranged from \$711,990 to \$783,990 or an average of \$747,000. As of April 2001, the pricing had increased to \$735,990 to \$839,990 or an average of \$781,000. Information on 30 builder sales which closed from January through November 1, 2002 indicated a price range of \$802,500 to \$1,360,000 or an average of \$913,000. The prices for the 13 homes in escrow, including premiums but not upgrades, range from \$784,990 to \$1,139,990 or an average of \$888,000. The average upgrade is at least \$100,000.

There has been 1 resale in 2002 which was of a 4,216 s.f. plan and closed in August at a price of \$989,000. It originally sold from the builder in April 2001 at \$889,500.

There are also 6 current listings in the tract at prices of \$929,900 to \$1,174,900 or an average of \$1,055,000. All of these are of the three larger floor plans.

Considering the upward value trend over the past year and more, as well as the homeowner upgrades which have taken place since the original purchase from the builder, as evidenced by the current resale, listings and other data in the area, I have concluded on an average minimum market value for the 84 completed-sold homes of \$930,000. For the 8 completed-unsold homes I have used the 12% discount which results in an average of $\pm \$820,000$.

For the 5 homes under construction which are $\pm 90\%$ completed, I have considered a cost amount of 90% of \$90.00 per s.f. costs or \$81.00 per s.f. on an average home size of $\pm 4,300$ s.f., or a total cost amount of $\pm \$350,000$. This is added to a finished lot value estimate of \$380,000 which is based on a 42% finished lot ratio and an

BEL ETAGE, Continuing

average home price of ±\$900,000. The result is a total average of \$730,000 for the 5 homes under construction.

Based on the foregoing, the following value indication results:

84 completed-sold homes @ \$930,000 =	\$78,120,000
8 completed-unsold homes @ \$820,000 =	\$ 6,560,000
5 homes under construction @ \$730,000 =	<u>\$ 3,650,000</u>
	\$88,330,000

SAVENNA

Property Data

This is a tract of 53 detached homes located ±½ mile north of Camino Del Norte and west of Four Gee Rd., nearby to the northeast of the Bel Etage tract, also in an unincorporated area called Santa Fe Valley. These homes are described as Lots 120 to 172 of Map 13769; and also described as APN 678-430-01 to 07, 09 to 23 & 28; 678-431-01, 03 to 29 & 35; and 678-432-02.

These homes were built in 1999 through 2002 by Colrich Communities, and the tract was sold-out by the builder in 2002. There are three floor plans with sizes of 4,780 s.f., 4,970 s.f. and 5,373 s.f. Amenities of this tract include a gated entry. The lots are a minimum size of ±18,000 s.f., and up to ±1 acre.

Valuation

The builder base pricing in January 2001 ranged from \$804,990 to \$844,990 or an average of \$827,000. As of April 2001, the pricing had increased to \$832,990 to \$856,990 or an average of \$844,000. Information on 13 builder sales which closed from October 2001 through August 2002 indicated a price range of \$827,000 to \$1,325,000 or an average of \$973,000. While these prices would include premiums and upgrades, it is noted that these prices would have been set many months prior to the closing date, thus long before current date.

There have been 2 resales in 2002, both of the 4,780 s.f. plan. One sold in July 2002 at \$980,000 and the other sold in September 2002 at \$920,000.

There are also 2 current listings in the tract, both of the 5,373 s.f. plan, at prices of \$975,000 to \$1,099,876 and \$1,200,000 to \$1,300,000. The higher-priced home has a large lot and substantial upgrades.

SAVENNA, Continuing

Considering the upward value trend over the past year and more, as well as the homeowner upgrades which have taken place since the original purchase from the builder, as evidenced by the current resale, listings and other data in the area, I have concluded on an average minimum market value for these homes of \$970,000 which results in the following:

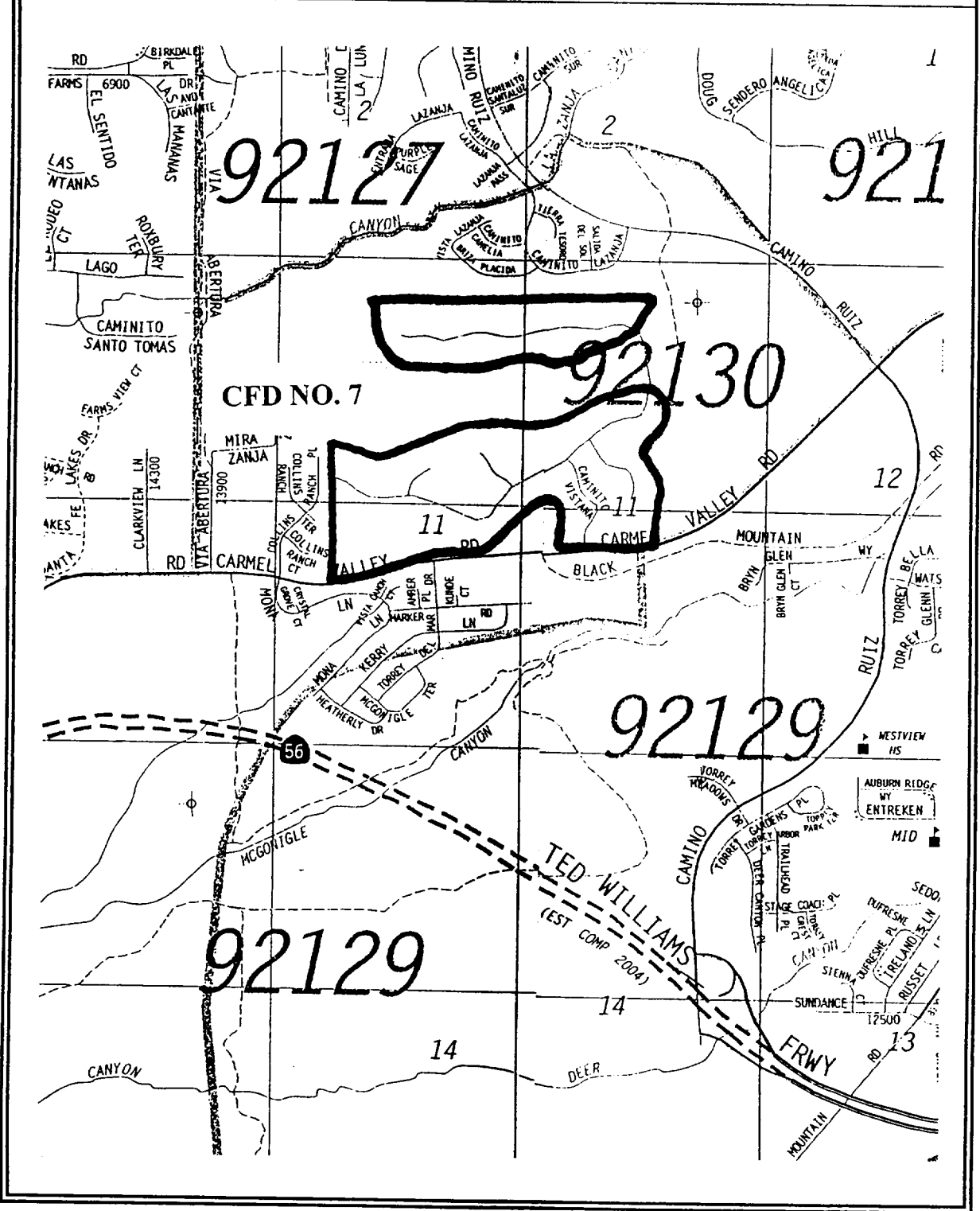
53 homes @ \$970,000 = \$51,410,000

TOTAL FOR CFD NO. 5

The total value indication for CFD No. 5 is calculated as follows:

Bel Etage:	\$ 88,330,000
Savenna:	<u>\$ 51,410,000</u>
	\$139,740,000

MAP OF CFD NO. 7



CFD NO. 7

FAIRBANKS HIGHLANDS

Property Data

This is a tract of 93 detached homes located on the north side of Carmel Valley Rd. at Caminito Vistana, in the City of San Diego. These homes are described as Lots 1 to 93 of Map 13796; and also described as APN 306-240-01 to 42; 306-241-01 to 23; and 306-242-28.

These homes were built in 1999 through 2001 by Taylor Woodrow Homes, and the tract was sold-out by the builder in early 2002. There are five floor plans with sizes of 3,883 s.f., 4,411 s.f., 5,067 s.f., 5,114 s.f. and 5,463 s.f. Amenities of this tract include a gated entry. The lots are a minimum size of ± 1 acre and range up to 3.77 acres, including slope area.

Valuation

The builder base pricing as of early 2001 ranged from \$1,285,990 to \$1,401,990 or an average of \pm \$1,330,000. Information on 18 builder sales which closed from June 2001 through January 2002 indicated a price range of \$1,050,000 to \$1,851,500 or an average of \$1,351,000. While these prices would include premiums and upgrades, it is noted that these prices would have been set many months prior to the closing date, thus long before current date.

There have been 9 resales in 2002, including a mix of all of the floor plans. The sales closed from January through early November 2002 at prices of \$1,300,000 to \$1,800,000 or an average of \$1,485,000.

There are also 7 current listings in the tract, including a mix of all of the floor plans. The asking prices range from \$1,359,000 to \$1,850,000 or an average of \$1,583,000.

Considering the upward value trend over the past year and more, as well as the homeowner upgrades which have taken place since the original purchase from the builder, as evidenced by the current resales, listings and other data in the area, I have concluded on an average minimum market value for these homes of \$1,450,000 which results in the following:

$$93 \text{ homes @ } \$1,450,000 = \$134,850,000$$

ADDENDA

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TABULATION OF RESIDENTIAL LAND SALES

No.	Location/Project Name	Seller/Buyer	Rec. Date	No. Lots	Min. Lot Size	Product	Price/Lot Finished Lot	Fin. Lot Ratio	Remarks
1	SEQ 4S Ranch Pkwy & Camino San Bernardo (Legacy)	4S Kelwood Gen'l Partnership PLC/Christopher Homes	7/01	108	5,000	2,829-3,288 s.f. \$475,000-\$525,000	±\$215,000 \$230,000	46%	4S Ranch-Neighborhood One; sold as near finished lots; ±1.5% tax rate
2	NEQ 4S Ranch Pkwy & Dove Creek Rd., Rancho Bernardo (Belle Rive)	4S Kelwood Gen'l Partnership Belle Rive Dev. (Blue Comm.)	9/02	82	4,500	2,264-3,047 s.f. \$430,000-\$470,000	\$153,816 \$169,500	37%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
3	SEQ Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Fieldstone Communities	Escrow	65	6,300	2,803-3,392 s.f. \$476,000-\$528,000	\$188,000 \$206,000	41%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
4	NWQ Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (Canyon Ridge)	4S Kelwood Gen'l Partnership Centex Homes	10/02 Escrow	32 43 75	6,300	3,172-3,750 s.f. \$511,900-\$559,900	\$202,902 \$219,000	41%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
5	NEQ Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Public Homes	Escrow	38 37 75	6,300	3,390-3,843 s.f. \$565,000-\$600,000	\$210,000 \$227,000	39%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
6	SWQ Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership K. Hovnanian	Escrow	37 36 73	7,350	4,144-4,595 s.f. \$620,000-\$660,000	\$212,000 \$230,000	36%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
7	NEQ Dove Canyon Rd. & Bernardo Center Dr., Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Standard Pacific	Escrow	34 34 37 105	8,125	3,175-3,990 s.f. \$565,000-\$610,000	\$223,000 \$244,000	41%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
8	NW/O west end of Camino De La Rosa, 1½ miles N/O Carmel Valley Rd., San Diego (The Collection at Santa Monica)	Western Pacific Housing Colrich Communities	1/02	66	10,000	±4,200-5,800 s.f. Low to high \$800,000's	\$211,159 \$290,000	±34%	Portion of Santa Monica project; to be delivered in blue-top condition; ±1.8% tax rate
9	W/O Camino De La Luna, ±1,500' S/O Camino De La Rosa, San Diego (Mirasol)	Hillside Ventures, et al Pardee Homes	5/02	52	15,000	n/a n/a	n/a ±\$350,000	n/a	Torrey Highlands Subarea I; raw land with approved tentative tract map
10	W/S Camino Ruiz, S/O Lazanja Dr., San Diego (Garden Homes)	SRHI LLC D.R. Horton	9/01	63	7,000	3,347-4,002 s.f. ±\$600,000-\$700,000	n/a \$275,000	42%	Santaluz master-planned community; many lots back to open space; ±1.8% tax rate
11	SWS Camino Ruiz at Caminito Lazanja, San Diego (n/a)	Santaluz LLC Davidson Communities	8/02	71	8,120	3,700-4,100 s.f. Mid to high \$700,000's	\$246,380 \$294,000	38%	Santaluz master-planned community; many lots back to open space; ±1.9% tax rate
12	Torrey Del Mar, S/O Carmel Valley Rd., San Diego (Terrazo)	Barratt American Cornerstone Communities	7/00	69	5,000	3,094-3,845 s.f. \$568,990-\$634,990	\$205,171 \$235,171	39%	Torrey Del Mar, mostly finished lots; ±1.6% tax rate

TABULATION OF RESIDENTIAL LAND SALES, Continuing

<u>No.</u>	<u>Location/Project Name</u>	<u>Seller/Buyer</u>	<u>Rec. Date</u>	<u>No. Lots</u>	<u>Min. Lot Size</u>	<u>Product</u>	<u>Price/ Lot Finished Lot</u>	<u>Fin. Lot Ratio</u>	<u>Remarks</u>
13	SWC & SEC Black Mountain Rd. & Rancho Santa Fe Farms, San Diego (Palma Real)	D.R. Horton Barratt American	3/01	162	4,000	1,600-2,100 s.f. \$395,000-\$470,000	\$123,457 \$208,000	48%	Torrey Highlands Subarea III; was raw land with approved tract maps; ±1.5-1.7% tax rate
14	S'y corner Camino Ruiz & Torrey Meadows, San Diego (Cordero)	Greystone Homes Standard Pacific	7/01	78	5,005	2,800-3,400 s.f. Mid \$500,000's to Low \$600,000's	n/a \$251,000	43%	Torrey Highlands Subarea IV; were delivered as near finished lots; ±1.8% tax rate
15	NEC Torrey Santa Fe & Torrey Meadows, San Diego (San Lorenza)	Obradovich Western Pacific Housing	1/02	107	3,500	1,642-2,250 s.f. \$377,500-\$477,500	n/a \$169,000	41%	Torrey Highlands Subarea IV; was part of larger parcel; raw, no approvals; CFD
16	NWC Torrey Santa Fe & Torrey Meadows, San Diego (Avalon Point)	McMillin Land Development Shea Homes	7/02	142	5,000	2,528-3,141 s.f. +\$490,000-\$550,000	\$193,592 \$240,000	46%	Torrey Highlands Subarea IV; delivered as near finished lots; 1.8% tax rate

Note: Home pricing is the estimate as of the date of the land sale or the actual first phase pricing

**QUALIFICATIONS
OF
STEPHEN G. WHITE, MAI**

PROFESSIONAL EXPERIENCE

Real Estate Appraiser since 1976.

1983 through current date: Self-employed; office located at 1370 N. Brea Blvd., Suite 205, Fullerton, CA 92835 (Phone: 714-738-1595)

1976-1982: Employed by Cedric A. White, Jr., MAI, independent appraiser located in Anaheim.

Real estate appraisals have been completed on most types of properties for purposes of fair market value, leased fee value, leasehold value, easement value, partial acquisitions and severance damages.

PROFESSIONAL ORGANIZATIONS

Member, Appraisal Institute; MAI designation obtained 1985

Affiliate Member, Pacific West Association of Realtors

LICENSES

Licensed by the State of California as a Certified General Real Estate Appraiser; OREA ID No. AG013311; valid through September 22, 2002.

EDUCATION

B.A. Economics & Business, Westmont College, Santa Barbara (1976)

Appraisal Institute Courses:

Basic Appraisal Principles, Methods and Techniques

Capitalization Theory and Techniques

Urban Properties

Litigation Valuation

Standards of Professional Appraisal Practice

Numerous seminars and continuing education on various appraisal subjects, including valuation of easements and leased fee interests, litigation, the money market and its impact on real estate, and standards of professional appraisal practice.

COURT/TESTIMONY EXPERIENCE

Qualified as an expert witness in the Superior Courts of Orange, Los Angeles, Riverside and San Bernardino Counties; also before the Assessment Appeals Board of Orange and Los Angeles Counties.

TYPES OF PROPERTY APPRAISED

Residential: vacant lots, acreage and subdivisions; single family residences, condominiums, townhomes and apartment complexes.

Commercial: vacant lots/acreage; office buildings, retail stores, shopping centers, restaurants, hotels and motels.

QUALIFICATIONS, Page 2

Industrial: vacant lots and acreage; warehouses, manufacturing buildings, R&D buildings, industrial parks, mini-warehouses.

Special Purpose: mobilehome parks, churches, automobile agencies, medical buildings, convalescent hospitals, easements, leased fee and leasehold interests.

CLIENT LIST

Corporations:

Aera Energy
British Pacific Properties
BSI Consultants
Crown Central Petroleum
Eastman Kodak Company
Firestone Building Materials
Foodmaker Realty Corp.
Greyhound Lines
Holiday Rambler Corp.
International Baking Co.
Johnson Controls
Kamgrounds of America
La Habra Products, Inc.

MCP Foods
Merrill Lynch Relocation
Orangeland RV Park
Pacific Scientific
Penhall International
Pic 'N Save Stores
Sargent-Fletcher Co.
Shell-Western E&P
Southern Distributors Corp.
Southern California Edison
The Home Depot
Tooley and Company
Wastewater Disposal Co.

Developers:

Brighton Homes
Citation Builders
Davison-Ferguson Investment Devel.
D.T. Smith Homes
Irvine Company
Kathryn Thompson Developers
Mark Taylor, Inc.

Mission Viejo Co.
Premier Homes
Presley Homes
Rockefeller & Associates
Taylor Woodrow Homes
Unocal Land & Development

Law Firms:

Baldikoski, Klotz & Dragonette
Best, Best & Krieger
Bowie, Arneson, Kadi, Wiles & Giannone
Bradshaw, John
Bye, Hatcher & Piggott
Callahan, McCune & Willis
Cooksey, Coleman & Howard
Hamilton & Samuels
Horgan, Rosen, Beckham & Coren
Kent, John
Kirkland & Ellis
Lathan & Watkins
McKee, Charles C.
Mosich, Nicholas J.
Long, David M.

Nossaman, Guthner, Knox & Elliott
Oliver, Barr & Vose
Ollestad, Freedman & Taylor
Palmieri, Tyler, Wiener, Wilhelm & Waldron
Paul, Hastings, Jonofsky & Walker
Piggott, George B.
Pothier, Rose
Rosenthal & Zimmerman
Rutan & Tucker
Sikora & Price, Inc.
Smith & Politiski
Williams, Gerold G.
Woodruff, Spradlin & Smart
Yates, Sealy M.

QUALIFICATIONS, Page 3

Financial Institutions:

Barclays Bank
Chino Valley Bank
Continental Bank
First Interstate Mortgage
Security Pacific Bank
Washington Square Capital

San Clemente Savings & Loan
United Calif. Savings Bank
National Credit Union Admin.
First Wisconsin Bank
Ahmanson Trust Company
Sunwest Bank

Cities:

City of Anaheim
City of Baldwin Park
City of Buena Park
City of Cypress
City of Duarte
City of La Habra
City of Laguna Beach
City of Mission Viejo

City of Orange
City of Placentia
City of Riverside
City of Santa Ana
City of Santa Fe Springs
City of Stanton
City of Tustin
City of Yorba Linda

Counties:

County of Orange

County of Riverside

Other Governmental:

Agua Mansa Industrial Growth Association
El Toro Water District
Federal Deposit Insurance Corporation (FDIC)
Kern County Employees Retirement Association

Metropolitan Water District
Orange County Water District
Trabuco Canyon Water District
U.S. Postal Service

School Districts:

Anaheim Union High School Dist.
Banning Unified School Dist.
Capistrano Unified School Dist.
Castaic Union School Dist.
Cypress School Dist.
Etiwanda School Dist.
Fullerton School Dist.
Garden Grove Unified School Dist.
Irvine Unified School Dist.
Lake Elsinore Unified School Dist.

Moreno Valley Unified School Dist.
Newhall School Dist.
Newport-Mesa Unified School Dist.
Placentia-Yorba Linda Unified Dist.
Poway Unified School Dist.
Rialto Unified School Dist.
Saddleback Unified School Dist.
Santa Ana Unified School Dist.
So. Org. Cnty Comm. College Dist.
Temple City School Dist.

Churches/Church Organizations:

Calvary Church, Santa Ana
Central Baptist Church, Pomona
Christian & Missionary Alliance Church, Santa Ana
Christian Church Foundation
Congregational Church, Fullerton

First Church of the Nazarene
Lutheran Church, Missouri Synod
Presbytery of Los Rancho
St. Mark's Lutheran Church, Hac. Hts.
Vineyard Christian Fellowship

Other:

Biola University
Cedars-Sinai Medical Center

Garden Grove Boys' Club
The Sheepfold

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APPENDIX D

SUMMARY OF LEGAL DOCUMENTS

Authority Indenture

The following is a summary of selected provisions of the Authority Indenture and the Bond Indenture for the CFD No. 2 Local Obligations. The provisions of the separate Bond Indentures for the CFD No. 3 Local Obligations, the CFD No. 5 Local Obligations and the CFD No. 7 Local Obligations are substantially equivalent to the provisions of the Bond Indenture for the CFD No. 2 Local Obligations except where specified otherwise in this summary. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the documents summarized herein. Purchasers of the Bonds are referred to the complete text of each respective document, copies of which are available upon written request from the Trustee.

Definitions

The capitalized terms set forth in the Indenture of Trust are defined therein as follows:

"Act" means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California.

"Agreement" means that certain Joint Exercise of Powers Agreement, dated as of October 21, 2002, by and between CFD No. 1 and the School District and as hereafter duly amended and supplemented from time to time, creating the Authority for the purposes, among other things, of assisting the School District and CFD No. 1 in the financing and refinancing of Public Capital Improvements, as such term is defined in the Bond Law.

"Ambac Assurance" means Ambac Assurance Corporation, a Wisconsin domiciled stock insurance company.

"Associate Superintendent, Business Support Services" means the Associate Superintendent, Business Support Services of the School District.

"Authority" or "Issuer" means the Poway Unified School District Public Financing Authority, a joint exercise of powers authority organized and existing under the Agreement and under and by virtue of the laws of the State of California.

"Authority Administrative Expense Fund" fund by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as prescribed in the Indenture.

"Authority Administrative Expenses" means all actual costs and expenses incurred in connection with the administration of the Bonds, including but not limited to: (a) the fees and expenses payable to the Trustee, and its counsel, and other Persons for professional services rendered in connection with the administration, continuing disclosure and rebate obligations of or for the Bonds; and (b) fees and expenses of Independent Accountants for preparation of audits required by the Indenture.

"Authority Bond Counsel" means the law firm of Best Best & Krieger LLP and any successor firm or any other firm of nationally recognized bond counsel acceptable to the Board of Directors.

"Authority Costs of Issuance" means all items of expense directly or indirectly payable by, or reimbursable to, the Authority relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to, underwriters' discount, printing expenses, Authority Bond Counsel fees, bond insurance premiums or costs, surety fees and costs, rating agency fees, filing and recording fees, initial fees, expenses and charges and first annual administrative fees of the Trustee, expenses of its counsel,

fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, and any other cost, charge or fee in connection with the original issuance of the Bonds. Authority Costs of Issuance include Costs of Issuance as defined in the CFD No. 2 Bond Indenture for the CFD No. 2 Bonds, CFD No. 3 Bond Indenture for the CFD No. 3 Bonds, CFD No. 5 Bond Indenture for the CFD No. 5 Bonds and CFD No. 7 Bond Indenture for the CFD No. 7 Bonds.

"Authority Costs of Issuance Account" means the account by that name within the Program Fund established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as prescribed in the Indenture.

"Authority School Facilities Fund" means the fund by the name established with Trustee with respect to the Bonds pursuant to the Indenture and to be administered as prescribed in the Indenture.

"Authorized Denomination" means the principal amount or maturity amount, as applicable, of \$5,000 or any integral multiple thereof.

"Authorized Representative" means: (a) with respect to the Authority, its Chairperson, Treasurer or Secretary, or any other Person designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its Treasurer and filed with each CFD, the Authority and the Trustee; (b) with respect to the School District, its Superintendent, Associate Superintendent, Business Support Services, or any other Person designated as an Authorized Representative of the School District by a Certificate signed on behalf of the School District by its Associate Superintendent, Business Support Services and filed with the Authority and the Trustee; (c) with respect to a CFD the President of the Board of Education, Vice President of the Board of Education, the Associate Superintendent, Business Support Services or any other Person acting for and on behalf of a CFD and designated as an Authorized Representative of a CFD by a Certificate signed on behalf of a CFD by the Associate Superintendent, Business Support Services and filed with the Authority and the Trustee; and (d) with respect to the Trustee, the President, any Vice President, any Assistant Vice President, or any Trust Officer of the Trustee, and when used with reference to any act or document also means any other Person authorized to perform such act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the bylaws of the Trustee. An Authorized Representative may by written instrument designate any Person to act on his or her behalf.

"Board of Directors" means the Board of Directors of the Authority.

"Board of Education" means the Board of Education of the School District.

"Bond Fund" means the fund by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as prescribed in the Indenture.

"Bond Law" means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act (commencing with Section 6584), as amended from time to time.

"Bond Purchase Agreement" means an agreement to purchase the Bonds by and between the Authority, the School District, on behalf of the CFDs, and the Original Purchaser of the Bonds.

"Bond Year" means each twelve-month period beginning on September 2 of each year and ending on September 1 the following year; provided, however, that with respect to the Bonds, the first such Bond Year shall begin on the Date of Delivery, and end on September 1, 2003.

"Bonds" or "Authority Bonds" mean Poway Unified School District Public Financing Authority 2003 Revenue Bonds at any time Outstanding pursuant to the Indenture.

"Business Day" means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State of California, or in any state in which the Principal Office of the Trustee is located, or the New York Stock Exchange is closed. If any payment thereunder is due on a day which is

not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such previous day.

"CFD No. 2 Bond Indenture" means the Bond Indenture, dated as of February 1, 2003, by and between CFD No. 2 and U.S. Bank National Association, as Fiscal Agent, pertaining to the CFD No. 2 Bonds.

"CFD No. 2 School Facilities Fund" means the fund by that name established pursuant to the CFD No. 2 Bond Indenture.

"CFD No. 3 Bond Indenture" means the Bond Indenture, dated as of February 1, 2003, by and between CFD No. 3 and U.S. Bank National Association, as Fiscal Agent, pertaining to the CFD No. 3 Bonds.

"CFD No. 5 Bond Indenture" means the Bond Indenture, dated as of February 1, 2003, by and between CFD No. 5 and U.S. Bank National Association, as Fiscal Agent, pertaining to the CFD No. 5 Bonds.

"CFD No. 7 Bond Indenture" means the Bond Indenture, dated as of February 1, 2003, by and between CFD No. 7 and U.S. Bank National Association, as Fiscal Agent, pertaining to the CFD No. 7 Bonds.

"CFD No. 7 Bonds Prepayment Credit" means that Reserve Fund Credit, as such term is defined in the rate and method of apportionment of special taxes for CFD No. 7, calculated pursuant to such rate and method of apportionment and provided upon the prepayment of the special tax obligation for property within CFD No. 7.

"CFD No. 2 Bonds Reserve Fund Credit Amount" means, as of September 1, 2028, an amount equal to the cash amount then on deposit in the Reserve Fund multiplied times a fraction the numerator of which is the then outstanding principal amount of the CFD No. 2 Bonds and the denominator of which is the then outstanding aggregate principal amount of the Local Obligations.

"CFD No. 3 Bonds Reserve Fund Credit Amount" means, as of September 1, 2028, an amount equal to the cash amount then on deposit in the Reserve Fund multiplied times a fraction the numerator of which is the then outstanding principal amount of the CFD No. 3 Bonds and the denominator of which is the then outstanding aggregate principal amount of the Local Obligations.

"CFD No. 5 Bonds Reserve Fund Credit Amount" means, as of September 1, 2028, an amount equal to the cash amount then on deposit in the Reserve Fund multiplied times a fraction the numerator of which is the then outstanding principal amount of the CFD No. 5 Bonds and the denominator of which is the then outstanding aggregate principal amount of the Local Obligations.

"CFD No. 7 Bonds Reserve Fund Credit Amount" means, as of September 1, 2028, an amount equal to the cash amount then on deposit in the Reserve Fund multiplied times a fraction the numerator of which is the then outstanding principal amount of the CFD No. 7 Bonds and the denominator of which is the then outstanding aggregate principal amount of the Local Obligations.

"Community Facilities District Bond Counsel" or "CFD Bond Counsel" means the law firm of Best Best & Krieger LLP and any successor firm or any other firm of nationally recognized bond counsel acceptable to the Board of Education, acting in its capacity as the legislative body of the CFDs.

"Community Facilities District No. 1" or "CFD No. 1" means Community Facilities District No. 1 of the Poway Unified School District, a Community Facilities District formed pursuant to the Mello-Roos Community Facilities Act of 1982, as amended.

"Community Facilities Districts" or "CFDs" means Community Facilities Districts, below-listed, which are participating in the overall financing program either by issuance of special tax bonds, issued pursuant to the Mello-Roos Act and the issuance of the Bonds by the Authority:

Community Facilities District No. 2 of the Poway Unified School District;

Community Facilities District No. 3 of the Poway Unified School District;

Community Facilities District No. 5 of the Poway Unified School District; and

Community Facilities District No. 7 of the Poway Unified School District.

"Continuing Disclosure Agreement" shall mean that certain Continuing Disclosure Agreement as executed and delivered by the Authority and the School District on behalf of the CFDs, David Taussig & Associates, as dissemination agent, and U.S. Bank National Association, as Trustee, and dated as of February 1, 2003 as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Credit Facility" means any form of credit instrument, including the Surety Bond, delivered to the Trustee to be held in the Reserve Fund in lieu of cash.

"Date of Delivery" means with respect to the Bonds, the date on which the Bonds are delivered to the Original Purchaser in exchange for the purchase price therefor.

"Defeasance Obligations" means the following obligations which may be used as Permitted Investments for all purposes, including the defeasance of the Bonds:

- (a) Cash (insured at all times by the Federal Deposit Insurance Corporation),
- (b) Direct obligations of (including obligations issued or held in book entry form on the books of the Department of Treasury of the United States of America, or
- (c) Senior debt obligations of other government sponsored agencies approved in writing by Ambac Assurance.

"Event of Bankruptcy" means, with respect to any Person, the filing of a petition in bankruptcy or the commencement of a proceeding under the United States Bankruptcy Code or any other applicable law concerning insolvency, reorganization or bankruptcy by or against such Person as debtor, other than any involuntary proceeding which has been finally dismissed without entry of an order for relief or similar order as to which all appeal periods have expired.

"Event of Default" means any of the events of default specified in the Indenture.

"Excess Investment Earnings" means an amount equal to the sum of:

- (a) the excess of the aggregate amount earned from the Date of Delivery on all Permitted Investments in which proceeds of the Bonds are invested (other than amounts attributable to an excess described in this paragraph (a)) over the amount which would have been earned if the Yield on such investments (other than amounts attributable to an excess described in this paragraph (a)) had been equal to the yield on the Bonds; and
- (b) any income attributable to the excess described in the preceding paragraph (a).

"Financial Guaranty Insurance Policy" shall mean the financial guaranty insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Fiscal Agent" shall mean U.S. Bank National Association, acting as in its capacity as the fiscal agent for the CFD No. 2 Bonds, the CFD No. 3 Bonds, the CFD No. 5 Bonds and/or the CFD No. 7 Bonds.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Authority and certified to the Trustee in writing by an Authorized Representative of the Authority.

"Funding Allocation Agreement" means that certain Funding Allocation Agreement, dated as of February 1, 2003, among the Authority, the School District and the CFDs.

"Funding Requirement" means, as of any date of calculation that all deposits required to be made to the Interest Account, the Principal Account and the Redemption Account for the Bond Year have been made.

"Guaranty Agreement" means that certain Guaranty Agreement by and between the Authority and Ambac Assurance delivered as part of the consideration for the execution by Ambac Assurance of the Surety Bond.

"Guaranty Agreement Reimbursement Payment" means any reimbursement payment required to be made by the Authority to Ambac Assurance pursuant to the Guaranty Agreement.

"Indenture" means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended pursuant to its terms.

"Independent Accountant" means any nationally recognized firm of certified public accountants or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State, appointed by the Authority, and who, or each of whom:

- (a) is in fact independent and not under domination of the Authority, School District or CFDs;
- (b) does not have any substantial interest, direct or indirect, with the Authority, School District or CFDs; and
- (c) is not connected with the Authority, School District or CFDs as an officer or employee of the Authority, School District or CFDs, but who may be regularly retained to make reports to the Authority, School District or CFDs.

"Independent Financial Consultant" any financial consultant or firm of such financial consultants appointed by the Authority, and who, or each of whom:

- (a) is judged by the Authority to have experience with respect to the financing of public capital improvement projects;
- (b) is in fact independent and not under the domination of the Authority, the School District or CFDs;
- (c) does not have any substantial interest, direct or indirect, with the Authority, the School District or CFDs; and
- (d) is not connected with the Authority, School District or CFDs as an officer or employee of the Authority, School District or CFDs, but who may be regularly retained to make reports to the Authority, School District or CFDs.

"Information Services" means Financial Information, Inc. "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey School District, New Jersey 07302, Attention: Editor; Kenny Information Services, "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's Investor's Service, 5250 77 Center Drive, Suite 150, Charlotte, North Carolina, 28217, Attn: Called Bond Department; Standard & Poor's Corporation "Called Bond Record," 55 Water Street, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate in a certificate of the Authority delivered to the Trustee.

"Interest Account" means the account by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as prescribed in the Indenture.

"Interest Payment Date" means March 1 and September 1, commencing September 1, 2003.

"Insurance Trustee" means The Bank of New York, in New York, New York, as insurance trustee for Ambac Assurance or any successor insurance trustee.

"Local Agency" means the School District or any CFD.

"Local Obligations" means:

- (a) Community Facilities District No. 2 - Those special tax bonds designated as Poway Unified School District Community Facilities District No. 2 2003 Special Tax Bonds (the "CFD No. 2 Bonds") issued pursuant to Resolution 49-2003 of the School District as adopted on January 21, 2003 and the CFD No. 2 Bond Indenture.
- (b) Community Facilities District No. 3 - Those special tax bonds designated as Poway Unified School District Community Facilities District No. 3 2003 Special Tax Bonds (the "CFD No. 3 Bonds") issued pursuant to Resolution 50-2003 of the School District as adopted on January 21, 2003 and the CFD No. 3 Bond Indenture.
- (c) Community Facilities District No. 5 - Those special tax bonds designated as Poway Unified School District Community Facilities District No. 5 2003 Special Tax Bonds (the "CFD No. 5 Bonds") issued pursuant to Resolution 51-2003 of the School District as adopted on January 21, 2003 and the CFD No. 5 Bond Indenture.
- (d) Community Facilities District No. 7 - Those special tax bonds designated as Poway Unified School District Community Facilities District No. 7 2003 Special Tax Bonds (the "CFD No. 7 Bonds") issued pursuant to Resolution 52-2003 of the School District as adopted on January 21, 2003 and the CFD No. 7 Bond Indenture.

"Local Obligation Purchase Agreement" means the Local Obligation Purchase Agreement, dated as of March 6, 2003, by and between the Authority and the Community Facilities Districts setting forth the terms and conditions pursuant to which the Authority has agreed to acquire the Local Obligations from the Community Facilities Districts and the Community Facilities Districts have agreed to sell the Local Obligations to the Authority.

"Maximum Annual Debt Service" means the Annual Debt Service for the Bond Year in which such sum shall be the largest with respect to the Bonds.

"Mello-Roos Act" means the Mello-Roos Community Facilities Act of 1982, as amended, being California Government Code Sections 53311 et seq.

"Moody's" or "Moody's Investors Service" means Moody's Investors Service, its successors and assigns.

"Original Purchaser" means Stone & Youngberg LLC.

"Outstanding" when used as of any particular time with reference to Bonds, means (subject to the provisions related to disqualified bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except:

- (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the provisions of the Indenture, including particular Bonds (or portions of Bonds) which have been disqualified as provided in the Indenture; and
- (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

"Owner" or "Bond Owner" or "Bondholder" or "Holder", whenever used in the Indenture with respect to a Bond, means the Person in whose name the ownership of such Bond is registered on the Registration Books.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein (provided that the Trustee shall have no duty to investigate the legality of any investments):

- (a) Defeasance Obligations.
- (b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, and which have a maximum term to maturity not to exceed three years, including:
 - Export-Import Bank
 - Rural Economic Community Development Administration
 - U.S. Maritime Administration
 - Small Business Administration
 - U.S. Department of Housing & Urban Development (PHA's)
 - Federal Housing Administration
 - Federal Financing Bank.
- (c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:
 - Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
 - Obligations of the Resolution Funding Corporation (REFCORP)
 - Senior debt obligations of the Federal Home Loan Bank System.
- (d) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).
- (e) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase.
- (f) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P.
- (g) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
 - (1) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or
 - (2) (A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (2) of the definition of Defeasance Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations

described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate

- (h) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P.
- (i) Investment agreements approved in writing by Ambac Assurance (supported by appropriate opinions of counsel);
- (j) The Local Agency Investment Fund (LAIF) administered by the treasurer of the State to the extent such deposits remain in the name of and control of the Fiscal Agent.
- (k) The San Diego County Investment Pool managed by the Treasurer-Tax Collector of the County of San Diego.
- (l) The California Asset Management Program (CAMP).
- (m) Other forms of investments (including repurchase agreements) approved in writing by Ambac Assurance.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Account" means the account by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

"Principal Office" means such corporate trust office of the Trustee as may be designated from time to time by written notice from the Trustee to the Authority, initially being Los Angeles, California, except that with respect to presentation of Bonds for payment or for registration of transfer or exchange or maintenance of the Registration Books, such term shall mean the office of the Trustee at which its corporate agency business shall be conducted, initially being the office of its corporate parent.

"Principal Repayment" means any amounts received by the Trustee representing a repayment of principal of any issue of Local Obligations upon the prior redemption, prepayment or acceleration thereof.

"Principal Payment Date" means September 1 of each year.

"Private Business Use" means use directly or indirectly in a trade or business carried on by a natural Person or in any activity carried on by a Person other than a natural Person, excluding use by a governmental unit and use by any Person as a member of the general public.

"Proceeds" when used with respect to the Bonds, means the face amounts of the Bonds, plus accrued interest and original issue premiums, if any, less original issue discount, if any.

"Program Fund" means the fund by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

"Purchase Account" means the Purchase Account of the Program Fund as established by the Trustee pursuant to the Indenture and utilized as set forth in the Indenture.

"Rating Agency(ies)" means any rating agency which is then rating the Bonds, initially Moody's and S&P.

"Rebate Fund" means the fund by that name established by the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

"Record Date" means the fifteenth (15th) day of the month (whether or not such day is a Business Day) preceding each Interest Payment Date.

"Redemption Account" means the account by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

"Registration Books" means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the provisions of the Indenture.

"Related Documents" means the Indenture, the Agreement, and the documents relating to the issuance and delivery of each of the Local Obligations and all proceedings of any Local Agency relating to the same.

"Requisition" means a written requisition signed in the name of the Authority by its Authorized Representative.

"Reserve Fund" means the fund of that name established, held and administered by the Trustee pursuant to the provisions of the Indenture.

"Reserve Requirement" means the amounts as of any date of calculation equal to the least of (i) 10% of the initial principal amount of the Bonds less original issue discount, if any, plus original issue premium, if any, applicable to the Bonds, (ii) Maximum Annual Debt Service on the Outstanding Bonds, or (iii) 125% of average Annual Debt Service on the Outstanding Bonds, which amount may be satisfied in whole or in part by a Credit Facility approved by Ambac Assurance, including, but not limited to, the Surety Bond.

"Residual Account" means the account by that name established and held by the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

"Revenue Fund" means the fund by that name established and held by the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

"Revenues" means, with respect to the Bonds: (a) all amounts derived from the Local Obligations; (b) all monies originally deposited with the Trustee for application for payment of principal or interest on the Bonds and all monies held by the Trustee in the funds and accounts established in the Indenture for payment of the Bonds (excluding the Program Fund, the Authority School Facilities Fund and the Rebate Fund); and (c) investment income with respect to the funds and accounts established thereunder except for investment earnings on funds held in the Program Fund, the Authority School Facilities Fund and the Rebate Fund.

"S&P" or "Standard & Poor's" means Standard & Poor's Corporation, its successors and assigns.

"School District" means the Poway Unified School District, a public school district organized and operating pursuant to the provisions of the California Education Code.

"School Facilities Costs" means the amounts necessary to finance the acquisition or construction of the School Facilities and incidental expenses associated therewith of the type authorized to be financed under the Mello-Roos Act.

"School Facilities" means the Oak Valley Middle School, the Stone Ranch Middle School and any other school facilities authorized to be financed by the CFDs.

"Securities Depositories" means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11630, Fax (616) 227-4039 or 4190; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"Special Record Date" means the date established by the Trustee pursuant to the provisions of the Indenture as a record date for the payment of defaulted interest on the Bonds, if any.

"Supplemental Indenture" means a Supplemental Indenture of Trust providing for any matter in the Indenture authorized, entered into by and between the Authority and the Trustee pursuant to the provisions of the Indenture.

"Surety Bond" shall mean the surety bond issued by Ambac Assurance guaranteeing certain payments into the Reserve Fund with respect to the Bonds as provided therein and subject to the limitations set forth therein.

"Tax Certificate" means that certificate of the same name, dated as of the Date of Delivery, delivered by the Authority, and executed by the School District on behalf of the CFDs, with regard to the Bonds and the Local Obligations.

"Tax Code" means the Internal Revenue Code of 1986, as amended from time to time. Any reference to a provision of the Tax Code shall include the applicable Tax Regulations promulgated with respect to such provision.

"Tax Regulations" means temporary and permanent regulations promulgated under Section 103 and related sections of the Tax Code.

"Term Bonds" means the Bonds maturing on September 1, 2025 and the Bonds maturing on September 1, 2028, and as specified in the Bond Purchase Agreement.

"Trustee" means U.S. Bank National Association, or its successor, as Trustee thereunder as provided in the Indenture, or such other trustee as shall be named, provided such other trustee shall meet the requirements of the Indenture.

"Written Certificate" and "Written Request" of the Authority, the School District or a CFD mean, respectively, a written certificate or written request signed in the name of the Authority by its Authorized Representative, in the name of the School District by its Authorized Representative, or in the name of such CFD by its Authorized Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the provisions of the Indenture, each such certificate or request shall include the statements provided for in the Indenture.

Funds and Accounts

Program Fund. Within the Program Fund the Trustee shall establish special accounts referred to as the "Purchase Account" and the "Authority Costs of Issuance Account".

Purchase Account. The Proceeds received from the sale of the Bonds shall be deposited in trust with the Trustee, who shall set aside such Proceeds in the Purchase Account of the Program Fund. Subject to satisfaction of the requirements of the Indenture as to each issue of Local Obligations, funds deposited in the Purchase Account shall immediately be expended for the purchase of each such issue of Local Obligations.

Prior to or concurrent with the acquisition of any of the Local Obligations with amounts on deposit in the Purchase Account of the Program Fund, there shall have been filed with the Authority and the Trustee as to such Local Obligation all of the following documents, in each case in form and substance satisfactory to the Authority:

- (a) Original fully executed copies of all agreements and other instruments pursuant to which such Local Obligation is authorized, sold and issued or incurred, including without limitation the applicable bond indenture and the Local Obligation Purchase Agreement;
- (b) The fully executed Local Obligation or other instrument evidencing such Local Obligation registered in the name of the Trustee in its capacity as such pursuant to the Indenture;
- (c) A Written Certificate of the applicable Community Facilities District stating that all of the documents referred to in (a) and (b) above have been duly executed by such Community Facilities District and that the Persons executing such documents on its behalf have been duly authorized to do so;

(d) Certified copies of all resolutions of the governing body of the School District, acting as the legislative body of such Community Facilities District, approving and authorizing the issuance of the Local Obligation and the documents referred to in (a) and (b) above;

(e) An opinion of CFD Bond Counsel which: (a) states that the Local Obligation is a valid and binding obligation of such Community Facilities District enforceable in accordance with its terms, subject to customary bankruptcy, equitable remedy and other exceptions, and (b) contains such other opinions and addresses such other matters as are commonly provided by bond counsel for tax-exempt bonds similar to the type of the Local Obligation and as may reasonably be required by the Authority or the Original Purchaser; and

(f) Such other opinions, documents and other information as may be required pursuant to the Local Obligations Purchase Agreement or as may be required by the Authority, CFD Bond Counsel, Authority Bond Counsel or counsel to the Original Purchaser.

Authority Costs of Issuance Account. Contributions of the CFDs, made pursuant to the Funding Allocation Agreement, to pay Authority Costs of Issuance shall be deposited into the Authority Costs of Issuance Account and expended to pay Authority Costs of Issuance. The Trustee shall disburse funds from the Authority Costs of Issuance Account for Costs of Issuance upon receipt of a signed requisition and approved by an Authorized Representative.

Upon the earlier of: (i) payment in full of all Costs of Issuance, which shall be determined by a certificate to the Trustee to that effect by an Authorized Representative; or (ii) September 20, 2003, the Trustee shall transfer the funds, if any, remaining in the Authority Costs of Issuance Account as follows: (a) an amount equal to the product of the total amount of such funds multiplied by a fraction the numerator of which is the amount of the initial contribution from CFD No. 2 to the Authority Costs of Issuance Account and the denominator of which is the sum of the initial contributions from all of the CFDs to the Authority Costs of Issuance Account shall be transferred to the Fiscal Agent for the CFD No. 2 Bonds for deposit in the School Facilities Fund established pursuant to the CFD No. 2 Bond Indenture and (b) the balance of such funds shall be transferred to the Authority School Facilities Fund. Upon the occurrence of such transfers, the Trustee shall then close the Authority Costs of Issuance Account.

Revenue Fund. Subject to the provisions of the Indenture, all Revenues shall be promptly transferred to the Trustee by the Authority. All Revenues, other than Principal Repayments, shall be deposited by the Trustee upon receipt thereof in the Revenue Fund.

On each Interest Payment Date the Trustee shall transfer Revenues then in the Revenue Fund into the following funds and accounts the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

(a) The Trustee shall deposit in the Interest Account, if necessary, an amount which, together with the amounts then on deposit therein, is sufficient to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on the Bonds on such Interest Payment Date and any amount of interest previously due and unpaid.

(b) The Trustee shall, on September 1 of each year during the term of the Bonds, deposit in the Principal Account, if necessary, an amount which, together with the amounts then on deposit therein, is sufficient to cause the aggregate amount on deposit in the Principal Account to equal the amount of principal and/or mandatory sinking account payment coming due and payable on the Bonds on such September 1 and any amount of principal previously due and unpaid.

(c) On each Interest Payment Date on which the balance in the Reserve Fund is less than the Reserve Requirement, the Trustee shall transfer from the Revenue Fund an amount sufficient to increase the balance in the Reserve Fund to the Reserve Requirement.

(d) On any Interest Payment Date the amount on deposit in the Revenue Fund is inadequate to make the transfers described in (a) and (b) above as a result of a default in the scheduled payment of principal of and/or interest on a Local Obligation, the Trustee shall immediately notify the Associate Superintendent, Business Support Services and Ambac Assurance of the amount of such payment default. In the event that the Trustee receives all or any portion of the principal of and/or interest on the Local Obligation the payment of which is in default, the Trustee shall disburse or transfer such funds in the following order of priority: (i) to pay to Ambac Assurance any outstanding Guaranty Agreement Reimbursements resulting from such payment default, (ii) for deposit in the Reserve Fund such amount as shall be necessary to replenish the amount of any transfers of cash from the Reserve Fund to the Interest Account or the Principal Account resulting from such payment default and (iii) for deposit in the Revenue Fund any amount remaining following payment required pursuant to (i) and the transfer required pursuant to (ii).

(e) The Trustee shall deposit in the Rebate Fund an amount, if any, to increase the amount on deposit in the Rebate Fund to the Rebate Requirement as the Authority may direct by Written Certificate.

(f) The Trustee shall deposit in the Authority Administrative Expense Fund such amount as the Authority may direct by Written Certificate as necessary to pay Authority Administrative Costs.

(g) On each Principal Payment Date, the Trustee shall deposit all remaining amounts to the Residual Account to be applied as provided in the Indenture.

Residual Account. Following the deposits pursuant to (a) through (f) above, moneys remaining in the Revenue Fund on each Principal Payment Date shall be deposited by the Trustee into the Residual Account. Amounts deposited into the Residual Account shall be paid to the CFDs in proportion to the then Outstanding par amount of the Local Obligations free and clear of any lien of the Indenture. Amounts payable to CFD No. 3, CFD No. 5 and CFD No. 7 shall be transferred to the Authority School Facilities Fund and amounts payable to CFD No. 2 shall be transferred to the Fiscal Agent for the CFD No. 2 Bonds for deposit in the CFD No. 2 School Facilities Fund.

Bond Fund.

Interest Account. Subject to the provisions of the Indenture, all amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable or, at the Written Request of the Authority filed with the Trustee, to apply to the payment of accrued interest on any Bonds purchased by the Authority in lieu of redemption. Any amounts on deposit in the Interest Account on any September 2 which are not required to pay interest then due and payable on the Bonds shall be transferred to the Residual Account. In the event that the deposit in the Interest Account on any Interest Payment Date or redemption date, after any transfers from the Reserve Fund, are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Bonds, the Trustee shall apply such amounts of the payment of interest on each of the Outstanding Bonds on a pro rata basis so that an equal percentage of the interest due on each Bond is paid.

Principal Account. Subject to the provisions of the Indenture, all amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal of the Bonds upon the stated maturity thereof or upon any prior redemption of the Bonds with the proceeds of mandatory sinking payments. Any amounts on deposit in the Principal Account on any September 1 which are not required

to pay the principal amount then due and payable on the Bonds shall be transferred to the Residual Account. In the event that the amounts on deposit in the Principal Account on any Interest Payment Date or date of redemption, after any transfers from the Reserve Fund, are insufficient for any reason to pay the aggregate principal amount of, and premium (if any) on, the Outstanding Bonds then coming due and payable (whether at maturity or upon the redemption thereof), the Trustee shall apply such amounts in the following order of priority; (i) first, to the payment of the principal of the Outstanding Bonds which mature by their terms or are to be redeemed; and (ii) second, to the payment of the principal of any redemption premium (if any) on the Outstanding Bonds which mature by their terms or are to be redeemed, in each case on a pro rata basis so that an equal percentage of the principal maturing or being redeemed under (i) above is paid first, followed by the payment of an equal percentage under (ii).

Redemption Account. Subject to the provisions of the Indenture, all amounts deposited in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming the Bonds in the manner and upon the terms and conditions specified in the Indenture (excluding mandatory sinking fund redemptions which shall be paid from the Interest Account and the Principal Account), at the next succeeding date of redemption for which notice has been given and at the redemption prices then applicable. At any time prior to selection of Bonds for such notice of redemption, the Trustee may, at the Written Request of the Authority apply amounts on deposit in the Redemption Account to the purchase of the Bonds, for cancellation, at public or private sale, as and when and at prices not exceeding the par amount thereof (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) and as specified in the Indenture. Any amounts on deposit in the Redemption Account after the corresponding redemption date which are not necessary, or insufficient in amount, to redeem Bonds designated for redemption shall be transferred to the Residual Account.

Reserve Fund. There shall be maintained in the Reserve Fund an amount equal to the Reserve Requirement.

Moneys in the Reserve Fund shall be used solely for the purposes set forth in the Indenture. Subject to the limitations set forth in the following paragraph, amounts in the Reserve Fund shall be applied to pay the principal of, including sinking fund payments, and interest on the Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Revenue Fund are insufficient therefor. In addition, cash amounts, if any, in the Reserve Fund may be applied in connection with an optional redemption or a mandatory redemption or a defeasance of the Bonds in whole or in part, or when the balance therein equals the principal and interest due on the Bonds to and including maturity, or in accordance with the provisions of the Indenture, to pay the principal of and interest due on the Bonds to maturity. Any amounts in the Reserve Fund in excess of what the Reserve Requirement will be following such an optional redemption, mandatory redemption or partial defeasance of the Bonds shall be applied toward such optional redemption, mandatory redemption or defeasance of Bonds, as applicable.

In addition to the foregoing, in the event of the prepayment of the special tax obligation for a parcel in CFD No. 7 as evidenced by the receipt by the Trustee of a Written Certification notifying the Trustee of such prepayment, the Trustee shall transfer to the Fiscal Agent for the CFD No. 7 Bonds an amount equal to the CFD No. 7 Prepayment Credit for such parcel as specified in such Written Certificate solely from cash amounts, if any, in the Reserve Fund.

If the amounts in the Interest Account and/or the Principal Account of the Bond Fund are insufficient to pay the principal of, including sinking fund payments, or interest on the Bonds when due, the Trustee shall withdraw from the Reserve Fund for deposit in the Interest Account and/or the Principal Account, as applicable, moneys necessary for such purposes. All cash and investments in the Reserve Fund, if any, shall be transferred for payment of debt service on the Bonds before any draw may be made on the Surety Bond and/or any other Credit Facility included within the Reserve Fund.

As long as the Surety Bond shall be in full force and effect, the Authority and the Trustee agree to comply with the following provisions:

- (1) In the event and to the extent that moneys on deposit in the Bond Fund, plus all amounts on deposit in and credited to the Reserve Fund in excess of the amount of the Surety Bond, are insufficient to pay the amount of principal and interest coming due, then upon the later of: (A) one (1) day after receipt by the General Counsel of Ambac Assurance of a demand for payment in the form attached to the Surety Bond (the "Demand for Payment"), duly executed by the Trustee certifying that payment due under the Indenture has not been made to the Trustee; or (B) the payment date of the Bonds as specified in the Demand for Payment presented by the Trustee to the General Counsel of Ambac Assurance, Ambac Assurance will make a deposit of funds in an account with the Trustee or its successor, in New York, New York, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee under the Indenture (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage, as defined in the Surety Bond; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under an additional Credit Facility, draws on the Surety Bond and the additional Credit Facility shall be made on a pro rata basis to fund the insufficiency.
- (2) the Trustee shall, after submitting to Ambac Assurance the Demand for Payment as provided in (1) above, make available to Ambac Assurance all records relating to the Funds and Accounts maintained under the Indenture.
- (3) the Trustee shall, upon receipt of moneys received from the draw on the Surety Bond, as specified in the Demand for Payment, credit the Reserve Fund to the extent of moneys received pursuant to such Demand.
- (4) the Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Surety Bond and on any additional Credit Facility shall be paid on a pro rata basis from the first available funds transferred to the Reserve Fund; (ii) after all amounts as described in (i) are paid in full, amounts necessary to make any payment of any other Guaranty Agreement Reimbursements or reimbursements required to be made under any additional Credit Facility shall be paid on a pro rata basis from the next available funds transferred to the Reserve Fund, (iii) after all amounts as described in (i) and (ii) are paid in full, amounts necessary to fund the Reserve Fund to the required level, after taking into account the amounts available under the Surety Bond and any additional Credit Facility shall be deposited from next available funds transferred to the Reserve Fund.

The Trustee shall, pursuant to a Written Certificate of the Authority notifying the Trustee that a prepayment of the special tax obligation for a property in CFD No. 7 has occurred, transfer the amount of the CFD No. 7 Bonds Prepayment Credit specified in such Written Certificate to the Fiscal Agent for the CFD No. 7 Bonds for deposit in the Redemption Account established pursuant to the CFD No. 7 Bond Indenture.

On September 1, 2028, the Trustee shall, pursuant to a Written Certificate of the Authority, disburse or transfer from the cash amount then on deposit in the Reserve Fund the following amounts:

- (i) an amount equal to the Guaranty Agreement Reimbursements, if any, then due and payable by CFD No. 2 to Ambac Assurance pursuant to the provisions of the Funding Allocation Agreement shall be disbursed to Ambac Assurance; provided, however, the amount of such disbursement shall not exceed the CFD No. 2 Bonds Reserve Fund Credit;
- (ii) an amount equal to any transfer necessitated as a result of deficiency in the result of the scheduled payment of principal or interest on the CFD No. 2 Bonds which has not previously

been reimbursed shall be transferred to the **Reserve Fund**; provided, however, the amount of such transfer shall not exceed the **CFD No. 2 Bonds Reserve Fund Credit**;

(iii) an amount equal to the remaining **CFD No. 2 Bonds Reserve Fund Credit**, if any, shall be transferred to the Interest Account and the **Principal Account** as a credit against the payments due on the **CFD No. 2 Bonds** on such date with the amount transferred being deposited first to the Interest Account as a credit on the interest due on the **CFD No. 2 Bonds** on such date and the balance being deposited to the **Principal Account** as a credit on the principal due of the **CFD No. 2 Bonds** on such date;

(iii) an amount equal to the **Guaranty Agreement Reimbursements**, if any, then due and payable by **CFD No. 3 to Ambac Assurance** pursuant to the provisions of the **Funding Allocation Agreement** shall be disbursed to **Ambac Assurance**; provided, however, the amount of such disbursement shall not exceed the **CFD No. 3 Bonds Reserve Fund Credit**;

(iv) an amount equal to any transfer necessitated as a result of deficiency in the result of the scheduled payment of principal of or interest on the **CFD No. 3 Bonds** which has not previously been reimbursed shall be transferred to the **Reserve Fund**; provided, however, the amount of such transfer shall not exceed the **CFD No. 3 Bonds Reserve Fund Credit**;

(v) an amount equal to the remaining **CFD No. 3 Bonds Reserve Fund Credit**, if any, shall be transferred to the Interest Account and the **Principal Account** as a credit against the payments due on the **CFD No. 3 Bonds** on such date with the amount transferred being deposited first to the Interest Account as a credit on the interest due on the **CFD No. 3 Bonds** on such date and the balance being deposited to the **Principal Account** as a credit on the principal due of the **CFD No. 3 Bonds** on such date;

(vi) an amount equal to the **Guaranty Agreement Reimbursements**, if any, then due and payable by **CFD No. 5 to Ambac Assurance** pursuant to the provisions of the **Funding Allocation Agreement** shall be disbursed to **Ambac Assurance**; provided, however, the amount of such disbursement shall not exceed the **CFD No. 5 Bonds Reserve Fund Credit**;

(vii) an amount equal to any transfer necessitated as a result of deficiency in the result of the scheduled payment of principal of or interest on the **CFD No. 5 Bonds** which has not previously been reimbursed shall be transferred to the **Reserve Fund**; provided, however, the amount of such transfer shall not exceed the **CFD No. 5 Bonds Reserve Fund Credit**;

(viii) an amount equal to the remaining **CFD No. 5 Bonds Reserve Fund Credit**, if any, shall be transferred to the Interest Account and the **Principal Account** as a credit against the payments due on the **CFD No. 5 Bonds** on such date with the amount transferred being deposited first to the Interest Account as a credit on the interest due on the **CFD No. 5 Bonds** on such date and the balance being deposited to the **Principal Account** as a credit on the principal due of the **CFD No. 5 Bonds** on such date;

(ix) an amount equal to the **Guaranty Agreement Reimbursements**, if any, then due and payable by **CFD No. 7 to Ambac Assurance** pursuant to the provisions of the **Funding Allocation Agreement** shall be disbursed to **Ambac Assurance**; provided, however, the amount of such disbursement shall not exceed the **CFD No. 7 Bonds Reserve Fund Credit**;

(x) an amount equal to any transfer necessitated as a result of deficiency in the result of the scheduled payment of principal of or interest on the **CFD No. 7 Bonds** which has not previously been reimbursed shall be transferred to the **Reserve Fund**; provided, however, the amount of such transfer shall not exceed the **CFD No. 7 Bonds Reserve Fund Credit**; and

(xi) an amount equal to the remaining **CFD No. 7 Bonds Reserve Fund Credit**, if any, shall be transferred to the Interest Account and the **Principal Account** as a credit against the payments due

on the CFD No. 7 Bonds on such date with the amount transferred being deposited first to the Interest Account as a credit on the interest due on the CFD No. 7 Bonds on such date and the balance being deposited to the Principal Account as a credit on the principal due of the CFD No. 7 Bonds on such date.

Moneys in the Reserve Fund, if any, in excess of the Reserve Requirement not transferred in accordance with the preceding paragraphs shall be withdrawn from the Reserve Fund on each Interest Payment Date and transferred to the Interest Account.

Authority Administrative Expense Fund. The Authority shall deposit amounts transferred to the Trustee from the Fiscal Agents for Local Obligations for deposit in the Authority Administrative Expense Fund to pay Authority Administrative Expenses. The Trustee shall, from time to time, disburse funds from the Authority Administrative Expense Fund for Authority Administrative Expenses upon receipt of a signed requisition approved by an Authorized Representative.

Authority School Facilities Fund. The Trustee shall, from time to time, disburse monies from the Authority School Facilities Fund to pay School Facilities Costs. Upon receipt of a payment request of the District duly executed by an Authorized Representative, the Trustee shall pay the School Facilities Costs from amounts in the Authority School Facilities Fund directly to the contractor or such other person, corporation or entity entitled to payment thereunder (including reimbursements, if any, to the District) unless the District requests payment to be made to the contractor or such other party jointly, in which case said School Facilities Costs shall be paid jointly.

After the final payment or reimbursement of all School Facilities Costs as certified by delivery of a written notice from an Authorized Representative of the Authority to the Trustee, the Trustee shall transfer excess monies, if any, on deposit in, or subsequently deposited in, the Authority School Facilities Fund to the Fiscal Agent for the CFD No. 3 Bonds, the CFD No. 5 Bonds and the CFD No. 7 Bonds, on a pro rata basis, for deposit in the Special Tax Fund established for each such Local Obligation.

Rebate Fund. The Authority shall direct the Trustee to pay from moneys in the Rebate Fund, or from other moneys of the Authority legally available therefore if the deposit therein is insufficient, to the United States an amount that equals at least 90% of the Excess Investment Earnings as of the end of the Bond Year immediately preceding the date of each payment. No later than 60 days after the day on which the last Bond is paid or redeemed, the Authority covenants that it shall pay to the United States from the Rebate Fund or from other legally available moneys of the Authority an amount equal to 100% of the theretofore unpaid Excess Investment Earnings plus earnings on such Excess Investment Earnings received or accrued after the final payment of such earnings as required by the Tax Regulations. The Authority shall direct the Trustee in writing to remit such payments to the United States at the address and in the manner prescribed by the Tax Regulations as the same may be from time to time in effect, together with such reports and statements prepared by the Authority as may be prescribed by the Regulations.

Investment of Moneys.

Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the Authority two (2) Business Days prior to the making of such investment. Such investment instructions shall certify that the investment is a Permitted Investment. Permitted Investments may be purchased at such prices as the Authority shall determine. Absent timely written direction from the Authority, the Trustee shall invest any funds held by it in Permitted Investments described in clause (f) of the definition thereof. The Trustee may commingle moneys in any of the funds and accounts held thereunder, other than those in the Rebate Fund, for investment purposes. Permitted Investments that are registrable securities shall be registered in the name of the Trustee.

Subject to the restrictions set forth in the Indenture and/or any written investment instructions received by Trustee, moneys in all funds and accounts, except for the Reserve Fund, shall be invested in

Permitted Investments maturing, or with respect to which payments of principal and interest are scheduled or otherwise payable, not later than the date on which it is estimated that such moneys will be required by the Trustee for the purposes specified in the Indenture.

Monies in the Reserve Fund, if any, may be invested only in Permitted Investments which, taken together, have a weighted average maturity not in excess of five years; provided that such amounts may be invested in an investment agreement of a longer maturity so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the provisions of the Indenture.

Except for monies held in the Rebate Fund (which shall be retained therein), all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture shall be deposited in the Interest Account of the Bond Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Permitted Investments equal to the amount of accrued interest, if any, paid as part of the purchase price of such Permitted Investments shall be credited to the fund from which such accrued interest was paid.

Permitted Investments acquired as an investment of moneys in any fund established under the Indenture shall be credited to such fund. For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued as follows:

- (a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers;
- (b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest thereon; and
- (c) As to any investment not specified above: the value thereof established by prior agreement among the Authority, the Trustee, and Ambac Assurance.

The Trustee and its affiliates may act as principal, agent or sponsor, advisor or depository in the making or disposing of any investment and may receive compensation in connection therewith. Upon the Written Request of the Authority, or as required for the purposes of the provisions of the Indenture, the Trustee shall sell or present for redemption, any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to the Indenture.

Transfer and Exchange of Bonds

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. The Trustee shall not be obligated to make any transfer of Bonds during the period selected by the Trustee for the selection of Bonds for redemption, or with respect to any Bonds selected for redemption.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds for a like aggregate principal amount or maturity amount, as applicable, in an Authorized Denomination. The Trustee shall require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds. The Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount or maturity amount, as applicable, of Bonds of Authorized Denominations and of the same maturity. The Authority may charge a reasonable sum for each new Bond issued upon any exchange (except in the case of any exchange of temporary Bonds for definitive Bonds and except in the case of the first exchange of any definitive Bond in the form in which it is originally issued) and the Trustee shall require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee shall not be obligated to make any exchange of Bonds during the period selected by the Trustee for the selection of Bonds for redemption, or with respect to any Bonds selected for redemption.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Authority, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order of, the Authority. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to it and indemnity satisfactory to it shall be given, the Authority, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof upon receipt of the above-mentioned indemnity). The Authority may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond and of the expenses which may be incurred by the Authority and the Trustee. Any Bond issued in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of the Indenture with all other Bonds secured by the Indenture.

Covenants.

Punctual Payment. The Authority shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture and received by the Authority or the Trustee.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default thereunder, to the benefits of the Indenture, except subject to the prior payment in full of the principal, of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this covenant shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its legitimate purposes, including other programs under the Bond Law, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues, the Local Obligations and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee, subject to the provisions thereof, shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all Persons whomsoever.

Accounting Records and Financial Statement. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the Bond proceeds, the Revenues, the Local Obligations and all funds and accounts established with the Trustee pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority, Ambac Assurance, any Independent Financial Consultant, the Original Purchaser, the School District, and the Local CFDs, during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee.

The Authority shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions relating to the Bond proceeds, the Revenues, the Local Obligations and all funds and accounts established pursuant to the Indenture (other than those records and accounts kept by the Trustee). Such books of record and account shall be available for inspection by the Trustee, Ambac Assurance, any Independent Financial Consultant, the School District, and the CFDs, during regular business hours and upon twenty-four (24) hours prior notice and under reasonable circumstances as agreed to by the Authority.

Ambac Assurance shall have the right to direct an accounting at the Authority's expense, and the Authority's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from Ambac Assurance shall be deemed a default thereunder; provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any Owner of the Bonds.

Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may have a material adverse effect on the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is thereby expressly waived by the Authority to the extent permitted by law.

No Arbitrage. The Authority shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Date of Delivery would have caused any of the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Tax Code.

Compliance with Rebate Requirement. The Authority shall assure compliance with the requirements for a rebate of excess investment earnings to the federal government in accordance with Section 148(f) of the Tax Code and applicable Tax Regulations.

Private Business Use Limitation. The Authority shall assure that:

- (a) no more than ten percent (10%) of the Proceeds of the Bonds (as defined in the Tax Code) is used for Private Business Use (as defined in the Tax Code) if, in addition, the payment

of the principal of, or the interest on, more than ten percent (10%) of the Proceeds of the Bonds is (under the terms of the Bonds or any underlying arrangement) directly or indirectly, (i) secured by any interest in property, or payments in respect of property, used or to be used for a Private Business Use, or (ii) to be derived from payments (whether or not to the Authority) in respect of property, or borrowed money, used or to be used for a Private Business Use; and

(b) in the event that in excess of five percent (5%) of the Proceeds of the Bonds is used for a Private Business Use, and, in addition, the payment of the principal of, or the interest on, more than five percent (5%) of the Proceeds of the Bonds is (under the terms of the Bonds or any underlying arrangement), directly or indirectly, secured by any interest in property, or payments in respect of property, used or to be used for said Private Business Use or is to be derived from payments (whether or not to the Authority) in respect of property, or borrowed money, used or to be used for a Private Business Use, then, (A) said excess over said five percent (5%) of the Proceeds of the Bonds which is used for a Private Business Use shall be used for a Private Business Use related to a government use of such proceeds and (B) each such Private Business Use over five percent (5%) of the Proceeds of the Bonds which is related to a government use of such Proceeds shall not exceed the amount of such Proceeds which is used for the government use of Proceeds to which such Private Business Use is related.

Limitation of Use of Proceeds for the Bonds. In the event that loans are made, directly or indirectly, to a borrower other than a governmental unit, the Authority shall assure that not in excess of five percent (5%) of the Proceeds of the Bonds is used for such purpose. The provisions of this covenant do not apply to loans constituting non-purpose investments or to loans which enable the borrower to finance any governmental tax or assessment of general application for specific essential governmental functions.

Federal Guarantee Prohibition. The Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code and applicable Tax Regulations.

Local Obligations. The Authority shall cause to be collected and paid to it all Revenues payable with respect to the Local Obligations promptly as such Revenues become due and payable, and shall vigorously enforce and cause to be enforced all rights of the Authority and the Trustee under and with respect to the Local Obligations. Upon any failure of the Authority to perform as required by this covenant, the Trustee shall, subject to the provisions of the Indenture, take appropriate actions to collect and cause the Revenues to be paid to the Trustee. The Authority shall instruct the Districts to authenticate and deliver to the Trustee the Local Obligations registered in the name of the Trustee.

Continuing Disclosure. The Authority has covenanted and agreed that it will carry out the provisions of the Continuing Disclosure Agreement. Notwithstanding any provision in the Indenture to the contrary, failure by the Authority to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default, however, the Bond Owners may take such actions as may be necessary and appropriate, including seeking a mandate or specific performance by court order, to cause the Authority to comply with its obligations under the Continuing Disclosure Agreement, as specified therein.

Compliance with State Reporting Guidelines. The Authority shall comply with the California reporting guidelines as required by the provisions of the Act. Notwithstanding any provision in the Indenture to the contrary, failure by the Authority to comply with the State reporting guidelines shall not be considered an Event of Default, however, any Bond Owner may take such actions as may be necessary and appropriate, including seeking a mandate or specific performance by court order, to cause the Authority to comply with its obligations under this covenant.

Limitation on Additional Bonds. The Authority shall not issue any other bonds, or other securities secured by the same Revenues as are used to secure the Bonds. However, the foregoing shall

not be interpreted to prevent a refunding of the **Bonds**, or to prevent the Authority from consenting to a refunding of the Local Obligations, provided that the security of the Owners in the Revenues pledged thereby, or pursuant to the Indenture, is maintained.

Sale of Local Obligations. Notwithstanding anything in the Indenture to the contrary, following prior notice to each Rating Agency, the Authority may cause the Trustee to sell, from time to time, all or a portion of the Local Obligations (as shall be designated by the Authority at the time) and use the proceeds of such sale to purchase or redeem Outstanding **Bonds**, provided that the Authority shall deliver to the Trustee:

- (a) a certificate from an Independent Accountant or Independent Financial Consultant to the effect that, following the disposition of such Local Obligation(s), the Revenues to be paid to the Trustee (assuming the timely payment of the amounts due thereon with regard to any Local Obligations not then in default), together with interest and principal due on any Federal Securities pledged to the repayment of the **Bonds** or the Revenues then on deposit in the Funds and Accounts established thereunder (valuing any Permitted Investments held thereunder at the fair market value thereof), will be sufficient to pay the principal of and interest on the **Bonds** when due;
- (b) a certificate of Ambac Assurance consenting to the sale of such Local Obligation(s); and
- (c) an opinion of Bond Counsel to the effect that such sale of the Local Obligation(s) is authorized under the provisions of the Indenture and will not adversely affect the exclusion of interest on the **Bonds** from gross income for purposes of State or federal income taxation.

Upon compliance with the foregoing conditions, the Trustee shall sell such designated Local Obligations in accordance with the Written Request of the Authority and disburse the proceeds of such sale at the direction of the Authority to be applied to the redemption, purchase or defeasance of **Bonds** or upon the request of the Authority shall deposit such proceeds in the Revenue Fund or Redemption Fund to be applied to the redemption, purchase or defeasance of **Bonds**, as appropriate.

Events of Default.

Events of Default Delineated. With respect to the **Bonds**, the following events shall be Events of Default:

- (a) if default by the Authority shall be made in the due and punctual payment of the principal of any **Bonds** when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for sinking fund redemption, or otherwise;
- (b) if default by the Authority shall be made in the due and punctual payment of any installment of interest on any **Bonds** when and as the same shall become due and payable;
- (c) if default shall be made by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture, if such default shall have continued for a period of thirty (30) days after written notice thereof and specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the **Bonds** at the time Outstanding; provided, however, if the failure stated in the notice can be corrected (other than a failure to pay the Trustee's fees and expenses, which may only be waived by the Trustee), but not within the applicable period, the Authority, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Authority within the applicable period and diligently pursued until the default is corrected; and
- (d) the occurrence of an Event of Bankruptcy with respect to the Authority.

No Acceleration. The Bonds are not subject to acceleration in the payment of interest or principal.

Remedies of Bond Owners. Subject to the limitations on the Bond Owners right' to sue described below, any Bond Owner shall have the right, for the equal benefit and protection of all Bond Owners:

- (a) by mandamus, suit, action or proceeding, to compel the Authority and its members, officers, agents or employees to perform each and every term, provision and covenant contained in the Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the Authority in respect of such series and the fulfillment of all duties imposed upon it by the Bond Law;
- (b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful or the violation of any of the Bond Owners' rights; or
- (c) upon the happening of any Event of Default, by suit, action or proceeding in any court of competent jurisdiction, to require the Authority and its members and employees to account as if it and they were the trustees of an express trust.

Application of Revenues and other Funds After Default. If an Event of Default with respect to the Bonds, shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Authority shall immediately upon receipt by the Authority be transferred by the Authority to the Trustee and be deposited by the Trustee in the appropriate accounts of the Bond Fund and all amounts held in the Revenue Fund by the Trustee and all Revenues and any other funds (excluding the Rebate Fund) then held or thereafter received by the Authority or the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

- (a) To the payment of any fees and expenses of the Trustee necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;
- (b) To the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

First: To the payment to the Persons entitled thereto of all payments of interest on the Bonds then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners. Subject to the provisions related to Bond Owners' direction of proceedings, the Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to the Owners under the provisions of the Bonds, the Indenture, the Bond Law and applicable provisions of any other law. Upon

the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee and such Owners under the Bonds, the Indenture, the applicable Supplemental Indenture, the Bond Law or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture, or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds as their interests appear, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default with respect to the Bonds and the owners of a majority in aggregate principal amount of the Bonds then Outstanding, as determined pursuant to the Indenture, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee thereunder in respect of the Bonds, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and if the Bonds are no longer Outstanding, that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction.

Limitation on Bond Owners' Right to Sue. No owner of any of the Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Agreement, the Bond Law or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default with respect to the Bonds; (b) the owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, as determined pursuant to the Indenture, shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or said Owners shall have tendered to the Trustee indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be condition precedent to the exercise by any Owner of Bonds of any remedy thereunder or under law; it being understood and intended that one or more Owners of Bonds shall not have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Bond Law or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds as their interests appear, subject to the provisions of the Indenture.

Consent of Ambac Assurance Upon Occurrence of an Event of Default. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as

defined in the Indenture, Ambac Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owner or the Trustee for the benefit of the Owners under the Indenture.

Absolute Obligation of Authority. Nothing in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture and subject to the restrictions set forth in the Indenture, but only out of the Revenues and other assets pledged in the Indenture therefor and received by the Authority or the Trustee, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Indenture.

Termination of Proceedings. In case any proceedings taken by the Trustee, or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, or the Bond Owners, then in every such case the Authority, the Trustee, and the Bond Owners, object to any determination in such proceedings, shall be restored to their former positions and rights thereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given thereunder or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee, or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Consent of Ambac Assurance Upon Event of Bankruptcy. Any reorganization or liquidation plan with respect to the Authority must be acceptable to Ambac Assurance. In the event of any reorganization or liquidation, Ambac Assurance shall have the right to vote on behalf of all Owners absent a default by Ambac Assurance under the Financial Guaranty Insurance Policy.

Amendment of the Indenture.

Amendments Permitted. The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into (i) to conform to the official statement dated March 6, 2003, with respect to the Bonds, and (ii) with the written consent of the owners of a majority in aggregate principal amount of each the Bonds then Outstanding, which shall have been filed with the Trustee. No such modification or amendment shall: (i) extend the fixed maturity of any Bonds, reduce the amount of principal thereof, reduce the rate of interest thereon, extend the time of payment, or reduce any premium payable upon redemption of the Bonds without the consent of the Owner of each Bond so affected; or (ii) reduce the percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment; or (iii) permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the liens created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the

Authority and the Trustee of any Supplemental Indenture, the Trustee shall cause to be mailed a notice (the form of which shall be furnished to the Trustee by the Authority), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books and Ambac Assurance. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and any Supplemental Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into, without the consent of any Bond Owners for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority;
- (ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture, or as to any other provisions of the Indenture as the Authority may deem necessary or desirable, in any case which do not adversely affect the security for the Bonds granted thereunder;
- (iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;
- (iv) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to be excludable, or remain, from gross income for purposes of federal income taxation by the United States of America;
- (v) to supplement the Indenture to provide for the issuance of bonds to refund the Bonds, subject to the limitations contained in the Indenture; and
- (vi) to modify or amend any provision of the Indenture with any effect and to any extent whatsoever permissible by law, provided that any such modification or amendment shall apply only to the Bonds issued and delivered subsequent to the execution and delivery of the applicable Indenture.

Consent of Ambac Assurance. Any provision of the Indenture expressly recognizing or granting rights in or to Ambac Assurance may not be amended in any manner which affects the rights of Ambac Assurance thereunder without the prior written consent of Ambac Assurance.

Unless otherwise provided in the Indenture, Ambac Assurance's consent shall be required in addition to Owner consent, when required, for the following purposes: (i) execution and delivery of any Supplemental Indenture, (ii) removal of the Trustee and selection and appointment of any successor trustee; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Owner consent.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds: Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand of the owners of any Bonds then outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same interest rate and maturity.

Amendment of Particular Bonds. The provisions of the Indenture pertaining to the amendment thereof shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

Amendment of Local Obligations. Nothing in the Indenture, or in any applicable Supplemental Indenture (unless such Supplemental Indenture shall provide expressly to the contrary), shall prohibit the Authority, with the prior written consent of Ambac Assurance, from consenting to the amendment, supplement or other modification of any Local Obligations or the proceedings providing for the issuance thereof provided that the Authority shall first deliver to the Trustee a Written Certificate describing such amendment, supplement or other modification and stating that such amendment, supplement or other modification will not adversely affect the security of the Owners of the Bonds under the Indenture and the applicable Supplemental Indenture, together with (i) a certificate of an Independent Financial Consultant stating that such amendment, supplement or other modification will not adversely impact the Authority's ability to pay principal and interest of the Bonds (used to acquire such Local Obligations) and (ii) an opinion of Authority Bond Counsel that such amendment, supplement or other modification will not impair the exclusion from gross income of interest on the Bonds for purposes of federal income taxation by the United States of America. The Trustee shall take such actions as shall be directed by the Authority in writing in implementation of such amendment, supplement or other modification, including, without limitation, the acceptance by the Trustee of revised Local Obligations in exchange for the amended, supplemented or otherwise modified Local Obligations.

Defeasance of the Bonds.

Discharge of Indenture. The Bonds, or any portion thereof, may be paid by the Authority in any of the following ways that the Authority also pays or causes to be paid any other sums payable thereunder by the Authority:

- (a) by paying or causing to be paid the principal of and interest and premium, if any, on the Bonds or any portion thereof, as and when the same become due and payable;
- (b) by irrevocably depositing with the Trustee, or other designated escrow holder, in trust (pursuant to an escrow agreement), at or before maturity, Defeasance Obligations in the necessary amount to pay or redeem all or any portion of the Bonds then Outstanding; or
- (c) by delivering to the Trustee, for cancellation by it, all or any portion of the Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable thereunder by the Authority including, without limitation, any compensation or other amounts due and owing the Trustee thereunder, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture and the documentation set forth in the following sentence), and notwithstanding that any Bonds

shall not have been surrendered for payment, the **Indenture** and the pledge of Revenues and other assets made under the Indenture and all covenants, **agreements** and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. Prior to any defeasance becoming effective, the Authority shall cause to be delivered to the Trustee and Ambac Assurance (i) an executed copy of a report, **addressed** to the Trustee and Ambac Assurance of an Independent Accountant, verifying that the **Defeasance** Obligations and cash, if any, satisfy the requirements of (a), (b) or (c) above, (ii) a copy of any escrow deposit agreement entered into in connection with such defeasance, (iii) an opinion of nationally recognized bond counsel to the effect that upon such defeasance that the Bonds shall no longer be outstanding under the terms of the Indenture. Each verification report and defeasance opinion required under (i) and (iii) shall be acceptable in form and substance, and addressed, to the Authority, the Trustee and Ambac Assurance. In the event a forward purchase agreement will be employed in such defeasance, such agreement shall be subject to the approval of Ambac Assurance and shall be accompanied by such opinions of counsel as may be required by Ambac Assurance. Ambac Assurance shall be provided with the final drafts of the above-referenced documents not less than five (5) Business Days prior to the funding of such defeasance. In such event, upon the Written Request of the Authority, and upon receipt of a Written Certificate of an Authorized Representative of the Authority, each to the effect that all conditions precedent provided for in the Indenture relating to the discharge and satisfaction of the obligations of the Authority have been satisfied, the Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture and the applicable Supplemental Indenture, which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption, to the Authority.

Discharge of Liability on Bonds; Effect of Payment on Bonds by Ambac Assurance. Upon the deposit with the Trustee, in trust, at or before maturity, of Defeasance Obligations in the necessary amount to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by Ambac Assurance pursuant to the Financial Guaranty Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the Revenues and other amount thereunder and all covenants, agreements and other obligations of the Authority to the Owners shall continue to exist and shall run to the benefit of Ambac Assurance, and Ambac Assurance shall be subrogated to the rights of such Owners.

Deposit of Defeasance Obligations. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or whenever securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) Lawful money of the United States of America, in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds, premium, if any, and all unpaid interest thereon to the redemption date; or

(a) Noncallable Defeasance Obligations, the principal of, premium, if any, and interest on which when due will provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal and interest become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Authority) to apply such funds to the payment of such principal and interest with respect to such Bonds.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, but subject to the escheat laws of the State, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for two (2) years, after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Authority free from the trusts created by the Indenture and the applicable Supplemental Indenture, and all liability of the Trustee, as applicable, with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee shall at the cost of the Authority, mail, by first class mail, postage prepaid, to the Owners of Bonds which have not yet been paid, at the respective addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee, as applicable, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

District Bond Indentures.

Definitions.

Except as specified below, the capitalized terms used in Bond Indentures for the Local Obligations are defined as follows:

"Act" means the "Mello-Roos Community Facilities Act of 1982", as amended, being Chapter 2.5, Part 1, Division 2, Title 5 of the Government Code of the State of California.

"Administrative Expense Fund" means the fund by that name established pursuant to the Indenture.

"Administrative Expenses" means (a) the expenses directly related to the administration of the District, including, but not limited to, the following: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the School District or a designee thereof or both); the costs of collecting the Special Taxes (whether by the County, the School District or otherwise); the costs of remitting the Special Taxes to the Fiscal Agent; the costs of the Fiscal Agent (including its legal counsel) in the discharge of the duties of the Fiscal Agent required under the Indenture; the costs of the School District, the District, or any designee thereof of complying with School District, District or obligated person disclosure requirements associated with applicable federal or state securities laws and of

the Act; the costs associated with preparing **Special Tax** disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the School District, District or any designee thereof related to an appeal of the Special Tax; and the costs of any credit enhancement obtained by the School District or the District. Administrative Expenses shall also include Delinquency Collection Expenses.

"Administrative Expense Requirement" means an **annual** amount equal to \$60,000.

"Ambac Assurance" shall have the meaning given **such term** in the Authority Indenture.

"Annual Debt Service" means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds in such Bond Year, and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year, including from mandatory sinking fund payments.

"Associate Superintendent, Business Support Services" means the Associate Superintendent, Business Support Services of the School District, acting for and on behalf of the District.

"Authority Administrative Expenses" shall have the meaning given **such term** in the Authority Indenture.

"Authority Administrative Expense Fund" shall mean the Administrative Expense Fund established pursuant to the Authority Indenture.

"Authority Bonds" shall have the meaning given **such term** in the Authority Indenture.

"Authority Costs of Issuance" shall have the meaning given **such term** in the Authority Indenture.

"Authority Costs of Issuance Account" shall mean the Authority Costs of Issuance Account established pursuant to the Authority Indenture.

"Authority Indenture" means that Indenture of Trust, dated as of February 1, 2003, by and between the Poway Unified School District Public Financing Authority and U.S. Bank National Association, as trustee, pertaining to the Poway Unified School District Public Financing Authority 2003 Revenue Bonds.

"Authority Reserve Fund" shall mean the Reserve Fund established pursuant to the Authority Indenture.

"Authority Trustee" means U.S. Bank National Association, acting in its capacity as trustee pursuant to the Authority Indenture.

"Authorized Representative" of the District means the Superintendent or Associate Superintendent, Business Support Services, acting on behalf of the District, or any other person designated by the Superintendent or Associate Superintendent, Business Support Services and authorized to act on behalf of the District under or with respect to the Indenture and all other agreements related thereto.

"Average Annual Debt Service" means, as of the date of any calculation, the average annual debt service on the Bonds based upon a Bond Year during the current or any future Bond Year.

"Bond Counsel" means an attorney or firm of attorneys, selected by the District, of nationally recognized standing in matters pertaining to the tax treatment of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of the State.

"Bondowner" or "Owner", or any similar term, means any person who shall be the registered owner or his duly authorized attorney, trustee, representative or assign of any Outstanding Bond which shall at the time be registered.

"Bonds" means, as applicable, the CFD No. 2 Bonds, the CFD No. 3 Bonds, the CFD No. 5 Bonds or the CFD No. 7 Bonds.

"Bond Service Fund" means the fund created and established pursuant to the Indenture.

"Bond Year" means each twelve-month period extending from September 2 in one calendar year to September 1 of the succeeding calendar year, except in the case of the initial Bond Year which shall be the period from the Delivery Date to September 1, 2003.

"Business Day" means a day that is not a Saturday or a Sunday or a day of the year on which banks in New York, New York and Los Angeles, California, or where the Principal Corporate Trust Office is located, are not required or authorized to remain open.

"CFD No. 2" means Community Facilities District No. 2 (Subarea IV – Torrey Highlands) of the Poway Unified School District.

"CFD No. 3" means Community Facilities District No. 3 (Christopherhill Project) of the Poway Unified School District.

"CFD No. 5" means Community Facilities District No. 5 (Santa Fe Valley IV) of the Poway Unified School District.

"CFD No. 7" means Community Facilities District No. 7 (Fairbank Highlands) of the Poway Unified School District.

"CFD No. 2 Bonds" means the \$12,635,000 Poway Unified School District Community Facilities District No. 2 (Subarea IV – Torrey Highlands) 2003 Special Tax Bonds issued pursuant to the CFD No. 2 Indenture.

"CFD No. 3 Bonds" means the \$5,485,000 Poway Unified School District Community Facilities District No. 3 (Christopherhill Project) 2003 Special Tax Bonds issued pursuant to the CFD No. 3 Indenture.

"CFD No. 5 Bonds" means the \$1,670,000 Poway Unified School District Community Facilities District No. 5 (Santa Fe Valley IV) 2003 Special Tax Bonds issued pursuant to the CFD No. 5 Indenture.

"CFD No. 7 Bonds" means the \$1,545,000 Poway Unified School District Community Facilities District No. 7 (Fairbanks Highland) 2003 Special Tax Bonds issued pursuant to the CFD No. 7 Indenture.

"CFD No. 2 School Facilities Fund" means the fund by that name established pursuant to the CFD No. 2 Indenture.

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

"Comptroller of the Currency" shall mean the Comptroller of the Currency of the United States.

"Costs of Issuance" means all of costs of issuing the Bonds, including but not limited to, all printing and document preparation expenses in connection with the Indenture and any Supplemental Indenture, the Bonds, and any and all other agreements, instruments, certificates or other documents issued in connection therewith; any computer and other expenses incurred in connection with the Bonds; the initial fees and expenses of the Fiscal Agent (including without limitation, legal fees, acceptance fees and first annual fees payable in advance); the fees and expenses of the appraiser, market absorption consultant, bond counsel, disclosure counsel, special tax consultant and other fees and expenses incurred in connection with the issuance of the Bonds, to the extent such fees and expenses are approved by the District.

"Delinquency Collection Expenses" means those fees and expenses of the District incurred by or on behalf of the District in or related to the collection of delinquent Special Taxes.

"Delinquency Proceeds" means the net amounts collected from the redemption of delinquent Special Taxes including the penalties and interest thereon and from the sale of property sold as a result of the foreclosure of the lien of the Special Tax resulting from the delinquency in the payment of Special Taxes due and payable on such property and net of County of San Diego, foreclosure counsel and other fees and expenses incurred by or on behalf of the District or the School District in undertaking such foreclosure proceedings.

"Delivery Date" means the date on which the Bonds are issued and delivered to the initial purchaser thereof.

"Depository" shall mean DTC and its successors and assigns or if (a) the then Depository resigns from its functions as a securities depository of the Bonds, or (b) the District discontinues use of the Depository pursuant to the Indenture, any other securities depository which agrees to follow procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Associate Superintendent, Business Support Services.

"Deputy Superintendent" means the Deputy Superintendent of the School District, acting for and on behalf of the District.

"Developed Property" shall have the meaning given such term in the Special Tax RMA.

"District" means, as applicable, CFD No. 2, CFD No. 3, CFD No. 5 or CFD No. 7.

"DTC" shall mean The Depository Trust Company, New York, New York, and its successors and assigns.

"Excess Authority Rebate Obligation" means that portion of any obligation of the Authority to make a payment to the United States pursuant to the Authority Indenture that exceeds the funds then on deposit in the Rebate Fund established pursuant to the Authority Indenture.

"Fiscal Agent" means U.S. Bank National Association, and any successor thereto.

"Fiscal Year" means the 12 month period beginning July 1 of each year and terminating on June 30 of the following year, or any other annual accounting period selected and designated by the District as its fiscal year in accordance with applicable law.

"Funding Agreement" means the Funding Allocation Agreement, dated as of February 1, 2003, among the Authority and Community Facilities District Nos. 2, 3, 5 and 7 of the School District.

"Government Obligations" means obligations described in paragraph (a) of the definition of Permitted Investments.

"Gross Proceeds" has the meaning ascribed to such term in Section 148(f)(6) of the Code.

"Indenture" means, as applicable, the Bond Indenture dated as of February 1, 2003 by the between CFD No. 2 and U.S. Bank National Association, as amended or supplemented pursuant to the terms thereof; the Bond Indenture dated as of February 1, 2003 by the between CFD No. 3 and U.S. Bank National Association, as amended or supplemented pursuant to the terms thereof; Bond Indenture dated as of February 1, 2003 by the between CFD No. 5 and U.S. Bank National Association, as amended or supplemented pursuant to the terms thereof; or Bond Indenture dated as of February 1, 2003 by the between CFD No. 7 and U.S. Bank National Association, as amended or supplemented pursuant to the terms thereof.

"Independent Accountant" means any certified public accountant or firm of such certified public accountants appointed and paid by the District, and who, or each of whom:

1. is in fact independent and not under domination of the District or the School District;
2. does not have any substantial interest, direct or indirect, in the District or the School District; and
3. is not an officer or employee of the District or the School District, but who may be regularly retained to make annual or other audits of the books of or reports to the School District or the District.

"Independent Financial Consultant" means any person or firm possessing demonstrated experience and expertise in the preparation of special tax formulas, the administration of special taxes levied for community facilities districts and the provision of advice to public agencies with respect to the issuance and administration of bonds of community facilities districts secured by the levy of special taxes. Any such person or firm shall be appointed and paid by the District and who, or each of whom:

1. is in fact independent and not under domination of the District or the School District;
2. does not have any substantial interest, direct or indirect, in the District, the School District or the Authority; and
3. is not an officer or employee of the District, the School District or the Authority, but who may be regularly retained by the District, the School District or other community facilities districts formed by the School District to administer the levy of special taxes within such community facilities districts.

"Interest Account" means the account by that name established within the Bond Service Fund pursuant to the Indenture.

"Interest Payment Date" means March 1 and September 1 of each year, commencing September 1, 2003 as to the Bonds.

"Investment Agreement" means any investment satisfying the requirements of Paragraph 11 of the definition of Permitted Investments.

"Legislative Body" means the Board of Education of the School District, acting as the legislative body of the District.

"Maximum Annual Debt Service" means, as of the date of any calculation, the largest Annual Debt Service during the current or any future Bond Year.

"Moody's" means Moody's Investors Service, its successors and assigns.

"Net Special Tax Revenues" means Special Tax Revenues minus amounts applied to pay the Administrative Expense Requirement.

"Outstanding" means as to the Bonds, all of the Bonds, except:

1. Bonds theretofore canceled or surrendered for cancellation;
2. Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent pursuant to the terms of the Indenture; and
3. Bonds for the payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (the Fiscal Agent shall be entitled to rely upon any written investment direction from an Authorized Representative of the District as a certification to the Fiscal Agent that such investment constitutes a Permitted Investment):

- (a) Direct obligations of (including obligations issued or held in book entry form on the books of the Department of Treasury of the United States of America, or
- (b) Senior debt obligations of other government sponsored agencies approved in writing by Ambac Assurance.
- (c) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, and which have a maximum term to maturity not to exceed three years, including:
 - Export-Import Bank

- Rural Economic Community Development Administration
 - U.S. Maritime Administration
 - Small Business Administration
 - U.S. Department of Housing & Urban Development (PHA's)
 - Federal Housing Administration
 - Federal Financing Bank.
- (d) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:
- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
 - Obligations of the Resolution Funding Corporation (REFCORP)
 - Senior debt obligations of the Federal Home Loan Bank System.
- (e) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).
- (f) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase.
- (g) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P.
- (h) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
- (1) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or
 - (2) (A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (2) of the definition of Defeasance Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate
- (i) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P.
- (j) Investment agreements approved in writing by Ambac Assurance (supported by appropriate opinions of counsel);
- (k) The Local Agency Investment Fund (LAIF) administered by the treasurer of the State to the extent such deposits remain in the name of and control of the Fiscal Agent.

- (l) The San Diego County Investment Pool managed by the Treasurer-Tax Collector of the County of San Diego.
- (m) The California Asset Management Program (CAMP).
- (n) Other forms of investments (including repurchase agreements) approved in writing by Ambac Assurance.

"Prepayments" means Special Tax Revenues identified to the Fiscal Agent by an Authorized Representative as representing a prepayment of the Special Tax.

"Principal Account" means the account by such name established in the Bond Service Fund pursuant to the Indenture.

"Principal Corporate Trust Office" means the office of the Fiscal Agent at 633 W. 5th Street, 12th Floor, Los Angeles, CA 90071 or such other offices as may be specified to the District by the Fiscal Agent in writing.

"Proportionate Share" shall have the meaning given such term in the Funding Agreement.

"Record Date" shall mean the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established pursuant to the Indenture.

"Regulations" means the regulations promulgated under the Internal Revenue Code of 1986, as amended.

"School District" means the Poway Unified School District.

"School Facilities" means, as to CFD No. 2, those school facilities authorized to be financed by such District pursuant to Resolution No. 41-98 and Resolution No. 42-98 adopted by the Board of Education forming such District and determining the necessity to incur a bonded indebtedness within such District to finance such school facilities; as to CFD No. 3, mean those school facilities authorized to be financed by such District pursuant to Resolution No. 13-98 and Resolution No. 14-98 adopted by the Board of Education forming such District and determining the necessity to incur a bonded indebtedness within such District to finance such school facilities; as to CFD No. 5, those school facilities authorized to be financed by such District pursuant to Resolution No. 01-98 and Resolution No. 02-98 adopted by the Board of Education forming such District and determining the necessity to incur a bonded indebtedness within such District to finance such school facilities; and as to CFD No. 7, those school facilities authorized to be financed by such District pursuant to Resolution No. 07-99 and Resolution No. 08-99 adopted by the Board of Education forming such District and determining the necessity to incur a bonded indebtedness within such District to finance such school facilities.

"School Facilities Costs" means the amounts necessary to finance the acquisition or construction of the School Facilities and incidental expenses associated therewith of the type authorized to be financed under the Act.

"Special Tax" means the Special Tax authorized to be levied in the District to finance the acquisition or construction of the School Facilities pursuant to the Act and the Special Tax RMA.

"Special Tax Fund" means the fund by that name established pursuant to the Indenture.

"Special Tax Requirement" shall have the meaning given such term in the Special Tax RMA.

"Special Tax Revenues" means (a) the proceeds of the Special Tax levied and received by the District, and (b) the Delinquency Proceeds.

"Special Tax RMA" means, as to CFD No. 2, the rate and method of apportionment of the Special Tax approved at the special election held in such District on December 15, 1997 and July 27, 1998, as may be modified from time to time in accordance with the Act; as to CFD No. 3, the rate and method of

apportionment of the Special Tax approved at the special election held in such District on September 22, 1997, as may be modified from time to time in accordance with the Act; as to CFD No. 5, the rate and method of apportionment of the Special Tax approved at the special election held in such District on August 4, 1997, as may be modified from time to time in accordance with the Act; and, as to CFD No. 7, the rate and method of apportionment of the Special Tax approved at the special election held in such District on August 24, 1998, as may be modified from time to time in accordance with the Act

"Standard & Poor's" or "S&P" means Standard & Poor's Rating Services, its successors and assigns.

"State" means the State of California.

"Superintendent" means the Superintendent of the School District, acting for and on behalf of the District.

"Supplemental Indenture" means any bond indenture then in full force and effect which has been duly approved by resolution of the Legislative Body under and pursuant to the Act at a meeting of the Legislative Body duly convened and held, at which a quorum was present and acted thereon, amendatory thereof or supplemental thereto; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Surplus Special Tax Fund" means the fund by that name established pursuant to the Indenture.

"Surplus Special Tax Revenue" means that portion of the Special Tax Revenues received by the District in any Bond Year which represents the amount of the Special Taxes levied by the District on Developed Property pursuant to the Special Tax RMA for the Fiscal Year beginning July 1 prior to such Bond Year to fund the Annual Special Tax Requirement and which is in addition to the amount necessary to pay scheduled debt service on the Bonds that is due and payable in such Bond Year and Administrative Expenses that are due and payable during such Bond Year.

"Tax Exempt" means, with reference to a Permitted Investment, a Permitted Investment the interest earnings on which are excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code, other than one described in Section 57(a)(5)(C) of the Code.

"Term Bonds" means the Bonds maturing on September 1, 2025 and the Bonds maturing on September 1, 2028.

"Transferee" shall have the meaning given such term in the Supplement to Mitigation Agreement.

"Yield" has the meaning assigned to such term for purposes of Section 148(f) of the Code.

Funds and Accounts.

Special Tax Fund. The District shall, no later than the tenth (10th) Business Day after which Special Tax Revenues have been received by the District and in any event not later than February 15th and August 15th of each year, transfer such Special Tax Revenues to the Fiscal Agent and, except as set forth in the following sentence, such amounts shall be deposited in the Special Tax Fund.

With the exception of Special Tax Revenues representing Prepayments, the Special Tax Revenues deposited in the Special Tax Fund shall be held in trust or transferred to the following other funds and accounts on the dates and in the amounts set forth in the following paragraphs and in the following order of priority:

1. The Fiscal Agent shall each Fiscal Year transfer to the Administrative Expense Fund from the first Special Tax Revenues received by the Fiscal Agent during such Fiscal Year an amount equal to the Administrative Expense Requirement.
2. The Fiscal Agent shall deposit in the Interest Account of the Bond Service Fund, on each Interest Payment Date and date for redemption of the Bonds, an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest due or

becoming due and payable on such Interest Payment Date on all Outstanding Bonds or to be paid on the Bonds being redeemed on such date.

3. The Fiscal Agent shall deposit in the Principal Account of the Bond Service Fund, on each Interest Payment Date and redemption date on which the principal of the Bonds shall be payable, an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of, and premium (if any) on, the Bonds coming due and payable on such Interest Payment Date, or required to be redeemed on such date pursuant to the Indenture.

4. After making the transfer and deposits required under 1. through 3. above, the Fiscal Agent shall transfer to the Authority Trustee the amount, if any, necessary to make up any existing deficiency in the payment of the scheduled payment of interest on or principal of the Bonds, together with written notification to the Authority Trustee that such amount represents the payment of such deficiency.

5. On September 2 of each year after making the deposits and transfer required under 1. through 4. above, upon receipt of written instructions from an Authorized Representative, the Fiscal Agent shall transfer from the Special Tax Fund to the Authority Trustee that amount necessary to pay any Guaranty Agreement Reimbursements then due and owing by the District pursuant to the Funding Agreement. Any such transfer shall be accompanied by written notice to the Authority Trustee that the amount transferred is to be utilized to pay Guaranty Agreement Reimbursements pursuant to the Authority Indenture.

6. On September 2 of each year after making the deposits and transfers required under 1. through 4. above, upon receipt of written instructions from an Authorized Representative, the Fiscal Agent shall transfer from the Special Tax Fund to the Authority Trustee the District's Proportionate Share of any Excess Authority Rebate Obligation that is or will be due and payable during the Bond Year commencing on such September 2nd. Any such transfer shall be accompanied by written notice to the Authority Trustee that the amount transferred is to be deposited in the Rebate Fund established pursuant to the Authority Indenture.

7. On September 2 of each year after making the deposits and transfers required under 1. through 5. above, upon receipt of a written request of an Authorized Representative, the Fiscal Agent shall transfer from the Special Tax Fund to:

(a) the Administrative Expense Fund the amounts specified in such request to pay those Administrative Expenses which the District reasonably determines:

(i) will become due and payable during such Bond Year or the cost of which Administrative Expenses have previously been incurred and paid by the District from funds other than the Administrative Expense Fund, and

(ii) the cost of which Administrative Expenses, together with the District's Proportionate Share of the Authority's Administrative Expenses paid or projected to be paid from the Administrative Expense Fund during the Bond Year commencing on such September 2nd, will be in excess of the Administrative Expense Requirement for such Fiscal Year; and

(b) the Authority Trustee for deposit in the Authority Administrative Expense Fund the amounts specified in such request that the District reasonably determines:

(i) will be necessary to fund the District's Proportionate Share of the Authority Administrative Expenses that will become due and payable during such Bond Year or the cost of which Authority Administrative Expenses have been previously paid by the Authority or the District from funds other than the Authority Administrative Expense Fund; and

(ii) the cost of which Proportionate Share of such Authority Administrative Expenses, together with the Administrative Expenses and the District's Proportionate Share of the Authority's Administrative Expenses paid or projected to be paid from the Administrative Expense Fund during the Bond Year commencing on such September 2nd, will be in excess of the Administrative Expense Requirement for such Fiscal Year.

Any such transfer shall be accompanied by written notice that the amount transferred is to be deposited in the Authority Administrative Expense Fund and utilized to pay Authority Administrative Expenses.

8. If, on or after September 2 of each year, after making the deposits and transfers required under 1. through 7. above, monies remain in the Special Tax Fund, such monies shall remain on deposit in the Special Tax Fund and shall be subsequently deposited or transferred pursuant to the provisions of 1. through 6. above. Notwithstanding the foregoing, if an Authorized Representative shall provide written notice to the Fiscal Agent that all or some portion of such monies constitute Surplus Special Tax Revenues, the Fiscal Agent shall transfer the amount constituting Surplus Special Tax Revenues to the Surplus Special Tax Fund.

The Fiscal Agent shall, upon receipt of Special Tax Revenues representing Prepayments together with written instructions of the District executed by an Authorized Representative, immediately transfer such Prepayments pursuant to such written instructions into the Interest Account of the Bond Service Fund and the Redemption Fund, as applicable, and utilize such funds to pay the interest and premium, if any, on and principal of Bonds to be redeemed pursuant to the Indenture. The Fiscal Agent may conclusively rely upon such instructions.

When there are no longer any Bonds Outstanding, any amounts then remaining on deposit in the Special Tax Fund shall be transferred to the District and used for any lawful purpose under the Act.

Bond Service Fund.

Interest Account. All moneys in the Interest Account, including the proceeds of the Bonds deposited in such account to fund interest on the Bonds through September 1, 2003, shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity).

Principal Account. All moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of the Term Bonds upon the mandatory sinking fund redemption thereof.

CFD No. 2 School Facilities Fund. Pursuant to the CFD No. 2 Bond Indenture, the Fiscal Agent shall, from time to time, disburse monies from the CFD No. 2 School Facilities Fund to pay School Facilities Costs. Upon receipt of a payment request of such District duly executed by an Authorized Representative, the Fiscal Agent shall pay the School Facilities Costs from amounts in the CFD No. 2 School Facilities Fund directly to the contractor or such other person, corporation or entity entitled to payment thereunder (including reimbursements, if any, to such District) unless such District requests payment to be made to the contractor or such other party jointly, in which case said School Facilities Costs shall be paid jointly. The Fiscal Agent may rely on an executed payment request as complete authorization for said payments.

After the final payment or reimbursement of all School Facilities Costs as certified by delivery of a written notice from an Authorized Representative to the Fiscal Agent, the Fiscal Agent shall transfer excess monies, if any, on deposit in, or subsequently deposited in, the CFD No. 2 School Facilities Fund to the Special Tax Fund and the Fiscal Agent shall apply the amount so transferred in accordance with the provisions of the Indenture.

Redemption Fund. Monies shall be deposited into the Redemption Fund by the Fiscal Agent pursuant to the terms of the Indenture and shall be set aside and used solely for the purpose of redeeming Bonds in accordance with written instructions of the District executed by an Authorized Representative. Following the redemption of any Bonds, if any funds remain in the Redemption Fund, such funds shall be transferred to the Special Tax Fund.

Administrative Expense Fund. The Fiscal Agent shall deposit from time to time the amounts authorized for deposit therein. The moneys in the Administrative Expense Fund shall be used (a) to pay Administrative Expenses from time to time upon receipt by the Fiscal Agent of a written request of the District executed by an Authorized Representative specifying the name and address of the payee and the amount of the Administrative Expense and a description thereof and further stating that such request has not formed the basis of any prior request for payment or (b) for transfer to the Authority Trustee for payment of the District's Proportionate Share of the Authority Administrative Expenses from time to time upon receipt by the Fiscal Agent of a written request of the District executed by an Authorized Representative specifying the estimated amount necessary to fund such share of such Authority Administrative Expenses.

CFD No. 2 Surplus Special Tax Fund. Pursuant to the CFD No. 2 Bond Indenture, the Fiscal Agent shall, from time to time, disburse monies from the Surplus Special Tax Fund to pay School Facilities Costs or to pay the principal of or interest on any other bonded indebtedness of such District incurred to finance the acquisition or construction of School Facilities. Upon receipt of a payment request of such District duly executed by an Authorized Representative, the Fiscal Agent shall: (1) in the case of the payment of School Facilities Costs, pay the School Facilities Costs from amounts in the Surplus Special Tax Fund directly to the contractor or such other person, corporation or entity entitled to payment thereunder (including reimbursements, if any, to such District) unless such District requests payment to be made to the contractor or such other party jointly, in which case said School Facilities Costs shall be paid jointly or (2) in the case of the payment of the principal or interest on any other such bonded indebtedness of such District, transfer the amount specified in such payment request to the paying agent, fiscal agent or trustee for such bond indebtedness as specified in such payment request. The Fiscal Agent may rely on an executed payment request as complete authorization for said payments.

After the final payment or reimbursement of all School Facilities Costs as certified by delivery of a written notice from an Authorized Representative to the Fiscal Agent, the Fiscal Agent shall transfer excess monies, if any, on deposit in, or subsequently deposited in, the Surplus Special Tax Fund to the Special Tax Fund and the Fiscal Agent shall apply the amount so transferred in accordance with the Indenture.

Investment of Funds.

Unless otherwise specified in the Indenture, monies in the Special Tax Fund, the Bond Service Fund, the CFD No. 2 School Facilities Fund, the Costs of Issuance Fund, Administrative Expense Fund or Surplus Special Tax Fund shall, at the written direction of the District executed by an Authorized Representative given at least two (2) days prior, be invested and reinvested in Permitted Investments (including investments with the Fiscal Agent or an affiliate of the Fiscal Agent or investments for which the Fiscal Agent or an affiliate of the Fiscal Agent acts as investment advisor or provides other services so long as the investments are Permitted Investments). Monies in the Redemption Fund shall, at the written direction of the District executed by an Authorized Representative, be invested in Government Obligations or money market funds comprised solely of Government Obligations and rated in the highest rating category of S&P. Notwithstanding anything in the Indenture to the contrary, in the absence of written investment instructions, the Fiscal Agent shall invest solely in investments identified in paragraph (f) of the definition of Permitted Investments. Any Permitted Investments that are registerable securities shall be registered in the name of the Trustee.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the District periodic cash transaction statements, which include detail for all investment transactions made by the Fiscal Agent thereunder. The Fiscal Agent shall not be required to provide statements for accounts with zero balances.

Obligations purchased as investments of monies in any fund or account shall be deemed at all times to be a part of such fund or account. Except where provided otherwise in the Indenture, any income realized on or losses resulting from investments in any fund or account shall be credited or charged to such fund or account.

Subject to the restrictions set forth in the Indenture and/or any written investment instructions received by Fiscal Agent, moneys in all funds and accounts, except for the Reserve Fund, shall be invested in Permitted Investments maturing, or with respect to which payments of principal and interest are scheduled or otherwise payable, not later than the date on which it is estimated that such moneys will be required by the Fiscal Agent for the purposes specified in the Indenture. Permitted Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Fiscal Agent may deliver such Permitted Investments for repurchase under such agreement.

The Fiscal Agent shall sell or present for redemption any obligations so purchased whenever it may be necessary to do so in order to provide monies to meet any payment or transfer for such funds and accounts or from such funds and accounts. The Fiscal Agent shall not be liable for any loss from any investments made or sold by it in accordance with the provisions of the Indenture.

The Fiscal Agent is authorized, in making or disposing of any investment permitted by the Indenture, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Fiscal Agent or for any third person or dealing as principal for its own account.

Supplemental Indentures.

The Legislative Body may, by adoption of a resolution from time to time, and at any time but without notice to or consent of any of the Bondholders, approve a Supplemental Indenture thereto for any of the following purposes:

- (a) to cure any ambiguity, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provision with respect to matters or questions arising under the Indenture or in any Supplemental Indenture, provided that such action shall not adversely affect the interests of the Bondholders;
- (b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect;
- (c) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the interests of the Bondholders; or
- (d) to amend any provision of the Indenture relating to the Code as may be necessary or appropriate to assure compliance with the Code and the exclusion from gross income of interest on the Bonds.

Exclusive of the Supplemental Indentures thereto provided for in (a) above, the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or

rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal of, or the payment date of interest on, any Bond, or (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon without the consent of the affected Bondowner(s), or permit, or be construed as permitting, (x) a preference or priority of any Bond or Bonds over any other Bond or Bonds, (y) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, or (z) creating of a pledge of or lien or charge upon the Special Tax Revenues superior to the pledge provided for in the Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to approve a Supplemental Indenture, which pursuant to the terms of the Indenture shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The District shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, postage prepaid, to all Bondowners at their addresses as they appear in the bond register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the principal office of the District for inspection by all Bondowners. The failure of any Bondowner to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved as provided for in the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the District shall receive an instrument or instruments purporting to be executed by the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to the approval thereof by the Legislative Body substantially in the form of the copy thereof referred to in such Notice as on file with the District, such proposed Supplemental Indenture, when duly approved by the Legislative Body, shall thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of 60% of the aggregate principal amount of the Bonds have consented to the approval of any Supplemental Indenture, Bonds which are known to the Fiscal Agent to be owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not outstanding for the purpose of any such determination.

Upon the approval of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of the appropriate aggregate principal amount of Bonds in instances where such consent is required pursuant to the provisions of the Indenture, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Bonds then Outstanding shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modifications and amendments. Notwithstanding anything in the Indenture to the contrary, no Supplemental Indenture shall be entered into which would modify the duties of the Fiscal Agent thereunder, without the prior written consent of the Fiscal Agent.

After the effective date of any action taken as hereinabove provided, the District may determine that the Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds. If the District shall so determine, new Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond at such effective date such new Bonds shall be exchanged at the corporate trust office of the Fiscal Agent or at such additional offices as the Fiscal Agent

may select and designate for that purpose, without cost to each Owner of Outstanding Bonds, upon surrender of such Outstanding Bonds.

Covenants.

As long as the Bonds are Outstanding and unpaid, the District, acting on behalf of the District, shall (through its proper members, officers, agents or employees) faithfully perform and abide by all of the covenants and agreements set forth in the **Indenture**; provided, however, that said covenants do not require the District to expend any funds other than the **Special Tax Revenues**:

A. On or before June 1 of each Fiscal Year, the District will review the public records of the County of San Diego, California, in connection with the Special Tax levied in such Fiscal Year to determine the amount of Special Tax actually collected in such Fiscal Year. If the District determines that (a) any single parcel subject to the Special Tax is delinquent in the payment of Special Taxes in the aggregate of \$5,000 or more or (b) any single parcel or parcels under common ownership subject to the Special Tax are delinquent in the payment of Special Taxes in the aggregate of \$10,000 or more, the District shall, not later than forty five (45) days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner. The District shall cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than ninety (90) days of such determination against any parcel for which a notice of delinquency was given and for which the Special Taxes remain delinquent. With respect to aggregate delinquencies throughout the District, if the District determines that it has collected less than 95% of the Special Taxes levied in the such Fiscal Year, then the District shall, not later than forty five (45) days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the owner of each delinquent parcel (regardless of the amount of such delinquency). The District will cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than ninety (90) days of such determination against any parcel for which a notice of delinquency was given pursuant and for which the Special Taxes remain delinquent.

B. The District shall preserve and protect the security of the Bonds and the rights of the Bondowners and defend their rights against all claims and demands of all persons. Until such time as an amount has been set aside sufficient to pay Outstanding Bonds at maturity or to the date of redemption if redeemed prior to maturity, plus unpaid interest thereon and premium, if any, to maturity or to the date of redemption if redeemed prior to maturity, the District will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or in any Bond issued thereunder.

C. The District will not issue any other obligations payable, principal or interest, from the Special Taxes which have, or purport to have, any lien upon the Special Taxes superior to or on a parity with the lien of the Bonds authorized in the Indenture. Nothing in the Indenture shall prevent the District from issuing and selling, pursuant to law, refunding bonds or other refunding obligations payable from and having a first lien upon the Special Taxes on a parity with the Outstanding Bonds so long as the issuance of such refunding bonds or other refunding obligations results in a reduction in the Annual Debt Service on the Bonds and such refunding bonds or other refunding obligations taken together.

D. The District will duly and punctually pay or cause to be paid the principal of and interest on each of the Bonds issued thereunder on the date, at the place and in the manner provided in said Bonds, but only out of Special Tax Revenues and such other funds as may be provided in the Indenture.

E. The District shall comply with all requirements of the Act so as to assure the timely collection of the Special Taxes. The District shall annually ascertain the parcels on which the

Special Taxes are to be levied in the following Fiscal Year, taking into account any subdivisions of parcels during the current Fiscal Year. The District shall effect the levy of the Special Tax in accordance with the Special Tax RMA and the Act each Fiscal Year so that the computation of such levy is complete and transmitted to the Auditor of the County of San Diego before the final date on which the Auditor of the County of San Diego will accept the transmission of the Special Tax for the parcels within the District for inclusion on the next real property tax roll. Upon completion of the computation of the amount of the Special Tax levy, the District shall prepare or cause to be prepared, and shall transmit or cause to be transmitted to the Auditor of the County of San Diego, such data as such Auditor requires to include the levy of the Special Tax on the next real property tax roll.

The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District has determined that, absent the certification described below, a reduction in the Maximum Special Tax (as such term is defined in the Special Tax RMA) authorized to be levied below the levels provided would interfere with the timely retirement of the Bonds. The District has determined it to be necessary in order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it shall not initiate proceedings to reduce the Maximum Special Tax, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the Maximum Special Tax which may be levied on all Assessor's Parcels (as such term is defined in the Special Tax RMA) of Developed Property in each Fiscal Year will equal at least 110% of the gross debt service on all Bonds to remain Outstanding after the reduction is approved and will not reduce the Maximum Special Tax payable from Assessor's Parcels of Developed Property is located to less than 110% of Maximum Annual Debt Service, and (ii) the Board of Education, acting as the legislative body of the District, finds pursuant to the Indenture that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds. Any reduction in the Maximum Special Tax approved pursuant to the preceding sentence may be approved without the consent of the Owners of the Bonds.

The District covenants that, in the event that any initiative is adopted by the qualified electors which purports to reduce the Maximum Special Tax below the levels authorized pursuant to the Special Tax RMA or to limit the power or authority of the District to levy Special Taxes pursuant to the Special Tax RMA, the District shall, from funds available thereunder, commence and pursue legal action in order to preserve the authority and power of the District to levy Special Taxes pursuant to the Special Tax RMA.

F. The District will at all times keep, or cause to be kept, proper and current books and accounts (separate from all other records and accounts) in which complete and accurate entries shall be made of all transactions relating to the Special Tax Revenues and other funds provided for in the Indenture.

G. The District will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the District or take or omit to take any action that would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code, or obligations which are "federally guaranteed" within the meaning of Section 149(b) of the Code. The District will not allow five percent (5%) or more of the proceeds of the Bonds to be used in the trade or business of any non-governmental units and will not loan five percent (5%) or more of the proceeds of the Bonds to any non-governmental units.

H. The District covenants that it will **not take** any action, or fail to take any action, if any such action or failure to take action would **adversely affect** the exclusion from gross income of the interest on the Authority Bonds under **Section 103** of the Code. The District will not directly or indirectly use or permit the use of any **proceeds** of the Authority Bonds or any other funds of the District, or take or omit to take any **action**, that would cause the Bonds to be “arbitrage bonds” within the meaning of **Section 148(a)** of the Code. To that end, the District will comply with all requirements of **Section 148** of the Code to the extent applicable to the Bonds and the Authority Bonds. In the event that at any time the District is of the opinion that for purposes of this covenant it is necessary to restrict or limit the yield on the investment of any monies held under the Indenture or otherwise the District shall **so instruct** the Fiscal Agent in writing, and the Fiscal Agent shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the District agrees that there shall be paid from time to time all amounts required to be **rebated** to the United States of America pursuant to **Section 148(f)** of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds and the District’s **Proportionate Share** of the Authority Bonds from time to time. This covenant shall survive **payment in full** or defeasance of the Bonds. The District specifically covenants to transfer or cause to be transferred to the Authority Trustee any amount necessary to pay the District’s **Proportionate Share** of any Excess Authority Rebate Obligation.

Notwithstanding any provision of the **Indenture**, if the District shall obtain an opinion of Bond Counsel to the effect that any action required under this covenant is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Authority Bonds pursuant to **Section 103** of the Code, the Fiscal Agent may rely conclusively on such opinion in complying with the provisions thereof, and the covenant thereunder shall be deemed to be modified to that extent.

I. The District shall not directly or **indirectly** extend the maturity dates of the Bonds or the time of payment of interest with respect thereto.

J. Not later than October 30th of **each year**, commencing October 30, 2003, and until October 30th following the final maturity of the Bonds, the District shall supply or cause to be supplied to the California Debt and Investment Advisory Commission by mail, postage prepaid, the information, if any, then required by **Government Code Section 53359.5** to be submitted to such agency.

K. The District covenants that it will **not adopt** any policy pursuant to **Section 53344.1** of the Act permitting tender of Bonds in full **payment** or partial payment of any Special Taxes unless it first receives a certificate of an **Independent Financial Consultant** that accepting such tender will not result in the District having insufficient **Special Tax Revenues** to pay the principal of and interest on the Bonds when due.

L. The District shall do and perform or **cause** to be done and performed all acts and things required to be done or performed by or **on behalf** of the District under the provisions of the Indenture. The District warrants that **upon the date** of execution and delivery of the Bonds, the conditions, acts and things required by law and the Indenture to exist, to have happened and to have been performed precedent to and **in the execution** and delivery of such Bonds do exist, have happened and have been performed and the **execution** and delivery of the Bonds shall comply in all respects with the applicable laws of the **State**.

Defeasance.

If the District shall pay or cause to be **paid**, or there shall otherwise be paid, to the Owner of an Outstanding Bond the interest due thereon and the **principal** thereof, at the times and in the manner stipulated in the Indenture, then the Owner of such **Bond** shall cease to be entitled to the pledge of the

Special Tax Revenues, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under the Indenture shall thereupon cease, terminate and become void and discharged and satisfied. In the event of the defeasance of all Outstanding Bonds and after payment of any amounts then owed to the Fiscal Agent, the Fiscal Agent shall pay over or deliver to the District all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds.

Any Outstanding Bond shall be deemed to have been paid within the meaning expressed in the preceding paragraph if such Bond is paid in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable;
- (b) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the funds established pursuant to the Indenture (exclusive of the Rebate Fund) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable; or
- (c) by depositing with an escrow bank appointed by the District, in trust, noncallable Permitted Investments of the type described in subparagraphs (a) or (b) of the definition thereof, in such amount as an Independent Accountant shall determine (as set forth in a verification report from such Independent Accountant) will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the funds established under the Indenture (exclusive of the Rebate Fund) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture with respect to such Bond shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District to preserve the exclusion of the interest on the Bonds from gross income for federal income tax purposes. Notice of such election shall be filed with the Fiscal Agent not less than ten (10) days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Fiscal Agent. In connection with a defeasance under (b) or (c) above, there shall be provided to the Fiscal Agent a certificate of an Independent Accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Fiscal Agent or the escrow bank, together with the interest to accrue thereon and moneys then on deposit in the funds established under the Indenture (exclusive of the Rebate Fund) and available for such purpose, together with the interest to accrue thereon to pay and discharge the principal of, premium, if any, and interest on all such Bonds to be defeased in accordance with the Indenture as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds being defeased have been legally defeased in accordance with the Indenture.

Events of Default.

Events of Default. The following events shall be Events of Default under the Indenture:

- A. Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise.
- B. Default in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable.

C. Default by the District in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the District by the Fiscal Agent or to the District and the Fiscal Agent by the Owners of not less than twenty five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; provided that such default (other than a default arising from nonpayment of the Fiscal Agent's fees and expenses, which must be cured within such 30 day period unless waived by the Fiscal Agent) shall not constitute an Event of Default under the Indenture if the District shall commence to cure such default within said thirty (30) day period and thereafter diligently and in good faith shall cure such default within a reasonable period of time; or

D. The filing by the District of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the District, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property.

Application of Revenues and Other Funds After a Default. If a default in the payment of the Bonds shall occur and be continuing, all revenues and any other funds then held or thereafter received under any of the provisions of the Indenture shall be applied as follows and in the following order:

A. To the payment of any expenses necessary in the opinion of the District to protect the interest of the owners of the Bonds and payment of reasonable charges and expenses of the Fiscal Agent (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

B. To the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity of redemption, and if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without discrimination or preference.

Remedies. Following the occurrence of an event of default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

A. By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Indenture;

B. By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

C. By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

Nothing in this Article or in any other provision of the Indenture, the Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners thereof at the respective dates of maturity, as provided for in the Indenture, out of the Net Special Tax Revenue pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in the Indenture. The principal of the Bonds shall not be subject to acceleration thereunder.

A waiver of any default or breach of duty or contract by any Owner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission by any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Act or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the District and the Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

No remedy in the Indenture conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given thereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is executed and entered into as of February 1, 2003 by and among the Poway Unified School District Public Financing Authority, a joint exercise of powers authority organized and existing under and by virtue of the Constitution and of the laws of the State of California (the "Authority"), and the Poway Unified School District for and on behalf of (i) Community Facilities District No. 2 (Subarea IV - Torrey Highlands) of the Poway Unified School District ("Community Facilities District No. 2"), (ii) Community Facilities District No. 3 Christopherhill Project) of the Poway Unified School District ("Community Facilities District No. 3"), (iii) Community Facilities District No. 5 (Santa Fe Valley Area IV) of the Poway Unified School District ("Community Facilities District No. 5"), (iv) Community Facilities District No. 7 (Fairbank Highlands) of the Poway Unified School District ("Community Facilities District No. 7" and collectively with Community Facilities District No. 2, Community Facilities District No. 3, and Community Facilities District No. 5, the "Districts"), U.S. Bank National Association, a national banking association organized and existing under and by virtue of the laws of the United States (the "Bank") in its capacity as Trustee (the "Trustee"), and David Taussig & Associates, Inc. in its capacity as Dissemination Agent (the "Dissemination Agent") in connection with the issuance of the Poway Unified School District Public Financing Authority 2003 Revenue Bonds (the "Bonds");

WITNESSETH:

WHEREAS, pursuant to the Bond Indenture, dated as of February 1, 2003 (the "Authority Indenture"), by and between the Authority and the Trustee, the Authority has issued the Bonds in the aggregate principal amount of \$21,335,000; and

WHEREAS, the Bonds are being issued to acquire four series of local obligations (the "Local Obligations") of each District. The Local Obligations are each being issued pursuant to separate Bond Indentures (each a "District Bond Indenture," and together the "District Bond Indentures"), each dated as of February 1, 2003, each by and between the applicable District and U.S. Bank National Association, as Fiscal Agent (collectively, the "Fiscal Agents");

WHEREAS, each Series of Local Obligations is payable from and secured by special taxes levied on certain of the property within the applicable District;

NOW, THEREFORE, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

Section 1. Purpose of the Disclosure Agreement. The Disclosure Agreement is being executed and delivered by the Authority and the Districts for the benefit of the owners and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Authority Indenture and the District Bond Indentures which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Authority and each District pursuant to, and described in, Sections 3 and 4 of this Disclosure Agreement.

“Annual Report Date” shall mean January 31 next following the end of the Authority’s and each District’s fiscal year, which fiscal years end, as of the date of this Disclosure Agreement, are June 30.

“Disclosure Representative” shall mean the Associate Superintendent, Business Support Services of the School District acting on behalf of the Authority or the Districts or his or her designee, or such other officer or employee as the Community Facilities District shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean David Taussig & Associates, Inc., or any successor Dissemination Agent designated in writing by the Authority and the Districts and which has filed with the Authority and the Districts a written acceptance of such designation.

“District” or “Districts” means Community Facilities District No. 2 (Subarea IV - Torrey Highlands) of the Poway Unified School District, Community Facilities District No. 3 (Christopherhill Project) of the Poway Unified School District, Community Facilities District No. 5 (Santa Fe Valley Area IV) of the Poway Unified School District or Community Facilities District No. 7 (Fairbank Highlands) of the Poway Unified School District, as applicable.

“Insurer” shall mean Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company or any successor thereto or assignee thereof.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at sec.gov/info/municipal/nrmsir.htm.

“Participating Underwriter” shall mean Stone & Youngberg LLC.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The Authority and each District shall, or, shall cause the Dissemination Agent to, not later than the Annual Report Date commencing January 31, 2004, provide to each Repository, the Trustee, the Fiscal Agents, the Insurer and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Authority and each District shall provide its Annual Report to the Dissemination Agent. An Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the School District may be submitted separately from the balance of the Annual Report provided by the Authority and later than the date required above for the filing of the Annual Report if not available by that date. If the Authority or a District’s fiscal year changes, it shall give

notice of such change in the same manner as for a **Listed Event** under Section 5(c). If the Dissemination Agent has not received a copy of the Annual Report on or before 15 business days prior to January 31 in any year, the Dissemination Agent shall notify the Authority or the applicable District, of such failure to receive the applicable Annual Report. The Authority and **each District** shall provide a written certification with its Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it **hereunder**. The Dissemination Agent may conclusively rely upon such certification of the Authority and each District and shall have no duty or obligation to review such Annual Report.

(b) If the Authority or a District is **unable to provide** to the Repositories and to the Participating Underwriter its Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repositories and the appropriate **State Repository**, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

- (i) determine each year prior to the date for providing each Annual Report the name and address of each **National Repository** and each **State Repository**, if any;
- (ii) provide any Annual Report received by it to each Repository, the Trustee, the Fiscal Agents, the Insurer and the Participating Underwriter as provided herein; and
- (iii) if the Dissemination Agent is other than the Authority or a District and to the extent it can confirm such filing of an Annual Report, file a report with the Authority, the Districts, the Trustee, the Fiscal Agents, the Insurer and the Participating Underwriter **certifying** that an Annual Report has been provided pursuant to this **Disclosure Agreement**, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. An Annual Report shall contain or incorporate by reference the following:

(a) With respect to the Authority, the Authority's Annual Report shall provide the following information:

- (i) **Audited Financial Statements of the School District** prepared in accordance with generally accepted accounting principles as promulgated to apply to government entities from time to time by the **Governmental Accounting Standards Board**. If audited financial statements **are not available**, at the time required for filing, unaudited financial statements shall be **submitted** with the Annual Report, and audited financial statements shall be submitted **once available**.
- (ii) The following information regarding the Bonds and any refunding bonds:
 - (1) Principal amount of **Bonds and any refunding bonds** outstanding as of a date within 30 days proceeding the **date of the Annual Report**;
 - (2) Balance in the **Bond Service Fund** as of a date within 30 days proceeding the date of the Annual Report;

(3) Balance in the Reserve Fund and statement of Reserve Requirement as of a date within 30 days proceeding the date of the Annual Report;

(4) Balance in the Authority School Facilities Fund as of a date within 30 days preceding the date of the Annual Report, and of any other fund not referenced in clauses (1), (2), (3) or (4) hereof;

(b) With respect to each District, each District's Annual Report shall provide the following information with respect to such District and its Local Obligations:

- (i) A table summarizing assessed value-to-lien ratios for the property in the District and by Rate and Method of Apportionment of Special Taxes land use categories. The assessed values in such table will be determined by reference to the value of the parcels within the District on which the Special Taxes are levied, as shown on the assessment roll of the San Diego County Assessor last equalized prior to the September 30 next preceding the Annual Report Date. The lien values in such table will include all Local Obligations and any refunding bonds of a District and all other debt secured by a tax or assessments levied on parcels within a District.
- (ii) Information regarding the annual special taxes levied in the District, amount collected, delinquent amounts and percent delinquent for the most recent fiscal year;
- (iii) Status of foreclosure proceedings of parcels within the District and summary of results of foreclosure sales, if available;
- (iv) A land ownership summary listing property owners responsible for more than 5% of the Special Tax levy as shown on the assessment roll of the San Diego County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, a summary of the Special Taxes levied on the property within the District owned by such property owners, and the assessed value of such property, as shown on such assessment roll;
- (v) Concerning delinquent parcels as of the immediately preceding August 15;
 - number of parcels in the District delinquent in payment of Special Tax,
 - total of such delinquency and percentage of delinquency in relation to total Special Tax levy,
 - status of the actions taken by the School District and/or the District related to any foreclosure proceedings upon delinquent properties within the District;
- (vi) identity of any delinquent taxpayer obligated for greater than 5% of the annual Special Tax levy as of the immediately preceding August 15, plus:
 - assessed value of applicable properties, and
 - summary of results of foreclosure sales, if available,

- (vii) a copy of any report for or concerning the District as of the immediately preceding October 31 required under State law;
- (viii) Any changes to the Rate and Method of Apportionment of Special Tax for the District approved or submitted to the qualified electors of the District for approval prior to the filing of the Annual Report; and
- (ix) With respect to the District, the following information:
 - The amount of bonds authorized for the District,
 - The amount of bonds issued,
 - The date of issuance of such bonds,
 - A description of the use of the proceeds of bonds issued, and
 - Balance as of a date within 30 days preceding the date of the Annual Report, of any other fund not referenced above and for the report by CFD No. 2, the balance in the CFD No. 2 School Facilities Fund.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Authority or a District, as applicable, shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or a District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Authority or District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Authority and the Districts, as applicable, shall give, or cause to be given, notice of the occurrence of any of the following events with respect to its Bonds or Local Obligations, as applicable, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security;

- (vii) Modifications to rights of security holders;
- (viii) Contingent or unscheduled bond calls;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities; and
- (xi) Rating changes.

(b) The Dissemination Agent shall, within five business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Authority or applicable District, as applicable, promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of the Listed Events described under clauses (ii), (iii), (vi), (x) and (xi) above shall mean actual knowledge by an officer at the principal office of the Dissemination Agent. The Dissemination Agent shall have no responsibility for determining the materiality of any of the Listed Events.

(c) Whenever the Authority or a District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Authority or District, as applicable, shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the Authority or a District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Authority or District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f). The Authority or District shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.

(e) If in response to a request under subsection (b), the Authority or a District determines that the Listed Event would not be material under applicable Federal securities law, the Authority or District, as applicable, shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Authority or a District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to the Insurer and the Participating Underwriter described on Exhibit B attached hereto. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds pursuant to the Authority Indenture.

Section 6. Termination of Reporting Obligation. All of the Authority’s obligations hereunder shall terminate upon the earliest to occur of (i) the legal defeasance of the Bonds, (ii) prior redemption of the Bonds, or (iii) payment in full of all the Bonds. All of a District’s obligations hereunder shall terminate upon the earliest to occur of (i) the legal defeasance of such District’s Local Obligations, (ii) prior redemption of such District’s Local Obligations, or (iii) payment in full of all such District’s Local Obligations. If such

determination occurs prior to the final maturity of the Bonds, the Authority or a District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The Authority and the Districts may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out their obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be David Taussig & Associates, Inc. The Dissemination Agent may resign by providing thirty days' written notice to the Authority and the Districts, the Trustee (if the Trustee is not the Dissemination Agent) and the Fiscal Agents. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Authority and the Districts in a timely manner and in a form suitable for filing.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Authority, the Districts, the Trustee and the Dissemination Agent may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the Authority and the Districts, so long as such amendment does not adversely affect the rights or obligations of the Trustee or the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, the Local Obligations, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by owners of the Bonds in the manner provided in the Authority Indenture for amendments to the Authority Indenture with the consent of owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Authority or the Districts, as applicable, to meet their obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(f).

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority or a District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Authority or a District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Authority or such District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Authority, a District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Trustee) or any owner or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority, the Districts, the Trustee or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Authority Indenture or a District Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Authority, a District, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Sections 8.02, 8.03, 8.04 and Section 8.06 of the Authority Indenture are hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Authority Indenture, and the Trustee and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. This Disclosure Agreement does not apply to any other securities issued or to be issued by the Authority or the Districts. The Dissemination Agent shall have no obligation to make any disclosure concerning the Bonds, the Local Obligations, the Authority, the Districts or any other matter except as expressly set out herein, provided that no provision of this Disclosure Agreement shall limit the duties or obligations of the Trustee under the Authority Indenture. The Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The fact that the Trustee has or may have any banking, fiduciary or other relationship with the Authority, a District or any other party, apart from the relationship created by the Authority Indenture and this Disclosure Agreement, shall not be construed to mean that the Trustee has knowledge or notice of any event or condition relating to the Bonds, the Local Obligations, the Authority or a District except in its respective capacities under such agreements. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Authority and the Districts as to the materiality of any event for purposes of Section 5 hereof. Neither the Trustee nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Dissemination Agent shall be paid compensation by the Authority and the Districts for its services provided hereunder in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties

hereunder. The Authority and Districts' obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. **Beneficiaries.** The Participating Underwriter, the Insurer and the owners and beneficial owners from time to time of the Bonds shall be **third party** beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the **benefit** of the Authority, the Districts, the Trustee, the Fiscal Agents, the Dissemination Agent, the Insurer, the Participating Underwriter and owners and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. **Notices.** Any notice or communications to or among any of the parties to this Disclosure Agreement shall be given to all of the following and may be given as follows:

If to the Authority or a Community Facilities District	Poway Unified School District Public Financing Authority 13626 Twin Peaks Road Poway, California 92064-3098 Telephone: 858/679-2501 Telecopier: 858/513-0967 Attention: Associate Superintendent, Business Support Services
If to the Dissemination Agent:	David Taussig & Associates, Inc. 1301 Dove Street, Suite 600 Newport Beach, California 92660 Telephone: 949/955-1500 Telecopier: 949/955-1590
If to the Trustee:	U.S. Bank National Association 550 South Hope Street, Suite 500 Los Angeles, California 90071 Telephone: 213/533-8712 Telecopier: 213/533-8729
If to the Participating Underwriter:	Stone & Youngberg LLC 50 California Street, 35th Floor San Francisco, California 94111 Telephone: 415/445-2300 Telecopier: 415/445-2395 Attention: Municipal Research Department
If to the Insurer:	Ambac Assurance Corporation One State Street Plaza, 19th Floor New York, New York 10004 Telephone: 212/668-0340 Attention: General Counsel

Section 14. Future Determination of Obligated Persons. In the event the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within a District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the Authority or a District to meeting the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Agreement shall be deemed to obligate the Authority or a District to disclose information concerning any owner of land within a District except as required as part of the information required to be disclosed by a District pursuant to Section 4 and Section 5 hereof.

Section 15. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 16. State of California Law Governs. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

Section 17. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 18. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

IN WITNESS WHEREOF, the parties **hereto** have executed this Disclosure Agreement as of the date first above written.

POWAY UNIFIED SCHOOL DISTRICT PUBLIC FINANCING AUTHORITY ON BEHALF OF ITSELF AND THE POWAY UNIFIED SCHOOL DISTRICT ON BEHALF OF COMMUNITY FACILITIES DISTRICT NO. 2, COMMUNITY FACILITIES DISTRICT NO. 3, COMMUNITY FACILITIES DISTRICT NO. 5 AND COMMUNITY FACILITIES DISTRICT NO. 7

By: _____
Authorized Officer

**U.S. BANK NATIONAL ASSOCIATION,
as Trustee**

By: _____
Authorized Officer

**DAVID TAUSSIG & ASSOCIATES, INC.,
as Dissemination Agent**

By: _____
Authorized Officer

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE SEMI-ANNUAL REPORT**

Name of Issuer: Poway Unified School District Public Financing Authority
Name of Bond Issue: Poway Unified School District Public Financing Authority 2003 Revenue Bonds
Date of Issuance: March 20, 2003

NOTICE IS HEREBY GIVEN that Poway Unified School District Public Financing Authority [CFD No. 2] [CFD No. 3] [CFD No. 5] [CFD No. 7] has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of February 1, 2003, by and among the Poway Unified School District Public Financing Authority, the Districts, U.S. Bank National Association, as Trustee and David Taussig & Associates, Inc., as Dissemination Agent. [_____ anticipates that the Annual Report will be filed by _____.]

Dated: _____, 20__

David Taussig & Associates, Inc., as
Dissemination Agent, on behalf of the Poway
Unified School District Public Financing
Authority, Community Facilities District No. 2,
Community Facilities District No. 3, Community
Facilities District No. 5 and Community Facilities
District No. 7

cc: Public Financing Authority
CFD No. 2, CFD No. 3, CFD No. 5 and CFD No. 7
Stone & Youngberg LLC
U.S. Bank National Association

EXHIBIT B

PARTICIPATING UNDERWRITER

Stone & Youngberg LLC, 50 California Street, 35th Floor, San Francisco, California 94111,
Telephone: (415) 445-2300, Fax: (415) 445-2395, Attention: Municipal Research Department.

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APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

Board of Directors
Poway Unified School District Public Financing Authority
13626 Twin Peaks Road
Poway, California

\$21,335,000
POWAY UNIFIED SCHOOL DISTRICT PUBLIC FINANCING AUTHORITY
2003 REVENUE BONDS

FINAL OPINION

Ladies and Gentlemen:

We have acted as bond counsel to the Poway Unified School District Public Financing Authority (the "Authority") in connection with the sale and delivery of the Authority's 2003 Revenue in the aggregate principal amount of \$21,335,000 (the "Bonds"). The Bonds are issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985 (Government Code Section 6584 and following, a resolution adopted by the Board of Directors of the Authority on December 16, 2003 (the "Resolution of Issuance") and an Indenture of Trust dated as of March 1, 2003 (the "Indenture") and entered into by and between the Authority and U.S. Bank National Association, as trustee. Capitalized terms used herein, but not defined herein, have the meanings ascribed to those terms in the Indenture.

The Bonds are special, limited obligations of the Authority. The Bonds are payable solely from and secured by a first lien upon and pledge of the Revenues of the Authority and from certain other amounts on deposit in the funds and accounts created under the Indenture.

We have examined the Indenture, the Resolution of Issuance, the law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications, documents and written opinions provided to us by persons believed to be responsible without undertaking to verify such facts by independent investigation. We have also assumed the genuineness of the signatures appearing upon such records, proceedings, certifications, documents and opinions.

We call attention to the fact that the rights and obligations under the Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California.

We have not been engaged to take, and have not undertaken, any responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

Based upon our examination and subject to the foregoing, we are of the opinion, as of the date hereof, that:

1. The Authority is a joint powers authority duly organized and validly existing under the laws of the State of California and has duly and validly authorized all the acts undertaken by it in connection with the authorization, issuance, sale and delivery of the Bonds.

2. The Indenture has been duly entered into by the Authority and constitutes a legal, valid and binding limited obligation of the Authority enforceable in accordance with its terms.

3. The Indenture creates valid liens on the funds pledged by the Indenture for the security of and payment on the Bonds.

4. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding limited obligations of the Authority, payable solely from the sources provided for in the Indenture.

5. The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the issuance and delivery of the Bonds for the interest on the Bonds to be and remain exempt from federal income taxation. Noncompliance with such requirements could cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of issuance of the Bonds. Pursuant to the Indenture, the Authority has covenanted to comply with the requirements of the Code and applicable regulations promulgated thereunder.

We are of the opinion that, under existing statutes, regulations, rulings and court decisions, and assuming compliance by the Authority with the aforementioned covenants, the interest on the Bonds is excluded from gross income for purposes of federal income taxation and is exempt from personal income taxation imposed by the State of California.

We are further of the opinion that interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. However, interest on the Bonds received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations.

Although interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The opinions expressed herein may be affected by actions which may be taken (or not taken) or events which may occur (or not occur) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur or are not taken or do not occur.

Respectfully submitted,

BEST BEST & KRIEGER LLP

APPENDIX G

BOOK-ENTRY-ONLY PROVISIONS

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest on the Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the Bonds, confirmation and transfer of beneficial ownership interests in the Bonds and other Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the Bonds is based solely on information furnished by DTC to the Authority which the Authority believes to be reliable, but the Authority and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

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 Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world’s largest 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC’s participants (the “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 corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. 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.

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 (the “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 the 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 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 or 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 transmissions to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bonds 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 Trustee 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 are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payment 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 Authority or the Trustee, on a payment 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 (nor the nominee), the Trustee or the Authority, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, 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 service as depository with respect to the Bonds at any time by giving reasonable notice to the Authority and the Trustee. Under such circumstances, in the event that a

successor depository is not obtained, Bond certificates are required to be printed and delivered as described in the Authority Indenture.

The Authority 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 as described in the Authority Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Authority determines that DTC shall no longer act and delivers a written certificate to the Trustee to that effect, then the Authority will discontinue the Book-Entry System with DTC for the Bonds. If the Authority determines to replace DTC with another qualified securities depository, the Authority will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Authority Indenture. If the Authority fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the Bonds will be payable upon surrender thereof at the trust office of the Trustee identified in the Authority Indenture, and (iii) the Bonds will be transferable and exchangeable as provided in the Authority Indenture.

The Authority and the Trustee do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Authority Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the Bonds or the Authority Indenture. The Authority and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of or interest on the Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The Authority and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.

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APPENDIX H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

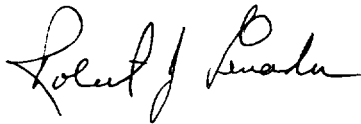
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

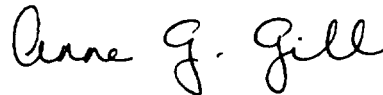
As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

Endorsement

Policy for:

Attached to and forming part of Policy No.:

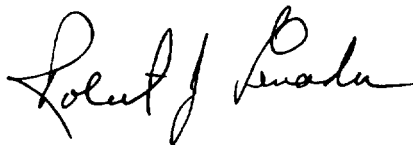
Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative



