

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 2011 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 “LEGAL MATTERS - Tax Exemption” herein.

\$1,695,000

**POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 10
(TORREY HIGHLANDS - SUBAREA IV)
IMPROVEMENT AREA F 2011 SPECIAL TAX BONDS**

Dated: Date of Delivery

Due: September 1, as shown below

The Improvement Area F 2011 Special Tax Bonds (the “2011 Bonds”) are being issued under the Mello-Roos Community Facilities Act of 1982 (the “Act”) and the Indenture, dated as of November 1, 2011 (the “Indenture”), by and between Community Facilities District No. 10 (Torrey Highlands - Subarea IV) of the Poway Unified School District (the “Community Facilities District”) and Zions First National Bank, as fiscal agent (the “Fiscal Agent”). The 2011 Bonds are payable from proceeds of Special Taxes (as defined in the Indenture) levied on property within Improvement Area F (“Improvement Area F”) of the Community Facilities District according to the First Amended Rate and Method of Apportionment of Special Tax approved by the qualified electors of Improvement Area F and by the Board of Education of the Poway Unified School District (the “School District”), acting as legislative body of the Community Facilities District.

The 2011 Bonds are being issued (i) to finance, either directly or indirectly, the acquisition and construction of certain road improvements (the “Facilities”), (ii) to fund a reserve fund for the 2011 Bonds, (iii) to pay a portion of the interest due on the 2011 Bonds on March 1, 2012, (iv) to pay certain administrative expenses of the Community Facilities District, and (v) to pay the costs of issuing the 2011 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2011 BONDS” herein.

Interest on the 2011 Bonds is payable on March 1, 2012, and semiannually thereafter on each March 1 and September 1. The 2011 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The 2011 Bonds, when delivered, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the 2011 Bonds as described herein under “THE 2011 BONDS - Book-Entry and DTC.”

The 2011 Bonds are subject to optional redemption, mandatory redemption from prepayment of Special Taxes and mandatory redemption as described herein.

THE 2011 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2011 BONDS, ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OF CALIFORNIA (THE “STATE”) OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE 2011 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2011 BONDS. OTHER THAN SPECIAL TAXES (AS DEFINED IN THE INDENTURE) OF IMPROVEMENT AREA F, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2011 BONDS. THE 2011 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES LEVIED IN IMPROVEMENT AREA F AS MORE FULLY DESCRIBED HEREIN.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the 2011 Bonds involves risks which may not be appropriate for some investors. See “BONDOWNERS’ RISKS” herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the 2011 Bonds.

The 2011 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Best Best & Krieger LLP, San Diego, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the School District and the Community Facilities District by Best Best & Krieger LLP and by McFarlin & Anderson LLP, Laguna Hills, California, Disclosure Counsel. Additionally, Nossaman, LLP, Irvine, California, has reviewed certain matters for the Underwriter. It is anticipated that the 2011 Bonds, in book-entry form, will be available for delivery through the facilities of DTC, on or about November 10, 2011.

STONE & YOUNGBERG
A DIVISION OF STIFEL NICOLAUS

Dated: October 26, 2011

MATURITY SCHEDULE

\$515,000 Serial Bonds Base CUSIP[†] No. 738855

Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP No. [†]	Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP [†] No.
2017	\$10,000	4.000%	4.000%	UE3	2025	\$35,000	5.500%	5.500%	UN3
2018	10,000	4.300	4.300	UF0	2026	40,000	5.500	5.600	UP8
2019	15,000	4.600	4.600	UG8	2027	45,000	5.625	5.700	UQ6
2020	15,000	4.850	4.850	UH6	2028	50,000	5.750	5.800	UR4
2021	20,000	5.000	5.000	UJ2	2029	55,000	5.875	5.900	US2
2022	25,000	5.125	5.150	UK9	2030	65,000	6.000	6.000	UT0
2023	30,000	5.250	5.300	UL7	2031	70,000	6.000	6.050	UU7
2024	30,000	5.375	5.400	UM5					

\$1,180,000 6.125% Term Bonds due September 1, 2041 Yield 6.200% CUSIP[†] No. 738855UV5

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POWAY UNIFIED SCHOOL DISTRICT

BOARD OF EDUCATION

Penny Ranftle, *President*
Linda Vanderveen, *Vice President*
Andy Patapow, *Clerk of the Board*
Marc Davis, *Member*
Todd Gutschow, *Member*

DISTRICT CHIEF ADMINISTRATORS

John P. Collins, Ed.D., *Superintendent*

BOND COUNSEL/DISTRICT SPECIAL COUNSEL

Best Best & Krieger LLP
San Diego, California

SCHOOL DISTRICT COUNSEL

Best Best & Krieger LLP
San Diego, California

DISCLOSURE COUNSEL

McFarlin & Anderson LLP
Laguna Hills, California

APPRAISER

Stephen G. White, MAI
Fullerton, California

FINANCIAL ADVISOR, SPECIAL TAX CONSULTANT & ADMINISTRATOR

Dolinka Group, LLC
Irvine, California

FISCAL AGENT

Zions First National Bank
Los Angeles, California

GENERAL INFORMATION ABOUT THE OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the 2011 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2011 Bonds. All information for investors regarding the Community Facilities District and the 2011 Bonds is contained in this Official Statement. While the School District maintains an internet website for various purposes, none of the information on this website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the 2011 Bonds or any other bonds or obligations of the School District.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Community Facilities District in any press release and in any oral statement made with the approval of an authorized officer of the Community Facilities District or any other entity described or referenced herein, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend,” and similar expressions identify “forward-looking statements” within the meaning of the 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 subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results and those differences may be material. 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, give rise to any implication that there has been no change in the affairs of the Community Facilities District or any other entity described or referenced herein since the date hereof. The Community Facilities District does not plan to issue any updates or revision to the forward-looking statements set forth in this Official Statement.

Limited Offering. No dealer, broker, salesperson or other person has been authorized by the Community Facilities District to give any information or to make any representations in connection with the offer or sale of the 2011 Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the Community Facilities District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2011 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Involvement of Underwriter. The Underwriter has submitted the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinions herein are subject to change without notice and neither 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 Community Facilities District or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Stabilization of Prices. In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of the 2011 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 2011 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE 2011 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2011 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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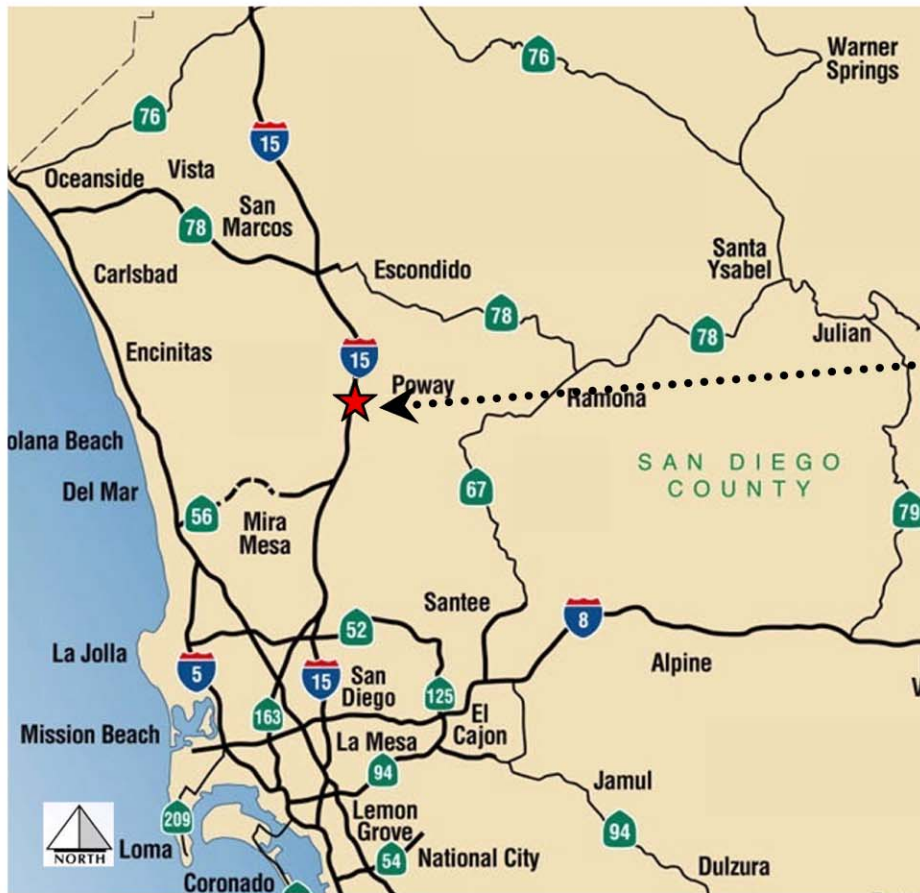
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Poway Unified School District



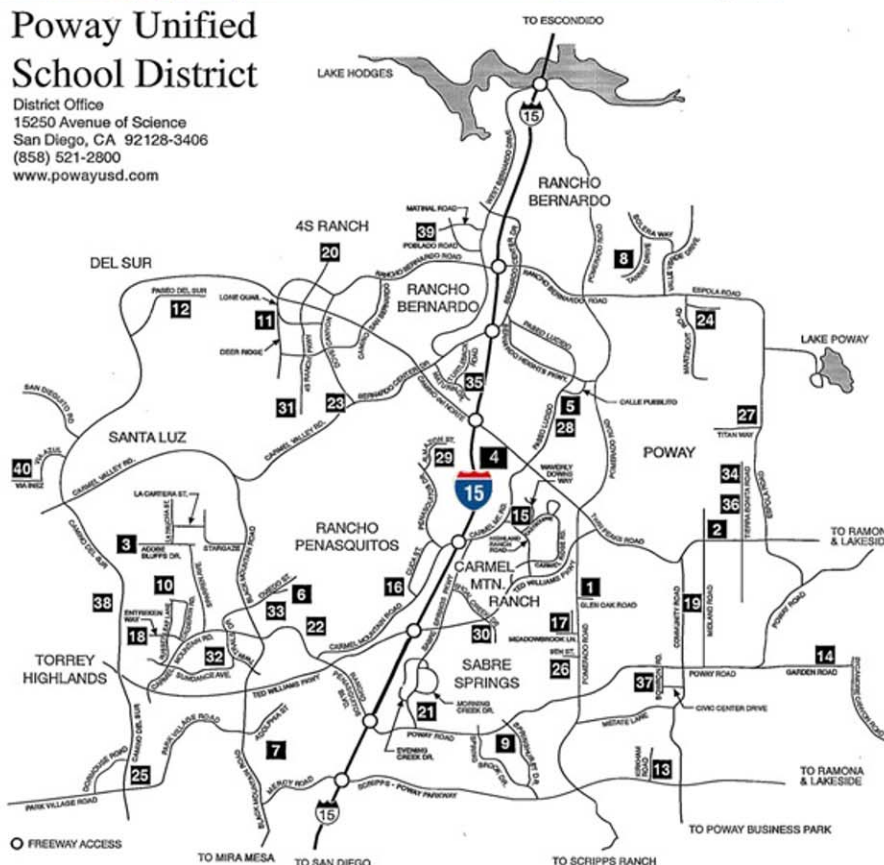
Regional Location Map

.....Poway USD

Poway USD
Vicinity Map

Poway Unified School District

District Office
15250 Avenue of Science
San Diego, CA 92128-3406
(858) 521-2800
www.powayusd.com



- 1 – Abraxas High School
- 2 – Twin Peaks Center
- 3 – Adobe Bluffs Elementary School
- 4 – District Office
- 5 – Bernardo Heights Middle School
- 6 – Black Mountain Middle School
- 7 – Canyon View Elementary School
- 8 – Chaparral Elementary School
- 9 – Creekside Elementary School
- 10 – Deer Canyon Elementary School
- 11 – Del Norte High School
- 12 – Del Sur Elementary School
- 13 – Food & Nutrition
- 14 – Garden Road Elementary School
- 15 – Highland Ranch Elementary School
- 16 – Los Penasquitos Elementary School
- 17 – Meadowbrook Middle School
- 18 – Mesa Verde Middle School
- 19 – Midland Elementary School
- 20 – Monterey Ridge Elementary School
- 21 – Morning Creek Elementary School
- 22 – Mt. Carmel High School
- 23 – Oak Valley Middle School
- 24 – Painted Rock Elementary School
- 25 – Park Village Elementary School
- 26 – Pomerado Elementary School
- 27 – Poway High School
- 28 – Rancho Bernardo High School
- 29 – Rolling Hills Elementary School
- 30 – Shoal Creek Elementary School
- 31 – Stone Ranch Elementary School
- 32 – Sundance Elementary School
- 33 – Sunset Hills Elementary School
- 34 – Tierra Bonita Elementary School
- 35 – Turtleback Elementary School
- 36 – Twin Peaks Middle School
- 37 – Valley Elementary School
- 38 – Westview High School
- 39 – Westwood Elementary School
- 40 – Willow Grove Elementary

OFFICIAL STATEMENT

\$1,695,000

**POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 10
(TORREY HIGHLANDS – SUBAREA IV)
IMPROVEMENT AREA F 2011 SPECIAL TAX 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 2011 Bonds to potential investors is made only by means of the entire Official Statement.

General

This Official Statement, including the cover page and appendices hereto, is provided to furnish information regarding the Poway Unified School District Community Facilities District No. 10 (Torrey Highlands – Subarea IV) Improvement Area F 2011 Special Tax Bonds (the “2011 Bonds”).

The 2011 Bonds are issued pursuant to the Act (as defined below) and the Bond Indenture, dated as of November 1, 2011 (the “Indenture”), by and between the School District (as defined below) and Zions First National Bank, as fiscal agent (the “Fiscal Agent”). See “THE 2011 BONDS – Authority of Issuance” herein. The Community Facilities District may issue additional bonds payable on a parity with the 2011 Bonds for refunding purpose only.

The School District

The Poway Unified School District (the “School District”) is a school district organized under the laws of the State of California (the “State”). The School District was established in 1962. The School District provides education instruction for grades K-12 within an approximately 100 mile area in the central portion of the County of San Diego (the “County”) and includes the City of Poway and portions of the City and County, including the communities of 4S Ranch, Black Mountain Ranch, Carmel Mountain Ranch, Del Sur, Poway, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santa Fe Valley, Santa Luz, and Torrey Highlands. The School District currently operates 25 elementary schools (K-5), six middle schools (6-8), five high schools (9-12) and one continuation high school. The School District reported 34,135 students enrolled at the California Basic Educational Data System (“CBEDS”) for Fiscal Year 2010-11 and estimates approximately 34,423 of students enrolled during Fiscal Year 2011-12. See APPENDIX A – “General Information About the Poway Unified School District” herein.

The Community Facilities District

The Community Facilities District and six (6) Improvement Areas therein designated as Improvement Areas A through F inclusive, were formed and established by the School District on August 27, 2001, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the California Government Code, the “Act”), following a public hearing and landowner elections at which the qualified electors of each Improvement Area of the Community Facilities District, by more than a two-thirds vote, authorized the Community Facilities District to incur a separate bonded indebtedness of the Community

Facilities District for each Improvement Area to finance the acquisition of certain road improvements (the “City Facilities”). The qualified electors of Improvement Area F authorized bonded indebtedness in the aggregate not-to-exceed amount of \$3,500,000 and approved the levy of special taxes in Improvement Area F. The qualified electors of the Community Facilities District also authorized the issuance of bonds to finance school facilities (the “School Facilities”) in the aggregate principal amount of not to exceed \$45,000,000, such amount to be payable from special taxes levied pursuant to a separate Rate and Method of Apportionment of Special Tax (“CFD No. 10 Rate and Method”) levied on property within the Community Facilities District (including Improvement Area F). On April 19, 2010, following a public hearing and landowner elections, the qualified electors of Improvement Area F approved a First Amended Rate and Method of Apportionment of Special Tax (the “Improvement Area F Rate and Method” and together with the CFD No. 10 Rate and Method, each a “Rate and Method”).

The cost of the School Facilities is expected to exceed the cost of the City Facilities. The School Facilities are financed in part by the annual levy of a special tax on Developed Property within Improvement Area F as set forth in the CFD No. 10 Rate and Method and the annual levy of a supplemental special tax (“Supplemental Annual Special Tax”) as set forth in the Improvement Area F Rate and Method. See “SECURITY FOR THE 2011 BONDS – Rates and Methods.” The School District uses such annual special taxes and bond proceeds secured thereby for the acquisition, construction, rehabilitation, improvement of the School Facilities and related administrative expenses. A portion of the Special Taxes (as defined in the Indenture) on Developed Property within Improvement Area F as set forth in the Improvement Area F Rate and Method and bond proceeds secured by the Supplemental Annual Special Tax may be used for the acquisition, construction, rehabilitation, improvement of the School Facilities and related expenses. The 2011 Bonds are not secured by or payable from the Supplemental Annual Special Tax levied to finance the School Facilities. The 2011 Bonds will finance City Facilities.

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 or improvement area therein, as applicable, 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, including interest thereon.

The Community Facilities District is located at the north end of Torrey Ranch Court, which is north of Torrey Meadows Dr. and west of Camino del Sur, in the northerly part of the City of San Diego. This location is in the general area known as Torrey Highlands, with the 56 (Ted Williams) Freeway about 1/2 mile to the south and the I-15 Freeway about 3 miles to the east. Improvement Area F consists of approximately 14.8 gross acres (7.63 net taxable acres) being developed with 73 single-family detached units.

The major landowner in Improvement Area F is D.R. Horton Los Angeles Holding Company, Inc., a California corporation (the “Developer”), a subsidiary of D.R. Horton, Inc., a Delaware corporation (“D.R. Horton”). The Developer expects to develop Improvement Area F with approximately 73 single-family detached units. Detailed information about the location of and property ownership and land uses in the Community Facilities District is set forth in “COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV)” herein.

Purpose of the 2011 Bonds

The Community Facilities District was formed pursuant to a Torrey Highlands – Subarea IV School Impact Mitigation Agreement (the “Impact Mitigation Agreement”) dated as of July 1, 1996, among the School District and various landowners, as amended, including as amended by the Addendum to Supplement to Subarea IV Torrey Highlands School Impact Mitigation Agreement, by and among the Poway Unified School District (the “School District”), the Developer and TR II, LLC (the “Addendum”). The Impact Mitigation Agreement originally required the property owners (and their successors-in-interest) to include their property in a community facilities district in order to finance School Facilities and was subsequently amended to provide for the issuance of bonds of the Improvement Areas to fund City Facilities and School Facilities and to provide assurances to the School District for the timely construction of Camino del Sur (formerly Camino Ruiz) (Phase 1) between Carmel Valley Road and State Route 56 providing construction and permanent access to the Westview High School, which opened in September 2002, and of Street “B” from Camino del Sur to provide both construction and permanent access to the elementary school to be constructed within the Community Facilities District. See “FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2011 BONDS” and “COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV) – Property Ownership and Development” herein.

Sources of Payment for the 2011 Bonds

The 2011 Bonds are secured by and payable from a first pledge of “Net Special Tax Revenues,” of Improvement Area F which is defined as proceeds of the Special Taxes (as defined in the Indenture) levied and received by the Community Facilities District with respect to Improvement Area F, including the net amounts (the “Delinquency Proceeds”) 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 Taxes resulting from the delinquency in the payment of the Special Taxes due and payable on such property, and net of the County, foreclosure counsel and other fees and expenses incurred by or on behalf of the Community Facilities District or the School District in undertaking such foreclosure proceedings, less Administrative Expenses (as defined in the Indenture) not to exceed \$17,574.89 (escalating by 2.00% each year following Fiscal Year 2011-12) with respect to Improvement Area F. “Special Taxes” are defined in the Indenture as the proceeds of the special taxes but excluding the Supplemental Annual Special Tax levied and received with respect to Improvement Area F of the Community Facilities District and the Delinquency Proceeds as described above.

Pursuant to the Act, the CFD No. 10 Rate and Method and the Improvement Area F Rate and Method, the Resolution of Formation (as defined herein), the Resolution of Consideration (as defined herein) and the Indenture, so long as the 2011 Bonds are outstanding, the Community Facilities District will annually ascertain the parcels on which the Special Taxes are to be levied taking into account any subdivisions of parcels during the applicable Fiscal Year. The Community Facilities District shall effect the levy of the special taxes in accordance with each Rate and Method and the Act each Fiscal Year so that the computation of such levy is complete and transmitted to the Auditor of the County before the final date on which the Auditor of the County will accept the transmission of the Special Taxes for the parcels within Improvement Area F for inclusion on the next real property tax roll. See “SECURITY FOR THE 2011 BONDS – Special Taxes” herein.

The Improvement Area F Rate and Method exempts from the Special Tax all property owned by the State, the federal government and local governments, as well as certain other properties, subject to certain limitations. See “SECURITY FOR THE 2011 BONDS – Rates and Methods” and “BONDOWNERS’ RISKS – Exempt Properties.”

The 2011 Bonds are secured by a first pledge of all moneys deposited in the Reserve Fund. See “SECURITY FOR THE 2011 BONDS.” A Reserve Fund will be established out of the proceeds of the sale of the 2011 Bonds in an amount equal to the Reserve Requirement. The Indenture defines the Reserve Requirement as an amount, as of any date of calculation, equal to the least of (i) the then maximum annual debt service on the 2011 Bonds, (ii) 125% of the then average annual debt service on the 2011 Bonds, or (iii) 10% of the initial principal amount of the 2011 Bonds, less original issue discount, if any, plus original issue premium, if any. The ability of the Board of Education, in its capacity as legislative body of the Community Facilities District, to increase the Special Taxes levied annually to replenish the Reserve Fund is subject to the maximum Special Tax authorized by the qualified voters of Improvement Area F. The moneys in the Reserve Fund will only be used for payment of principal of, interest and any redemption premium on, the 2011 Bonds and at the direction of the Community Facilities District, for payment of rebate obligations related to the 2011 Bonds. See “SECURITY FOR THE 2011 BONDS – Reserve Fund.”

The Community Facilities District has also covenanted in the Indenture to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Special Taxes. For a more detailed description of the foreclosure covenant see “SECURITY FOR THE 2011 BONDS – Proceeds of Foreclosure Sales.”

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2011 BONDS. OTHER THAN SPECIAL TAXES (AS DEFINED IN THE INDENTURE) OF THE IMPROVEMENT AREA F, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2011 BONDS. THE 2011 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES OF IMPROVEMENT AREA F AS MORE FULLY DESCRIBED HEREIN.

Appraisal

An MAI appraisal of the land and existing improvements within Improvement Area F of the Community Facilities District dated August 23, 2011 (the “Appraisal”), was prepared by Stephen G. White, MAI of Fullerton, California (the “Appraiser”) in connection with issuance of the 2011 Bonds. The purpose of the appraisal was to estimate the aggregate market value of the “as-is” condition of the property, including 36 completed-sold homes (closed sales), 7 completed-unsold homes, 12 homes under construction and 18 vacant lots in near finished condition. The Appraisal reflects the Community Facilities District and Improvement Area financings. The subject property in Improvement Area F includes property proposed for development of 73 single-family detached units. The Appraisal is based on certain assumptions. Based on the investigation and analyses described in the Appraisal and subject to the assumptions and limiting conditions set forth therein, the Appraiser estimated that the market value of the land within Improvement Area F (subject to the lien of the Special Taxes) as of August 15, 2011, was as follows:

<u>Tract Name</u>	<u>No. of Units</u>	<u>Market Value</u>
Torrey Ranch	73	\$32,620,000

The \$32,620,000 aggregate market value reported in the Appraisal results in an estimated value-to-lien ratio of 7.12 to 1 with respect to Improvement Area F, calculated 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 “COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV – Appraised Property Values,” “COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV – Direct and Overlapping Debt” and “BONDOWNERS’ RISKS – Appraised Values” herein and APPENDIX C – “Summary Appraisal Report” appended hereto for further information on the Appraisal and for limiting conditions relating to the Appraisal.

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 2011 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 2011 Bonds will be exempt from State personal income taxes. See “LEGAL MATTERS – Tax Exemption” herein.

Risk Factors Associated with Purchasing the 2011 Bonds

Investment in the 2011 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 matters set forth herein, in considering the investment quality of the 2011 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 “COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV” and “ – Property Ownership and the Development” 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 COMMUNITY FACILITIES DISTRICT 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

Zions First National Bank, Los Angeles, California, will serve as the fiscal agent for the 2011 Bonds and will perform the functions required of it under the Indenture for the payment of the principal of and interest and any premium on the 2011 Bonds and all activities related to the redemption of the 2011 Bonds. Best Best & Krieger LLP, San Diego, California is serving as Bond Counsel to the Community Facilities District and as special counsel to the School District. McFarlin & Anderson LLP, Laguna Hills, California, is acting as Disclosure Counsel. Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus, Los Angeles, California, is acting as Underwriter in connection with the issuance and delivery of the 2011 Bonds. Nossaman LLP, Irvine, California, is acting as Underwriter's Counsel.

The appraisal work was done by Stephen G. White, MAI of Fullerton, California. Dolinka Group, LLC, Irvine, California, acted as Financial Advisor, Special Tax Consultant, Administrator and Dissemination Agent to the Community Facilities District.

Except for some Special Tax Consultant and Appraisal fees paid from Special Taxes, payment of the fees and expenses of Bond Counsel, Disclosure Counsel, Special Tax Consultant, the Underwriter and the Fiscal Agent is contingent upon the sale and delivery of the 2011 Bonds.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the 2011 Bonds, certain sections of the Indenture, security for the 2011 Bonds, special risk factors, the Community Facilities District, Improvement Area F, the School District, the Developer's projects, the Developer 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 2011 Bonds, the Indenture, 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 2011 Bonds, the Indenture, 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 Director of Planning of the Poway Unified School District, 15250 Avenue of Science, San Diego, California 92128-3406. There may be a charge for copying, mailing and handling.

CONTINUING DISCLOSURE

The Community Facilities District. The Community Facilities District has covenanted in the Community Facilities District Continuing Disclosure Agreement, the form of which is set forth in APPENDIX E – "Form of Community Facilities District Continuing Disclosure Agreement" (the "Community Facilities District Continuing Disclosure Agreement"), for the benefit of owners and beneficial owners of the 2011 Bonds, to provide certain financial information and operating data relating to the Community Facilities District and the 2011 Bonds by not later than January 31 in each year commencing on January 31, 2012 (the "Community Facilities District Annual Report"), and to provide notices of the occurrence of certain listed events. The report for January 31, 2012, will consist of the Official Statement and the audited financial statements of the School District.

The Community Facilities District Annual Report will be filed by the Community Facilities District, or Dolinka Group, LLC, as Dissemination Agent on behalf of the Community Facilities District, with the Municipal Securities Rulemaking Board (the “MSRB”) through the Electronic Municipal Market Access System (“EMMA System”), with a copy to the Fiscal Agent and the Underwriter. Any notice of a listed event will be filed by the Community Facilities District, or the Dissemination Agent on behalf of the Community Facilities District, with the MSRB through the EMMA System, with a copy to the Fiscal Agent and the Underwriter. The specific nature of the information to be contained in the Community Facilities District Annual Report or any notice of a listed event is set forth in the Community Facilities District Continuing Disclosure Agreement. The covenants of the Community Facilities District in the Community Facilities District Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”); provided, however, a default under the Community Facilities District Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Indenture, and the sole remedy under the Community Facilities District Continuing Disclosure Agreement in the event of any failure of the Community Facilities District or the Dissemination Agent to comply with the Community Facilities District Continuing Disclosure Agreement will be an action to compel performance.

Neither the School District nor the Community Facilities District has ever failed to comply, in any material respect, with an undertaking under the Rule.

Developer. The Developer has covenanted in its Developer Continuing Disclosure Agreement, the form of which is set forth in APPENDIX F – “Form of Developer Continuing Disclosure Agreement” (the “Developer Continuing Disclosure Agreement”), for the benefit of owners and beneficial owners of the 2011 Bonds, to provide certain financial and operating information by not later than April 1 and October 1 of each year commencing April 1, 2012 (a “Developer Semi-Annual Report”) and to provide notices of the occurrence of certain enumerated events. The Developer’s obligations under its Developer Continuing Disclosure Agreement terminate upon the occurrence of certain events. See APPENDIX F – “Form of Developer Continuing Disclosure Agreement.”

The Developer Semi-Annual Reports will be filed by the Developer or the “Dissemination Agent” (as that term is defined in the Developer Continuing Disclosure Agreement) on behalf of the Developer, through the EMMA System, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. Any notice of a listed event will be filed by the Developer, or by the Dissemination Agent on behalf of the Developer, with the MSRB through the EMMA System, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. The specific nature of the information to be contained in the Developer Semi-Annual Report or the notices of listed events is set forth in the Developer Continuing Disclosure Agreement. The covenants of the Developer in its Developer Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with the Rule; provided, however, a default under a Developer Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Indenture, and the sole remedy under the Developer Continuing Disclosure Agreement in the event of any failure of the Developer or the Dissemination Agent to comply with such Developer Continuing Disclosure Agreement will be an action to compel performance.

The Developer is a subsidiary of D.R. Horton (as defined below) which, as a large nation-wide developer of residential projects, currently has or has previously had other subsidiaries and affiliates consisting of various entities that are developing or have been involved in the development of numerous different projects in states throughout the country over an extended period of time. It is possible that some of such subsidiaries or affiliates have been in default at one time or another in compliance with continuing disclosure covenants. The officer representing the Developer executing certificates in connection with the issuance of the 2011 Bonds has certified that, to his or her actual knowledge, neither the Developer nor any of its Affiliates (as

defined below), have materially failed during the past five years to comply in any material respect, with any undertaking under the Rule to provide periodic continuing disclosure reports or notices of material events (with respect to any community facilities districts or assessment districts in California); provided, however, that for purposes of the foregoing sentence the term Affiliate shall be limited to Affiliates, if any, in which (i) the Developer is currently the managing member or managing partner or (ii) was the managing member or managing partner and for which a current officer or current responsible employee of the Developer in the ordinary course of their respective duties has knowledge of the matters. The Developer notes that the Developer is a subsidiary of D.R. Horton which, as a large nation-wide developer of residential projects, currently has or has previously had other subsidiaries and affiliates consisting of various entities that are developing or have been involved in the development throughout the country over an extended period of time. It is possible that some of such subsidiaries or affiliates have been in default at one time or another in compliance with continuing disclosure covenants.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the 2011 Bonds will be deposited into the following respective accounts and funds established by the School District under the Indenture, as follows:

2011 Bonds

Sources:

Principal Amount of 2011 Bonds	\$1,695,000.00
Less: Original Issue Discount	(13,944.65)
Less: Underwriter's Discount	<u>(50,000.00)</u>
<i>Total</i>	\$1,631,055.35

Uses:

Deposit into Reserve Fund ⁽¹⁾	\$168,509.03
Deposit into Costs of Issuance Fund ⁽²⁾	123,000.00
Deposit into Improvement Fund ⁽³⁾	1,320,630.26
Deposit into Capitalized Interest Subaccount of the Bond Service Fund ⁽⁴⁾	<u>18,916.06</u>
<i>Total</i>	\$1,631,055.35

⁽¹⁾ Equal to the Reserve Requirement with respect to the 2011 Bonds as of the date of delivery of the 2011 Bonds.

⁽²⁾ Includes, among other things, the fees and expenses of Bond Counsel, the cost of printing the preliminary and final Official Statements, fees and expenses of the Fiscal Agent, the cost of the Appraisal, the fees of the Special Tax Consultant, and reimbursement to the Developer of costs incurred in connection with the 2011 Bonds.

⁽³⁾ See "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2011 BONDS" below.

⁽⁴⁾ Represents capitalized interest for a portion of the interest due on the 2011 Bonds through September 1, 2012.

FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2011 BONDS

Proceeds of the 2011 Bonds will be used to fund the acquisition of a portion of the City Facilities. The City Facilities include the following street improvements: (a) Construction of Camino del Sur (formerly Camino Ruiz) from “A” Street to Carmel Valley Road (4 full lanes) (b) construction of “B” Street from “A” Street to Camino de Sur, (c) construction of “A” Street; and (d) Camino del Sur/SR 56 Phase I interchange improvements.

Proceeds of bonds payable from special taxes levied pursuant to the CFD No. 10 Rate and Method have been and will be used to finance the School Facilities and related infrastructure required by the School District as a result of development of the property within the Community Facilities District, including classrooms, multi-purpose, administration and auxiliary space at each school central support and administrative facility, interim housing, transportation and special education facilities, together with furniture, equipment and technology with a useful life of at least five years and related administrative expenses.

THE 2011 BONDS

Authority for Issuance

The 2011 Bonds will be issued pursuant to the Act and the Indenture.

General Provisions

The 2011 Bonds in the aggregate amount of \$1,695,000 will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing on March 1, 2012 (each, an “Interest Payment Date”), and will mature in the amounts and on the dates set forth on the inside cover page hereof. The 2011 Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the 2011 Bonds. Ownership interests in the 2011 Bonds may be purchased in book-entry form only, in denominations of \$5,000 or any integral multiple thereof within a single maturity. So long as the 2011 Bonds are held in book-entry form, principal of, premium, if any, and interest on the 2011 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2011 Bonds in accordance with the procedures adopted by DTC. See “THE 2011 BONDS – Book-Entry and DTC.”

The 2011 Bonds will bear interest at the rates set forth on the inside cover hereof payable on the Interest Payment Dates in each year. Interest will be calculated on the basis of a 360-day year composed of twelve 30-day months. Each 2011 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) such date of authentication is an Interest Payment Date, in which event interest shall be payable from such date of authentication, or (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest shall be payable from the date of the 2011 Bonds; provided, however, that if at the time of authentication of a 2011 Bond, interest is in default, interest on that 2011 Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

Interest on the 2011 Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check of the Fiscal Agent mailed by first class mail on the Interest Payment Dates (or on the next Business Day following the Interest Payment Date if such Interest Payment Date is not a Business Day) to the

registered Owner thereof as of the close of business on the Record Date immediately preceding such Interest Payment Date. Such interest shall be paid by check of the Fiscal Agent mailed to such Bondowner at his or her address as it appears on the books of registration maintained by the Fiscal Agent or upon the request in writing prior to the Record Date of a Bond Owner of at least \$1,000,000 in aggregate principal amount of Bonds by wire transfer in immediately available funds (i) to the DTC (so long as the 2011 Bonds are in book-entry form), or (ii) to an account in the United States of America designated by such Owner. Such instructions shall continue in effect until revoked in writing, or until such 2011 Bonds are transferred to a new Owner. The principal of the 2011 Bonds and any premium on the 2011 Bonds due upon the redemption thereof are payable by check in lawful money of the United States of America upon presentation and surrender of the 2011 Bonds at maturity or the earlier redemption thereof at the Principal Corporate Trust Office of the Fiscal Agent (currently in Los Angeles, California).

Debt Service Schedule

The following table presents the annual debt service on the 2011 Bonds (including sinking fund redemptions), assuming that there are no optional redemptions.

Table 1
Poway Unified School District Community Facilities District No. 10
(Torrey Highlands – Subarea IV)
Improvement Area F
2011 Bonds Debt Service Schedule

Year Ending September 1	Principal	Interest	Total Debt Service
2012	--	\$81,523.45	\$81,523.45
2013	--	100,853.76	100,853.76
2014	--	100,853.76	100,853.76
2015	--	100,853.76	100,853.76
2016	--	100,853.76	100,853.76
2017	\$10,000	100,853.76	110,853.76
2018	10,000	100,453.76	110,453.76
2019	15,000	100,023.76	115,023.76
2020	15,000	99,333.76	114,333.76
2021	20,000	98,606.26	118,606.26
2022	25,000	97,606.26	122,606.26
2023	30,000	96,325.00	126,325.00
2024	30,000	94,750.00	124,750.00
2025	35,000	93,137.50	128,137.50
2026	40,000	91,212.50	131,212.50
2027	45,000	89,012.50	134,012.50
2028	50,000	86,481.26	136,481.26
2029	55,000	83,606.26	138,606.26
2030	65,000	80,375.00	145,375.00
2031	70,000	76,475.00	146,475.00
2032	75,000	72,275.00	147,275.00
2033	85,000	67,681.26	152,681.26
2034	90,000	62,475.00	152,475.00
2035	100,000	56,962.50	156,962.50
2036	110,000	50,837.50	160,837.50
2037	120,000	44,100.00	164,100.00
2038	130,000	36,750.00	166,750.00
2039	145,000	28,787.50	173,787.50
2040	155,000	19,906.26	174,906.26
2041	<u>170,000</u>	<u>10,412.50</u>	<u>180,412.50</u>
	\$1,695,000	\$2,323,378.59	\$4,018,378.59

Redemption

Optional Redemption. The 2011 Bonds may be redeemed at the option of the Community Facilities District prior to maturity, as a whole or in part on any Interest Payment Date on and after September 1, 2012, from such maturities as are selected by the Community Facilities District, and by lot within a maturity, from any source of funds, at the following redemption prices (expressed as percentages of the principal amount of the 2011 Bonds to be redeemed), together with accrued interest to the date of redemption:

Redemption Date	Redemption Price
September 1, 2012 through March 1, 2019	103%
September 1, 2019 and March 1, 2020	102
September 1, 2020 and March 1, 2021	101
September 1, 2021 and any Interest Payment Date thereafter	100

Whenever provision is made for the optional redemption of less than all of the 2011 Bonds, the Fiscal Agent shall select the 2011 Bonds to be redeemed, among maturities as directed in writing by an Authorized Representative which shall specify the 2011 Bonds to be redeemed so as to maintain, as much as practicable, the same debt service profile for the Outstanding 2011 Bonds following such redemption as was in effect prior to such redemption. The Fiscal Agent shall select 2011 Bonds to be redeemed within a maturity by lot in any manner that the Fiscal Agent deems appropriate.

Redemption from Proceeds of Special Tax Prepayment. The 2011 Bonds are subject to redemption on any Interest Payment Date on and after September 1, 2012, prior to maturity, as a whole or in part on a pro rata basis among maturities and by lot within a maturity from prepayment of Special Taxes. The Community Facilities District shall deliver written instructions to the Fiscal Agent not less than 60 days prior to the redemption date directing the Fiscal Agent to utilize the Net Special Tax Revenues of Improvement Area F transferred to the Redemption Fund pursuant to the Indenture to redeem 2011 Bonds. The Fiscal Agent shall select 2011 Bonds to be redeemed within a maturity by lot in any manner that the Fiscal Agent deems appropriate. Such extraordinary mandatory redemption of the 2011 Bonds shall be at the following redemption prices (expressed as percentages of the principal amount of the 2011 Bonds to be redeemed), together with accrued interest thereon to the date of redemption:

Redemption Date	Redemption Price
September 1, 2012 through March 1, 2019	103%
September 1, 2019 and March 1, 2020	102
September 1, 2020 and March 1, 2021	101
September 1, 2021 and any Interest Payment Date thereafter	100

Mandatory Sinking Payment Redemption. The 2011 Bonds maturing on September 1, 2041, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2032, at a redemption price equal to the principal amount of the 2011 Bonds to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption, without premium, in the aggregate principal amount and in the years shown on the following redemption schedule:

2041 TERM BONDS

Sinking Fund Redemption Date	Sinking Payments
2032	\$75,000
2033	85,000
2034	90,000
2035	100,000
2036	110,000
2037	120,000
2038	130,000
2039	145,000
2040	155,000
2041 (maturity)	170,000

The amounts in the foregoing table shall be reduced as a result of any prior partial redemption of the 2011 Bonds pursuant to an optional redemption or redemption from proceeds of Special Tax prepayments as specified in writing by the Community Facilities District to the Fiscal Agent.

Purchase In Lieu of Redemption. In lieu of any optional, mandatory or mandatory sinking fund redemption, the Community Facilities District may elect to purchase such 2011 Bonds at public or private sale as and when, and at such prices as such written direction may provide; provided, that, unless otherwise authorized by law, the purchase price (including brokerage and other charges) thereof shall not exceed the principal amount thereof, plus accrued interest accrued to the purchase date and any premium which would otherwise be due if such Bonds were to be redeemed in accordance with the Indenture.

Notice of Redemption. The Fiscal Agent shall mail, at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first class mail, postage prepaid, to the respective registered Owners of the 2011 Bonds at the addresses appearing on the Bond registry books. So long as notice by first class mail has been provided as set forth below, the actual receipt by the Owner of any 2011 Bond of notice of such redemption shall not be a condition precedent to redemption, and failure to receive such notice shall not affect the validity of the proceedings for redemption of such 2011 Bonds or the cessation of interest on the date fixed for redemption.

Such notice shall (i) state the redemption date; (b) state the redemption price; (c) state the bond registration numbers, dates of maturity and CUSIP numbers of the 2011 Bonds to be redeemed, and in the case of 2011 Bonds to be redeemed in part, the respective principal portions to be redeemed; provided, however, that whenever any call includes all 2011 Bonds of a maturity, the numbers of the 2011 Bonds of such maturity need not be stated; (d) state that such 2011 Bonds must be surrendered at the principal corporate trust office of the Fiscal Agent; (e) state that further interest on the 2011 Bonds will not accrue from and after the designated redemption date; (f) state the date of the issue of the 2011 Bonds as originally issued; (g) state the rate of

interest borne by each 2011 Bond being redeemed; and (h) state that any other descriptive information needed to identify accurately the 2011 Bonds being redeemed as the Community Facilities District shall direct.

Effect of Redemption. When notice of redemption has been given substantially as provided for in the Indenture, and when the amount necessary for the redemption of the 2011 Bonds called for redemption is set aside for that purpose in the Redemption Fund as to 2011 Bonds subject to optional redemption, the 2011 Bonds designated for redemption shall become due and payable on the date fixed for redemption thereof, and upon presentation and surrender of said 2011 Bonds at the place specified in the notice of redemption, said 2011 Bonds shall be redeemed and paid at the redemption price out of the Redemption Fund and no interest will accrue on such 2011 Bonds or portions of 2011 Bonds called for redemption from and after the redemption date specified in said notice, and the Owners of such 2011 Bonds so called for redemption after such redemption date shall look for the payment of principal and premium, if any, of such 2011 Bonds or portions of 2011 Bonds only to said Redemption Fund.

Registration, Transfer and Exchange

Registration. The Fiscal Agent will keep sufficient books for the registration and transfer of the 2011 Bonds, and upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said register, the Bonds as hereinbefore provided. The Community Facilities District and the Fiscal Agent will treat the owner of any Bond whose name appears on the Bond Register as the holder and absolute Owner of such Bond for all purposes under the Indenture, and the Community Facilities District and the Fiscal Agent shall not be affected by any notice to the contrary.

Transfers of Bonds. The transfer of any 2011 Bond may be registered only upon such books of registration upon surrender thereof to the Fiscal Agent, together with an assignment duly executed by the Owner or his attorney or legal representative, in satisfactory form. Upon any such registration of transfer, a new 2011 Bond or Bonds shall be authenticated and delivered in exchange for such 2011 Bond, in the name of the transferee, of any denomination or denominations authorized by the Indenture, and in an aggregate principal amount equal to the principal amount of such 2011 Bond or Bonds so surrendered. The Fiscal Agent may make a charge for every such exchange or registration of transfer of Bonds sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such transfer or exchange. The Fiscal Agent shall not be required to register transfers or make exchanges of (i) 2011 Bonds for a period of 15 days next preceding to the date of any selection of the 2011 Bonds for redemption, or (ii) any 2011 Bonds chosen for redemption.

Exchange of Bonds. Bonds may be exchanged at the Principal Corporate Trust Office of the Fiscal Agent for a like aggregate principal amount of 2011 Bonds of authorized denominations, interest rate and maturity, subject to the terms and conditions of the Indenture, including the payment of certain charges, if any, upon surrender and cancellation of a 2011 Bond.

Book-Entry and DTC

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2011 Bonds. The 2011 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 2011 Bond certificate will be issued for each maturity of the 2011 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX H – “BOOK-ENTRY SYSTEM.”

Debt Service Coverage

Table 2
Poway Unified School District Community Facilities District No. 10
(Torrey Highlands – Subarea IV)
Improvement Area F
Debt Service Coverage from Net Special Tax Revenues

Period Ending September 1	Net Special Tax Revenues⁽¹⁾	2011 Bonds Debt Service	Debt Service Adjustment⁽²⁾	Total Adjusted Debt Service	Debt Service Coverage
2012	\$68,868.13	\$81,523.45	\$(18,916.06)	\$62,607.39	110.000%
2013	114,362.33	100,853.76		100,853.76	113.394
2014	116,649.58	100,853.76		100,853.76	115.662
2015	118,982.57	100,853.76		100,853.76	117.975
2016	121,362.22	100,853.76		100,853.76	120.335
2017	123,789.47	110,853.76		110,853.76	111.669
2018	126,265.25	110,453.76		110,453.76	114.315
2019	128,790.56	115,023.76		115,023.76	111.969
2020	131,366.37	114,333.76		114,333.76	114.897
2021	133,993.70	118,606.26		118,606.26	112.974
2022	136,673.57	122,606.26		122,606.26	111.474
2023	139,407.04	126,325.00		126,325.00	110.356
2024	142,195.18	124,750.00		124,750.00	113.984
2025	145,039.09	128,137.50		128,137.50	113.190
2026	147,939.87	131,212.50		131,212.50	112.748
2027	150,898.67	134,012.50		134,012.50	112.600
2028	153,916.64	136,481.26		136,481.26	112.775
2029	156,994.97	138,606.26		138,606.26	113.267
2030	160,134.87	145,375.00		145,375.00	110.153
2031	163,337.57	146,475.00		146,475.00	111.512
2032	166,604.32	147,275.00		147,275.00	113.125
2033	169,936.41	152,681.26		152,681.26	111.301
2034	173,335.14	152,475.00		152,475.00	113.681
2035	176,801.84	156,962.50		156,962.50	112.640
2036	180,337.88	160,837.50		160,837.50	112.124
2037	183,944.63	164,100.00		164,100.00	112.093
2038	187,623.53	166,750.00		166,750.00	112.518
2039	191,376.00	173,787.50		173,787.50	110.121
2040	195,203.52	174,906.26		174,906.26	111.605
2041	199,107.59	180,412.50		180,412.50	110.362
Total	\$4,505,238.51	\$4,018,378.59		\$3,999,462.53	

⁽¹⁾ Total Special Taxes levied less Administrative Expenses as provided by the Dolinka Group, LLC.

⁽²⁾ Capitalized interest through September 1, 2012.

SECURITY FOR THE 2011 BONDS

General

The 2011 Bonds are secured by a first pledge of all of the Net Special Tax Revenues of Improvement Area F and all moneys deposited in the Bond Service Fund and in the Reserve Fund and, until disbursed as provided in the Indenture, in the Special Tax Fund. Pursuant to the Act and the Indenture, the Community Facilities District will annually levy the Special Taxes in Improvement Area F in an amount required for the payment of principal of, and interest on, any outstanding 2011 Bonds becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the Reserve Fund and an amount estimated to be sufficient to pay Improvement Area F's Administrative Expenses during such year. The Net Special Tax Revenues of Improvement Area F and all moneys deposited in certain funds and accounts (until disbursed as provided in the Indenture) are pledged to the payment of the principal of, and interest and any premium on, the 2011 Bonds as provided in the Indenture and in the Act until all of the 2011 Bonds have been paid and retired or until moneys or Federal Securities (as defined in the Indenture) have been set aside irrevocably for that purpose.

Amounts in the Administrative Expense Fund, the Costs of Issuance Fund and the Improvement Fund are not pledged to the repayment of the 2011 Bonds. The City Facilities constructed and acquired with the proceeds of the 2011 Bonds are not in any way pledged to pay the debt service on the 2011 Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2011 Bonds are not pledged to pay the debt service on the 2011 Bonds.

Special Taxes

The Community Facilities District has covenanted in the Indenture to comply with all requirements of the Act so as to assure the timely collection of Special Taxes in the Improvement Area, including without limitation, the enforcement of delinquent Special Taxes. The Improvement Area F Rate and Method provides that the Special Taxes are payable and will be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that the Community Facilities District may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

Because the Special Tax levy is limited to the maximum Special Tax rates set forth in the Improvement Area F Rate and Method, no assurance can be given that, in the event of Special Tax delinquencies in Improvement Area F, the receipt of Special Taxes in Improvement Area F will, in fact, be collected in sufficient amounts in any given year to pay debt service on the 2011 Bonds. The Special Taxes levied pursuant to the CFD No. 10 Rate and Method and the Supplemental Annual Special Taxes levied pursuant to the Improvement Area F Rate and Method are not available to pay principal of or interest on the 2011 Bonds.

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

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2011 BONDS. OTHER THAN THE SPECIAL TAXES OF

IMPROVEMENT AREA F, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2011 BONDS. THE 2011 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES OF IMPROVEMENT AREA F AS MORE FULLY DESCRIBED HEREIN.

Rates and Methods

General. In 1997, pursuant to the request of landowners, the School District established Community Facilities District No. 2 (Torrey Highlands – Subarea IV) (“CFD No. 2”) with respect to approximately 1,000 acres of land within the boundaries of the School District proposed for development of approximately 2,600 units (approximately 2,122 detached single-family units and approximately 478 multi-family attached units). In the first quarter of 2001, the then owners of the property within the Community Facilities District requested that the School District institute proceedings pursuant to the Act (a) to create a new Community Facilities District, (b) to designate improvement areas within such Community Facilities District, (c) to authorize the Community Facilities District to issue bonded indebtedness and to levy special taxes to fund, in addition to those School Facilities authorized to be funded pursuant to the Community Facilities District, certain City public improvements and (d) upon establishment of the Community Facilities District, to record a notice of cancellation of special taxes of CFD No. 2 with respect to all land within the Community Facilities District.

The then owners of the property within the Community Facilities District participated in the proceedings for formation of the Community Facilities District. Pursuant to such proceedings, a special tax may be levied and collected within all of the Community Facilities District to finance School Facilities according to the CFD No. 10 Rate and Method, a copy of which is set forth in APPENDIX B – “Rates and Methods of Apportionment for Community Facilities District No. 10 (Torrey Highlands – Subarea IV) of the Poway Unified School District.”

The qualified electors of Improvement Area F approved the initial Rate and Method of Apportionment of Special Tax on August 27, 2001, and the Improvement Area F Rate and Method on April 19, 2010. Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the CFD No. 10 Rate and Method and the Improvement Area F Rate and Method, as applicable.

Improvement Area F Rate and Method. The Improvement Area F Rate and Method provides the means by which the Board of Education may annually levy the Special Taxes within Improvement Area F of the Community Facilities District up to the maximum Special Tax to pay for City Facilities and to levy the Supplemental Annual Special Tax within Improvement Area F to pay for School Facilities. The 2011 Bonds, when issued, will fund City Facilities and will be secured by Special Taxes levied pursuant to the Improvement Area F Rate and Method. The Improvement Area F Rate and Method provides that the Special Taxes shall be levied for a term of 34 Fiscal Years after the issuance of the 2011 Bonds, but in no event later than Fiscal Year 2050-51. A copy of the Improvement Area F Rate and Method is included in Appendix B hereto.

Annual Improvement Area F Special Tax Requirement. Annually, at the time of levying the Assigned Annual Special Tax for Improvement Area F, the Board of Education will determine the amount of money to be collected from Taxable Property in Improvement Area F (the “Annual Special Tax Requirement”), which will be the amount required in any Fiscal Year to pay the following:

- (i) the debt service on all Bonds issued to finance City Facilities (i.e., the 2011 Bonds or any refunding bonds), or other indebtedness or other periodic cost on the Bonds;
- (ii) the Administrative Expenses of Improvement Area F,

- (iii) any costs associated with the release of funds from an escrow account, if any,
- (iv) any amount required to establish or replenish any reserve funds established in association with the Bonds issued to finance City Facilities, *less*
- (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to the Indenture.

Developed and Undeveloped Property; Exempt Property. The Improvement Area F Rate and Method declares that for each Fiscal Year, all Assessor's Parcels within Improvement Area F shall be classified as Taxable Developed Property, Taxable Undeveloped Property or Exempt Property and shall be subject to Special Taxes in accordance with the Improvement Area F Rate and Method.

- (i) "Developed Property" means all Assessor's Parcels for which Building Permits for the construction of Units were issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels were created on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as determined reasonably by the Associate Superintendent.
- (ii) "Undeveloped Property" means all Assessor's Parcels which are not Developed Property.
- (iii) "Taxable Property" means all Assessor's Parcels which are not Exempt Property (as defined below) pursuant to law or the Improvement Area F Rate and Method.
- (iv) "Exempt Property" is defined to include the following:
 - (a) parcels owned by the State, federal or other local governments;
 - (b) parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization,
 - (c) parcels used exclusively by a homeowner's association, parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction,
 - (d) parcels for which building permits were issued on or before May 1 of the prior Fiscal Year for the construction of Affordable Units and/or Senior Citizen Units exclusively, and
 - (e) other types of Assessor's Parcels, at the reasonable discretion of the Board of Education, provided that no such classification would reduce the acreage of all Taxable Property to less than 6.87 acres of Acreage (as defined in the Improvement Area F Rate and Method).

Property for which a building permit is issued for commercial use or for Affordable Units and/or Senior Citizen Units exclusively is not subject to the Special Tax. The owners of property expected to be developed for such uses are expected to request that the Community Facilities District record a notice of cancellation of the Special Tax for Improvement Area F for such property. The minimum taxable acres referenced in (e) above will remain subject to the Special Tax. There are no Affordable Units or Senior Citizen Units proposed to be constructed within Improvement Area F and there is no commercial property within Improvement Area F.

Supplemental Annual Special Tax. In addition to the Special Tax, the Community Facilities District shall levy each year a Supplemental Annual Special Tax, the proceeds of which will be used to pay for the acquisition, construction, rehabilitation and improvement of School Facilities.

Maximum Special Tax. The Maximum Special Tax is defined in the Improvement Area F Rate and Method as follows:

- (v) Undeveloped Property: The amount determined by the application of the Assigned Annual Special Tax. The Assigned Annual Special Tax for Taxable Undeveloped Property for Fiscal Year 2011-12 is \$18,734.86 per acre. On each July 1, the Assigned Annual Special Tax per acre shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.
- (vi) Developed Property: The sum of (a) the *greater* of (i) the Assigned Annual Special Tax and (ii) the Backup Annual Special Tax and (b) the Supplemental Annual Special Tax.

The Assigned Annual Special Tax for Taxable Developed Property (whether detached or attached) in Fiscal Year 2011-12 ranges from \$1,552.14 to \$2,003.82 per unit. Each July 1, the Assigned Annual Special Tax is subject to escalation of 2.00% of the amount in effect in the prior Fiscal Year. See APPENDIX B – “Rates and Methods of Apportionment for Community Facilities District No. 10 (Torrey Highlands – Subarea IV) of the Poway Unified School District – Table 1” herein for a listing of the Assigned Annual Special Tax rates for various sizes of Units.

The “Backup Annual Special Tax” is based on the number of Lots created by each Final Map within Improvement Area F, currently 73 (see “COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV) – Property Ownership and Development”). The Backup Annual Special Tax for an Assessor’s Parcel of Developed Property in Fiscal Year 2011-12 is estimated to be \$1,959.20.

The Supplemental Annual Special Tax for Taxable Developed Property (whether detached or attached) in Fiscal Year 2011-12 ranges from \$664.02 to \$857.24 per unit. Each July 1, the Supplemental Annual Special Tax is subject to escalation. Prior to classification as Developed Property, the Supplemental Annual Special Tax increases by the “Inflator” as defined in the Improvement Area F Rate and Method. Commencing the July 1 immediately following the Fiscal Year in which an Assessor’s Parcel was first classified as Developed Property, the Supplemental Annual Special Tax for each Assessor’s Parcel of Developed Property increases by 2% of the amount in effect in the prior Fiscal Year. See APPENDIX B – “Rates and Methods of Apportionment for Community Facilities District No. 10 (Torrey Highlands – Subarea IV) of the Poway Unified School District – Table 2” herein for a listing of the Supplemental Annual Special Tax rates for various sizes of Units. *The 2011 Bonds are not secured by any Supplemental Annual Special Tax levied pursuant to the Improvement Area F Rate and Method.*

The minimum taxable acreage is 6.87 acres of Acreage.

Method of Apportionment. The Improvement Area F Rate and Method provides that commencing Fiscal Year 2010-11 and for each subsequent Fiscal Year, the Board of Education shall levy Annual Special Taxes within Improvement Area F as follows:

Step One: The Board of Education shall levy an Annual Special Tax on each Assessor’s Parcel of Developed Property in an amount equal to the sum of the (i) Assigned Annual Special Tax and (ii) Supplemental Annual Special Tax applicable to each such Assessor’s Parcel.

Step Two: If the sum of the Assigned Annual Special Taxes 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 Proportionately on each Assessor’s parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to each such Assessor’s Parcel to satisfy the Annual Special Tax Requirement¹.

¹ As of August 15, 2011, all 73 building permits have been issued so there is no Undeveloped Property subject to tax under Step 2.

Step Three: If the sum of the Assigned Annual Special Taxes levied on Assessor's Parcels in the first and second steps above is less than the Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax includes the application of the Backup Annual Special Tax shall be increased Proportionately from the Assigned Annual Special Tax up to the Backup Annual Special Tax to satisfy the Annual Special Tax Requirement².

Prepayment of Annual Special Taxes. The Improvement Area F Annual Special Tax obligation for an Assessor's Parcel of Developed Property or for an Assessor's Parcel of Undeveloped Property for which a Building Permit has been issued may be prepaid in full, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel. The Prepayment Amount for an applicable Assessor's Parcel after the issuance of Bonds is calculated based on Bond Redemption Amounts and other costs, all as specified in APPENDIX B – "Rates and Methods of Apportionment for Community Facilities District No. 10 (Torrey Highlands – Subarea IV) of the Poway Unified School District – Section H" herein.

Table 3
Poway Unified School District Community Facilities District No. 10
(Torrey Highlands – Subarea IV)
Improvement Area F
Fiscal Year 2011-12 Special Tax Levy

Special Tax Class	Building Square Footage	FY 2011-12 Special Tax Rate⁽¹⁾	Units Levied	Special Taxes Levied	FY 2011-12 Levy as Percent of Total
1	<1,750	\$1,552.14	10	\$15,521.40	17.96%
2	1,751 – 1,900	1,681.12	14	23,535.68	27.23%
3	1,901 – 2,050	1,810.28	14	25,343.92	29.32%
4	2,051 - 2,200	1,906.96	0	0	0.00%
5	>2,200	\$2,003.82	11	22,042.02	25.50%
Total⁽²⁾			49	\$86,443.02	100.00%

⁽¹⁾ Excludes the Supplemental Annual Special Tax and the Community Facilities District special tax.

⁽²⁾ Totals may not sum due to rounding.

Source: Dolinka Group, LLC.

² A levy of Special Taxes under Step 3 would only increase the Special Tax levy by \$14,412.38.

Table 4
Poway Unified School District Community Facilities District No. 10
(Torrey Highlands – Subarea IV)
Improvement Area F
Fiscal Year 2012-13 Estimated Special Tax Levy

Special Tax Class	Building Square Footage	FY 2012-13 Special Tax Rate⁽¹⁾	Units Levied⁽²⁾	Special Taxes Levied	FY 2012-13 Levy as Percent of Total
1	<1,750	\$1,583.18	12	\$18,998.16	14.36%
2	1,751 – 1,900	1,714.74	22	37,724.28	28.52%
3	1,901 – 2,050	1,846.48	21	38,776.08	29.31%
4	2,051 - 2,200	1,945.10	0	0	0.00%
5	>2,200	\$2,043.90	<u>18</u>	<u>36,790.20</u>	<u>27.81%</u>
Total⁽³⁾			73	\$132,288.72	100.00%

⁽¹⁾ Excludes the Supplemental Annual Special Tax and the Community Facilities District special tax.

⁽²⁾ Building permits were issued for 24 units on or after May 2, 2011 and such units will be classified as Developed Property in Fiscal Year 2012-13.

⁽³⁾ Totals may not sum due to rounding.

Source: Dolinka Group, LLC.

CFD No. 10 Rate and Method. The CFD No. 10 Rate and Method provides the means by which the Board of Education may annually levy the special taxes within the Community Facilities District up to the applicable maximum special tax to pay for School Facilities. *The 2011 Bonds are not secured by any special taxes levied pursuant to the CFD No. 10 Rate and Method.* The CFD No. 10 Rate and Method provides that the annual special tax shall be levied for a term of 31 Fiscal Years after the last series of bonds for School Facilities is issued, but in no event later than Fiscal Year 2045-46.

Zone 1 of Community Facilities District No. 10. The CFD No. 10 Rate and Method includes a Fiscal Year 2011-12 Zone 1 one-time special tax levy on or before the date a building permit is issued for an Assessor's Parcel in the amount of (i) \$3.18 per square foot of Building Square Feet ("BSF") for Detached Units, (ii) \$3.18 per square foot of BSF for Attached Units, (iii) \$.54 per square foot of BSF for Senior Citizen Units and (iv) \$.54 per square foot of gross floor area of a commercial or industrial structure for May 1, 2011 through April 30, 2012 (escalated thereafter). *Improvement Area F is funding School Facilities through the Supplemental Annual Special Tax in lieu of the One-Time Special Tax levy pursuant to Community Facilities District No. 10.*

Each of the foregoing special taxes represents the applicable Fiscal Year 2011-12 rate and is subject to escalation by an inflator until the property is classified as Developed Property and by 2.00% of the amount in effect in the prior Fiscal Year thereafter. In Fiscal Year 2011-12, Developed Property in Zone 1 is subject to an Assigned Annual Special Tax of \$2,104.00 per Detached Unit and \$1,114.42 per Attached Unit. A copy of the CFD No. 10 Rate and Method is included in Appendix B hereto. Bonds for School Facilities have been issued.

Proceeds of Foreclosure Sales

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of the Special Tax, the Community Facilities 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 the Indenture, on or before June 1 of each Fiscal Year, the Community Facilities District will review the public records of the County of San Diego, California, to determine the amount of Special Taxes actually collected in such Fiscal Year and proceed as follows:

Individual Delinquencies. If the Community Facilities District determines that (i) any single parcel subject to the Improvement Area F Special Tax is delinquent in the payment of Improvement Area F Special Taxes in the aggregate amount of \$6,000 or more or (ii) any single parcel or parcels under common ownership subject to the Improvement Area F Special Taxes are delinquent in the payment of Improvement Area F Special Taxes in the aggregate of \$12,000 or more, the Community Facilities 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. The Community Facilities 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 Improvement Area F Special Taxes remain delinquent.

Aggregate Delinquencies. If the Community Facilities District determines that it has collected less than 95% of the Improvement Area F Special Taxes levied in such Fiscal Year, then the Community Facilities 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). The Community Facilities 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 Improvement Area F 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 – Potential Delay and Limitations in Foreclosure Proceedings.” If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the Community Facilities 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 the 2011 Bonds 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 Community Facilities District 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 the Reserve Fund is depleted and delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Bondowners pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of foreclosure sale proceeds, if any. However, within the limits of the Improvement Area F Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property within Improvement Area F in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the Bonds and to replenish the Reserve Fund. There is, however, no assurance that the maximum Special Tax rates of Improvement Area F will be at all times sufficient to pay the amounts required to be paid on the 2011 Bonds by the Indenture.

Special Tax Fund

Pursuant to the Indenture, the Special Tax Revenues received by the Community Facilities District, excluding only Special Tax Revenues representing Delinquency Proceeds required to be transferred to the Letter of Credit Fund and Special Tax Revenues representing Prepayments, will be deposited in the Special Tax Fund, which will be held by the Fiscal Agent on behalf of the Community Facilities District. Special Tax Revenues representing Prepayments shall be transferred to the Interest Account of the Bond Service Fund and the Redemption Fund and utilized to pay the interest and premium, if any, on and the principal of Bonds to be redeemed. Moneys in the Special Tax Fund shall be held in trust by the Fiscal Agent for the benefit of the Community Facilities District and the owners of the 2011 Bonds. Pending disbursement, moneys in the Special Tax Fund will be subject to a lien in favor of the Bondowners of the 2011 Bonds as established under the Indenture.

Disbursements. Moneys in the Special Tax Fund will be disbursed as needed to pay the obligations of the Community Facilities District in the following priority: (i) an amount up to the Administrative Expense Requirement for Improvement Area F to pay Administrative Expenses, (ii) amounts required to be deposited into the Accounts in the Bond Service Fund in order to pay debt service on the 2011 Bonds and any refunding bonds on the next Interest Payment Date, (iii) amounts required to replenish the Reserve Fund to the Reserve Requirement (as defined below), (iv) amounts required to fund the Rebate Account and (v) additional amounts required to pay Administrative Expenses. At any time following the deposit of Special Taxes in an amount sufficient to make payment of all of the foregoing deposits for the current Bond Year (as that term is defined in the Indenture), any amounts in excess of such amounts remaining in the Special Tax Fund shall remain on deposit in such Special Tax Fund and shall be subsequently deposited or transferred pursuant to the above provisions provided, however, that if the Community Facilities District notifies the Fiscal Agent that the levy of Special Taxes on Developed Property exceeds the Annual Special Tax Requirement (as defined in the Improvement Area F Rate and Method) then an amount up to such excess moneys may be paid to the School District to be used to pay for the acquisition, construction, rehabilitation, improvement of School Facilities and related expenses.

Investment. Moneys in the Special Tax Fund will be invested and deposited by the Community Facilities District as described in "Investment of Moneys in Funds" below. Interest earnings and profits resulting from such investment and deposit will be retained in the Special Tax Fund to be used for the purposes thereof.

Bond Service Fund

The Fiscal Agent will hold the Bond Service Fund in trust for the benefit of the Bondowners. Within the Bond Service Fund the Fiscal Agent will create and hold an Interest Account and a Principal Account.

On each Interest Payment Date, the Fiscal Agent will withdraw from the Bond Service Fund and pay to the owners of the 2011 Bonds the principal, interest and any premium then due and payable on such 2011 Bonds, including any amounts due on such 2011 Bonds by reason of the sinking payments or a redemption of such 2011 Bonds.

If amounts in the Bond Service Fund are insufficient for the purposes set forth in the preceding paragraph, the Fiscal Agent will withdraw the deficiency from the Reserve Fund to the extent of any funds therein.

The Community Facilities District has covenanted in the Indenture to increase the levy of the Special Taxes of Improvement Area F in the next Fiscal Year (subject to the maximum amount authorized by the Improvement Area F Rate and Method) in accordance with the procedures set forth in the Act for the purpose of curing Bond Service Fund deficiencies.

Redemption Fund

Moneys in the Redemption Fund shall be set aside and used solely for the purpose of redeeming Bonds in accordance with the Indenture.

Reserve Fund

In order to further secure the payment of principal of and interest on the 2011 Bonds, certain proceeds of the 2011 Bonds will be deposited into the Reserve Fund in an amount equal to the Reserve Requirement (see “ESTIMATED SOURCES AND USES OF FUNDS” herein). The Reserve Requirement is defined in the Indenture to mean, as of any date of calculation, an amount equal to the least of (i) the then maximum annual debt service on the 2011 Bonds, (ii) 125% of the then average annual debt service on the 2011 Bonds, or (iii) 10% of the initial principal amount of the 2011 Bonds, less original issue discount, if any, plus original issue premium, if any.

If Special Taxes are prepaid and a portion of the 2011 Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the Reserve Fund (determined on the basis of the principal of such 2011 Bonds to be redeemed and the original principal of such 2011 Bonds) will be applied to the redemption of such 2011 Bonds.

Moneys in the Reserve Fund will be invested and deposited as described in “Investment of Moneys in Funds” below.

See APPENDIX D – “Summary of Certain Provisions of Indenture” for a description of the timing, purpose and manner of disbursements from the Reserve Fund.

Administrative Expense Fund

The Fiscal Agent will receive the transfer of Special Taxes from the Community Facilities District from the Special Tax Fund and deposit in the Administrative Expense Fund an amount sufficient to pay Administrative Expenses.

Pursuant to the Indenture, moneys in an Administrative Expense Fund will not be construed as a trust fund held for the benefit of the Owners of the 2011 Bonds and will not be available for the payment of debt service on the 2011 Bonds.

Improvement Fund

The Fiscal Agent will deposit proceeds of the 2011 Bonds in the Improvement Fund. Moneys in the Improvement Fund will be disbursed to pay for City Facilities pursuant to a requisition of the Community Facilities District.

Pursuant to the Indenture, moneys in the Improvement Fund will not be construed as a trust fund held for the benefit of the owners of the 2011 Bonds and will not be available for the payment of debt service on the 2011 Bonds.

Investment of Moneys in Funds

Moneys in any fund or account created or established by the Indenture and held by the Fiscal Agent will be invested by the Fiscal Agent in Permitted Investments, as directed by the Community Facilities District, that mature prior to the date on which such moneys are required to be paid out under the Indenture. In the absence of any direction from the Community Facilities District, the Fiscal Agent will invest, to the extent reasonably practicable, any such moneys in money market funds rated “Aam-1” or “Aam-G” by S&P, or better (including those of the Fiscal Agent or its affiliates). See APPENDIX D – “Summary of Certain Provisions of Indenture” for a definition of “Permitted Investments.”

Payment of Rebate Obligation

The Community Facilities District is required to calculate excess investment earnings in accordance with the requirements set forth in the Indenture. If necessary, the Community Facilities District may use amounts in the Special Tax Fund, or amounts on deposit in the Administrative Expense Fund and other funds available to the Community Facilities District (except amounts required to pay debt service on the Bonds) to satisfy rebate obligations.

Letters of Credit/Cash Deposit

As a condition precedent to issuance of the 2011 Bonds, the Developer shall provide a Letter of Credit in the Stated Amount therefor (having the Fiscal Agent as beneficiary) or a cash deposit in lieu thereof. Each Letter of Credit and/or cash deposit shall secure payment of Special Taxes levied against the Developer’s property within Improvement Area F (each such ownership being hereafter referred to as a “Project Area”). The Stated Amount is the estimated amount of Special Tax to be levied in the next Fiscal Year against the corresponding Project Area to which such Letter of Credit relates.

Each Letter of Credit, or a Substitute Letter of Credit issued with respect thereto, shall be in effect in each Fiscal Year that individual homeowners own fewer than 60% of the lots within the Project Area.

In the event fewer than 60% of the lots within a Project Area are owned by individual homeowners as of such June 1, then the Community Facilities District shall cause the Developer to provide to the Fiscal Agent, no later than the following June 15, (a) a Letter of Credit in the then-Stated Amount, (b) an irrevocable written commitment of a Letter of Credit Bank to provide a Letter of Credit in the then-Stated Amount or to extend the existing Letter of Credit in an amount equal to the then-Stated Amount, effective the next succeeding July 1 or (c) a cash deposit in lieu thereof.

In the event the Fiscal Agent does not receive (a) a Letter of Credit, (b) a Substitute Letter of Credit or (c) a cash deposit in lieu of the foregoing by June 15 of each year (assuming the Letter of Credit is required to be in effect during the next succeeding Fiscal Year), the Fiscal Agent shall, upon the written direction of an Authorized Representative, immediately, with no further authorization or instruction, draw upon the Letter of Credit in the full Stated Amount. The Fiscal Agent shall deposit the proceeds of such draw into the Letter of Credit Fund for use as described below.

Deposits into the Letter of Credit Fund; Transfers from the Letter of Credit Fund.

Draws Prior to an Interest Payment Date. Ten (10) Business Days before each Interest Payment Date, the Fiscal Agent shall determine whether amounts on deposit in the Bond Service Fund on that Interest Payment Date will be sufficient to pay principal of and interest on the 2011 Bonds that will be due and payable on such Interest Payment Date and notify the Community Facilities District of any deficiency. If amounts in the Bond Service Fund will be insufficient to pay principal of and interest on such 2011 Bonds and such insufficiency is attributable to the delinquency in the payment of Special Taxes levied on properties owned by the Developer or an Affiliate of the Developer, the Fiscal Agent shall upon the receipt of written direction of an Authorized Representative (prior to any withdrawals from the Reserve Fund permitted by the Indenture) draw upon the Letter of Credit or withdraw money from the cash deposit; provided, however, that the amount of such draw or withdrawal (as set forth in said written direction of the Authorized Representative) shall be no greater than the delinquent Special Taxes levied on such properties and then owed to the Community Facilities District by the Developer.

The Fiscal Agent shall deposit the proceeds of any such draw upon a Letter of Credit into the Letter of Credit Fund. On the day preceding the Interest Payment Date, and prior to any transfers from the Reserve Fund, the Fiscal Agent shall transfer the amount of such draw on the Letter of Credit or an equivalent amount from any cash deposit from the Letter of Credit Fund to the Interest Account of the Bond Service Fund.

In the event of a draw on a Letter of Credit or transfer of funds from a cash deposit, the Fiscal Agent, shall, upon receipt of Delinquency Proceeds representing the Special Taxes the delinquency of which necessitated such draw on such Letter of Credit or transfer of funds from a cash deposit, (a) reimburse the Letter of Credit provider from such Delinquency Proceeds in an amount not to exceed such draw on such Letter of Credit or (b) deposit an amount not to exceed such transfer from such cash deposit in the Letter of Credit Fund and used to replenish such cash deposit.

Draws Prior to Termination of the Letter of Credit. If a Letter of Credit is not renewed, or a Substitute Letter of Credit or cash deposit not provided within fifteen (15) days prior to the stated expiration date of such Letter of Credit and the requirements for the release or termination of such Letter of Credit have not then been met, the Fiscal Agent shall draw on the full amount of such Letter of Credit without instruction from the Community Facilities District. In the event the Fiscal Agent makes such a draw upon a Letter of Credit as described above, the Fiscal Agent shall deposit the proceeds of such draw into the Letter of Credit Fund and pending any transfer to the Bond Service Fund for the purposes described in “*Draws Prior to an Interest Payment Date*” above, such proceeds shall be invested and reinvested by the Fiscal Agent in money market funds unless the Developer requests that such proceeds or cash deposit not be invested. At no time shall the Community Facilities District direct that the proceeds of a draw on any Letter of Credit or any cash deposit held in the Letter of Credit Fund be invested by the Fiscal Agent at a yield exceeding the Yield on the 2011 Bonds. Investment earnings and profits from such investments, if any, shall be retained in the Letter of Credit Fund until such time as the Letter of Credit Fund is no longer required and at that time all interest earnings shall be paid over to the Developer.

Final Release of Moneys from the Letter of Credit Fund. If moneys remain on deposit in a Letter of Credit Fund and an Authorized Representative provides written direction to the Fiscal Agent that the conditions for termination of the Letter of Credit or cash deposit have been satisfied, then the Fiscal Agent shall immediately return all (or such portion of the) amounts on deposit in the Letter of Credit Fund funded on behalf of the Developer to the Developer.

Actions by the Community Facilities District. In the event a Letter of Credit Bank wrongfully refuses to honor any drawing made on its Letter of Credit, the Community Facilities District, on behalf of the owners of the 2011 Bonds, shall immediately bring an action and pursue any remedy available at law or in equity for the purpose of compelling such Letter of Credit Bank to honor such drawing and to enforce the provisions of such Letter of Credit.

Compliance with Letter of Credit Requirements

The Developer has provided a cash deposit in lieu of a Letter of Credit in connection with the issuance of the 2011 Bonds. The Developer has indicated it anticipates satisfying the conditions for release of the Letter of Credit by the end of 2011.

Additional Bonds for Refunding Purposes Only

Bonds issued on a parity with the 2011 Bonds (a series of “Additional Bonds”) may be issued for refunding purposes only and subject to specific conditions including that the Community Facilities District must be in compliance with all covenants set forth in the Indenture and any Supplement then in effect and a certificate of the Community Facilities District to that effect will be filed with the Fiscal Agent. See APPENDIX D – “Summary of Certain Provisions of Indenture.”

Special Taxes Are Not Within Teeter Plan

The County has adopted a Teeter Plan as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies within 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 assessments, reassessments and special taxes in its Teeter program. The Special Taxes of Improvement Area F are not included in the County’s Teeter Program.

COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV)

General Information

The Community Facilities District is located in the City of San Diego approximately 23 miles north of downtown San Diego and approximately four miles inland from the Pacific Ocean and the coastal cities of Encinitas and Solana Beach. The Community Facilities District is comprised of approximately 470 gross acres of rolling terrain with slopes and knolls and approximately 142.62 net acres of future residential property (excluding affordable and seniors housing).

The Community Facilities District is within Planned Urbanizing Area, Torrey Highlands Subarea IV of the City of San Diego. Torrey Highlands Subarea IV is bordered on the south by Carmel Mountain Road and Deer Canyon (Del Mar Mesa Subarea V), to the east by Rancho Peñasquitos, to the west by Pacific Highlands Ranch (Subarea III) and to the north by Black Mountain Ranch (Subarea I), including the portion thereof now known as Santaluz. The Community Facilities District is located approximately four miles east of Interstate 5 and approximately three miles west of Interstate 15. Route 56 extends from Interstate 5 to Interstate 15. The area is bounded on the east by completed Rancho Peñasquitos subdivisions and on the north, south and west by undeveloped property.

The City Council adopted the North City Future Urbanizing Area (NCFUA) Framework Plan as an amendment to the Progress Guide and General Plan in October 1993. The NCFUA plan provided direction for future development of five subareas within the NCFUA. On August 5, 1996 the City Council adopted the Torrey Highlands Subarea IV Plan that would govern development of the 1,134 acre NCFUA subarea. The voters of the City of San Diego approved a phase shift for the majority of Torrey Highlands Subarea IV from Future Urbanizing to Planned Urbanizing on November 5, 1996. Torrey Highlands Subarea IV is expected to ultimately include approximately 2,693 dwelling units, schools, neighborhood parks, an employment center, a neighborhood and a regional shopping center and approximately 270 acres of open space designated as Multiple Species Conservation Plan (MSP) Preserve.

Utility services for parcels in the Community Facilities District are and/or will be provided by the City of San Diego or Waste Management Inc. (refuse), San Diego Gas & Electric (gas and electricity), the City of San Diego (water, sewage, stormwater drainage and refuse), Time Warner (cable), and AT&T (telephone).

The Community Facilities District is between the cities of Del Mar to the west and Poway to the east, and also between the communities of Carmel Valley to the west and Rancho Peñasquitos to the east. Nearby to the south is the community of Mira Mesa and nearby to the northeast is Black Mountain Ranch (including the portion thereof now known as Santaluz).

Authority for Issuance

The 2011 Bonds are issued pursuant to the Act and the Indenture. In addition, as required by the Act, the Board of Education of the School District has taken the following actions with respect to establishing the Community Facilities District and authorizing issuance of the 2011 Bonds:

Resolutions of Intention: On April 16, 2001, the Board of Education adopted Resolution No. 42-2001 stating its intention to establish the Community Facilities District and to authorize the levy of a special tax therein pursuant to the CFD No. 10 Rate and Method and the initial Rate and Method of Apportionment of Special Tax for Improvement Area F. On the same day the Board of Education adopted Resolution No. 43-2001 stating its intention to incur bonded indebtedness in an amount not to exceed \$45,000,000 with respect to the Community Facilities District and \$3,500,000 with respect to Improvement Area F. In subsequent proceedings, on March 8, 2010, proceedings to amend and restate the initial Rate and Method of Apportionment of Special Tax for Improvement Area F pursuant to the Improvement Area F Rate and Method to provide for the levy of the Supplemental Annual Special Tax, to modify the facilities authorized to be financed and to modify the amount of authorized bonded indebtedness were undertaken. Community Facilities District No. 10 will finance School Facilities. Improvement Area F will finance City Facilities through the Special Tax and School Facilities through the Supplemental Annual Special Tax and any Surplus Improvement Area F Special Taxes as provided in the Indenture. See “FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2011 BONDS” herein.

Resolution of Formation: Immediately following a noticed public hearing on August 27, 2001, the Board of Education adopted Resolution No. 08-2002 (the “Resolution of Formation”), which established the Community Facilities District and designated each of the Improvement Areas therein, established each Rate and Method, and authorized the levy of a special tax within the Community Facilities District and within each Improvement Area pursuant to each Rate and Method of Apportionment.

Resolution of Necessity: On August 27, 2001, the Board of Education adopted Resolution No. 09-2002 declaring the necessity to incur bonded indebtedness in an amount not to exceed \$45,000,000 and with respect to the Community Facilities District, \$3,500,000 with respect to Improvement Area F and submitting the proposition to the qualified electors of the Community Facilities District.

Landowner Election and Declaration of Results: On August 27, 2001, elections were held within the Community Facilities District, including within Improvement Area F, in which the landowners eligible to vote, being the qualified electors within Improvement Area F, each approved the applicable ballot propositions authorizing the issuance of up to \$45,000,000 in bonds to finance the acquisition and construction of the School Facilities, and the landowners within Improvement Area F approved a ballot proposition authorizing the issuance of up to \$3,500,000 of bonds for Improvement Area F to finance the acquisition and construction of City Facilities. The qualified electors within the Community Facilities District and Improvement Area F also approved the levy of a special tax in accordance with the initial Rate and Method of Apportionment of Special Tax for Improvement Area F and the establishment of an appropriations limit for the Community Facilities District.

On August 27, 2001, the Board of Education adopted Resolution No. 10-2002 pursuant to which the Board of Education approved the canvass of the votes.

Special Tax Lien and Levy: Notices of Special Tax Lien, including one for the Community Facilities District and one for Improvement Area F, were recorded in the real property records of San Diego County on September 21, 2001.

Ordinance Levying Special Taxes: On September 24, 2001, the Board of Education adopted an Ordinance No. 2002-01 levying the Special Tax within the Community Facilities District.

Resolution of Intention: On March 8, 2010, the Board of Education adopted Resolution No. 38-2010 stating its intention to amend the Rate and Method in Improvement Area F pursuant to the Improvement Area F Rate and Method to authorize the Supplemental Annual Special Tax to pay for School Facilities.

Resolution of Consideration: Immediately following a noticed public hearing on April 19, 2010, the Board of Education adopted Resolution No. 49-2010 (the “Resolution of Consideration”), which authorized the levy of a special tax pursuant to the Improvement Area F Rate and Method, changes to the authorized school facilities and an increase in the then existing bond authorization from \$3,500,000 to \$6,000,000 with \$3,500,000 of authorization relating to the Improvement Area F Special Taxes and \$2,500,000 of authorization relating to the Supplemental Annual Special Tax.

Landowner Election and Declaration of Results: On April 19, 2010, elections were held within Improvement Area F of the Community Facilities District in which the landowners eligible to vote, being the qualified electors within Improvement Area F, approved a ballot proposition authorizing the above described matters.

On April 19, 2010, the Board of Education adopted Resolution No. 50-2010 pursuant to which the Board of Education approved the canvass of the votes.

Special Tax Lien and Levy: A Notice of Special Tax Lien for the Improvement Area F Rate and Method was recorded in the real property records of the San Diego County on April 29, 2010.

Ordinance Levying Special Taxes: On May 17, 2010, the Board of Education adopted Ordinance No. 2010-02 amending Ordinance No. 2002-01 and authorizing the levy of the Special Tax in Improvement Area F.

Resolution Authorizing Issuance of the 2011 Bonds: On October 10, 2011, the Board of Education adopted Resolution No. 11-2012 approving issuance of the 2011 Bonds.

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POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT 10, IMPROVEMENT AREA F



Special Tax Collections

The Special Tax on Developed Property authorized for Fiscal Year 2010-11 in the Improvement Area F was \$43,419.62 which was levied against 25 parcels. None of those parcels were delinquent as of June 30, 2011. The Special Tax on Developed Property authorized for the 2011-12 Fiscal Year in Improvement Area F was \$86,443.02 which was levied against 49 parcels. The Special Tax on Developed Property authorized for Fiscal Year 2012-13 in the Improvement Area F is estimated to be \$132,288.72 levied against all 73 parcels.

Table 5 below sets forth the Special Tax collections for Fiscal Year 2010-11, all of which was levied on Developed Property.

Table 5
Poway Unified School District Community Facilities District No. 10
(Torrey Highlands – Subarea IV)
Improvement Area F
Special Tax Collections⁽¹⁾
(As of June 30, 2011)

Fiscal Year Ending June 30	Subject Fiscal Year			Fiscal Year	
	Aggregate Special Tax	Total Special Taxes Collected	Parcels Delinquent	Amount Delinquent	Fiscal Year Delinquency Rate
2011	\$43,419.62	\$43,419.62	0	0	0%

⁽¹⁾ Delinquency information is provided to the School District by the County of San Diego as of June 30, 2011.

Source: Dolinka Group, LLC.

Property Ownership and Development

The information about the Developer contained in this Official Statement has been provided by representatives of the Developer and has not been independently confirmed or verified by either the Underwriter or the Community Facilities District. Such information is included because it may be relevant to an informed evaluation of the security for the 2011 Bonds. However, because ownership of the property is expected to change, no assurance can be given that the planned development will occur at all, will occur in a timely manner or will occur as presently anticipated and described below. No representation is made herein as to the accuracy or adequacy of such information, as to the experience, abilities or financial resources of the Developer, or any other landowner, or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

The Developer is not personally liable for payment of the Special Taxes or the 2011 Bonds, and the following information should not be construed to suggest that the Special Taxes or the 2011 Bonds are personal obligations or indebtedness of the Developer or any other landowners in Improvement Area F.

Status of Development. Improvement Area F is located at the north end of Torrey Ranch Court, which is north of Torrey Meadows Dr. and west of Camino del Sur, in the northerly part of the City of San Diego. The location is in the general area known as Torrey Highlands, with the 56 (Ted Williams) Freeway about ½ mile to the south and the I-15 Freeway about 3 miles to the east. Improvement Area F encompasses a total of approximately 14.8 gross acres (approximately 7.63 net taxable acres) proposed for a total of 73 detached

single-family units with a minimum lot size of 3,000 square feet. Improvement Area F will not include any Affordable Housing Units or Senior Units.

The Developer acquired the property within Improvement Area F of the Community Facilities District from the previous owner in a series of lot purchases commencing in August 2009, with the last lot purchases occurring in April 2011. As of August 15, 2011, the date of value of the Appraisal, building permits for all 73 parcels within Improvement Area F had been issued. Of the 73 proposed homes, there were 36 completed-sold homes (closed sales), 7 completed-unsold homes, 12 homes under construction and 18 vacant lots in near finished condition. The following table summarizes the status of property ownership and development in Improvement Area F as of August 15, 2011:

Table 6
Poway Unified School District Community Facilities District No. 10
(Torrey Highlands – Subarea IV)
Improvement Area F
Property Ownership and Development Status
As of August 15, 2011

<u>Number of Units</u>	<u>Completed – Closed Homes</u>	<u>Developer Owned Parcels</u>		
		<u>Completed- Unsold Homes¹</u>	<u>Homes Under Construction</u>	<u>Vacant Lots</u>
73	36	7	12	18

¹ Includes 2 completed model homes.

Source: The Developer.

Information with Respect to the Developer.

D.R. Horton Los Angeles Holding Company, Inc., a California corporation (the “Developer”), is the owner of the 37 lots which have not been sold to individual homeowners within Improvement Area F. The Developer is a subsidiary of D.R. Horton, Inc., a Delaware corporation (“D.R. Horton”), a public company whose common stock is traded on the New York Stock Exchange under the symbol “DHI.”

D.R. Horton, Inc. (NYSE: DHI), America’s builder, is the largest homebuilder in the United States, based on its 15,989 homes closed in the twelve-month period ended June 30, 2011. Founded in 1978 in Fort Worth, Texas, D.R. Horton has operations in 71 markets in 26 states in the East, Midwest, Southeast, South Central, Southwest and west regions of the United States. D.R. Horton is engaged in the construction and sale of high quality homes with sales prices ranging from \$90,000 to over \$700,000. D.R. Horton also provides mortgage financing and title services for homebuyers through its mortgage and title subsidiaries.

The development of the homes in Improvement Area F is being undertaken by the South Coast/Inland Empire Division (“SCIE”) of D.R. Horton. The SCIE Division delivered more than 798 homes during its fiscal year ended September 30, 2010 and anticipates that it will deliver more than 600 homes during its fiscal year ending September 30, 2011. The SCIE Division is currently producing homes in 32 communities.

D.R. Horton and its subsidiaries also provide mortgage banking and title agency services to many of their homebuyers. The SCIE Division operates in the major metropolitan markets of Orange County, the Inland Empire (Riverside and San Bernardino Counties), San Diego County, and Los Angeles/Ventura Counties.

Description of the Project. The project's estimated lot sizes, unit sizes, and base sales price range as of August 15, 2011, are set forth below.

Project Name	Minimum Lot Size (sq. ft.)	Estimated Unit Size (sq. ft.)	Estimated Base Sales Price Range¹	Total Units	Units Owned by Individual Homeowners as of 8/15/11
Torrey Ranch	3,000	1,725 – 2,234	Approx. \$535,000-\$590,000	73	36

¹ Base sales prices are as of August 15, 2011, and are exclusive of options, upgrades and premiums as well as any incentives being offered. Incentives are typically determined on a home-by-home basis and are not offered on all units being marketed.

Status of Permits and Approvals. As indicated above, building permits have been obtained for all 73 homes and the Developer is not aware of any remaining approvals which will not be obtained in the normal course of construction of the remaining homes.

The land area within Improvement Area F was previously undeveloped and covered with chaparral, coastal sage and non-native grasslands. Required environmental approvals have been obtained over the years, such as the City Council's adoption of the North City Future Urbanizing Area (NCFUA) Framework Plan on October 26, 1993 and adoption of the 1,134 acre Torrey Highlands Subarea IV Plan on August 5, 1996, each of which approvals encompassed the land within Improvement Area F. Additional environmental approvals have been obtained since that time and the statutory period within which a court action or proceeding could be filed challenging the City's CEQA compliance with respect to its approvals has expired. Reviews to date relating to sensitive plant or animal species on the property (among other matters) have been satisfied. The Developer is not aware of any additional permits required to proceed with development of the property. The Developer is not aware of any current liability with respect to a hazardous substance condition of any parcel it owns within Improvement Area F of the Community Facilities District.

The Developer reports that the 18 vacant parcels within Improvement Area F are not known by the Developer to be inhabited by any plant or animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has proposed for addition to the endangered species list and that building permits have been issued for such parcels. The Developer believes that the likelihood of a listing of additional species is remote at this stage of development because the Developer has completely cleared and graded all of its land within Improvement Area F of the Community Facilities District and all building permits have been issued. Furthermore, the development has followed normal permitting requirements for impacts to wetlands and other water courses regulated by the U.S. Army Corps of Engineers and the California Department of Fish and Game. See "BONDOWNERS' RISKS – Endangered and Threatened Species."

Plan of Finance. As of August 15, 2011, the Developer expects the remaining in-tract development costs within Improvement Area F to be minimal. Remaining costs for development of the remaining homes include approximately \$19,400 for final lift paving, striping, sidewalks and right-of-way landscaping in Phase 6 of the development and for surveying for final street monumentation. There are credits for the remaining facilities benefit assessment fees relating to all but approximately 4.5 homes/lots resulting in remaining facilities benefit assessment fees aggregating approximately \$511,000. Remaining home construction costs to complete the homes under construction and to construct homes on the 18 vacant lots are estimated to be approximately \$2,145,000. The Developer expects to finance these costs primarily through internal sources, including funds provided by its corporate parent, D.R. Horton.

D.R. Horton is a public company traded on the New York Stock Exchange under the symbol "DHI" and is subject to the periodic reporting requirements of the Exchange Act and, accordingly, files periodic financial and other information with the SEC on a regular basis, including but not limited to its annual report on Form 10-

K for the year ended September 30, 2010 (filed on November 17, 2010) and its quarterly reports on Form 10-Q for the period ended June 30, 2011 (filed on August 2, 2011). Such filings are available over the Internet at the SEC's web site at <http://www/sec.gov>. Prospective investors are encouraged to review D.R. Horton's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other filings with the SEC to gain a more thorough understanding of D.R. Horton's and its business and financial condition.

According to D.R. Horton's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, D.R. Horton relies on various capital resources available to it to fund its homebuilding activities, including the homebuilding activities of its subsidiaries. Such capital resources available to D.R. Horton as of June 30, 2011, included cash and cash equivalents, marketable securities, secured letter of credit agreements and public unsecured debt (i.e., the issuance by D.R. Horton of senior and senior subordinate notes). The letter of credit agreements require D.R. Horton to deposit cash, in an amount approximately the balance of the letters of credit outstanding, as collateral with the issuing banks. The indentures governing D.R. Horton's senior and senior subordinated notes contain covenants which limit the amount of debt that may be incurred.

There is no assurance that amounts necessary to finance the remaining site development and construction costs within Improvement Area F will be available from the Developer, D.R. Horton or any other source, when needed. The Developer is under no legal obligation of any kind to borrow or expend funds for the development of the property within Improvement Area F. Any contribution of capital by the Developer or D.R. Horton or any other related entity, or any borrowings by the Developer or D.R. Horton, whether to fund costs of development within Improvement Area F or to pay special taxes, is entirely voluntary.

Absorption. Homes closings commenced in the second quarter of 2010, and based on recent sales activity, the Developer estimates that the project has a projected absorption rate of 6 units per quarter, with final sales estimated to occur in the first quarter of 2013.

History of Property Tax Payment; Loan Defaults; Bankruptcy. The Developer has made the following representations:

- The Developer has been developing or has been involved in the development of numerous projects over an extended period of time. It is likely that the Developer and some of its Affiliates (defined below) have been delinquent at one time or another in the payment of *ad valorem* property taxes, special assessments or special taxes. To the Actual Knowledge of the Developer (defined below) neither the Developer nor any current Affiliate is currently delinquent in any material amount in the payment of *ad valorem* property taxes, special assessments or special taxes on property owned by the Developer or on property owned by any current Affiliate in California. To the Actual Knowledge of the Developer, neither the Developer nor any Affiliate has been delinquent in the payment of special assessments or special taxes on property owned by the Developer or any current Affiliate during the period of its ownership included within the boundaries of a community facilities district or assessment district within California that would have caused a draw on a reserve fund relating to such assessment district or community facilities district financing;

- To the Actual Knowledge of the Developer, neither the Developer nor any of its Affiliates is currently in material default on any loans, lines of credit or other obligation related to its development in the Improvement Area F or any of their other projects which default is reasonably likely to materially and adversely affect the Developer's ability to develop its property in Improvement Area F as proposed in this Official Statement or to pay the Special Taxes for which the Developer is responsible;

- To the Actual Knowledge of the Developer, the Developer and its Affiliates are able to pay their respective bills as they become due and neither the Developer nor any of its Affiliates has filed bankruptcy or been declared bankrupt. There is no legal proceeding pending (with proper service of process having been accomplished) or, to the Developer's actual knowledge, threatened in writing against the Developer or any of its

Affiliates in which the Developer or its Affiliates may be adjudicated as bankrupt, or discharged from any or all of their debts or obligations; and

- No action, suit, proceeding, inquiry or investigation at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with proper service of process to the Developer or an Affiliate having been accomplished) or, to the Actual Knowledge of the Developer, threatened in writing against the Developer or any Affiliate, which if successful, is reasonably likely to materially adversely affect the Developer's ability to complete the development and sale of the property it currently owns within Improvement Area F or to pay Special Taxes or ad valorem tax obligations when due on the Developer's property within Improvement Area F.

For purposes of the foregoing, "Affiliate" means, with respect to a Person (i) any other Person directly or indirectly, through one or more intermediaries, controlling, controlled by or under common control with such Person, and (ii) for whom information, including financial information or operating data, concerning such Person referenced in clause (i) is material to an evaluation of the Community Facilities District and the 2011 Bonds (i.e., information relevant to the development of the property within the Community Facility District or Improvement Area F, the payment of its Special Taxes, or the assets or funds held by the Developer or such Person that would materially affect the Developer's ability to develop the property within Improvement Area F or to pay its Special Taxes). "Person" means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof. For purposes hereof, the term "control" (including the terms "controlling," "controlled by" or "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. For purposes hereof, D.R. Horton is an Affiliate of the Developer.

For purposes of the foregoing, the phrase "Actual Knowledge of the Developer" means the knowledge that the officer signing the certificate (i.e. Letter of Representations) on behalf of the Developer currently has as of the date hereof or has obtained from interviews with such current officers and responsible employees of the Developer and its Affiliates as such officer has determined are likely, in the ordinary course of their respective duties, to have knowledge of the matters set forth in such certificate. The undersigned has not conducted any extraordinary inspection or inquiry other than such inspections or inquiries as are prudent and customary in connection with the ordinary course of the Developer's current business and operations. The Developer notes that D.R. Horton, including its subsidiaries such as the Developer and Affiliates, has undergone several restructurings, including office closures and division consolidations. Individuals who are no longer with the various entities have not been contacted.

Appraised Property Values

An MAI appraisal of the land and existing improvements within Improvement Area F of the Community Facilities District dated August 23, 2011 (defined above as the "Appraisal"), was prepared by Stephen G. White, MAI of Fullerton, California (the "Appraiser") in connection with issuance of the 2011 Bonds. The purpose of the appraisal was to estimate the aggregate market value of the "as-is" condition of the property, including 36 completed-sold homes (closed sales), 7 completed-unsold homes, 12 homes under construction and 18 vacant lots in near finished condition. The Appraisal reflects the Community Facilities District and Improvement Area financings. The subject property in Improvement Area F includes property proposed for development of 73 single-family detached units. The Appraisal is based on certain assumptions set forth in Appendix C hereto. Based on the investigation and analyses described in the Appraisal and subject to the assumptions and limiting conditions set forth therein, the Appraiser estimated that the market value of the land within Improvement Area F (subject to the lien of the Special Taxes) as of August 15, 2011, was as follows:

<u>Tract Name</u>	<u>No. of Units</u>	<u>Market Value</u>
Torrey Ranch	73	\$32,620,000

The \$32,620,000 aggregate market value reported in the Appraisal results in an estimated value-to-lien ratio of 7.12 to 1 with respect to Improvement Area F, calculated in 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 “COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV – Direct and Overlapping Debt” and “BONDOWNERS’ RISKS – Appraised Values” herein and APPENDIX C – “Summary Appraisal Report” appended hereto for further information on the Appraisal and for limiting conditions relating to the Appraisal.

The Appraisal estimated the value of the property in Improvement Area F using a sales comparison approach for the value of the completed-sold units and the completed-unsold units on a mass appraisal basis. For the homes under construction, a simplified cost approach is used, in which the value is based on an estimate of construction costs expended plus the estimated value of the vacant lot as if in a finished condition. The analysis of the vacant lots as if in finished condition is based on the sales comparison approach, considering recent sales of residential land or bulk lots from the general area in comparison to the property in Improvement Area F. A deduction is made for the estimated remaining cost to get all of the lots to a fully finished condition. “Finished lots,” means the lots have all development entitlements, infrastructure improvements completed, finish grading completed, all in-tract utilities extended to the property line of each lot, street improvements completed, common area improvements/landscaping (associated with the tract) completed, resource agency permits (if necessary), and all development fees paid, exclusive of building permit fees, in accordance with the conditions of approval of the specific tract map (which, as described in “Property Ownership” above, is almost the condition of all of the property within Improvement Area F). The estimate of value was based on fee simple ownership, subject only to easements of record and the lien of the Community Facilities District special taxes and of the Improvement Area F Special Taxes and other land secured special taxes and assessments.

The \$32,620,000 market value reported in the Appraisal results in an estimated value-to-lien ratio of 7.12 to 1 in Improvement Area F calculated with respect to all direct and overlapping tax and assessment debt as of the estimated date of issuance of the 2011 Bonds. See “Direct and Overlapping Debt” below.

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.

Value-to-Lien Ratios

The tables below set forth Value-to-Lien information for the 73 parcels utilizing the aggregate appraised value of \$32,620,000.

Table 7
Poway Unified School District Community Facilities District No. 10
(Torrey Highlands – Subarea IV)
Improvement Area F
Combined Assessed Value and Value-to-Burden Ratio

Value-to-Lien Category	Number of Parcels ⁽¹⁾	Combined Overlapping Liens ⁽²⁾	Appraised Value ⁽³⁾	Combined Value-to-Lien Burden Ratio ⁽⁴⁾	Fiscal Year 2012-13 Special Tax	Percentage Share of Special Tax
10:1 and above	0	\$0	\$0	0.00:1	\$0	0.00%
7:1 to 10:1	43	2,686,913.62	23,700,000	8.82:1	77,751.42	58.77
5:1 to 7:1	6	373,301.51	2,250,000	6.03:1	10,420.36	7.88
3:1 to 5:1	24	1,524,411.80	6,670,000	4.38:1	44,116.94	33.35
3:1 and below	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00:1</u>	<u>0</u>	<u>0.00</u>
Total⁽⁵⁾	73	\$4,584,626.93	\$32,620,000	7.12:1	\$132,288.72	100.00

⁽¹⁾ The Special Taxes shown reflect Developed Property based on all building permits having been issued as of August 15, 2011, as confirmed by Dolinka Group, LLC with the City of San Diego.

⁽²⁾ Represents the principal of the Community Facilities District No. 10 Improvement Area F and estimated portion of outstanding Community Facilities District No. 10 overlapping debt as of September 2, 2012 based on estimated Fiscal Year 2012-13 levy which amount is greater than the amount shown in Table 10 which reflects the Fiscal Year 2011-12 levy.

⁽³⁾ Source: Appraisal.

⁽⁴⁾ Average Value to lien per lot; actual value to lien per lot may vary.

⁽⁵⁾ Totals may not sum due to rounding.

Source: Dolinka Group, LLC.

Table 8
Poway Unified School District Community Facilities District No. 10
(Torrey Highlands – Subarea IV)
Improvement Area F
Value-to-Burden Ratio Based on Ownership

Ownership ⁽¹⁾	Number of Parcels	Total Appraised Value ⁽²⁾	Fiscal Year 2012-13 Assigned Annual Special Tax Levy	Percentage of Fiscal Year 2012-13 Levy	Principal Amount of 2011 Bonds	Other Overlapping Debt ⁽³⁾	Value to Lien ⁽⁴⁾
Individual owners	38	\$21,300,000	\$68,848.56	52.04%	\$882,148.60	\$1,493,093.69	8.97:1
Developer	<u>35</u>	<u>11,320,000</u>	<u>63,440.16</u>	<u>47.96</u>	<u>812,851.40</u>	<u>1,396,533.24</u>	<u>5.12:1</u>
Total⁽⁵⁾	73	\$32,620,000	\$132,288.72	100.00	\$1,695,000.00	\$2,889,626.93	7.12:1

⁽¹⁾ Ownership status based on updated information from the Developer as of October 7, 2011.

⁽²⁾ Based on Appraisal.

⁽³⁾ Represents the principal of the Community Facilities District No. 10 Improvement Area F and estimated portion of outstanding Community Facilities District No. 10 overlapping debt as of September 2, 2012 based on estimated Fiscal Year 2012-13 levy which amount is greater than the amount shown in Table 10 which reflects the Fiscal Year 2011-12 levy.

⁽⁴⁾ Average Value to lien per lot; actual value to lien per lot may vary.

⁽⁵⁾ Totals may not sum due to rounding.

Source: Dolinka Group, LLC.

Table 9
Poway Unified School District Community Facilities District No. 10
(Torrey Highlands – Subarea IV)
Improvement Area F
Value-to-Burden Ratio Based on Development Status

Ownership⁽¹⁾	Number of Parcels	Total Appraised Value⁽²⁾	Fiscal Year 2012-13 Assigned Annual Special Tax Levy	Percentage of Fiscal Year 2012-13 Levy	Principal Amount of 2011 Bonds	Other Overlapping Debt⁽³⁾	Value to Lien⁽⁴⁾
Individual owners	38	\$21,300,000	\$68,848.56	52.04%	\$882,148.60	\$1,493,093.69	8.97:1
<u>Developer</u>							
Completed	5	2,400,000	8,902.86	6.73	114,071.31	197,600.02	7.7:1
Under Construction ⁽⁵⁾ (80%)	6	2,250,000	10,420.36	7.88	133,514.86	239,786.64	6.03:1
Under Construction	6	1,800,000	11,144.36	8.42	142,791.39	239,786.64	4.7:1
Vacant	18	4,870,000	32,972.58	24.92	422,473.84	719,359.93	4.27:1
Total⁽⁶⁾	73	\$32,620,000	\$132,288.72	100.00	\$1,695,000.00	\$2,889,626.93	7.12:1

⁽¹⁾ Ownership status based on updated information from the Developer as of October 7, 2011.

⁽²⁾ Based on Appraisal.

⁽³⁾ Represents the principal of the Community Facilities District No. 10 Improvement Area F and estimated portion of outstanding Community Facilities District No. 10 overlapping debt as of September 2, 2012 based on estimated Fiscal Year 2012-13 levy which amount is greater than the amount shown in Table 10 which reflects the Fiscal Year 2011-12 levy.

⁽⁴⁾ Average Value to lien per lot; actual value to lien per lot may vary.

⁽⁵⁾ Lots referenced as 80% completed pursuant to the Appraisal.

⁽⁶⁾ Tables may not sum due to rounding.

Source: Dolinka Group, LLC.

Direct and Overlapping Debt

Table 10 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within Improvement Area F prepared by California Municipal Statistics, Inc. during September 2011 (the “Debt Report”). The Debt Report is included for general information purposes only. In certain cases, the percentages of debt calculations are based on assessed values, which will change significantly as sales occur and assessed values increase to reflect housing values. The Community Facilities District believes the information is current as of its date, but makes no representation as to its completeness or accuracy. Other public agencies, such as the City of San Diego or the County, may issue additional indebtedness at any time, without the consent or approval of the School District or the Community Facilities District and the Community Facilities District expects to issue additional debt secured by special taxes on Developed Property in the future. See “ – Overlapping Assessment and Maintenance Districts” below.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement Area F in whole or in part. Such long term obligations generally are not payable from property taxes, assessments or special taxes on land in Improvement Area F. 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 School District, the County or other public agencies at any time.

The Community Facilities District has not undertaken to commission annual appraisals of the market value of property in the Community Facilities District for purposes of its 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 Community Facilities District Continuing Disclosure Agreement.

Table 10
Poway Unified School District Community Facilities District No. 10
(Torrey Highlands – Subarea IV)
Improvement Area F
Detailed Direct and Overlapping Debt

2011-12 Local Secured Assessed Valuation: \$24,868,350

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 9/1/11</u>
Metropolitan Water District	0.001%	\$ 2,253
Palomar Community College District	0.027	86,678
Poway Unified School District Community Facilities District No. 10	5.312	2,006,980
Poway Unified School District Community Facilities District No. 10, I.A. F	100.	- (1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$2,095,911
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
San Diego County General Fund Obligations	0.007%	\$ 29,030
San Diego County Pension Obligations	0.007	55,098
San Diego County Superintendent of Schools Obligations	0.007	1,390
Palomar Community College District General Fund Obligations	0.032	2,008
Poway Unified School District General Fund Obligations	0.086	29,914
City of San Diego General Fund Obligations	0.015	<u>75,920</u>
TOTAL OVERLAPPING GENERAL FUND DEBT		\$193,360
 COMBINED TOTAL DEBT		\$2,289,271 (2)

(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 2011-12 Assessed Valuation:

Direct Debt - %
 Total Direct and Overlapping Tax and Assessment Debt 8.43%
 Combined Total Debt 9.21%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

Source: California Municipal Statistics, Inc.

Table 11 below sets forth estimated Fiscal Year 2011-12 overall tax rates projected to be to a developed residential unit within Improvement Area F containing 1,812 of building square feet. The table also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

Table 11
Poway Unified School District Community Facilities District No. 10
(Torrey Highlands – Subarea IV)
Improvement Area Estimated Fiscal Year 2011-12 Tax Rates

ASSESSED VALUATION AND PROPERTY TAXES

Estimated Sales Price ^[1]	\$545,000
Homeowner's Exemption	<u>(\$7,000)</u>
Assessed Value ^[2]	\$538,000

	Percent of Total AV	Projected Amount
AD VALOREM PROPERTY TAXES		
General Purposes	1.00000%	\$5,380.00
Ad Valorem Tax Overrides		
City of San Diego Debt Service	0.00500%	26.90
Palomar Community College Debt Service	0.01384%	74.45
Metropolitan Water District	<u>0.00370%</u>	<u>19.91</u>
Total Ad Valorem Property Taxes	1.02254%	\$5,501.26

ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES ^[3]

Poway Unified School District CFD No. 10	\$2,628.82
Poway Unified School District CFD No. 10, IA F ^[4]	2,400.32
MWD Water Standby Charge	11.50
San Diego County CWA Water Availability Standby Charge	10.00
County of San Diego Mosquito/Disease Control	5.86
County of San Diego Mosquito/Rat Control	<u>3.00</u>
Total Assessments, Special Taxes and Parcel Charges	\$5,059.50

TOTAL PROPERTY TAXES **\$10,560.76**

Total Effective Tax Rate (as % of Assessed Value) 1.94%

- (1) Fiscal Year 2011-12 assessed valuation for a developed residential unit containing 1,812 building square feet, selected to represent the median effective tax rate for a residential unit within CFD No. 10, Improvement Area F.
- (2) Net Assessed Value reflects estimated total assessed value for the parcel net of homeowner's exemption.
- (3) All charges and special assessments are based on a Lot size of less than one (1) acre.
- (4) Includes the Supplemental Annual Special Tax of CFD No. 10 Improvement Area F of \$719.20.

Source: Dolinka Group, LLC.

Overlapping Assessment and Community Facilities Districts

As indicated in the tables above, properties within Improvement Area F are subject to a variety of standby charges, direct assessments, maintenance assessments, special assessments and service charges. Most of these charges are in amounts less than \$500 per annum. Other than the Special Taxes levied with respect to the 2011 Bonds, the special taxes levied with respect to the Community Facilities District Bonds, and the special taxes levied with respect to the Supplemental Annual Special Tax levied with respect to Improvement Area F, the Community Facilities District is not aware of whether the properties within Improvement Area F are subject to sewer service charges or special taxes in excess of \$500 per year.

The Community Facilities District has 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 Community Facilities District. Furthermore, nothing prevents the owners of property within the Community Facilities 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 the Community Facilities 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 2011 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 the Community Facilities 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.”

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 2011 Bonds. The Community Facilities District cautions 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 2011 Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in Improvement Area F to pay their Special Taxes when due. Any such failure to pay Special Taxes could result in the inability of the Community Facilities District to make full and punctual payments of debt service on the 2011 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in Improvement Area F.

Risks of Real Estate Secured Investments Generally

The Bondowners 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 Improvement Area F, the supply of or demand for competitive properties in such area, and the market value of residential 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 and floods), which may result in uninsured losses.

Risks Related to Current Market Conditions

The housing market in southern California experienced significant price appreciation and accelerating demand from approximately 2002 to 2006 but subsequently the housing market weakened substantially, with changes from the prior pattern of price appreciation and a slowdown in demand for new housing and declining prices. Since 2006, home developers, appraisers and market absorption consultants have reported weak new home market conditions due to factors including but not limited to the following: (i) lower demand for new homes; (ii) significant increase in cancellation rates for homes under contract; (iii) the exit of speculators from the new home market; (iv) increasing mortgage defaults and foreclosures, (v) a growing supply of new and existing homes available for purchase; (vi) increase in competition for new homes orders; (vii) prospective home buyers having a more difficult time selling their existing homes in the more competitive environment; (viii) reduced sales prices and/or higher incentives required to stimulate new home orders or to induce home buyers not to cancel purchase contracts, (ix) more stringent credit qualification requirements by home loan providers and (x) increased unemployment levels. Any such factors may affect the willingness or ability of taxpayers to pay their Special Tax payment prior to delinquency.

Economic Uncertainty

The 2011 Bonds are being issued at a time of economic uncertainty and volatility. Unemployment rates have increased to approximately 6.3% for the Poway area as of July 2011 (not seasonally adjusted) as compared to 6.3% for calendar year 2010 (not seasonally adjusted) and approximately 10.5% (not seasonally adjusted) for San Diego County as of July 2011 as compared to 10.5% for calendar year 2010 (not seasonally adjusted). The Community Facilities District cannot predict how long these conditions will last or whether to what extent they may affect the ability of homeowners to pay Special Taxes or the marketability of the 2011 Bonds.

Concentration of Ownership

As of August 15, 2011, the Developer is responsible for approximately 50.65% of the Special Taxes in Improvement Area F. See "THE COMMUNITY FACILITIES DISTRICT – Property Ownership and Development." If the Developer is unwilling or unable to pay its Special Tax when due, a potential shortfall in the Bond Service Fund could occur, which would result in the depletion of the related Reserve Fund prior to reimbursement from the resale of foreclosed property or payment of the delinquent Special Taxes and, consequently, a delay or failure in payments of the principal of or interest on the 2011 Bonds.

No property owner is obligated in any manner to continue to own or develop any of the land it presently owns within Improvement Area F. The Special Taxes are not a personal obligation of the Developer, any merchant builder or of any owner of the parcels, and the Community Facilities District can offer no assurance that any current owner or any future owner will be financially able to pay such installments or that it will choose to pay even if financially able to do so.

Failure to Develop Properties

Development of property within Improvement Area F may be subject to economic considerations and unexpected delays, disruptions and chances which may affect the willingness and ability of the Developer or any property owner to pay the Special Taxes when due.

Land development is also subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. The property within Improvement Area F is fully finished and homes are under construction. Building permits have been issued for all 73 lots within Improvement Area F and most discretionary governmental approvals have been obtained with respect to such lots but construction has not yet commenced on approximately 18 of such units. It is possible that the building permits could expire before construction commences or is completed or that other approvals necessary to complete development of the property within Improvement Area F will not be obtained on a timely basis. Failure to proceed with construction or to obtain any such approval could adversely affect land development operations within Improvement Area F. If construction were not to continue, there is a risk that future governmental restrictions on land development within Improvement Area F will be enacted, either directly by a governmental entity with jurisdiction or by the voters through the exercise of the initiative power.

The failure to complete the development or the required infrastructure in the Community Facilities District or substantial delays in the completion of the development or the required infrastructure for the development due to litigation, the inability to obtain required funding, failure to obtain necessary governmental approval or other causes may reduce the value of the property within Improvement Area F and increase the length of time during which Special Taxes will be payable from Undeveloped Property, and may affect the willingness and ability of the owners of property within Improvement Area F to pay the Special Taxes when due. See “COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV) – Appraised Property Values.”

Bondowners should assume that any event that significantly impacts the ability to develop land in Improvement Area F would cause the property values within Improvement Area F to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within Improvement Area F to pay the Special Taxes when due.

Special Taxes Are Not Personal Obligations

The current and future owners of land within Improvement Area F are not personally liable for the payment of the Special Taxes. Rather, the Special Tax is an obligation only of the land within Improvement Area F. If the value of the land within Improvement Area F is not sufficient to fully secure the Special Tax, then the Community Facilities District has no recourse against the landowner under the laws by which the Special Tax has been levied and the 2011 Bonds have been issued.

The 2011 Bonds Are Limited Obligations of the Community Facilities District

The Community Facilities District has no obligation to pay principal of and interest on the 2011 Bonds in the event Special Tax collections are delinquent, other than from amounts, if any, on deposit in the Reserve Fund or funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent, nor is the Community Facilities District obligated to advance funds to pay such debt service on the 2011 Bonds.

Appraised Values

The Appraisal summarized in Appendix C hereto estimates the fee simple interest market value of the residential property within Improvement Area F. This value is merely the present opinion of the Appraiser, and is qualified by the Appraiser as stated in the Appraisal. The Community Facilities District has 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 Improvement Area F 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.

Land Development

All lots are substantially finished and all 73 building permits have been issued, with 36 units completed and conveyed to individual homebuyers, 7 units completed/unsold and all but 18 units under construction in Improvement Area F. A major risk to the Bondowners is that development by the property owners in Improvement Area F may be subject to unexpected delays, disruptions and changes which may affect the willingness and ability of the property owners to pay Special Taxes when due. For example, proposed development within Improvement Area F could be adversely affected by unfavorable economic conditions, competing development projects, an inability of the current owners or future owners of the parcels to obtain financing, fluctuations in the real estate market or interest rates, unexpected increases in development costs, changes in federal, state or local governmental policies relating to the ownership of real estate, faster than expected depletion of existing water allocations, the appearance of previously unknown environmental impacts necessitating preparation of a supplemental environmental impact report, unfavorable economic conditions, and by other similar factors. There can be no assurance that land development operations within Improvement Area F will not be adversely affected by the factors described above.

In addition, partially developed land is less valuable than developed land and provides less security for the 2011 Bonds (and therefore to the owners of the 2011 Bonds) should it be necessary for the Community Facilities District to foreclose on undeveloped property due to the nonpayment of Special Taxes. Moreover, failure to complete future development on a timely basis could adversely affect the land values of those parcels which have been completed. Lower land values result in less security for the payment of principal of and interest on the 2011 Bonds and lower proceeds from any foreclosure sale necessitated by delinquencies in the payment of the Special Taxes.

Furthermore, an inability to develop the land within Improvement Area F as planned will reduce the expected diversity of ownership of land within Improvement Area F, making the payment of debt service on the 2011 Bonds more dependent upon timely payment of the Special Taxes levied on the undeveloped property. Because of the concentration of undeveloped property ownership, the timely payment of the 2011 Bonds depends upon the willingness and ability of the current owners of undeveloped land and any merchant builders to whom finished lots are sold to pay the Special Taxes levied on the undeveloped land when due. Furthermore,

continued concentration of ownership increases the potential negative impact of a bankruptcy or other financial difficulty experienced by the existing landowners. See “Concentration of Property Ownership” above.

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 “COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV) – 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 Tax securing the 2011 Bonds.

In general, as long as the Special Tax is collected on the County tax roll, the Special Tax 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 2011 Bonds, the Special Tax 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 Tax 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 Tax is a claim with regard to a hazardous substance. See “Factors Affecting Parcel Values and Aggregate Value - Hazardous Substances” below.

Disclosure to Future Purchasers

The Community Facilities District has recorded Notices of Special Tax Lien on behalf of itself and Improvement Area F in the Office of the San Diego County Recorder on September 21, 2001, as Document Nos. 2001-0681525 and 2001-0681531, respectively and on April 29, 2010 an Amendment to Notice of Special Tax on behalf of Improvement Area F as Document No. 2010-0214176. 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 parcel of land or a home in Improvement Area F 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 Tax when due.

State Budget

As a result of the slow State and United States of America economies, the State is experiencing serious budgetary shortfalls for the current and prior fiscal years. 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 Community Facilities District cannot be predicted.

Insufficiency of the Special Tax

The principal source of payment of principal of and interest on the 2011 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within Improvement Area F. The annual levy of the Special Tax is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the 2011 Bonds. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the 2011 Bonds, and certainly not a direct relationship.

The Special Tax levied in any particular tax year on a Taxable Property is based upon the revenue needs and application of the Improvement Area F Rate and Method. Application of the Improvement Area F Rate and Method will, in turn, be dependent upon certain development factors with respect to each Taxable Property by comparison with similar development factors with respect to the other Taxable Property within Improvement Area F. Thus, in addition to annual variations of the revenue needs from the Special Tax, the following are some of the factors which might cause the levy of the Special Tax on any particular Taxable Property to vary from the Special Tax that might otherwise be expected:

- (1) Reduction in the amount of Taxable Property, for such reasons as acquisition of Taxable Property by a government and failure of the government to pay the Special Tax based upon a claim of exemption or, in the case of the federal government or an agency thereof, immunity from taxation, thereby resulting in an increased tax burden on the remaining parcels of Taxable Property.
- (2) Failure of the owners of Taxable Property to pay the Special Tax and delays in the collection of or inability to collect the Special Tax by tax sale or foreclosure and sale of the delinquent parcels, thereby resulting in an increased tax burden on the remaining parcels of Taxable Property.

Except as set forth above under “SECURITY FOR THE 2011 BONDS – Special Taxes” and “– Rates and Methods” herein, the Indenture provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in “SECURITY FOR THE 2011 BONDS – Proceeds of Foreclosure Sales” and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the 2011 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the Community Facilities District of the proceeds of sale if the Reserve Fund is depleted. See “SECURITY FOR THE 2011 BONDS – Proceeds of Foreclosure Sales.”

In addition, the Improvement Area F Rate and Method limits the increase of Special Taxes levied on parcels of Developed Property to cure delinquencies of other property owners in Improvement Area F. See “SECURITY FOR THE 2011 BONDS – Rates and Methods” herein.

Exempt Properties

Certain properties are exempt from the Special Tax in accordance with the Improvement Area F Rate and Method (see “SECURITY FOR THE 2011 BONDS – Rates and Methods” herein). In addition, 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 Improvement Area F acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. It is possible that property acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from the Special Tax. In addition, although 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, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax. In the event that additional property is dedicated to the Community Facilities District or other public entities, this additional property might become exempt from the Special Tax.

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.

Depletion of Reserve Fund

The Reserve Fund is to be maintained at an amount equal to the Reserve Requirement (see “SECURITY FOR THE 2011 BONDS – Reserve Fund” herein). Funds in the Reserve Fund may be used to pay principal of and interest on the 2011 Bonds in the event the proceeds of the levy and collection of the Special Tax against property within Improvement Area F are insufficient. If funds in the Reserve Fund for the 2011 Bonds are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the Bondowners pursuant to the 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 Tax against property within Improvement Area F, 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 Special Tax.

Potential Delay and Limitations in Foreclosure Proceedings

The payment of property owners’ taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings, may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. See “SECURITY FOR THE 2011 BONDS – Proceeds of Foreclosure Sales” and “BONDOWNERS’ RISKS – Bankruptcy and Foreclosure Delay” herein. In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

The ability of the Community Facilities District to collect interest and penalties specified by State law and to foreclose against properties having delinquent Special Tax installments may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the “FDIC”) has or obtains an interest. The FDIC would obtain such an interest by taking over a financial institution which has made a loan which is secured by property within the Community Facilities District. See “BONDOWNERS’ RISKS – Payments by FDIC and Other Federal Agencies.”

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.

The Community Facilities District and the School District are unable to predict what effect the application of a policy statement by the FDIC regarding payment of state and local real property taxes would have in the event of a delinquency on a parcel within Improvement Area F in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would likely reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale.

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 the control of the Community Facilities 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 may 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 Community Facilities 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 2011 Bonds.

Delays and uncertainties in the Special Tax lien foreclosure process create significant risks for Bondowners. High rates of special tax payment delinquencies which continue during the pendency of protracted Special Tax lien foreclosure proceedings, could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of property upon foreclosure. In that event, there could be a default in payment of the principal of, and interest on, the 2011 Bonds. See “Special Tax Collection” and “Concentration of Ownership” above.

Bankruptcy and Foreclosure Delay

The payment of Special Taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent Special Taxes as discussed in the section herein entitled “SECURITY FOR THE 2011 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 2011 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 2011 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. To the extent that a significant percentage of the property in Improvement Area F is owned by the Developer, or any other property owner, and such owner is the subject of bankruptcy proceedings, the payment of the Special Tax and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax could be extremely curtailed by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure.

In 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 able 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.

Payments by FDIC and Other Federal Agencies

The ability of the Community Facilities District to collect interest and penalties specified by state law and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the “FDIC”), the Drug Enforcement Agency, the Internal Revenue Service or other similar federal governmental agencies has or obtains an interest.

Specifically, with respect to the FDIC, on June 4, 1991, the FDIC issued a Statement of Policy Regarding the Payment of State and Local Property Taxes (the “1991 Policy Statement”). The 1991 Policy Statement was revised and superseded by new Policy Statement effective January 9, 1997 (the “Policy Statement”). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution’s affairs, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC’s consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC’s consent.

The Policy Statement states that the FDIC generally will not pay non *ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC’s federal immunity. With respect to property in California owned by the FDIC on January 9, 1997 and that was owned by the Resolution Trust Corporation (“RTC”) on December 31, 1995, or that became the property of the FDIC through foreclosure of a security interest held by the RTC on that date, the FDIC will continue the RTC’s prior practice of paying special taxes imposed pursuant to the Act if the taxes were imposed prior to the RTC’s acquisition of an interest in the property. All other special taxes may be challenged by the FDIC.

The Community Facilities District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency on a parcel within Improvement Area F in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the 2011 Bonds should assume that the Community Facilities District will be unable to collect Special Taxes or to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the 2011 Bonds. Based upon the secured tax roll as of January 1, 2011, the FDIC does not presently own any of the property in Improvement Area F. The Community Facilities District expresses no view concerning the likelihood that the risks described above will materialize while the 2011 Bonds are outstanding.

Factors Affecting Parcel Values and Aggregate Value

Geologic, Topographic and Climatic Conditions. The value of the Taxable Property in Improvement Area F in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on the parcels of Taxable Property and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes and volcanic eruptions, topographic conditions such as earth movements, landslides, liquefaction, floods or fires, and climatic conditions such as tornadoes, droughts, and the possible reduction in water allocation or availability. It can be expected that one or more of such conditions may occur and may result in damage to improvements of varying seriousness, that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the value of the Taxable Property may well depreciate or disappear.

Seismic Conditions. Improvement Area F, like all California communities, may be subject to unpredictable seismic activity. The occurrence of seismic activity in the Community Facilities District could result in substantial damage to properties in Improvement Area F which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Special Taxes. Any major damage to structures as a result of seismic activity could result in greater reliance on undeveloped property in the payment of Special Taxes.

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 Improvement Area F 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. As indicated in “COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV) – Property Ownership and Development,” the Developer is not aware of any current liability with respect to a hazardous substance condition of any parcel it owns within Improvement Area F of the Community Facilities District

Endangered and Threatened Species. The Developer reports that the 18 vacant parcels within Improvement Area F are not known by the Developer to be inhabited by any plant or animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has proposed for addition to the endangered species list and that building permits have been issued for such parcels. It is illegal to harm or disturb any plants or animals in their habitat that have been listed as endangered species by the United States Fish & Wildlife Service under the Federal Endangered Species Act or by the California Fish & Game Commission under the California Endangered Species Act without a permit. Thus, the presence of an endangered plant or animal could delay development of vacant property in Improvement Area F or reduce the value of undeveloped property. Failure to develop the vacant property in Improvement Area F as planned, or substantial delays in the completion of the planned development of the property may increase the amount of Special Taxes to be paid by the owners of undeveloped property and affect the willingness and ability of the owners of property within Improvement Area F to pay the Special Taxes when due.

Legal Requirements. Other events which may affect the value of a parcel of Taxable Property in Improvement Area F include changes in the law or application of the law. The Developer has obtained building permits for all 73 parcels and the Developer or its predecessors have secured most discretionary approvals, permits and government entitlements necessary to develop the land within Improvement Area F. Nevertheless, development within Improvement Area F is contingent upon the construction of the homes and certain remaining necessary local in-tract improvements. The failure to timely proceed within the requirements of approvals obtained could adversely affect construction within Improvement Area F. A slow down or stoppage of the construction process could adversely affect land values. Such changes may include, without limitation, local growth control initiatives, local utility connection moratoriums and local application of statewide tax and governmental spending limitation measures.

No Acceleration Provisions

The 2011 Bonds do not contain a provision allowing for the acceleration of the 2011 Bonds in the event of a payment default or other default under the terms of the 2011 Bonds or the Indenture. Pursuant to the Indenture, a Bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies (see APPENDIX D - "Summary of Certain Provisions of Indenture" herein).

So long as the 2011 Bonds are in book-entry form, DTC will be the sole bondowner and will be entitled to exercise all rights and remedies of Bondowner.

Improvement Area F 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 in Improvement Area F pursuant to the Act, more than two-thirds of the qualified electors within Improvement Area F, consisting of the landowners within the boundaries of Improvement Area F, authorized the Community Facilities District to incur bonded indebtedness to finance the School Facilities and the City Facilities and approved the Improvement Area F Rate and Method. 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 community facilities district.

Under provisions of the Act, the Special Taxes are billed to the properties within Improvement Area F 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 “SECURITY FOR THE 2011 BONDS – Proceeds of Foreclosure Sales,” for a discussion of the provisions which apply, and procedures which the Community Facilities District is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

Inability to Collect Special Taxes

In order to pay debt service on the 2011 Bonds, it is necessary that the Special Tax levied against land within Improvement Area F be paid in a timely manner. The Community Facilities District has covenanted in the 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 2011 Bonds. 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 owners of the 2011 Bonds 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 of Education to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the Board of Education 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 “SECURITY FOR THE 2011 BONDS – Proceeds of Foreclosure Sales.”

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 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 as they may relate to community facilities districts are subject to interpretation by the courts.

Among other things, Section 3 of Article XIII C 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 was 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 2011 Bonds.

It may be possible, however, for voters of Improvement Area F to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2011 Bonds 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 2011 Bonds.

Like its antecedents, the Initiative is likely to undergo both judicial and legislative scrutiny before its impact on the Community Facilities District and its obligations can be determined. Certain provisions of the Initiative may be examined by the courts for their constitutionality under both State and federal constitutional law. The Community Facilities District is not able to predict the outcome of any such examination.

The foregoing discussion of the Initiative should not be considered an exhaustive or authoritative treatment of the issues. The Community Facilities District does 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 the Initiative on the 2011 Bonds as well as the market for the 2011 Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of the Initiative.

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 County, the Community Facilities 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.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the 2011 Bonds or, if a secondary market exists, that such 2011 Bonds can be sold for any particular price. Although the Community Facilities District and the Developer has 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, the absence of credit rating for the 2011 Bonds 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.

Loss of Tax Exemption

As discussed under the caption “LEGAL MATTERS – Tax Exemption,” the interest on the 2011 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2011 Bonds as a result of future acts or omissions of the Community Facilities District and the School District in violation of certain provisions of the Code and the covenants of the Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2011 Bonds, the Community Facilities District has covenanted in the 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 2011 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2011 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 Indenture. See “THE 2011 BONDS – Redemption.”

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2011 Bonds will be selected for audit by the IRS. It is also possible that the market value of such 2011 Bonds might be affected as a result of such an audit of such 2011 Bonds (or by an audit of similar bonds or securities).

Impact of Legislative Proposals, Clarifications of the Code and Court Decisions on Tax Exemption

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2011 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners of the 2011 Bonds from realizing the full current benefit of the tax status of such interest. See, for example “LEGAL MATTERS – American Jobs Act of 2011; Debt Reduction Act” for a description of legislative proposals which may affect the market price for, or marketability of, the 2011 Bonds.

The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2011 Bonds. Prospective purchasers of the 2011 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation as to which Bond Counsel expresses no opinion.

Limitations on Remedies

Remedies available to the Bondowners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2011 Bonds or to preserve the tax-exempt status of the 2011 Bonds. See “Payments by FDIC and other Federal Agencies,” “No Acceleration Provisions” and “Billing of Special Taxes” herein.

LEGAL MATTERS

Legal Opinion

The legal opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, approving the validity of the 2011 Bonds will be made available to purchasers at the time of original delivery and is attached hereto as Appendix G. A copy of the legal opinion will be printed on each 2011 Bond. McFarlin & Anderson LLP, Laguna Hills, California is serving as Disclosure Counsel. Best Best & Krieger LLP will also pass upon certain legal matters for the School District and the Community Facilities District as special counsel to these entities.

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 2011 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 Community Facilities District comply with all requirements of the Internal Revenue Code of 1986 (the “Code”) that must be satisfied subsequent to the issuance of the 2011 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Community Facilities District has covenanted in the Indenture 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 2011 Bonds.

In the further opinion of Bond Counsel, interest on the 2011 Bonds is exempt from California personal income taxes.

To the extent the issue price of any maturity of the 2011 Bonds is less than the amount to be paid at maturity of such 2011 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2011 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 2011 Bonds which is excluded from gross income for federal income tax purposes and State personal income taxes. For this purpose, the issue price of a particular maturity of the 2011 Bonds in the first price at which a substantial amount of such maturity of the 2011 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 2011 Bonds accrues daily over the term to maturity of such 2011 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 2011 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity).

of such 2011 Bonds. Owners of the 2011 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the 2011 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2011 Bonds in the original offering to the public at the first price at which a substantial amount of such 2011 Bonds is sold to the public.

The 2011 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 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 2011 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2011 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 2011 Bonds other than as expressly described above.

Should the interest on the 2011 Bonds become includable in gross income for federal income tax purposes, the 2011 Bonds are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Indenture.

Bond Counsel’s opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2011 Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such action or events are taken or do occur, or whether such actions or events may adversely affect the value of tax treatment of a 2011 Bond and Bond Counsel expresses no opinion with respect thereto.

Although Bond Counsel has rendered an opinion that interest on the 2011 Bonds is excluded from gross income for federal income tax purposes provided the Community Facilities District continues to comply with certain requirements of the Code, the accrual or receipt of interest on the 2011 Bonds may otherwise affect the tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient’s particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the 2011 Bonds.

It is possible that subsequent to the issuance of the 2011 Bonds there might be federal, state or local statutory changes (or judicial or regulatory interpretations of federal, state or local law) that affect the federal, state or local tax treatment of the 2011 Bonds or the market value of the 2011 Bonds. No assurance can be given that subsequent to the issuance of the 2011 Bonds such changes or interpretations will not occur. See “LEGAL MATTERS – American Jobs Act of 2011; Debt Reduction Act.

IRS Audit Program. The IRS had initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2011 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2011 Bonds might be affected as a result of such an audit of the 2011 Bonds (or an audit of another series of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, that Congress or the IRS might change the Code (or interpretation thereof) subsequent to the delivery of the 2011 Bonds to the extent that it adversely affects the exclusion from gross income of interest with respect to the 2011 Bonds or the market value of the 2011 Bonds.

Absence of Litigation

No litigation is pending or threatened concerning the validity of the 2011 Bonds. There is no action, suit or proceeding known by the Community Facilities District or the School District to be pending at the present time restraining or enjoining the delivery of the 2011 Bonds or in any way contesting or affecting the validity of the 2011 Bonds or any proceedings of the Community Facilities District or the School District taken with respect to the execution thereof. A no litigation certificate executed by the School District on behalf of the Community Facilities District will be delivered to the Underwriter simultaneously with the delivery of the 2011 Bonds.

No General Obligation of School District or Community Facilities District

The 2011 Bonds are not general obligations of the School District or the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from proceeds of the Special Tax of Improvement Area F and proceeds of the 2011 Bonds, including amounts in the Reserve Fund, Special Tax Fund and Bond Service Fund and investment income on certain funds held pursuant to the Indenture (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 2011 Bonds shall be limited to the Special Taxes to be collected within Improvement Area F of the Community Facilities District.

American Jobs Act of 2011; Debt Reduction Act

On September 12, 2011, President Obama submitted to Congress a legislative proposal, the “American Jobs Act of 2011” (the “Jobs Act”), containing a series of spending programs and tax incentives designed to stimulate jobs growth. To avoid adding to the deficit, the proposal includes a number of changes to the Code, including one that would reduce the tax value of all itemized deductions and targeted tax expenditures for high-income taxpayers in tax years commencing on or after January 1, 2013. The concept of “high-income taxpayers” generally captures taxpayers with adjusted gross income of \$250,000 or more for married couples filing jointly (or \$200,000 for single taxpayers). Among the targeted tax expenditures is interest on any bond excludable from gross income under Section 103 of the Code, whether the bond is outstanding on the enactment date of the proposed legislation or is issued thereafter, and would include interest on the 2011 Bonds. The American Jobs Act of 2011 failed to gain 60 votes in the Senate on October 11, 2011, in connection with a parliamentary procedure by which debate is ended and an immediate vote is taken on the matter under discussion. Portions of the Jobs Act may be introduced for a vote at a later date or dates. The week of September 26, 2011, President Obama submitted draft legislation to the congressional Deficit Reduction Committee entitled the “Debt Reduction Act of 2011” (the “Debt Reduction Act”). The Debt Reduction Act would require the Office of Management and Budget to establish steadily declining annual ratios for debt as a percentage of gross domestic product, effective for taxable years beginning on or after January 1, 2013. Under the proposal, if the ratios are not met, automatic cuts in spending and tax preferences, such as tax-exempt interest, would be triggered. Prospective purchasers should consult with their own tax advisors regarding the Jobs Act, the Debt Reduction Act, and any other pending or proposed federal income tax legislation. The likelihood of the Jobs Act or the Debt Reduction Act being enacted or whether the currently proposed terms of the Jobs Act or Debt Reduction Act will be altered or removed during the legislative process cannot be reliably predicted.

NO RATINGS

The 2011 Bonds have not been rated by any securities rating agency.

UNDERWRITING

The 2011 Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus, Los Angeles, California (the “Underwriter”), at a purchase price of \$1,631,055.35 (which represents the aggregate principal amount of the 2011 Bonds of \$1,695,000.00, less an underwriter’s discount of \$50,000.00 and less an original issue discount of \$13,944.65).

The purchase agreement relating to the 2011 Bonds provides that the Underwriter will purchase all of the 2011 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement.

The Underwriter may offer and sell 2011 Bonds to certain dealers and others at prices lower than the offering price stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

PROFESSIONAL FEES

Except for some Special Tax Consultant and Appraisal fees paid from Special Taxes, fees payable to certain professionals, including the Underwriter, McFarlin & Anderson LLP, as Disclosure Counsel, Best Best & Krieger LLP, as Bond Counsel, and Zions First National Bank, as the Fiscal Agent, are contingent upon the issuance of the 2011 Bonds. The fees of Dolinka Group, LLC, as Special Tax Consultant, are in part contingent upon the issuance of the 2011 Bonds. The fees of Stephen G. White, MAI, as Appraiser, are not contingent upon the issuance of the 2011 Bonds.

MISCELLANEOUS

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 statement 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 representatives of fact. This Official Statement is not to be construed as a contract or agreement between the Community Facilities District and the purchasers or owners of any of the 2011 Bonds.

The execution and delivery of the Official Statement by the Community Facilities District has been duly authorized by the Poway Unified School District on behalf of the Community Facilities District.

COMMUNITY FACILITIES DISTRICT NO. 10
(TORREY HIGHLANDS - SUBAREA IV) OF THE
POWAY UNIFIED SCHOOL DISTRICT

By: /s/ John P. Collins
John P. Collins, Ed.D., Superintendent of the Poway
Unified School District on behalf of Community
Facilities District No. 10 (Torrey Highlands -
Subarea IV) of the Poway Unified School District

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, 15250 Avenue of Science, San Diego, CA 92128-3406, Attention: Director of Planning. There may be a charge for copying, mailing and handling.

General Information

The Poway Unified School District (the "School District") is a school district organized under the laws of the State of California (the "State"). The School District was established in 1962. The School District provides education instruction for grades K-12 within an approximately 100 square mile area in the central portion of the County of San Diego (the "County") and includes the City of Poway and portions of the City and County, including the communities of 4S Ranch, Black Mountain Ranch, Carmel Mountain Ranch, Del Sur, Poway, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santa Fe Valley, Santaluz and Torrey Highlands. The School District currently operates 25 elementary schools (K-5), six middle schools (6-8), five high schools (9-12) and one continuation high school. The School District's projected average daily attendance ("ADA") computed in accordance with State law for the 2011-12 academic year is approximately 33,054 (estimate). The estimated population within the School District's boundaries was approximately 67,963. The School District reported 34,135 students enrolled at the California Basic Educational Data System ("CBEDS") for Fiscal Year 2010-11 and estimates approximately 34,423 of students enrolled during Fiscal Year 2011-12.

Administration and Enrollment

The School District is governed by the Board of Education (the "Board"). 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 administrative staff of the School District includes John P. Collins, Ed. D., Superintendent, and Malliga Tholandi, Associate Superintendent, Business Support Services.

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 an Associate Superintendent of Learning Support Services and an Associate Superintendent of Personnel Support Services.

From Fiscal Year 2004-05 through Fiscal Year 2011-12 the School District's enrollment has been stable. The demographics of the School District reflect an increasing trend in elementary school population, stable trend in middle school population and slight decrease in high school population.

Experience shows that the east side of the School District is nearly built out and west and south areas are experiencing developments and new families. California voters approved Proposition 13 that not only limits the tax rate on property, but gives an incentive for owners to occupy longer resulting in slower turnover of homes to new families. This impacts the east side with declining enrollment. The School District however has offsetting growth on the west side. Information concerning enrollment for these years is set forth below:

**Poway Unified School District
Student Enrollment**

Fiscal Year	CBEDS Enrollment	District Average Daily Attendance	District Base Revenue Limit
2006-07	32,873	31,817	5,527
2007-08	33,283	32,075	5,780
2008-09	33,305	32,366	6,110
2009-10	33,797	32,646	5,202
2010-11	34,135	33,046	5,207
2011-12	34,423*	33,054*	5,225*

*Estimated.

Source: California Department of Education and the School District.

Labor Relations

As of September 13, 2011, the School District employed approximately 1,698 certificated professionals and approximately 1,735 classified employees. The professionals, except management and some part-time employees, are represented by the bargaining units as noted below:

**Poway Unified School District
District Employees**

Labor Organization	Approximate Number of Employees In Organization¹	Contract Expiration Date
Poway Federation of Teachers (PFT), Local 2357	1,474	6/30/12
Service Employees International Union	435	6/30/13
Poway Schools Employees Association	1,207	6/30/12

¹Excludes management and part-time employees who are not represented by any of the labor organizations.

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 2006-07 was \$11,013,784, in Fiscal Year 2007-08 was \$11,588,843, in Fiscal Year 2008-09 was \$11,570,502, in Fiscal Year 2009-10 was \$10,272,133 and in Fiscal Year 2010-11 was \$9,706,048. The School District's contribution to STRS for Fiscal Year 2011-12 is estimated to be approximately \$9,897,938. 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 System ("PERS"). This plan covers certificated employees who elect and all classified personnel who are employed 1,000 or more hours per fiscal year. The School District's contribution to PERS for Fiscal Year 2006-07 was \$5,598,960, in Fiscal Year 2007-08 was \$6,158,527, in Fiscal Year 2008-09 was \$6,244,809, in Fiscal Year 2009-10 was \$5,929,446 and in Fiscal Year 2010-11 was \$6,380,309. The School District's contribution to PERS for Fiscal Year 2011-12 is estimated to be approximately \$5,727,734.

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 state-wide rates set by the STRS and PERS retirement boards. STRS has a substantial state-wide unfunded liability. Since this liability has not been broken down by each school district, it is impossible to determine the School District's share.

The School District offers post retirement benefits for employees up to age 65. The School District's contribution for these benefits for the Fiscal Year ending June 30, 2007, was \$942,340, for the Fiscal Year ending June 30, 2008, was \$1,134,471, for the Fiscal Year ending June 30, 2009, was \$1,353,447, for the Fiscal Year ending June 30, 2010 was \$1,571,614 and for the Fiscal Year ending June 30, 2011 was \$2,256,489. The School District estimates that its contributions for these benefits will be approximately \$2,409,283 for Fiscal Year 2011-12. The program is operated on a pay-as-you go basis and budgets the current costs each year with an increase based on actual health and welfare increases.

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.

In 1998, the State of California authorized the School District to operate a Self-Insured Workers' Compensation Plan to finance liabilities arising from employee industrial injuries. The School District responded by implementing such a plan on July 1, 1998. Effective July 1, 2005, the School District joined a fully insured workers' compensation Joint Powers Authority ("JPA") known as the Protected Insurance Program for Schools ("PIPS"). The School District retains responsibility for all previous self-insured claims and will manage them until they close. Keenan & Associates is the claims administrator for both self-insured and PIPS claims.

The School District operates a self-insurance program to cover general liability claim losses up to a limit of \$50,000 per claim and for property losses up to \$5,000 per claim. Lower self-insured retentions apply to boiler and machinery/energy systems (\$1,000 per claim) and crime losses (\$500 per claim). Excess property and liability insurance is acquired through membership in a joint powers authority, the Southern California Regional Liability Excess Fund ("SCR"). SCR provides general liability coverage up to \$25,000,000 per occurrence (minus the \$50,000 retention) and property loss coverage up to \$250,000,000 per occurrence (minus the \$5,000 retention). The relationship between the School District and SCR is such that SCR is not a component unit of the School District.

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APPENDIX B

**RATES AND METHODS OF APPORTIONMENT FOR
COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV)
OF THE POWAY UNIFIED SCHOOL DISTRICT**

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**FIRST AMENDED
RATE AND METHOD OF APPORTIONMENT FOR
IMPROVEMENT AREA F
OF COMMUNITY FACILITIES DISTRICT NO. 10
OF THE POWAY UNIFIED SCHOOL DISTRICT**

An Annual Special Tax shall be levied on and collected in Improvement Area ("IA") F of Community Facilities District ("CFD") No. 10 of the Poway Unified School District ("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 IA F of CFD No. 10, 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 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 of the School District to carry out its duties as the legislative body of IA F of CFD No. 10.

"Affordable Unit" means any Unit subject to deed restrictions, resale restrictions, and/or regulatory agreements recorded in favor of the City or County providing for affordable housing.

"Annual Special Tax" means the Special Tax levied in each Fiscal Year on an Assessor's Parcel as set forth in Section G.

"Annual Special Tax Requirement" means the amount required in any Fiscal Year to pay: (i) the debt service on all Non-School Bonds or other periodic costs on the Non-School Bonds, (ii) the Administrative Expenses of IA F of CFD No. 10, (iii) any costs associated with the release of funds from an escrow account in association with the Non-School Bonds, (iv) any amount required to establish or replenish any reserve funds established in association with the Non-School Bonds, less (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (v) above pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement. In arriving at the Annual Special Tax Requirement the Board shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in previous Fiscal Year.

"Assessor's Parcel" means a parcel of land in IA F of CFD No. 10 which is 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 as set forth in Section D. In each Fiscal Year, Assigned Annual Special Tax revenues shall be used in the following order of priority; (i) to satisfy the Annual Special Tax Requirement and (ii) to pay for the acquisition, construction, rehabilitation, and improvement of School Facilities.

"Assigned Annual Special Tax Present Value of Taxes" means the present value of Assigned Annual Special Tax applicable to such Assessor's Parcel in the current Fiscal Year not yet received by the School District for IA F of CFD No. 10, plus the expected Assigned Annual Special Tax applicable to such Assessor's Parcel in each remaining Fiscal Year until the termination date specified in Section I using as the discount rate the (i) Bond Yield after Non-School Bond issuance or (ii) the most recently published Bond Index prior to the Non-School Bond issuance. The duration used to calculate the Assigned Annual Special Tax Present Value of Taxes prior to the issuance of the first series of Non-School Bonds shall be the lesser of (i) thirty-four (34) years and (ii) the number of Fiscal Year remaining until Fiscal Year 2050/2051.

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

"Backup Annual Special Tax" means the Special Tax of that name described in Section F below.

"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, to the repayment of which Special Taxes of IA F of CFD No. 10 are pledged.

"Bond Index" means the National Bond Buyer Revenue Index, commonly referenced as the 25-Bond Revenue Index. In the event the Bond Index ceases to be published, the index used shall be based on a comparable index for revenue bonds maturing in 30 years with an average rating equivalent to Moody's A1 and S&P's A-plus, as reasonably determined by the Board.

"Bond Yield" means the yield on the last series of Non-School Bonds issued by or on behalf of IA F of CFD No. 10, as calculated at the time such Non-School Bonds are issued, pursuant to Section 148 of the Internal Revenue Code of 1986, as amended, for the purpose of the non-arbitrage certificate or other similar bond issuance document.

"Building Permit" means a permit for the construction of one or more Units issued by the City, or another public agency in the event the City no longer issues permits for the construction of Units within IA F of CFD No. 10. For purposes of this definition, "Building Permit" shall not include permits for construction or installation of commercial/industrial structures, parking structures, retaining walls, utility improvements, or other such improvements not intended for human habitation.

"Building Square Footage" or **"BSF"** means the square footage of internal living space of a Unit, exclusive of garages or other structures not used as living space, as determined by reference to the building permit application for such Unit or other applicable records of the City.

"Calendar Year" means any period beginning January 1 and ending December 31.

"City" means the City of San Diego.

"County" means the County of San Diego.

"Developed Property" means all Assessor's Parcels for which Building Permits for the construction of Units were issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels were created on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as determined reasonably by the Deputy Superintendent.

"Exempt Property" means the property designated as Exempt Property in Section J.

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

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

"Index" means the Marshall & Swift Western Region Class D Wood Frame Index, or if the Marshall & Swift Western Region Class D Wood Frame Index ceases to be used by the State Allocation Board, a reasonably comparable index used by the State Allocation Board to estimate changes 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 greater of (i) the annual percentage change in the Index, as calculated for the twelve (12) months ending December 31 of the prior Calendar Year and (ii) two percent (2.00%).

"Lot" means an individual legal lot created by a Final Subdivision Map for which a Building Permit for a Unit has been or could be issued, provided that land for which one or more building permits have been or could be issued for the construction of one or more model Units shall not be construed as a Lot until such land has been subdivided by a Final Subdivision Map.

"Minimum Taxable Acreage" means the applicable Acreage set forth in Section J.

"Non-School Bonds" means any Bonds which are not School Bonds.

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

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

"Reserve Fund Credit" means the lesser of: (a) the expected reduction in the applicable reserve requirements, if any, associated with the redemption of outstanding bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirements in effect after the redemption of outstanding bonds as a result of the prepayment from the balance in the applicable reserve funds on the prepayment date. Notwithstanding the foregoing, if the reserve fund requirement is satisfied by a surety bond or other instrument at the time of the prepayment, then no Reserve Fund Credit shall be given. Notwithstanding the foregoing, the Reserve Fund Credit shall in no event be less than 0.

"School Bonds" means any Bonds allocable to proceeds used or to be used to fund the acquisition, construction, rehabilitation, or improvement of School Facilities.

"School Facilities" means any public facilities owned or to be owned by the School District.

"Senior Citizen Unit" means a Unit designated as senior citizen housing, part of a residential care facility for the elderly, or part of a multi-level care facility for the elderly as referred to in California Government Code Section 65995.1. For purposes hereof, it shall be sufficient to designate a Unit as a Senior Citizen Unit if Senior Citizen Restrictions have been affected with respect to such Unit.

"Senior Citizen Restriction" means (i) a restriction limiting the use of Units to senior citizen housing under a specific 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 any of the special taxes authorized to be levied in IA F of CFD No. 10 under the Act.

"Supplemental Annual Special Tax" means the Special Tax of that name as set forth in Section E. In each Fiscal Year, Supplemental Annual Special Tax revenue shall be used to pay for the acquisition, construction, rehabilitation, and improvement of School Facilities.

"Supplemental Annual Special Tax Present Value of Taxes" means the present value of Supplemental Annual Special Tax applicable to such Assessor's Parcel in the current Fiscal Year not yet received by the School District for IA F of CFD No. 10, plus the expected Supplemental Annual Special Tax applicable to such Assessor's Parcel in each remaining Fiscal Year until the termination date specified in Section I using as the discount rate the (i) Bond Yield after Non-School Bond issuance or (ii) the most recently published Bond Index prior to Non-School Bond issuance. The duration used to calculate the Supplemental Annual Special Tax Present Value of Taxes prior to the issuance of the first series of Non-School Bonds shall be the lesser of (i) thirty-four (34) years and (ii) the number of Fiscal Years remaining until Fiscal Year 2050/2051.

"Taxable Property" means all Assessor's Parcels which are not Exempt Property.

"Undeveloped Property" means all Assessor's Parcels which are not Developed Property.

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

SECTION B ASSIGNMENT OF ASSESSOR'S PARCELS

For each Fiscal Year, beginning with Fiscal Year 2010/2011, each Assessor's Parcel shall be classified as Taxable Property or Exempt Property. Furthermore, each Assessor's Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property. Developed Property shall be further classified based on the Building Square Footage of the Unit. The classification of Exempt Property shall take into consideration Minimum Taxable Acreage as determined pursuant to Section J.

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 sum of (i) the greater of (a) the Assigned Annual Special Tax and (b) the Backup Annual Special Tax and (ii) the Supplemental Annual Special Tax.

2. Undeveloped Property

The Maximum Special Tax for any Assessor's Parcel classified as Undeveloped Property in any Fiscal Year shall be the Assigned Annual Special Tax.

SECTION D
ASSIGNED ANNUAL SPECIAL TAXES

1. Developed Property

The Assigned Annual Special Tax for each Assessor's Parcel of Developed Property in Fiscal Year 2010/2011 shall be the amount determined by reference to Table 1 below.

TABLE 1

**ASSIGNED ANNUAL SPECIAL TAX FOR
DEVELOPED PROPERTY FOR
FISCAL YEAR 2010/2011**

Building Square Footage	Assigned Annual Special Tax
< 1,750	\$1,521.71 per Unit
1,750 – 1,900	\$1,648.16 per Unit
1,901 – 2,050	\$1,774.78 per Unit
2,051 – 2,200	\$1,869.58 per Unit
> 2,200	\$1,964.54 per Unit

Each July 1, commencing July 1, 2011, the Assigned Annual Special Tax for each Assessor's Parcel of Developed Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

2. Undeveloped Property

The Assigned Annual Special Tax for an Assessor's Parcel of Undeveloped Property in Fiscal Year 2010/2011 shall be \$18,367.51 per acre of Acreage. On each July 1, commencing July 1, 2011, the Assigned Annual Special Tax for 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.

SECTION E
SUPPLEMENTAL ANNUAL SPECIAL TAXES

1. Developed Property

The Supplemental Annual Special Tax for each Assessor's Parcel of Developed Property in Fiscal Year 2010/2011 shall be the amount determined by reference to Table 2 below.

TABLE 2

**SUPPLEMENTAL ANNUAL SPECIAL TAX FOR
DEVELOPED PROPERTY FOR
FISCAL YEAR 2010/2011**

Building Square Footage	Assigned Annual Special Tax
< 1,750	\$651.00 per Unit
1,750 – 1,900	\$705.10 per Unit
1,901 – 2,050	\$759.26 per Unit
2,051 – 2,200	\$799.82 per Unit
> 2,200	\$840.44 per Unit

Each July 1, commencing July 1, 2011, the Supplemental 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 increase by the Inflator.

Each July 1, commencing the July 1 immediately following the Fiscal Year in which an Assessor's Parcel was first classified as Developed Property, the Supplemental Annual Special Tax for each Assessor's Parcel of Developed Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

2. Undeveloped Property

No Supplemental Annual Special Tax shall apply to Undeveloped Property.

SECTION F BACKUP ANNUAL SPECIAL TAX

Each Fiscal Year, each Assessor's Parcel of Developed Property shall be subject to a Backup Annual Special Tax. The Backup Annual Special Tax rate for an Assessor's Parcel of Developed Property within a Final Subdivision Map shall be the rate per Lot calculated according to the following formula in Fiscal Year 2010/11 or such later Fiscal Year in which such Final Subdivision Map is created, subject to increases as described below:

$$B = (Z \times A) / L$$

The terms above have the following meanings:

B	=	Backup Annual Special Tax per Lot for the applicable Fiscal Year
Z	=	Assigned Annual Special Tax per Acre of Undeveloped Property in the Fiscal Year the calculation is performed
A	=	Acreage of Taxable Property expected to exist in such Final Subdivision Map at the time of calculation, as determined by the Board pursuant to Section J
L	=	Number of Lots in the applicable Final Subdivision Map at the time of calculation

Each July 1, commencing July 1 following the initial calculation of the Backup Annual Special Tax rate for an Assessor's Parcel of Developed Property within a Final Subdivision Map, the Backup Annual Special Tax for each Lot within such Final Subdivision Map shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year. No Backup Annual Special Tax shall be applied to Affordable Units or Senior Citizen Units.

Notwithstanding the foregoing, if the Final Subdivision Map(s) described in the preceding paragraph is subsequently changed or modified, then the Backup Annual Special Tax for each Assessor's Parcel of Developed Property in such Final Subdivision Map area changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Annual Special Tax revenue anticipated to apply to the changed or modified area of the Final Subdivision Map prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Taxable Property of the Final Subdivision Map that is anticipated to be changed or modified, as reasonably determined by the Board.

3. The result of paragraph 2 above shall be divided by 43,560. The result is the Backup Annual Special Tax per square foot of Acreage per square foot of Acreage that shall be applicable to Assessor's Parcels of Developed Property in such changed or modified area of the Final Subdivision Map for all remaining Fiscal Years in which the Special Tax may be levied. Each July 1, commencing the July 1 following the change or modification to the Final Subdivision Map, the amount determined by this Section shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

SECTION G

METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX

Commencing Fiscal Year 2010/2011, and for each subsequent Fiscal Year, the Board shall levy an Annual Special Tax as follows:

- Step One:** The Board shall levy an Annual Special Tax on each Assessor's Parcel of Developed Property in an amount equal to the sum of the (i) Assigned Annual Special Tax and (ii) Supplemental Annual Special Tax applicable to each such Assessor's Parcel.
- Step Two:** If the sum of the Assigned Annual Special Taxes 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 Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Annual Special Tax Requirement.
- Step Three:** If the sum of the Assigned Annual Special Taxes levied on Assessor's Parcels in the first and second steps above is less than the Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax includes the application of the Backup Annual Special Tax shall be increased Proportionately from the Assigned Annual Special Tax up to the Backup Annual Special Tax to satisfy the Annual Special Tax Requirement.

SECTION H

PREPAYMENT OF ANNUAL SPECIAL TAXES

The Annual Special Tax obligations 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, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid. However, the Supplemental Annual Special Tax obligation of an Assessor's Parcel may be prepaid only after or concurrently with the prepayment of the Assigned Annual Special Tax obligation for such Assessor's Parcel. An owner of an Assessor's Parcel intending to prepay the Assigned Annual Special Tax and Supplemental Annual Special Tax obligation shall provide IA F of CFD No. 10 with written notice of intent to prepay. Within thirty (30) days of receipt of such written notice, the Board shall reasonably determine the prepayment amount of such Assessor's Parcel and shall notify such owner of such Prepayment Amount. The Prepayment Amount shall be calculated according to the following formula:

$$AP = APVT - RFC + PAF \text{ or } SP = SPVT - RFC + PAF$$

The terms above have the following meanings:

AP	=	Assigned Annual Special Tax Prepayment Amount
SP	=	Supplemental Annual Special Tax Prepayment Amount
APVT	=	Assigned Annual Special Tax Present Value of Taxes
SPVT	=	Supplemental Annual Special Tax Present Value of Taxes
RFC	=	Reserve Fund Credit
PAF	=	Prepayment Administrative Fees

Notwithstanding 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 Non-School Bonds in each future Fiscal Year and such prepayment will not impair the security of all currently outstanding Non-School Bonds, as reasonably determined by the Board. Such determination shall include identifying all Assessor's Parcels that are expected to become Exempt Property or be developed with Senior Citizen Units or Affordable Units.

With respect to any Assessor's Parcel that is prepaid, the Board shall indicate in the records of IA F of CFD No. 10 that there has been a prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act to indicate the prepayment of the Annual Special Tax obligation and the release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Annual Special Tax shall cease.

SECTION I TERMINATION OF SPECIAL TAX

The Annual Special Tax shall be levied for a term of thirty-four (34) Fiscal Years after the issuance of Non-School Bonds by IA F of CFD No. 10, but in no event shall the Annual Special Tax be levied later than Fiscal Year 2050/2051.

SECTION J EXEMPTIONS

The Deputy Superintendent shall classify as Exempt Property (i) Assessor's Parcels owned by the State of California, Federal or other local governments, (ii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) Assessor's Parcels used exclusively by a homeowners' association, (iv) Assessor's Parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction, (v) Assessor's Parcels for which building permits were issued on or before May 1 of the prior Fiscal Year for the construction of Affordable Units and/or Senior Citizen Units exclusively, and (vi) other types of Assessor's Parcels, at the reasonable discretion of the Deputy Superintendent, provided that no such classification would reduce the Acreage of all Taxable Property to less than 6.87 acres of Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 6.87 acres of Acreage will continue to be classified as Taxable Developed Property or Taxable Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

SECTION K APPEALS

Any property owner claiming that the amount or application of any Special Tax is not correct may file a written notice of appeal with the Deputy Superintendent not later than twelve (12) months after having paid the Special Tax that is disputed. The Deputy 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 Deputy 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 or in other special cases, as determined by the Deputy Superintendent), but an adjustment shall be made to the Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

SECTION L 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 IA F of CFD No. 10 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

S:\CLIENTS\POWAY UNIFIED SD\FINANCE\CFDS\AMENDEMENT TO IA F CFD
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**RATE AND METHOD OF APPORTIONMENT FOR
COMMUNITY FACILITIES DISTRICT NO. 10
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. 10 ("CFD No. 10") of the Poway Unified School District ("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. 10, 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 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 expenses of the School District to carry out its duties as the legislative body of CFD No. 10.

"Annual Special Tax" means the Special Tax levied in each Fiscal Year on an Assessor's Parcel as set forth in Section F.

"Assessor's Parcel" means a lot or parcel of land in CFD No. 10 which is 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 as set forth in Section E.

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

"Attached Unit" means a Unit that (i) consists or shall consist of a building or buildings in which each of the individual Units has at least one common wall with another Unit and (ii) is not a Senior Citizen 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, to the repayment of which Special Taxes of CFD No. 10 are pledged.

"Building Square Footage" or "BSF" means the square footage of internal living space of a Unit, exclusive of garages or other structures not used as living space, as determined by reference to the building permit application for such Unit or other applicable records of the City.

"Calendar Year" means any period beginning January 1 and ending December 31.

"City" means the City of San Diego.

"County" means the County of San Diego.

"Detached Unit" means a Unit which is not an Attached Unit or a Senior Citizen Unit.

"Developed Property" means all Assessor's Parcels for which building permits were issued for the construction of Units on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels were created on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as determined reasonably by the Assistant Superintendent.

"Exempt Property" means the property designated as Exempt Property in Section I.

"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 Floor Area" or "GFA" means the covered and enclosed space within the perimeters of a commercial or industrial structure, not including any storage area incidental to the principal use of the development, garage, parking structure, unenclosed walkway, or utility or disposable area, as used in Section 65995 of the Government Code.

"Gross Prepayment Amount" means any amount determined by reference to Table 2 and adjusted as set forth in Section G.

"Index" means the Marshall & Swift Western Region Class D Wood Frame Index, or if the Marshall & Swift Western Region Class D Wood Frame Index ceases to be used by the State Allocation Board, a reasonably comparable index used by the State Allocation Board to estimate

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changes 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 greater of (i) the annual percentage change in the Index, as calculated for the twelve (12) months ending December 31 of the prior Calendar Year or (ii) two percent (2.0%).

"Lot" means an individual legal lot created by a Final Subdivision Map for which a building permit for a Unit has been or could be issued, provided that land for which one or more building permits have been or could be issued for the construction of one or more model Units shall not be construed as a Lot until such land has been subdivided by a Final Subdivision Map.

"One-Time Special Tax" means the single payment Special Tax to be levied as set forth in Section D.

"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.

"Senior Citizen Unit" means a Unit designated as senior citizen housing, part of a residential care facility for the elderly, or part of a multi-level care facility for the elderly as referred to in California Government Code Section 65995.1. For purposes hereof, it shall be sufficient to designate a Unit as a Senior Citizen Unit if Senior Citizen Restrictions have been effected with respect to such Unit.

"Senior Citizen Restriction" means (i) a restriction limiting the use of Units to senior citizen housing under a specific 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 any of the special taxes authorized to be levied by CFD No. 10 under the Act.

"Taxable Property" means all Assessor's Parcels which are not Exempt Property.

"Undeveloped Property" means all Assessor's Parcels of Taxable Property which are not Developed Property.

"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 an Attached Unit, a Detached Unit, or a Senior Citizen Unit.

"Zone" means either of the areas identified as a Zone in Exhibit A to this Rate and Method of Apportionment.

"Zone 1" means all property located within the area identified as Zone 1 in Exhibit A to this Rate and Method of Apportionment.

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"Zone 2" means all property located within the area identified as Zone 2 in Exhibit A to this Rate and Method of Apportionment.

SECTION B ASSIGNMENT OF ASSESSOR'S PARCELS

For each Fiscal Year, beginning with Fiscal Year 2001-02, (i) each Assessor's Parcel shall be classified as Exempt Property or Taxable Property; (ii) each Assessor's Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property; and (iii) each Assessor's Parcel shall be assigned to a Zone in accordance with Exhibit A.

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 Assigned Annual Special Tax.

2. Undeveloped Property

The Maximum Special Tax for any Assessor's Parcel classified as Undeveloped Property in any Fiscal Year shall be the One-Time Special Tax.

SECTION D ONE-TIME SPECIAL TAX

The One-Time Special Tax shall be collected for each Assessor's Parcel on or before the date a building permit is issued for such Assessor's Parcel in the amounts described below.

1. Zone 1

From May 1, 2001 to April 30, 2002, the One-Time Special Tax amounts in Zone 1 shall be (i) \$2.14 per square foot of BSF for Detached Units, (ii) \$2.14 per square foot of BSF for Attached Units, (iii) \$0.36 per square foot of BSF for Senior Citizen Units, and (iv) \$0.36 per GFA. On each May 1, commencing May 1, 2002, the One-Time Special Tax amounts in Zone 1 shall be increased by the Inflator.

2. Zone 2

From May 1, 2001 to April 30, 2002, the One-Time Special Tax amounts in Zone 2 shall be (i) \$2.14 per square foot of BSF for Detached Units, (ii) \$0.00 per square foot of BSF for Attached Units, (iii) \$0.36 per square foot of BSF for Senior Citizen Units, and (iv) \$0.36 per GFA. On each May 1, commencing May 1, 2002, the One-Time Special Tax amounts in Zone 2 shall be increased by the Inflator.

SECTION E ASSIGNED ANNUAL SPECIAL TAX

1. 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 the amount determined by reference to Table 1 below, subject to adjustment as described below, as applicable. No Assigned Annual Special Tax shall apply to Senior Citizen Units.

TABLE 1

<i>ASSIGNED ANNUAL SPECIAL TAX FOR NEW DEVELOPED PROPERTY FOR FISCAL YEAR 2001-02</i>		
Unit Type	Assigned Annual Special Tax in Zone 1¹	Assigned Annual Special Tax in Zone 2¹
Detached Unit	\$1,817.70 per Unit	\$1,817.70 per Unit
Attached Unit	\$749.15 per Unit	\$1,012.00 per Unit
1. No Assigned Annual Special Tax shall apply to Senior Citizen Units.		

Each July 1, commencing July 1, 2002, 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 Inflator.

2. 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 an Assessor's Parcel shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

SECTION F
METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX

Commencing Fiscal Year 2001-02 and for each subsequent Fiscal Year, the Assistant Superintendent shall levy the Annual Special Tax on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.

SECTION G
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 in full, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid. The Prepayment Amount for an Assessor's Parcel eligible for prepayment shall be determined as described below.

1. Prior to Issuance of Bonds

Prior to the issuance of Bonds, the Prepayment Amount for each Assessor's Parcel of Developed Property and each Assessor's Parcel of Undeveloped Property for which a building permit has been issued shall be the amount equal to the Gross Prepayment Amount. The Gross Prepayment Amount for the period May 1, 2001 to April 30, 2002 shall be the amount determined by reference to Table 2.

TABLE 2

<i>GROSS PREPAYMENT AMOUNT FOR MAY 1, 2001 TO APRIL 30, 2002</i>		
Unit Type	Gross Prepayment Amount in Zone 1	Gross Prepayment Amount in Zone 2
Detached Unit	\$18,870.40 per Unit	\$18,870.40 per Unit
Attached Unit	\$8,083.83 per Unit	\$10,920.16 per Unit

On each May 1, commencing May 1, 2002, the Gross Prepayment Amount for each Unit shall be increased by the Inflator, provided that the Gross Prepayment Amount applicable to a Unit shall not increase after the issuance of the building permit for such Unit.

2. Subsequent to Issuance of Bonds

Subsequent to the issuance of Bonds, the Prepayment Amount for each applicable Assessor's Parcel shall be calculated according to the following formula (capitalized terms defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Defeasance
plus	Administrative Fee
<u>less</u>	<u>Reserve Fund Credit</u>
equals	Prepayment Amount

As of the date of prepayment, the Prepayment Amount shall be calculated as follows:

1. For each Assessor's Parcel of Developed Property, compute the Assigned Annual Special Tax. For each Assessor's Parcel of Undeveloped Property, compute the Assigned Annual Special Tax as though it was already designated as Developed Property, based upon the building permit issued for that Assessor's Parcel.
2. For each Annual Special Tax obligation to be prepaid, divide the Assigned Annual Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the estimated Assigned Annual Special Tax applicable to all Assessor's Parcels of Developed Property at buildout, as reasonably determined by the Assistant Superintendent.
3. The amount determined pursuant to Section G.1. shall be (a) increased by the portion of the Bonds allocable to costs of issuance, reserve fund deposits, and capitalized interest with respect to the applicable Assessor's Parcel and (b) reduced by the amount of regularly retired principal of the Bonds which is allocable to the applicable Assessor's Parcel, as determined by the Assistant Superintendent. The result is the "Outstanding Gross Prepayment Amount." In no event shall any Annual Special Tax determined to have been used to make a regularly scheduled principal payment on the Bonds be adjusted for any increase in any cost index or other basis subsequent to the applicable payment.
4. Multiply the quotient computed pursuant to paragraph 2 by the face value of all outstanding Bonds. If the product is greater than the Outstanding Gross Prepayment Amount, then the product shall be the "Bond Redemption Amount." If the product is less than the Outstanding Gross Prepayment Amount, then the Outstanding Gross Prepayment Amount shall be the "Bond Redemption Amount."
5. Multiply the Bond Redemption Amount by the applicable redemption

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premium, if any, on the outstanding Bonds to be redeemed with the proceeds of the Bond Redemption Amount. This product is the "Redemption Premium."

6. Compute the amount needed to pay interest on the Bond Redemption Amount, the Redemption Premium, and the Reserve Fund Credit (see step 10) to be redeemed with the proceeds of the Prepayment Amount until the earliest call date for the outstanding Bonds.
7. Estimate the amount of interest earnings to be derived from the reinvestment of the Bond Redemption Amount plus the Redemption Premium until the earliest call date for the outstanding Bonds.
8. Subtract the amount computed pursuant to paragraph 7 from the amount computed pursuant to paragraph 6. This difference is the "Defeasance."
9. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."
10. Calculate the "Reserve Fund Credit" as the lesser of: (a) the expected reduction in the applicable reserve requirements, if any, associated with the redemption of outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirements in effect after the redemption of outstanding Bonds as a result of the prepayment from the balance in the applicable reserve funds on the prepayment date. Notwithstanding the foregoing, if the reserve fund requirement is satisfied by a surety bond or other instrument at the time of the prepayment, then no Reserve Fund Credit shall be given. Notwithstanding the foregoing, the Reserve Fund Credit shall in no event be less than 0.
11. The Prepayment Amount is equal to the sum of the Bond Redemption Amount, the Redemption Premium, the Defeasance, and the Administrative Fee, less the Reserve Fund Credit.

With respect to an Annual Special Tax obligation that is prepaid pursuant to this Section G, the Assistant Superintendent shall indicate in the records of CFD No. 10 that there has been a prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such prepayment to indicate the prepayment of the Annual Special Tax obligation and the release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Annual Special Tax shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Annual Special Tax that may be levied in CFD No. 10, net of an allocable portion of Administrative Expenses, shall

April 10, 2001

be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Bonds in each future Fiscal Year, as reasonably determined by the Assistant Superintendent.

SECTION H TERMINATION OF ANNUAL SPECIAL TAX

The Annual Special Tax shall be levied for a term of thirty-one (31) Fiscal Years after the last series of Bonds is issued, but in no event shall the Annual Special Tax be levied later than Fiscal Year 2045-46.

SECTION I EXEMPTIONS

The Assistant Superintendent shall classify as Exempt Property (i) Assessor's Parcels owned by the State of California, Federal or other local governments, (ii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) Assessor's Parcels used exclusively by a homeowners' association, (iv) Assessor's Parcels with public or utility easements or other restrictions making impractical their utilization for other than the purposes set forth in the easement or the restriction, or (v) other types of Assessor's Parcels, at the reasonable discretion of the Assistant Superintendent.

SECTION J APPEALS

Any property owner claiming that the amount or application of any Special Tax is not correct may file a written notice of appeal with the Assistant Superintendent not later than twelve (12) months after having paid 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 or in other special cases, as determined by the Assistant Superintendent), but an adjustment shall be made to the Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

SECTION K 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. 10 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.

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APPENDIX C

SUMMARY APPRAISAL REPORT

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SUMMARY APPRAISAL REPORT

COVERING

Poway Unified School District
CFD No. 10 – Improvement Area F
(D.R. Horton: Torrey Ranch)

DATE OF VALUE:

August 15, 2011

SUBMITTED TO:

Sandra G. Burgoyne
Poway Unified School District
13626 Twin Peaks Rd.
Poway, CA 92064-3034

DATE OF REPORT:

August 23, 2011

SUBMITTED BY:

Stephen G. White, MAI
1370 N. Brea Blvd., Suite 255
Fullerton, CA 92835

Stephen G. White, MAI



Real Estate Appraiser

1370 N. BREA BLVD., SUITE 255 • FULLERTON, CALIFORNIA 92835-4173
(714) 738-1595 • FAX (714) 738-4371

August 23, 2011

Sandra G. Burgoyne
Poway Unified School District
13626 Twin Peaks Rd.
Poway, CA 92064-3034

Re: CFD No. 10 – Improvement Area F
(D.R. Horton: Torrey Ranch)

Dear Ms. Burgoyne:

In accordance with your request, I have completed an appraisal of the taxable property within Improvement Area F of the above-referenced Community Facilities District (CFD). This property comprises 73 single-family lots that are currently being developed by D.R. Horton with a gated tract of homes called Torrey Ranch. The purpose of this appraisal is to estimate the aggregate market value of the “as is” condition of this property, including the 36 completed-sold homes (closed sales), the 7 completed-unsold homes, the 12 homes under construction and the 18 vacant lots in near finished condition. This appraisal also reflects the proposed CFD bond financing, together with the effective tax rate of $\pm 1.9\%$ based on the current home pricing and including special taxes for this CFD and other overlapping debt.

Based on the general inspections of the subject property and analysis of matters pertinent to value, the following conclusion of aggregate market value has been arrived at, subject to the Assumptions and Limiting Conditions, and as of August 15, 2011:

\$32,620,000

(THIRTY-TWO MILLION SIX HUNDRED TWENTY THOUSAND DOLLARS)

The following is the balance of this 26-page Summary Appraisal Report which includes the Certification, Assumptions and Limiting Conditions, definitions, property data, exhibits, valuation and market data from which the value conclusion was derived.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen G. White", written over a horizontal line.

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

SGW:sw
Ref: 11036

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CERTIFICATION

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

- The statements of fact contained in this report are true and correct.
- 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.
- I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 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 the appraisal.
- I have made an inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this Certification, except for data research by my associate, Kirsten Patterson.
- I have not performed a previous appraisal of the subject property within the three years prior to this assignment.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- 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 descriptions 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 estimates contained in the report are based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the properties described and that there are no encroachments or trespasses 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 property, but the values estimated in this

ASSUMPTIONS AND LIMITING CONDITIONS, Continuing

appraisal are based on the assumption that there is no such material on or in the properties 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 Preliminary Official Statement and the Official Statement relating to the special tax bonds of the CFD, as part of the CFD 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 properties in question unless arrangements have previously been made.
14. An estimate of the remaining costs and fees to get the vacant subject lots from their as is condition to finished lots has been provided by the builder, and these estimates have been relied upon in this appraisal as being reasonably accurate and reliable.
15. The valuation has reflected the proposed CFD bond financing, though it is noted that none of the remaining costs to complete (to finished lot condition) will be funded by the CFD bond proceeds.

PURPOSE AND INTENDED USE/USER OF THE APPRAISAL

The purpose of this appraisal is to estimate the aggregate market value of the “as is” condition of the taxable property located within Community Facilities District No. 10 – Improvement Area F of the Poway Unified School District (D.R. Horton: Torrey Ranch), reflecting the proposed CFD bond financing. It is intended that this Summary Appraisal Report is to be used by the client, the financing team and others as required as part of the CFD bond issuance.

SCOPE OF THE APPRAISAL

It is the intent of this 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 and the guidelines of the California Debt and Investment Advisory Commission. This has included a general inspection of the subject properties and their surroundings; obtaining of pertinent property data on the subject properties, including review of various maps and documents relating to the properties and the existing development; obtaining of comparable home and land sales from a variety of sources; and analysis of all of the data to the value conclusion.

DATE OF VALUE

The date of value for this appraisal is August 15, 2011.

PROPERTY RIGHTS APPRAISED

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

DEFINITION OF MARKET VALUE

The most probable price that the specified property interest should sell for in a competitive market after a reasonable exposure time, as of a specified date, in cash, or in terms equivalent to cash, under all conditions requisite to fair sale, with the buyer and seller each acting prudently, knowledgeably, for self-interest, and assuming that neither is under duress. (The Dictionary of Real Estate Appraisal, Fifth Edition)

DEFINITION OF FINISHED LOT VALUE

This term describes the condition of residential lots in a single-family subdivision for detached homes in which the lots are fully improved and ready for homes to be built. This reflects that the lots have all development entitlements, infrastructure improvements completed, finish grading completed, all in-tract utilities extended to the property line of each lot, street improvements completed, common area improvements/landscaping (associated with the tract) completed, resource agency permits (if necessary), and all

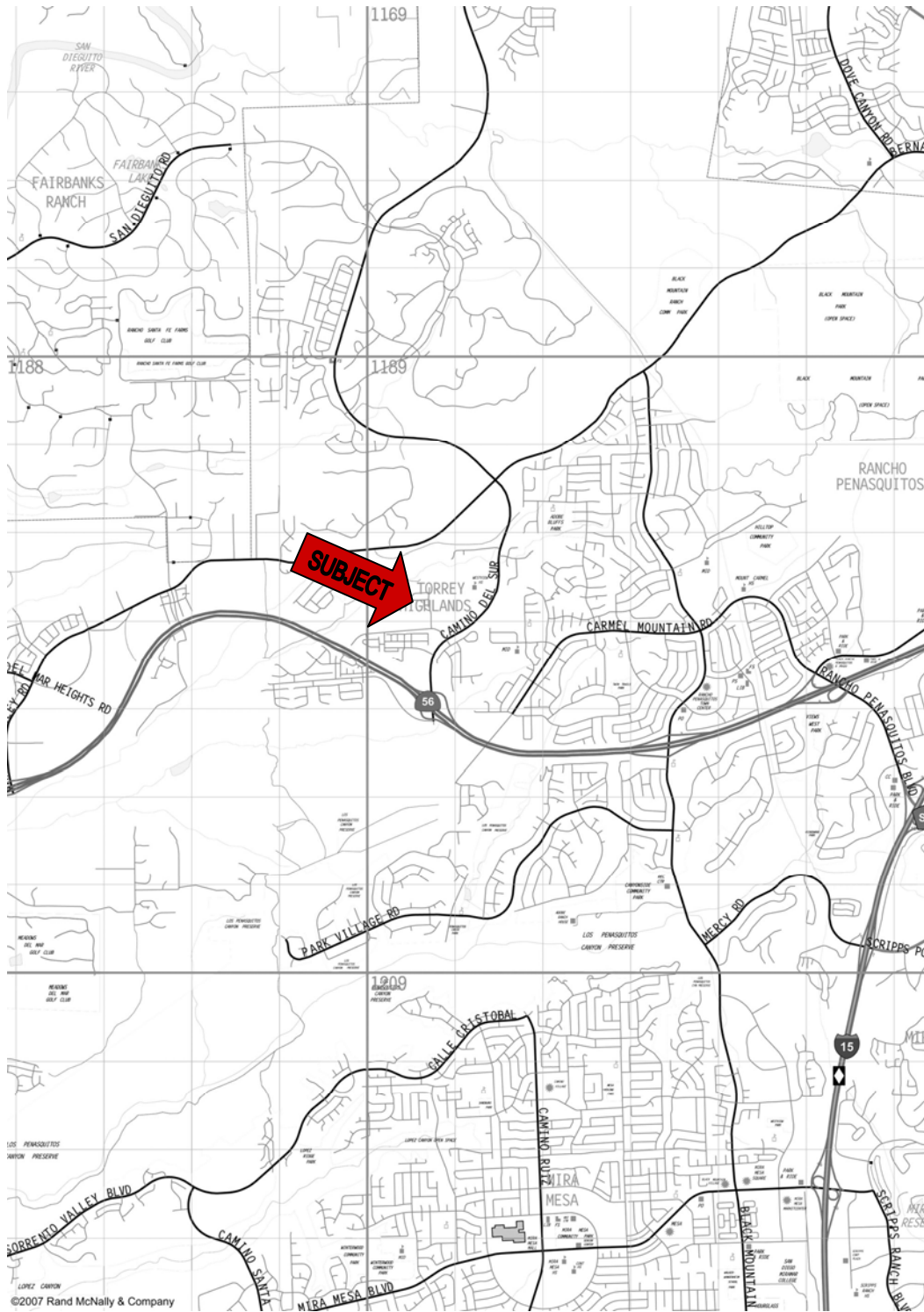
DEFINITION OF FINISHED LOT, Continuing

development fees paid, exclusive of building permit fees, in accordance with the conditions of approval of the specific tract map.

OWNERSHIP/SALES HISTORY

As of the August 15, 2011 date of value, individual homeowners owned 36 of the lots (Lots 1 to 4, 19 to 24, 26, 28, 29, 48, 49, 51, 52 & 55 to 73), and D.R. Horton Los Angeles Holding Co., Inc. owned the remaining 37 lots (including the two models). D.R. Horton acquired these lots from TR II, L.L.C. in a series of take-downs from August 20, 2009 to April 21, 2011 for a total purchase price was \$14,509,155. The builder sales to the 36 homeowners recorded from May 26, 2010 through August 2, 2011 at net prices ranging from \$469,990 to \$672,852, and there have been no subsequent resales.

LOCATION MAP



PROPERTY DATA

LOCATION

The subject Torrey Ranch neighborhood is located at the north end of Torrey Ranch Ct., which is nearby to the north of Torrey Meadows Dr. and nearby to the west of Camino del Sur, in the northerly part of the City of San Diego. This location is in the general area known as Torrey Highlands, with the 56 (Ted Williams) Freeway about ½ mile to the south and the I-15 Freeway about 3 miles to the east.

GENERAL AREA DESCRIPTION

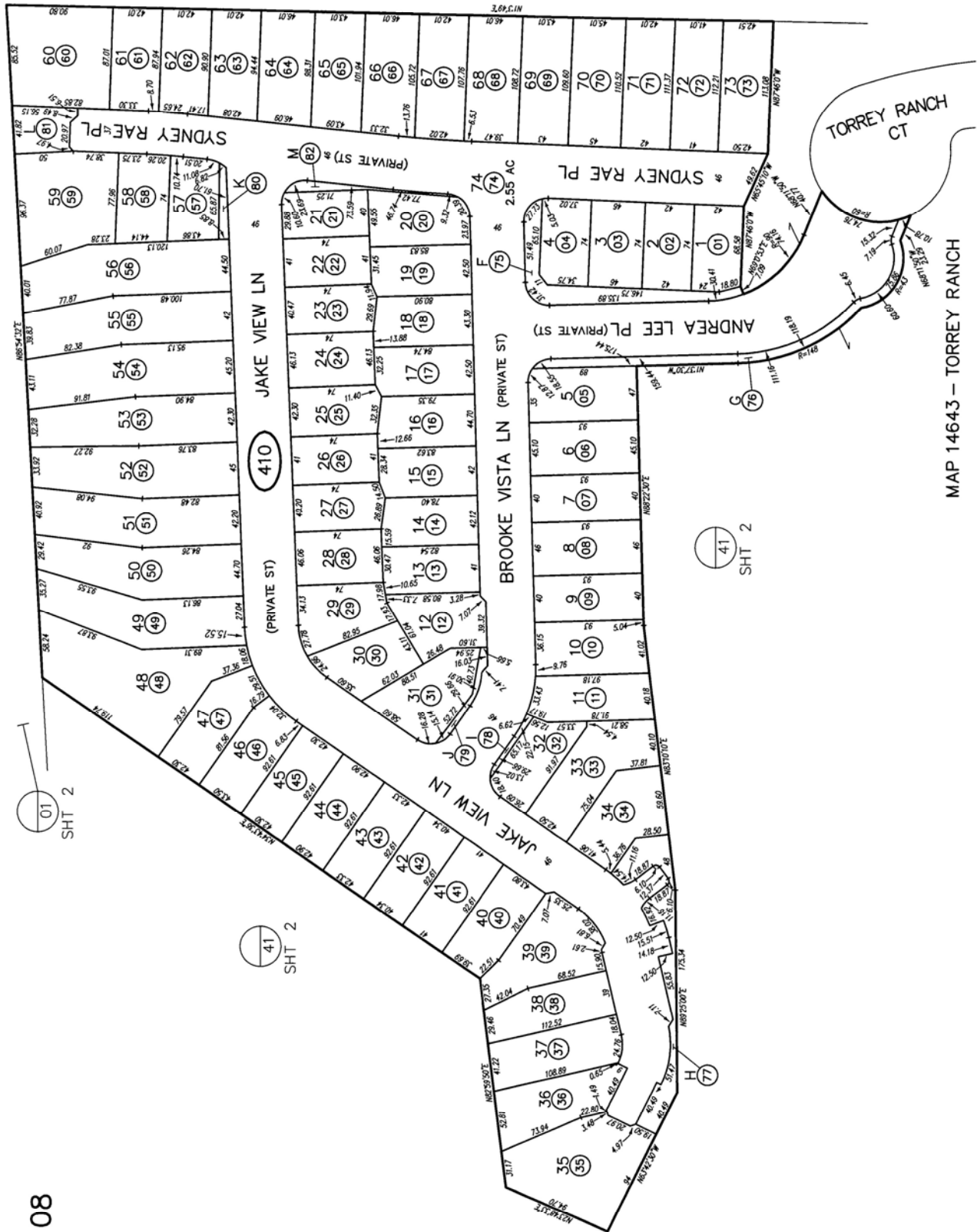
The subject Torrey Ranch neighborhood is located in a semi-rural residential area that includes much nearby residential and commercial development and a high school, but also much adjacent and nearby permanent open space.

Adjacent to the north, northeast, west and southwest of Torrey Ranch is a large area of hilly/undulating open space that includes the watercourse that runs from northeast to southwest through the general area. Across the open space to the northwest is vacant land along the south side of Carmel Valley Rd. that is currently being graded into 41 single-family lots. These lots will be developed by Davidson Communities with homes ranging in size from 2,796 s.f. to 3,286 s.f. and with base pricing from ±\$800,000.

To the west of the Davidson Communities site is the neighborhood called Torrey Del Mar. It includes two product types of detached homes that range in size from about 2,700 s.f. to 4,900 s.f., with recent sale pricing indicating mostly the mid \$700,000's to \$1,350,000. In addition, Torrey Del Mar includes a 112-unit apartment complex along Carmel Valley Rd., a small retail center at the southeast corner of Carmel Valley Rd. and Torrey Del Mar Dr., and a large neighborhood park.

To the south of Torrey Ranch is a ±100' wide strip of open space land which is a watercourse area, and then ±16 acres of vacant and fairly flat land extending south to Torrey Meadows Dr. which is planned for an elementary school and neighborhood park. To the west of this vacant land, southwest of Torrey Ranch, is a site that is currently being graded into 44 single-family lots that will be developed by Davidson Communities with homes ranging in size from 2,606 s.f. to 2,969 s.f. and with base pricing from ±\$750,000.

South of Torrey Meadows Dr. are two townhome projects called Cortina and Bellarado with a total of 275 attached townhomes ranging in size from 1,261 s.f. to 2,176 s.f. and with recent sale prices from the high \$200,000's to the high \$400,000's. To the west of these projects is the 84-unit Monaco townhome project with homes ranging in size from 1,044 s.f. to 1,534 s.f. and recent pricing from the high \$200,000's to the high \$300,000's, and to the east is a 76-unit apartment complex at the southwest corner of Torrey Meadows Dr. and Camino Del Sur.

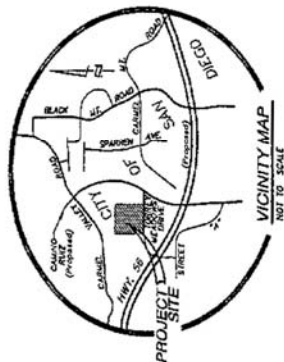


INDEX SHEET

SHEET 3 OF 8 SHEETS



- LEGEND:
- -- -- INDICATES SHEET LIMITS (INDEX SHEET ONLY)
- 7 INDICATES SHEET NUMBER (INDEX SHEET ONLY)
- ① 74① INDICATES FIRST AND LAST LOT NUMBERS.



HUNSAKER & ASSOCIATES SAN DIEGO, INC.
PLANNING - ENGINEERING - SURVEYING
10179 HUMPHREYS STREET - SAN DIEGO, CA 92121
R: (619) 576-0900 / M: (619) 576-2100 - W.O. 2037-9
(E) 556-4500 - FAX (619) 553-1414

NOTES:

2. STONEY RUC PLACE, WINDOKE NESTA LAKE, JANE
DREW LAKE AND AUSTRIA REF PLACE (LOT 14) ARE
RESERVED. CONTRACTS AND AGREEMENTS SHALL REMAIN WITH
THE AGENTS AND CONTRACTORS OF THE FIC TITLE OF SAND LAKE AND
ANYTHING CONTAINED HEREIN SHALL BE CONSIDERED TO
ASSIGN ANY MAINTENANCE RESPONSIBILITY TO THE
CITY OF SAN DIEGO. NOR SHALL ANYTHING CONTAINED
HEREIN BE CONSTRUED TO CONFER ANY RIGHTS TO
THE GENERAL PUBLIC.

UNLESS OTHERWISE SHOWN ON THIS MAP:

1. ALL LOT CORNERS EXCEPT AS DESCRIBED BELOW SHALL BE MONUMENTED BY A 1/4 X 10' IRON PIPE STAMPED "L.S. 7322".

a. LOT CORNERS ALONG THE SOUTHERN LINE OF DEDICATED STREET RIGHT-OF-WAY SHALL BE MONUMENTED BY A DISC STAMPED "L.S. 7322". SET ON AN EXTENSION OF THE CORNER LOCATIONS ALONG THE SOUTHERN LINE OF PRIVATE DRIVEWAYS (LOT 74) SHALL BE MONUMENTED BY A DISC STAMPED "L.S. 7322". SET ON AN EXTENSION OF THE LOT LINE AT AN OFFSET OF 3.50 FEET IN THE SOUTHWEST OR AT AN OFFSET OF 0.5 IN THE SOUTHEAST.

b. CORNERS LOCATED ON THE SOUTHWEST CORNER OF THE RIGHT-OF-WAY LINE OR AT RIGHT ANGLES TO THE RIGHT-OF-WAY LINE.

3. ALL POINTS OF CURVE ALONG THE SIDELINES OF DETACHED STREET RIGHT-OF-WAY WILL BE MONUMENTED BY A SET STAMPED "S. 7322" SET AT AN OFFSET OF 9.75 FEET IN THE CURB. POINTS OF CURVE ALONG THE SIDELINES OF PRIVATE DRIVEWAYS (LOT 74) WILL BE MONUMENTED BY A SET STAMPED "S. 7322" SET AT AN OFFSET OF 3.50 FEET IN THE CURB. WHERE AN OFFSET OF 3.50 FEET IN CURB WHERE NO SIDEWALK EXISTS, ALL TOTALS SHALL BE MEASURED ROADWAY.

TOTAL NUMBER OF LOTS IS 48, INCLUDING 14

14. TOTAL NUMBER OF LOTS IS 58, INCLUDING 14

IV. TOTAL AREA WITHIN THE SUBDIVISION BOUNDARY IS 18.205 ACRES.

CCS 93 C 1037-6283	I C 390-1722	T.M. 7497	W.O. 421100
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GENERAL AREA DESCRIPTION, Continuing

Adjacent to the east of Torrey Ranch is the Westview High School campus that encompasses approximately 65 acres and extends east to Camino Del Sur. To the south of the school, at the northwest corner of Camino Del Sur and Torrey Meadows Dr., is an 8-year old, $\pm 14,000$ s.f. retail center on a 1.5-acre site. To the north of the school and northeast of the subject neighborhood is a strip of open space, and then the Monet Collection neighborhood of 65 homes that extends east to Camino Del Sur. These homes range in size from 1,603 s.f. to 2,186 s.f. on 4,200 s.f. minimum lots, and recent sales have indicated prices from the low \$500,000's to the mid \$600,000's.

LEGAL DESCRIPTION

The 73 lots comprising the subject property are described as Lots 1 through 73 of Torrey Ranch in the City of San Diego according to Map No. 14643, filed in the office of the county recorder of San Diego County, August 8, 2003.

ASSESSOR DATA-2010/11

The 73 lots comprise Assessor Parcel Nos. 306-410-01 to 73. The 2011 assessed values for these parcels range from \$100,000 to \$400,000 for land and \$0 to \$320,000 for improvements, or total assessed values ranging from \$100,000 to \$672,852 or an average of \$340,662. The tax rate area is 08190, with an indicated tax rate of 1.02458%. However, the total or effective tax rate, including special taxes for the CFD, is approximately 1.9% based on the current home pricing.

NO. OF LOTS/LOT SIZES

The taxable property included in this appraisal is a total of 73 single-family residential lots. These lots are mostly a minimum size of $\pm 3,000$ s.f., with the actual lot sizes ranging from 2,951 s.f. to 10,766 s.f. or an average of 4,556 s.f. However, most of the lots along the north and east sides of the neighborhood include minor to significant rear upslope areas.

STREETS AND ACCESS

Access to the neighborhood is by Torrey Ranch Ct. which extends northerly from Torrey Meadows Dr., terminating in a cul-de-sac at the entrance to the subject neighborhood on Andrea Lee Pl. Torrey Ranch Ct. is a secondary two-lane road with a 60' dedicated right of way and is improved with curb, gutter, landscaped parkways and sidewalks.

The in-tract streets include Andrea Lee Pl., Sydney Rae Pl., Brooke Vista Ln. and Jake View Ln. All of these streets have been fully constructed within the subject neighborhood other than final street lift and sidewalks in Phase 6.

UTILITIES

All utilities have been installed in the in-tract streets as part of the development of the neighborhood, and are provided as follows:

Water & Sewer:	City of San Diego
Electric & Gas:	San Diego Gas & Electric
Telephone:	AT&T
Cable:	Time Warner

ZONING/GENERAL PLAN/APPROVALS

The City of San Diego zoning designation is RX-1-2 which designates Residential – Small Lot zone with 3,000 s.f. minimum lots, and the General Plan designation is Residential. The specific approvals for the single-family residential development are indicated by the approved Map No. 14643 that was recorded on August 8, 2003.

TOPOGRAPHY/VIEWS

The overall neighborhood is fairly flat with a gradual slope down to the south and west. Lots along the east side of the neighborhood have rear slopes up to the adjacent high school property, and lots along the north side of the neighborhood have large slopes up the hillside which abuts the open space. Due to the fairly flat topography of the building pad areas of the lots, there are no significant views.

DRAINAGE/FLOOD HAZARD

Onsite or in-tract drainage is in gutters and underground facilities that have been constructed as part of the development of the neighborhood, and ultimately into offsite facilities as part of the master-planned drainage system for this area. Per FEMA Flood Insurance Rate Map No. 060295 1334F, dated 6/19/97, the overall subject tract is located in Zone X, which indicates areas outside of the 100-year floodplain.

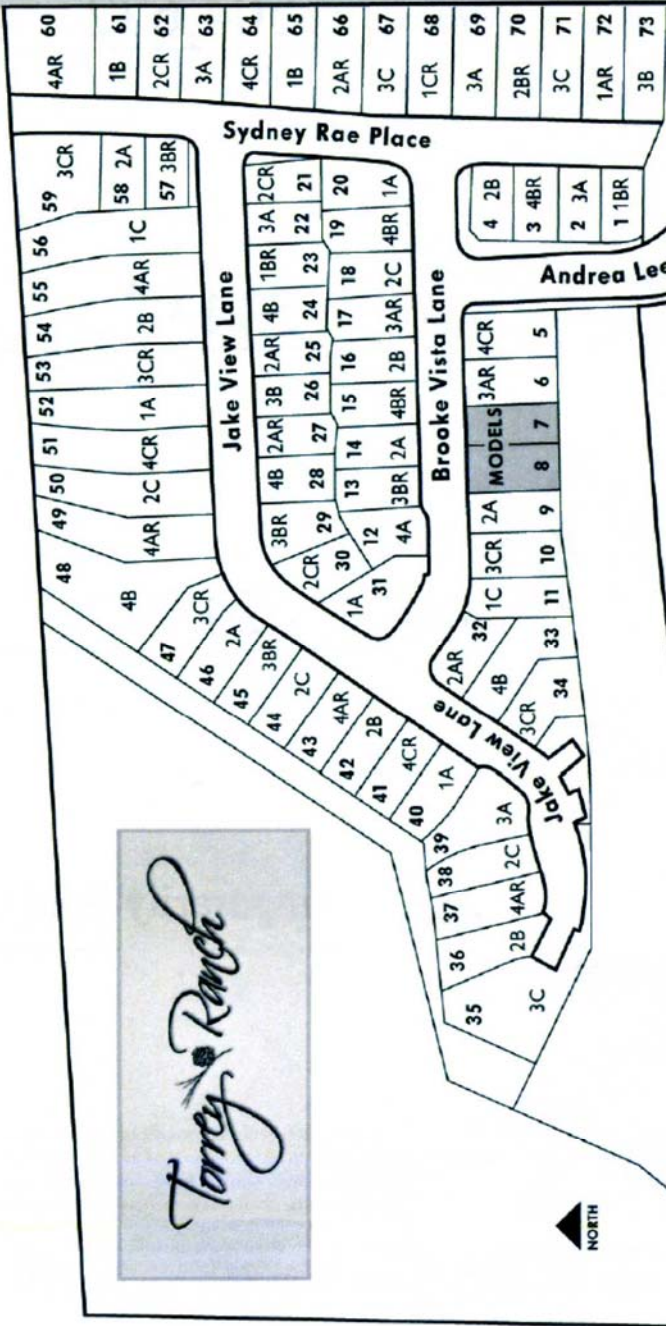
SOIL/GEOLOGIC/SEISMIC/ENVIRONMENTAL CONDITIONS

No soils, geotechnical or environmental reports have been reviewed on the overall subject tract. It is noted that the subject site is not located in an Alquist-Priolo special studies zone. In addition, it is noted that this appraisal has assumed that any required mitigation for soil, geologic or environmental conditions was completed as part of the land development work for the overall tract, and that there are no other of these conditions that would negatively impact the continued use or valuation of the completed homes or the homes under construction and the vacant lots.

School



D·R·HOKTON PHI NYSE
America's Builder



Torrey Ranch Court

Torrey Meadows Drive

TITLE REPORT

A Preliminary Report dated June 8, 2010 over Lots 1, 3-18, 21-66, 68, 69, 71 & 73 (and various Lettered Lots) by Fidelity National Title Company has been reviewed. Pertinent exceptions to title include: that the properties lie within the boundaries of CFD No. 10 and CFD No. 10 Improvement Area F for the Poway Unified School District as recorded on September 21, 2001; matters contained in the document "Subarea IV Torrey Highlands School Impact Mitigation Agreement" recorded August 13, 1997; various easements for sewer, public utilities, cable television, and general utility and access; that portions of Lots 5 to 11 and 33 to 48 are designated as fire hazard reduction zones; CC&R's as recorded and modified from November 2006 through May 2010; and various "Memorandum of Agreements" between TR II, LLC and D.R. Horton Los Angeles Holding Company, Inc. executed from August 2009 through May 2010.

It is noted that these exceptions tend to be fairly typical for residential subdivisions and have been incorporated into the tract map and other approvals so as to provide for the lots to be developable with homes.

EXISTING AND PLANNED DEVELOPMENT

The 73 lots are being developed by D.R. Horton with a tract or neighborhood of homes called Torrey Ranch, with California Spanish architecture. As of the August 15, 2011 date of value, there were 36 completed-sold homes, 7 completed-unsold homes (including the 2 models), 12 homes under construction and 18 vacant lots in near finished condition. Of the 12 homes under construction, 6 were estimated to be $\pm 80\%$ completed, due for completion in late September, and 6 just had trenching and forming for foundations.

There are four floor plans of homes which are described as follows:

Plan 1: 1,725 s.f., two story, with 3 bedrooms, 2½ baths, living room, dining room and a 2-car garage.

Plan 2: 1,812 s.f., two story, with 3 bedrooms, 2½ baths, living room, dining room, family room and a 2-car split garage; optional master retreat.

Plan 3: 1,920 s.f., two story, with 3 bedrooms, 2½ baths, den, living room, dining room and a 2-car garage; optional bedroom 4 and bath 3.

Plan 4: 2,234 s.f., two story, with 3 bedrooms, 2½ baths, loft, living room, dining room, family room, nook and a 2-car garage; optional bedroom 4.

This is a gated neighborhood at the main entrance off of Torrey Ranch Ct. In addition, there are landscaped common areas along Torrey Ranch Ct. and several of the in-tract streets. The HOA dues at build-out are indicated to be \$162.75.

HIGHEST AND BEST USE

The term “highest and best use” is defined as the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. Furthermore, the highest and best use of land or a site as though vacant is defined as among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital, and coordination.

In terms of legal permissibility, single-family residential development is permitted by the zoning, General Plan and tract map approvals. In terms of physical possibility, the lots were all graded to fairly flat pads and all necessary infrastructure has been completed in order to allow for the construction of homes. In terms of the financial feasibility and maximum productivity, while the current residential market conditions are still relatively soft, the market indicates adequate demand for new homes at the appropriate price points, as evidenced by the past and current sales activity for the subject homes.

In summary, if all 73 subject lots were vacant, the highest and best use would be for single-family residential development, or construction of homes on each lot. Thus, it is concluded that the existing and planned homes are representative of the highest and best use at current date, and for an indefinite period of time.

VALUATION

METHOD OF ANALYSIS

The analysis of the completed-sold homes is of the aggregate value and on a mass appraisal basis by means of the Sales Comparison Approach. Primary consideration is given to the most recent closed and pending builder sales in the subject neighborhood, and secondary consideration is given to general home sale pricing from other nearby neighborhoods. For the completed-unsold homes, the analysis considers a discount due to the bulk ownership by the builder with the discount reflecting holding/sales costs plus profit in order to sell off the homes.

For the homes under construction, a simplified Cost Approach is used in which the value is based on an estimate of construction costs expended plus the estimated value of the vacant lot as if in finished condition. The analysis of the vacant lots as if in finished condition is based on the Sales Comparison Approach, considering recent sales of residential land or bulk lots from the general area in comparison to the subject property.

ANALYSIS OF COMPLETED-SOLD HOMES

These are the 36 homes for which the builder sales recorded from May 26, 2010 through August 2, 2011 at net sale prices (net of incentive allowances) ranging from \$469,990 to \$672,852 or an average of \pm \$569,000. The mix of floor plans reflects a greater percentage of the Plan 3 and 4 homes, with an average home size of 1,940 s.f. The sale prices reflect lot premiums ranging from -\$10,000 to \$40,000 or an average of \pm \$2,600, options ranging from \$12,953 to \$54,380 or an average of \pm \$28,500, and incentive allowances ranging from \$8,000 to \$98,759 or an average of \pm \$44,000.

It is noted that the 10 sales that have closed thus far in 2011 had net sale prices ranging from \$496,159 to \$620,000 or an average of \pm \$568,000, reflecting an average home size of 2,058 s.f. It is evident that the average price is similar to the average of all 36 completed-sold homes though the average home size of these 10 homes is slightly larger.

It is also noted that there are 5 current escrows (3 are completed-unsold homes and 2 are still under construction) with net sale prices ranging from \$507,138 to \$638,472 or an average of \pm \$548,000, reflecting an average home size of 1,838 s.f. While the average price is much lower than the indications from the closed sales, this is partly due to the smaller average home size resulting from the mix of floor plans including no Plan 4 homes. In addition, there were atypically high incentive allowances on the standing inventory (completed-unsold homes). Thus, the average price indication of \$548,000 would support a firm lower limit as an average value for all 36 completed-sold homes.

ANALYSIS OF COMPLETED-SOLD HOMES, Continuing

Lastly, as general support to the actual sale prices of the subject homes, consideration is given to recent sale prices of homes from several other nearby neighborhoods of fairly similar size homes. As previously discussed in the General Area Description, the Monet Collection of homes nearby to the northeast of Torrey Ranch consists of 8 to 9-year old homes ranging in size from 1,603 s.f. to 2,186 s.f. on 4,200 s.f. minimum lots. Recent sales in this neighborhood have indicated the range of \$515,000 to \$645,000 or an average of \pm \$573,000, reflecting an average home size of 1,919 s.f. It is noted that the average size is slightly smaller than the average size of 1,940 s.f. for the subject 36 completed-sold homes, the homes are older and the neighborhood is not gated, though the lots are larger. Overall, the indication at \$573,000 would tend to support a close indication to close upper limit as an average for the subject completed-sold homes.

Also as discussed in the General Area Description, the 6 to 8-year old Bellarado homes nearby to the south range in size from 1,731 s.f. to 2,176 s.f., or fairly similar to the subject homes. However, these are attached townhomes which is significantly inferior to the subject as detached homes on separate though small lots. Recent sales in the Bellarado project have indicated the range of \$409,000 to \$490,000 or an average of \$448,000 reflecting an average home size of 1,888 s.f. This indication supports a far lower limit as an average for the subject completed-sold homes due mostly to being an inferior product type, but also the smaller size and being relatively older than the subject homes.

Lastly, the San Lorenza neighborhood is located about ½ mile to the southwest of Torrey Ranch, along the southwest side of the 56 (Ted Williams) Freeway. This neighborhood comprises 8-year old homes ranging in size from 1,813 s.f. to 2,316 s.f., on \pm 3,000 s.f. minimum size lots. Recent sales have indicated the price range of \$460,000 to \$570,000 or an average of \pm \$530,000, reflecting an average size of 2,059 s.f. While the average size is larger than the average of the subject completed-sold homes, this is not a gated neighborhood, the homes are older, and the location along the freeway is less desirable. Thus, the indication at \$530,000 supports a firm lower limit as an average for the subject completed-sold homes.

In summary, as an average for the completed-sold homes, the data supports a far lower limit at \$448,000, closer but firm lower limits at \$530,000 and \$548,000, close indications at \$568,000 and \$569,000, and a close indication to close upper limit at \$573,000. The conclusion for the 36 completed-sold homes is an average of \$565,000.

ANALYSIS OF COMPLETED-UNSOLD HOMES

These 7 homes consist of 5 production homes and the 2 models, with a mix of 5 of the Plan 2 homes, 1 of the Plan 3 homes and 1 of the Plan 4 homes, or an average size of 1,888 s.f. It is noted that this is a slightly smaller average size than the

ANALYSIS OF COMPLETED-UNSOLD HOMES, Continuing

average of 1,940 s.f. for the completed-sold homes, though this is offset by the higher value of 2 of these completed-unsold homes being the upgraded models. It is also noted that 3 of these homes are pending sales and due to close from late August to late September.

The initial value conclusion is the same as for the completed-sold homes or an average of \$565,000. Then, a discount of 15% is applied to reflect holding/sales costs plus profit due to the bulk ownership by the builder. This discount results in an average of \$480,000 for these 7 completed-unsold homes.

ANALYSIS OF HOMES UNDER CONSTRUCTION

For the 6 homes that were estimated to be $\pm 80\%$ completed, I have considered a cost amount of 80% of $\pm \$50.00$ per s.f. hard costs or $\$40.00$ per s.f. on the average home size of 1,834 s.f. for these 6 homes, or an amount of $\pm \$73,000$, rounded to \$75,000. This is added to the estimated value of \$300,000 for the vacant lot in finished condition as discussed next, resulting in a total of \$375,000 as an average for these 6 homes.

For the 6 homes for which construction has just started and is only in the stage of trenching and forming for foundations, the value allocation is as a vacant lot in finished condition, or an average value of \$300,000 for these 6 homes.

ANALYSIS OF VACANT LOTS

For the vacant lots, a search was made for recent sales of bulk single-family lots in the general North San Diego County area. The pertinent data is discussed in the following paragraphs:

Subject Property: As previously indicated, D.R. Horton purchased the 73 subject lots in a series of takedowns that recorded from August 2009 through April 2011 at a total price of \$14,509,155 or \$198,756 per lot. At time of purchase, the lots were in near finished condition with minor street improvements and common area landscaping needing to be completed, plus remaining development impact fees, and finished lots were estimated at \$345,000 at that time. The proforma base home pricing at time of purchase was an average of \$592,490, indicating a finished lot ratio (finished lot price \div projected average base home price) of .58.

It is noted that the current or most recent base home pricing is an average of \$548,240 which indicates a reduction of 7.5% from the proforma estimate. Considering a downward time adjustment of 7.5% to the purchase price that indicated \$345,000 per finished lot, the adjusted indication is \$319,000 per finished lot. While the current market conditions are considered to be at least slightly superior to the market conditions in August 2009, it is also considered that the purchase price may have been on the high side to reflect the multi-phased takedown structure of the transaction over ± 20 months. Overall, it is concluded that the indication at \$345,000 per finished lot supports a firm upper limit at current date, and the indication at \$319,000 per finished lot supports a closer indication.

ANALYSIS OF VACANT LOTS, Continuing

S/S Carmel Valley Rd. to NW/O Subject and N/S Torrey Meadows Dr. to SW/O

Subject: These are the two sites nearby to the northwest and southwest of the subject neighborhood as previously discussed in General Area Description that were recently purchased by Davidson Communities. Both sites were in raw and sloping condition but with final tract maps that were ready to record, and there is one CFD that will result in an effective tax rate of $\pm 1.5\%$. The north site comprises 41 lots, $\pm 5,000$ s.f. minimum, that will be developed as a gated neighborhood of homes ranging in size from 2,796 s.f. to 3,107 s.f., with base pricing starting at $\pm \$800,000$. The south site comprises 44 lots, $\pm 5,000$ s.f. minimum, that will be developed as a neighborhood of homes ranging in size from 2,606 s.f. to 2,769 s.f., with base pricing starting at $\pm \$750,000$. The sale recorded on January 26, 2011 at a price of \$14,500,000 or \$170,588 per lot, with finished lots estimated at $\pm \$400,000$.

In comparison to the subject, the general location is fairly similar, the lots are much larger at 5,000 s.f. minimum resulting in the potential for much larger and higher-priced homes, the bulk size of 85 lots is much larger which would tend to result in a lower price per lot, but the effective tax rate of $\pm 1.5\%$ to future homeowners is lower than the subject. In addition, the raw condition with an approved tract map is inferior to the subject near finished lot condition due to the time and risk to complete approvals and land development work to get to finished lot condition. Initially, the much larger lot size and lower effective tax rate are far more than offsetting to the larger bulk size and entitlement/physical condition, resulting in a far upper limit for the subject at \$400,000 per finished lot. Secondly, estimating an overall average base price of near \$800,000 for the Davidson Communities homes, the indicated finished lot ratio is .50 ($\$400,000 \div \$800,000$). Applying this ratio to the current subject average base pricing of $\pm \$548,240$ results in the following:

$$\$548,240 \times .50 = \$274,120/\text{finished lot}$$

While this indication reflects the larger lots of this sale due to the potential for larger and higher-priced homes, this indication supports a firm lower limit for the subject due to the inferior entitlement status and physical condition, and larger bulk size.

N'ly end of 4S Ranch Community: The 4S Ranch community is located about 4 miles to the northeast of the subject neighborhood, and this sale was of lots located in the northerly part of the community at the northerly end of 4S Ranch Parkway at Ralphs Ranch Rd. The sale consisted of 81 lots, 6,000 s.f. minimum, with a recorded tract map and in partially finished condition. The first takedown of 33 lots closed in December 2010 from the master developer to Pulte Homes at a price based on \$360,000 per finished lot. Pulte Homes planned a neighborhood of homes called The Pines, with homes to range in size from 2,679 s.f. to 3,262 s.f. and pricing from \$648,000 to \$694,000, indicating a finished lot ratio of .54 ($\$360,000 \div \pm \$671,000$). The effective tax rate is near 2.0% reflecting the existing CFD.

In comparison to the subject, the general location is considered to be slightly inferior though this is partially offset by the amenities of being within a master-planned community, the lots are significantly larger resulting in the potential for much larger and higher-priced homes, the status of entitlements and physical condition are fairly similar, and the effective tax rate is fairly similar. Initially, the indication at \$360,000 per finished lot supports a far upper limit due to the much larger lots, and a closer indication for the subject is from the finished lot ratio of .54 which results in the following:

$$\$548,240 \times .54 = \$296,050/\text{finished lot}$$

NW/O Cannon Rd., SW/O College Blvd., Carlsbad: This sale is located in Planning Area 18 of The Foothills master-planned community in the north part of Carlsbad. The transaction

ANALYSIS OF VACANT LOTS, Continuing

comprises 78 lots, 5,000 s.f. minimum size, with a recorded tract map, and that ranged from blue-topped to near finished condition. The sale closed on June 23, 2011 from Brookfield Homes to D.R. Horton at an indicated price of \$17,711,000 or \$227,064 per lot, with finished lots estimated at \pm \$300,000. D.R. Horton plans to build a neighborhood of homes called Laurels at The Foothills, with homes ranging in size from 1,998 s.f. to 2,968 s.f. and with base pricing ranging from \$534,990 to \$599,990 or an average of \pm \$567,500 which indicates a finished lot ratio of .53. The purchase includes the pay-off of the Assessment District, thus the tax rate to future homeowners is estimated at 1.25% on average.

In comparison to the subject, the general location is considered to be inferior, which is evident by the much larger lots at 5,000 s.f. minimum that are planned for only slightly larger and slightly higher-priced homes than the subject. In addition, the status of entitlements is similar with the recorded tract map, the physical condition is slightly inferior including blue-topped and only partially finished lots, and the effective tax rate is much lower than the subject. Overall, the indication at \$300,000 supports a close indication to close upper limit for the subject, and the finished lot ratio of .53 supports a close indication to close lower limit due to the inferior location, as follows:

$$\$548,240 \times .53 = \$290,567/\text{finished lot}$$

In summary, on a finished lot basis the data supports a firm lower limit at \pm \$274,000, a close indication to close lower limit at \pm \$291,000, close indications at \pm \$296,000 and \$319,000, a close indication to close upper limit at \$300,000, a firm upper limit at \$345,000, and far upper limits at \$360,000 and \$400,000. The conclusion for the subject lots is \$300,000 per finished lot.

Then, a deduction is made to reflect the remaining costs to get the subject lots from as is condition to finished condition. Per information provided by D.R. Horton, the only remaining costs are estimated at \$8,000 for final lift paving in Phase 6, \$1,000 for striping in Phase 6, \$3,000 for sidewalks in Phase 6, \$2,400 for right-of-way landscaping in Phase 6, and \$5,000 for surveying for final street monumentation. These costs indicate a total of \$19,400. In addition, there are remaining FBA fees in the amount of \$511,000. While these fees may partially be allocated to the models upon future sale, this full amount has been included as a cost deduction to the vacant lots. Thus, the total remaining costs to complete are estimated at \$530,400.

The resulting value indication for the 18 vacant lots is calculated as follows:

18 lots, if in finished condition, @ \$300,000/lot =	\$5,400,000
Less remaining costs to complete:	<u>- 530,400</u>
Value indication, as is condition:	\$4,869,600

Rd. \$4,870,000

CONCLUSION OF VALUE

Based on the foregoing, the total value indication for the overall subject neighborhood in its as is condition, is calculated as follows:

36 completed-sold homes @ \$565,000 =	\$20,340,000
7 completed-unsold homes @ \$480,000 =	\$ 3,360,000
6 homes under construction @ \$375,000 =	\$ 2,250,000
6 homes under construction @ \$300,000 =	\$ 1,800,000
18 vacant lots =	<u>\$ 4,870,000</u>

Value Indication, As Is Condition:	\$32,620,000
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Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the subject Torrey Ranch neighborhood, subject to the Assumptions and Limiting Conditions, and as of August 15, 2011:

\$32,620,000

(THIRTY-TWO MILLION SIX HUNDRED TWENTY THOUSAND DOLLARS)

ADDENDA

**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 255, 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, 2012.

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 for 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/shopping centers, restaurants, hotels/motels.

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.

QUALIFICATIONS, Page 2

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
Kampgrounds 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
Brookfield
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 LLP
Bowie, Arneson, Wiles & Giannone
Bradshaw, John
Bye, Hatcher & Piggott
Callahan, McCune & Willis
Cooksey, Coleman & Howard
Hamilton & Samuels
Horgan, Rosen, Beckham & Coren
Kent, John
Kirkland & Ellis
Latham & Watkins LLP
McKee, Charles C.
Mosich, Nicholas J.
Long, David M.
Nossaman, Guthner, Knox & Elliott, LLP

Oliver, Barr & Vose
Ollestad, Freedman & Taylor
Palmieri, Tyler, Wiener, Wilhelm &
Waldron LLP
Paul, Hastings, Jonofsky &
Walker LLP
Piggott, George B.
Pothier, Rose
Rosenthal & Zimmerman
Rutan & Tucker, LLP
Sikora & Price, Inc.
Smith & Politiski
Williams, Gerold G.
Woodruff, Spradlin & Smart, P.C.
Yates, Sealy M.

Financial Institutions:

Ahmanson Trust Company
Barclays Bank
Chino Valley Bank
Continental Bank
First Interstate Mortgage
First Wisconsin Bank
National Credit Union Admin.

Pacific Western Bank
San Clemente Savings & Loan
Security Pacific Bank
Sunwest Bank
United Calif. Savings Bank
Washington Square Capital

QUALIFICATIONS, Page 3

Cities:

Anaheim	La Habra	San Clemente
Baldwin Park	Laguna Beach	Santa Ana
Buena Park	Long Beach	Santa Fe Springs
Cypress	Mission Viejo	Stanton
Dana Point	Orange	Temecula
Duarte	Placentia	Tustin
Fontana	Riverside	Yorba Linda
Fullerton	Seal Beach	

Counties:

County of Orange	County of Riverside
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Other Governmental:

Agua Mansa Industrial Growth Association	Metropolitan Water District
El Toro Water District	Orange County Water District
Federal Deposit Insurance Corporation (FDIC)	Trabuco Canyon Water District
Kern County Employees Retirement Association	U.S. Postal Service
Lee Lake Water Dist.	

School Districts:

Alvord Unified School Dist.	Newport-Mesa Unified School Dist.
Anaheim Union High School Dist.	Orange Unified School Dist.
Anaheim City School Dist.	Palm Springs Unified School Dist.
Banning Unified School Dist.	Placentia-Yorba Linda Unified Dist.
Capistrano Unified School Dist.	Poway Unified School Dist.
Castaic Union School Dist.	Rialto Unified School Dist.
Cypress School Dist.	Romoland School Dist.
Etiwanda School Dist.	Saddleback Valley Unif. School Dist.
Fullerton College	San Jacinto Unified School Dist.
Fullerton Joint Union High School Dist.	Santa Ana Unified School Dist.
Fullerton School Dist.	Saugus Union School Dist.
Garden Grove Unified School Dist.	So. Orange Cnty. Comm. College Dist.
Irvine Unified School Dist.	Westside Union School Dist.
Lake Elsinore Unified School Dist.	William S. Hart Union High Schl. Dist.
Moreno Valley Unified School Dist.	Victor Elementary School Dist.
Newhall School Dist.	

Churches/Church Organizations:

Calvary Church, Santa Ana	Lutheran Church, Missouri Synod
Central Baptist Church, Pomona	Presbytery of Los Rancho
Christian & Missionary Alliance Church, Santa Ana	St. Mark's Lutheran Church, Hac. Hts.
Christian Church Foundation	Vineyard Christian Fellowship
Congregational Church, Fullerton	Yorba Linda United Methodist Church
First Church of the Nazarene	

Other:

Biola University	Garden Grove Boys' Club
Cedars-Sinai Medical Center	The Sheepfold

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

The following summary discussion of selected provisions of the Bond Indenture is made subject to all of the provisions of such document. This summary discussion does not purport to be a complete statement of such provisions and prospective purchasers of the Bonds are referred to the complete text of the Bond Indenture, copies of which are available upon request sent to the Fiscal Agent.

Definitions

“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.

“Actual Cost” or “Actual Costs” shall have the meaning given to such term in the Supplement to Mitigation Agreement.

“Administrative Expense Fund” means the fund by that name established pursuant to the Indenture.

“Administrative Expenses” means the expenses directly related to the administration of the District, including, but not limited to, the following: the costs of computing the Improvement Area F Special Taxes and preparing the annual Improvement Area F Special Tax collection schedules (whether by the School District or a designee thereof or both); the costs of collecting the Improvement Area F Special Taxes (whether by the County, the School District or otherwise); the costs of remitting the Improvement Area F 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 the arbitrage rebate requirements; 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 Improvement Area F Special Tax disclosure statements and responding to public inquiries regarding the Improvement Area F Special Taxes; the costs of the School District, District or any designee thereof related to an appeal of the Improvement Area F 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 \$17,574.89 which amount shall escalate by 2% in each Bond Year commencing in the Bond Year beginning on September 2, 2012.

“Affiliate” means any entity owned, controlled or under common ownership or control by or with, as applicable, a Property Owner and includes all general partners of any entity which is a partnership. Control shall mean ownership of fifty percent (50%) or more of the voting power of or ownership interest in the respective entity.

“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.

“Assessor’s Parcel” means an Assessor’s Parcel as defined in the Improvement Area F Special Tax RMA.

“Authorized Representative” of the District means the Superintendent, acting on behalf of the District, or any other person designated in writing by the Superintendent or the Legislative Body and authorized to act on behalf of the District under or with respect to the Indenture and all other agreements related hereto.

“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 term of the Bonds.

“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 the \$1,695,000 Poway Unified School District Community Facilities District No. 10 (Torrey Highlands - Subarea IV) Improvement Area F Series 2011 Special Tax Bonds, issued pursuant to the Indenture.

“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, 2012.

“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.

“Capitalized Interest Subaccount” means the account by that name established within the Bond Service Fund pursuant to the Indenture.

“Cash Deposit” means a deposit of good funds by a Property Owner with the Fiscal Agent in the applicable Stated Amount in lieu of depositing a Letter of Credit or Substitute Letter of Credit pursuant to the Supplement to Mitigation Agreement.

“City” means the City of San Diego, California.

“City Improvement” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“Code” means the Internal Revenue Code of 1986, as amended.

“Comptroller of the Currency” means the Comptroller of the Currency of the United States.

“Costs of Issuance” means, as to the Bonds, all of the 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.

“Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

“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 Improvement Area F Special Taxes.

“Delinquency Proceeds” means the net amounts collected from the redemption of delinquent Improvement Area F 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 Improvement Area F Special Tax resulting from the delinquency in the payment of Improvement Area F 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” means DTC and its successors and assigns or if (a) the then Depository resigns from its functions as 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 District.

“Developed Property” shall have the meaning given such term in the Improvement Area F Special Tax RMA.

“Discrete Component” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“District” means Poway Unified School District Community Facilities District No. 10 (Torrey Highlands - Subarea IV).

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Fiscal Agent” means Zions First National Bank, 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 hereinafter selected and designated by the District as its fiscal year in accordance with applicable law.

“Government Obligations” means obligations described in Paragraph 1 of the definition of Permitted Investments.

“Gross Proceeds” has the meaning ascribed to such term in Section 148(f)(6) of the Code.

“Improvement Area F” means Improvement Area F of the District.

“Improvement Area F Special Tax” means, for purposes of the Indenture, the Special Tax authorized to be levied in Improvement Area F, with the exception of the Supplemental Annual Special Tax, to finance the acquisition or construction of the City Improvements and School Facilities pursuant to the Act and the Improvement Area F Special Tax RMA.

“Improvement Area F Special Tax Fund” means the fund by that name established pursuant to the Indenture.

“Improvement Area F Special Tax RMA” means the First Amended Rate and Method of Apportionment for the Improvement Area F of Community Facilities District No. 10 of the Poway Unified School District approved at the special election held in Improvement Area F of the District on April 19, 2010, as may be modified from time to time in accordance with the Act.

“Improvement Area F Special Tax Revenues” means (a) the proceeds of the Improvement Area F Special Tax levied and received by the District, and (b) the Delinquency Proceeds.

“Improvement Fund” means the fund by that name established pursuant to the Indenture.

“Indenture” means the Bond Indenture, as amended or supplemented pursuant to the terms hereof.

“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.

“Information Services” means the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board (at <http://emma.msrb.org>); provided, however, in accordance with the current guidelines of the Securities and Exchange Commission, “Information Services” shall mean such other organizations providing information with respect to called bonds as the District may designate in a Written Certificate of the District delivered to the Fiscal Agent.

“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 March 1, 2012.

“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.

“Letter of Credit” means a Letter of Credit issued pursuant to the Supplement to the Mitigation Agreement by a Letter of Credit Bank, or any reissuance or extension thereof, which Letter of Credit shall be in the Stated Amount therefor.

“Letter of Credit Bank” means the issuer from time to time of a Letter of Credit and the respective successors and assigns of the business thereof and any surviving, resulting or transferee banking association or corporation with or into which it may be consolidated or merged or to which it may transfer all of its banking business, provided that the short-term and long-term ratings of such entity are at least investment grade, such entity must have a minimum Moody’s long-term rating of “A” and short-term rating of “P-1,” as evidenced by proof provided by such Letter of Credit Bank to the District and the Fiscal Agent, or that such entity is otherwise acceptable to the District.

“Letter of Credit Fund” means the fund by that name established pursuant to the Indenture.

“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.

“Maximum Annual Special Tax” shall have the meaning given such term in the Improvement Area F Special Tax RMA.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Special Tax Revenues” means Improvement Area F Special Tax Revenues minus amounts applied to pay the Administrative Expense Requirement.

“Nominee” means the nominee of the Depository that may be the Depository, as determined from time to time by the Depository.

“Outstanding” means as to the Bonds, all of the Bonds, except:

1. Bonds theretofore canceled or surrendered for cancellation in accordance with the provisions of the Indenture;
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 hereof; 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.

“Participant” means a member of or participant in the Depository.

“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):

1.
 - A. Direct obligations (other than an obligation subject to variation in principal payment) of the United States of America (“United States Treasury Obligations”);
 - B. Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America;
 - C. Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or
 - D. Evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.
2. Federal Housing Administration debentures.
3. The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:
 - A. Federal Home Loan Mortgage Corporation (FHLMC)
 - (1) Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
 - (2) Senior Debt obligations
 - B. Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
 - (1) Consolidated system-wide bonds and notes
 - C. Federal Home Loan Banks (FHL Banks)
 - (1) Consolidated debt obligations
 - D. Federal National Mortgage Association (FNMA)
 - (1) Senior debt obligations
 - (2) Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
 - E. Student Loan Marketing Association (SLMA)

- (1) Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
 - F. Financing Corporation (FICO)
 - (1) Debt obligations
 - G. Resolution Funding Corporation (REFCORP)
 - (1) Debt obligations
- 4. Unsecured certificates of deposit, time deposits, deposit accounts and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P.
- 5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.
- 6. Commercial paper having original maturities of not more than 270 days rated "A-1" by S&P and "Prime-1" by Moody's.
- 7. Money market funds rated "AAm-1" or "AAm-G" by S&P, or better.
- 8. State Obligations, which means:
 - A. Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.
 - B. Direct general short-term obligations of any state agency or subdivision or agency thereof described in A. above and rated "A-1+" by S&P and "Prime-1" by Moody's.
 - C. Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in A. above and rated "AA" or better by S&P and "Aa" or better by Moody's.
- 9. Pre-refunded municipal obligations rated "AAA" by S & P and "Aaa" by Moody's meeting the following requirements:
 - A. the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;
 - B. the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;
 - C. the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

- D. the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;
- E. no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and
- F. the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

10. Repurchase agreements:

With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P and Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation, or (3) any other entity rated "A" or better by S&P and Moody's, provided that:

- A. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach);
- B. The Fiscal Agent or a third party acting solely as agent therefor or for the District (the "Custodian") has possession of the collateral or the collateral has been transferred to the Custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);
- C. The Custodian has a perfected first priority security interest in the collateral, any substituted collateral in the name of the Fiscal Agent and all proceeds thereof (in the case of bearer securities, this means the Custodian is in possession);
- D. The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the District or the Fiscal Agent, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Fiscal Agent.

Notwithstanding the above, collateral levels need not be as specified in "A" above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

11. Investment agreements with a domestic or foreign bank or corporation the long-term debt or financial strength of which, it or its guarantor is rated at least "AA-" by S&P and "Aa3" by Moody's; provided that, by the terms of the investment agreement:

- A. the invested funds are available for withdrawal without penalty or premium, upon not more than seven days' prior notice; the District and the Fiscal Agent hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
- B. the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider

thereof; or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks *pari passu* with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;

- C. the District and the Fiscal Agent receives the opinion of domestic counsel that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable);
- D. the investment agreement shall provide that if during its term
 - (1) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (a) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Fiscal Agent or a Custodian acceptable to the District free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (b) transfer and assign the investment agreement to a then qualifying counterparty with ratings specified above; and
 - (2) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, within 10 days of the date of such withdrawal, suspension or reduction of the provider's rating, repay the principal of and accrued but unpaid interest on the investment;
- E. the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Custodian is in possession);
- F. the investment agreement must provide that if during its term
 - (1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District to the Fiscal Agent on behalf of the District, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Fiscal Agent on behalf of the District, and
 - (2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("Event of Insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Fiscal Agent.

- 12. Except for the investment of the Reserve Fund, 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.

"Prepayments" means Improvement Area F Special Tax Revenues identified to the Fiscal Agent by an Authorized Representative as representing a prepayment of the Improvement Area F 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 550 South Hope Street, Suite 2650, Los Angeles, CA 90071 or such other offices as may be specified to the District by the Fiscal Agent in writing.

“Project Area” shall have the meaning given to such term in the Supplement to Mitigation Agreement.

“Property Owner” shall have the same meaning given the term “Owner” in the Supplement to Mitigation Agreement.

“Rebate Fund” means the fund by that name established pursuant to the Indenture.

“Record Date” means 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.

“Reserve Fund” means the fund by that name established pursuant to the Indenture.

“Reserve Requirement” means an amount initially equal to \$168,509.03. which amount shall, as of any date of calculation, be equal to the least of (i) Maximum Annual Debt Service for the Bonds, (ii) one hundred twenty-five percent (125%) of Average Annual Debt Service for the Bonds, or (iii) ten percent (10%) of the original principal amount of the Bonds less original issue discount, if any, plus original issue premium, if any, applicable to the Bonds.

“School District” means the Poway Unified School District.

“School Facilities” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“Securities Depository” means The Depository Trust Company, New York, New York, and its successors and assigns and any replacement securities depository as may be designated in writing executed by an Authorized Representative of the District.

“Special Tax Consultant” means any person or firm possessing demonstrated experience and expertise in the preparation of special tax formulas and/or the administration of special taxes levied for community facilities districts. 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 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 by 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.

“Standard & Poor’s” or “S&P” means Standard & Poor’s Rating Services, its successors and assigns.

“State” means the State of California.

“Stated Amount” means the amount available to be drawn under any Letter of Credit or Letters of Credit from time to time, as such amount is set forth in the initial Letter of Credit or evidenced by a Cash Deposit delivered on or prior to the Closing Date to the Fiscal Agent. During each Fiscal Year in which such Letter of Credit or Cash Deposit is in effect, the Stated Amount of each Letter of Credit or Cash Deposit shall equal the estimated amount of Improvement Area F Special Taxes to be levied secured by such Letter of Credit or Cash Deposit during that Fiscal Year.

“Substitute Letter of Credit” shall have the meaning given such term in the Supplement to Mitigation Agreement.

“Superintendent” means the Superintendent of the School District, acting for and on behalf of the District.

“Supplement to Mitigation Agreement” means that Supplement to Torrey Highlands – Subarea IV School Impact Mitigation Agreement made and entered into as of August 27, 2001 by and among the Poway Unified School District, Community Facilities District No. 2 (Torrey Highlands – Subarea IV) of the Poway Unified School District and the following owners and optionees of real property: Western Pacific Housing – Torrey Glenn, LLC; Western Pacific Housing – Montellano, LLC; Western Pacific Housing – Cabrera, LLC; Western Pacific Housing – Torrey Village Center; Dmig 47; D.R. Horton San Diego Holding Company Incorporated; LEN – Greystone Torrey Highlands, LLC; Greystone Homes, Inc.; THA, L.P.; TH Residential, LLC; Standard Pacific Corp.; Torrey Santa Fe – Carmel Valley, L.P. and Torrey Ranch, LLC (each, an “Owner” and collectively, the “CFD No. 10 Owners”), as it may be amended or supplemented from time to time, including by that certain Addendum to Supplement to Torrey Highlands – Subarea IV School Impact Mitigation Agreement made and entered into as of April 19, 2010 by and among the District, DR Horton Los Angeles Holding Company, Inc. and TR II, LLC..

“Supplemental Annual Special Tax” shall have the meaning given such term in the Improvement Area F Special Tax RMA.

“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 hereof or supplemental to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

“Surplus Improvement Area F Special Taxes” means Improvement Area F Special Taxes levied on Developed Property (as defined in the Improvement Area F Special Tax RMA) in excess of the Annual Special Tax Requirement (as defined in the Improvement Area F Special Tax RMA).

“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, 2041.

“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.

Establishment of Funds and Accounts

Improvement Area F Special Tax Fund.

- (a) The District shall, no later than the tenth (10th) Business Day after which Improvement Area F 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 Improvement Area F Special Tax Fund. Improvement Area F Special Tax Revenues, as applicable, representing Prepayments shall be transferred upon receipt pursuant to the provisions of the Indenture and Improvement Area F Special Tax Revenues, as applicable, representing Delinquency Proceeds shall, to the extent necessary, first be transferred to the Letter of Credit Fund pursuant to the provisions of the Indenture and then to the Improvement Area F Special Tax Fund.

- (b) With the exception of Improvement Area F Special Tax Revenues representing Prepayments which shall be transferred pursuant to the provisions of the Indenture, the Improvement Area F Special Tax Revenues deposited in the Improvement Area F 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 Improvement Area F 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.
 4. On or after March 2 and September 2 of each year after making the transfer and deposits required under 1 through 3 above, the Fiscal Agent shall transfer the amount, if any, necessary to replenish the amount then on deposit in the Reserve Fund to an amount equal to the Reserve Requirement.
 5. On or after 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 Improvement Area F Special Tax Fund to the Rebate Account the amount specified in such request, if any.
 6. On or after 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 Improvement Area F Special Tax Fund to the Administrative Expense Fund the amounts specified in such request to pay (a) those Administrative Expenses which the District reasonably expects will become due and payable during such Fiscal Year in excess of the Administrative Expense Requirement for such Fiscal Year, and (b) any Administrative Expenses that have previously been incurred and paid by the District from funds other than the Administrative Expense Fund.
 7. If, on or after September 2 of each year, after making the deposits and transfers required under 1 through 6 above, monies remain in the Improvement Area F Special Tax Fund, such monies shall remain on deposit in the Improvement Area F Special Tax Fund and shall be subsequently deposited or transferred pursuant to the provisions of 1 through 6 above, provided, however, that if the District notifies the Fiscal Agent that the levy of Improvement Area F Special Taxes on Developed Property exceeds the Annual Special Tax Requirement (as such term is defined in the Improvement Area F Special Tax RMA), then the excess moneys may be paid to the School District to be used to pay for the acquisition, construction, rehabilitation and improvement of School Facilities.

- (c) The Fiscal Agent shall, upon receipt of Improvement Area F 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 an, on and principal of Bonds to be redeemed pursuant to the provisions of the Indenture.
- (d) When there are no longer any Bonds Outstanding, any amounts then remaining on deposit in the Improvement Area F Special Tax Fund shall be transferred to the District to be utilized to finance the acquisition or construction of School Facilities pursuant to the provisions of the Supplement to Mitigation Agreement.

Bond Service Fund.

Interest Account. All moneys in the Interest Account, including the Capitalized Interest Subaccount, 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). All funds on deposit in the Capitalized Interest Subaccount shall be used and withdrawn to pay interest on the Bonds prior to using any other funds on deposit in the Interest Account for such purpose.

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 and (ii) paying the principal of the Term Bonds upon the mandatory sinking fund redemption thereof pursuant to the Indenture.

Costs of Issuance Fund.

The Fiscal Agent shall, upon the written requisition of the District executed by an Authorized Representative, disburse money from the Costs of Issuance Fund, if any, on such dates and in such amounts as specified in such requisition. Any amounts remaining on deposit in the Costs of Issuance Fund on the earlier of the date on which all Costs of Issuance have been paid as stated in writing by an Authorized Representative delivered to the Fiscal Agent or six months after the Delivery Date of the Bonds shall be transferred to the Improvement Area F Special Tax Fund.

Improvement Fund

The Fiscal Agent shall, from time to time, disburse monies from the Improvement Fund to pay Actual Costs. Upon receipt of a payment request of the District duly executed by an Authorized Representative in substantially the form attached to the Indenture (which payment request shall not exceed the corresponding payment request provided to the School District under the Supplement to Mitigation Agreement), the Fiscal Agent shall pay the Actual Costs from amounts in the Improvement Fund directly to the contractor or such other person, corporation or entity entitled to payment under the Indenture (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 Actual 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 Actual 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 Improvement Fund to the Improvement Area F Special Tax Fund. Upon such transfer, the Infrastructure Improvement Account shall be closed.

Notwithstanding anything in the Indenture to the contrary, if on the date which is three (3) years from the Delivery Date of the Bonds, any funds derived from the Bonds remain on deposit in the

Improvement Fund, upon written instruction from the District executed by an Authorized Representative, the Fiscal Agent shall restrict the Yield on such amounts so that the Yield earned on the investment of such amounts is not in excess of the Yield on the Bonds, unless in the written opinion of Bond Counsel delivered to the Fiscal Agent such restriction is not necessary to prevent an impairment of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Reserve Fund

Moneys on deposit in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds as such amounts shall become due and payable in the event that the moneys in the Improvement Area F Special Tax Fund, as applicable, the Bond Service Fund and the Letter of Credit Fund for such purpose are insufficient therefor or (b) redeeming Bonds as described below. The Fiscal Agent shall, when and to the extent necessary, withdraw money from the Reserve Fund and transfer such money to the Bond Service Fund or the Redemption Fund for such purpose.

All Authorized Investments in the Reserve Fund shall be valued at their fair market value at least semi-annually on March 1 and September 1. On any date after the transfers to the Interest Account and the Principal Account have been made for any Bond Year, if the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the Fiscal Agent shall transfer to the Reserve Fund from the first available monies in the Improvement Area F Special Tax Fund, an amount necessary to increase the balance therein to the Reserve Requirement. If on March 1 or on September 1, or on the first Business Day thereafter if March 1 or September 1 is not a Business Day, of each year, the amount on deposit in the Reserve Fund is in excess of the Reserve Requirement, the Fiscal Agent shall transfer such excess to the Interest Account of the Bond Service Fund. In connection with any optional redemption of Bonds, amounts on deposit in the Reserve Fund which would be in excess of the Reserve Requirement following such redemption shall be transferred to the Redemption Fund or the Interest Account of the Bond Service Fund, as applicable, prior to such redemption and applied to such redemption of Bonds pursuant to written instructions of the District executed by an Authorized Representative.

Upon receipt of written instructions of the District executed by an Authorized Representative instructing the Fiscal Agent to transfer certain moneys representing a Reserve Fund credit for a Prepayment pursuant to the Improvement Area F Special Tax RMA, the Fiscal Agent shall transfer the amount specified in such instructions from the Reserve Fund to the Redemption Fund for the purpose of redeeming Bonds pursuant to such instructions.

Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall transfer the amount in the Reserve Fund to the Redemption Fund to be applied, on the next succeeding interest payment date, to the payment and redemption of all of the Outstanding Bonds. In the event that the amount so transferred from the Reserve Fund to the Redemption Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in the Reserve Fund shall be transferred to the District to be used for any lawful purpose of the District as set forth in the Act.

Rebate Fund.

The District shall calculate Excess Investment Earnings as defined in, and in accordance with, the Rebate Instructions, and shall, in writing, direct the Fiscal Agent to transfer funds to the Rebate Fund from funds furnished by the District as provided for in the Indenture and the Rebate Instructions.

Administrative Expense Fund.

The Fiscal Agent shall deposit from time to time the amounts authorized for deposit therein pursuant to the Indenture. The moneys in the Administrative Expense Fund shall be used to pay

Administrative Expenses from time to time upon receipt by the Fiscal Agent of a written request 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.

Redemption Fund

Monies shall be deposited into the Redemption Fund by the Fiscal Agent pursuant to the provisions of the Indenture. Such monies shall be set aside and used solely for the purpose of paying the principal of, premium, if any, and interest on Bonds subject to optional or extraordinary mandatory redemption and the written instructions of an Authorized Representative given in accordance with the provisions of the Indenture. Any monies remaining on deposit in the Redemption Fund following the redemption of any such Bonds shall transferred to the Improvement Area F Special Tax Fund.

Letter of Credit Fund

Letter of Credit; Purpose; Duration. As a condition precedent to issuance of the Bonds, the District shall cause each applicable Property Owner to provide a Letter of Credit or Cash Deposit pursuant to the provisions of the Supplement to Mitigation Agreement in the applicable Stated Amount therefor for each Project Area within Improvement Area F, as applicable, and having the Fiscal Agent as beneficiary. The Fiscal Agent shall deposit any Letter of Credit, Substitute Letter of Credit or Cash Deposit provided pursuant to the Supplement to Mitigation Agreement in the Letter of Credit Fund.

Deposits into the Letter of Credit Funds; Transfers from the Letter of Credit Fund.

1. Draws Prior to an Interest Payment Date. Ten Business Days before each Interest Payment Date, the Fiscal Agent shall determine whether amounts on deposit in the Bond Service Fund on that Interest Payment Date will be sufficient to pay principal of and interest on the Bonds that will be due and payable on such Interest Payment Date and notify the District of any deficiency. If amounts in the Bond Service Fund will be insufficient to pay principal of and interest on the Bonds and such insufficiency is attributable to the delinquency in the payment of Improvement Area F Special Taxes levied on properties owned by the Property Owner that provided a Letter of Credit or Cash Deposit pursuant to the Supplement to Mitigation Agreement or an Affiliate of such Property Owner, the Fiscal Agent shall upon the receipt of written direction of an Authorized Representative (prior to any withdrawals from the Reserve Fund) draw upon such Letter of Credit or withdraw money from the Cash Deposit; provided, however, that the amount of such draw or withdrawal (as set forth in said written direction of the Authorized Representative) shall be no greater than the delinquent Improvement Area F Special Taxes, as applicable, levied on such Properties. The Fiscal Agent shall deposit the proceeds of any such draw upon a Letter of Credit into the Letter of Credit Fund. On the day preceding the Interest Payment Date, and prior to any transfers from the Reserve Fund, the Fiscal Agent shall transfer the amount of such draw on the Letter of Credit or an equivalent amount from any Cash Deposit from the Letter of Credit Fund to the Bond Service Fund.

In the event of a draw on a Letter of Credit or transfer of funds from a Cash Deposit, the Fiscal Agent shall, upon receipt of Delinquency Proceeds representing the Improvement Area F Special Taxes the delinquency of which necessitated such draw on such Letter of Credit or transfer of funds from a Cash Deposit, reimburse (a) the applicable Letter of Credit Provider from such Delinquency Proceeds in an amount not to exceed such draw on such Letter of Credit or (b) replenish the Cash Deposit in an amount not to exceed such transfer from the Cash Deposit.

2. Draws Prior to Termination of the Letter of Credit. If a Letter of Credit is not renewed, or a Substitute Letter of Credit or Cash Deposit not provided within fifteen (15) days prior to stated expiration date of such Letter of Credit and the requirements for the release or termination of such Letter of Credit have not then been met, the Fiscal Agent shall draw on the full amount of such Letter of Credit without instruction from the District. In the event the Fiscal Agent makes such a draw upon a Letter of Credit, the

Fiscal Agent shall deposit the proceeds of such draw into the Letter of Credit Fund and pending any transfer to the Bond Service Fund for the purposes described above.

3. Investment of a Cash Deposit or Draws Prior to Termination of a Letter of Credit. The proceeds of a Cash Deposit and the proceeds of a draw on a Letter of Credit pursuant to paragraph 2. above shall be invested and reinvested by the Fiscal Agent in Government Obligations or Permitted Investments described in paragraph 7. of the definition thereof. At no time shall the District direct that the proceeds of a draw on any Letter of Credit held in the Letter of Credit Fund be invested by the Fiscal Agent at a yield exceeding the yield on the Bonds. Investment earnings and profits from such investments shall be retained in the Letter of Credit Fund until such time as the Letter of Credit Fund is no longer required and at such time all interest earnings shall be paid over to the Property Owner.

Letter of Credit Requirements. Except as otherwise provided in the Indenture, the provisions of the Supplement to Mitigation Agreement shall establish and govern all requirements related to any Letter of Credit provided thereunder or under the Indenture including but not limited to applicability of the requirement to provide a Letter of Credit, determination of the Stated Amount thereof, renewal, substitution, reduction and termination thereof. Except as otherwise provided in the Indenture, the provisions of the Supplement to Mitigation Agreement shall establish and govern all requirements related to any Cash Deposit provided hereunder including but not limited to the determination of the Stated Amount of such Cash Deposit, substitution, reduction and termination thereof. No amendment may be made to any provision of the Supplement to Mitigation Agreement pertaining to the provision of a Letter of Credit or a Cash Deposit that would be materially adverse to the interests of the Bondowners without the consent of the Bondowners obtained pursuant to the provisions of the Indenture.

Receipt by District of any Letter of Credit, Substitute Letter of Credit or Cash Deposit. If the District shall receive a Letter of Credit or a Substitute Letter of Credit provided pursuant to the terms of the Supplement to Mitigation Agreement or a Cash Deposit, the District shall immediately transfer such Letter of Credit, Substitute Letter of Credit or Cash Deposit to the Fiscal Agent. The District shall provide written instructions to the Fiscal Agent to return any Letter of Credit to the Letter of Credit Provider thereof for which a Substitute Letter of Credit or Cash Deposit is being provided upon the effective date of such Substitute Letter of Credit or upon receipt by the Fiscal Agent of such Cash Deposit.

Termination or Release of a Letter of Credit, Substitute Letter of Credit or Cash Deposit. If any Letter of Credit or Substitute Letter of Credit is terminated pursuant to the provisions of the Supplement to Mitigation Agreement the District shall provide written notice of such termination to the Fiscal Agent together with instructions directing the Fiscal Agent to return such Letter of Credit to the Letter of Credit Provider thereof.

If the requirement to provide a Letter Credit is terminated pursuant to the provisions of the Supplement to Mitigation Agreement in any case where a Cash Deposit has been provided, the District shall provide written notice of such termination to the Fiscal Agent together with instructions directing the Fiscal Agent to return such Cash Deposit to the Property Owner who provided such Cash Deposit.

Actions by the District. In the event any Letter of Credit Bank wrongfully refuses to honor any drawing made on any Letter of Credit, the District, on behalf of the owners of the Bonds, shall immediately bring an action and pursue any remedy available at law or in equity for the purpose of compelling the Letter of Credit Bank to honor such drawing and to enforce the provisions of the Letter of Credit.

Property Owner as Third Party Beneficiary. Each Property Owner that has provided a Letter of Credit or Cash Deposit pursuant to the Supplement to Mitigation Agreement and the Indenture shall be an express third party beneficiary of the provisions of the Indenture related to such Letter of Credit or Cash Deposit with the right to enforce the provisions thereof against the District and/or the Fiscal Agent.

Investment of Funds.

Unless otherwise specified in the Indenture, monies in the Improvement Area F Special Tax Fund, as applicable, the Bond Service Fund, the Improvement Fund, the Reserve Fund, the Redemption Fund, the Costs of Issuance Fund and Administrative Expense Fund shall, at the written direction of 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 and the Rebate Fund shall, at the written direction of an Authorized Representative, be invested in Government Obligations. 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 7 of the definition of Permitted Investments.

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 as 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.

Moneys in all funds and accounts may be aggregated for purposes of investing in Authorized Investments except when it is necessary to segregate a fund or account or portion thereof for purposes of restricting the Yield on the investment of such funds.

Subject to the restrictions set forth in the Indenture and/or any written investment instructions received by Fiscal Agent pursuant to the Indenture, moneys in all funds and accounts, except for the Reserve Fund, shall be invested in Authorized 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. With respect to amounts in the Reserve Fund, if such investments may be redeemed without penalty or premium on the business day prior to each Interest Payment Date, 100% of the amount on deposit in the Reserve Fund may be invested in such redeemable investments of any maturity on or prior to the final maturity of the Bonds. Authorized Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Fiscal Agent may deliver such Authorized 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.

Amendments or Supplements.

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 hereto 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 Bondowners; 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 Supplemental Indentures provided for in the preceding paragraph, 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 Improvement Area F Special Tax Revenues, as applicable, superior to the pledge provided for of 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 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 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 hereto 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, 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 under the Indenture, 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 under the Indenture, without the prior written consent of the Fiscal Agent.

Ownership of Bonds.

The person in whose name any Bond shall be registered shall be deemed and regarded as the absolute Owner thereof for all purposes, and payment of or on account of the principal and redemption premium, if any, of any such Bond, and the interest on any such Bond, shall be made only to or upon the order of the registered Owner thereof or his legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond, including the redemption premium, if any, and interest thereon, to the extent of the sum or sums so paid.

Mutilated, Lost, Destroyed or Stolen Bonds.

If any Bond shall become mutilated, the Fiscal Agent shall authenticate and deliver a new Bond of like tenor, date and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent shall be canceled. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to the Fiscal Agent and, if an indemnity satisfactory to the Fiscal Agent shall be given, the Fiscal Agent shall authenticate and deliver a new Bond of like tenor and maturity, numbered and dated as the Fiscal Agent shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. Any Bond issued in lieu of any Bond alleged to have been lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds secured by the Indenture. The Fiscal Agent shall not treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed, authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and replacement Bond shall be treated as one and the same.

Covenants.

General. 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 Improvement Area F Special Tax Revenues, as applicable.

Covenant to Foreclose. 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 Improvement Area F Special Tax, as applicable, levied in such Fiscal Year to determine the amount of such Special Tax actually collected in such Fiscal Year. If the District determines that (a) any single parcel subject to such Special Tax is delinquent in the payment of such Special Taxes in the aggregate of \$6,000 or more or (b) any single parcel or parcels under common ownership subject to such Special Tax are delinquent in the payment of such Special Taxes in the aggregate of \$12,000 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 pursuant to the Indenture and for which such Special Taxes remain delinquent. With respect to aggregate delinquencies throughout the District, if the District determines that it has collected less than 95% of such 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 to the Indenture and for which such Special Taxes remain delinquent.

Protection of Security. 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 under the Indenture.

No Senior or Parity Liens. The District will not issue any other obligations payable, principal or interest, from the Improvement Area F Special Taxes, as applicable, which have, or purport to have, any lien upon such Special Taxes superior to or on a parity with the lien of the Bonds. 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 such 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.

Levy of Improvement Area F Special Taxes. The District shall comply with all requirements of the Act so as to assure the timely collection of the Improvement Area F Special Taxes. Prior to July 1 of each year, the District shall ascertain the parcels on which such 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 such Special Tax in accordance with the Improvement Area F 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 Improvement Area F 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 such Special Tax levy, the District shall prepare or cause to be prepared, and shall transmit or cause to be transmitted to tax bills to such property owners not later than the date on which the Auditor/Tax Collector of the County of San Diego annually mails the property tax bills.

To the maximum extent that the law permits it to do so, the District covenants, 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 Special Tax 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, such Maximum Special Tax which may be levied on all Assessor's Parcels 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 Legislative Body 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 of Improvement Area F which purports to reduce the Maximum Special Tax below the levels authorized pursuant to the Improvement Area F Special Tax RMA or to limit the power or authority of the District to levy Improvement Area F Special Taxes pursuant to the Improvement Area F Special Tax RMA, the

District shall, from funds available hereunder, commence and pursue legal action in order to preserve the authority and power of the District to levy such Special Taxes pursuant to such Special Tax RMA.

Proper Books and Records. 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 Improvement Area F Special Tax Revenues and other funds provided for by the Indenture.

Tax Covenants. 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.

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 Bonds under Section 103 of the Code. 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 “arbitrage bonds” within the meaning of the Code. To that end, the District will comply with all requirements of the Code to the extent applicable to the Bonds. In the event that at any time the District is of the opinion that for purposes of the Indenture 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 the Code and any temporary, proposed or final Regulations as may be applicable to the Bonds from time to time. This covenant shall survive payment in full or defeasance of the Bonds.

Notwithstanding any provision of this covenant, 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 Bonds pursuant to the Code, the Fiscal Agent may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenant under the Indenture shall be deemed to be modified to that extent.

Extension of Maturity of the Bonds. The District shall not directly or indirectly extend the maturity dates of the Bonds or the time of payment of interest with respect thereto.

Adoption of Policy Regarding Tender of Bonds. The District covenants that it will not adopt any policy pursuant to the Act permitting tender of Bonds in full payment or partial payment of any Improvement Area F Special Taxes, as applicable, unless it first receives a certificate of a Special Tax Consultant that accepting such tender will not result in the District having insufficient Improvement Area F Special Tax Revenues, as applicable, to pay the principal of and interest on the Bonds when due.

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 Improvement Area F Special Tax Revenues, as applicable, 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, 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 subparagraph 1 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 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.

To accomplish such defeasance, the District shall cause to be delivered (i) a report of the Independent Accountant verifying the determination made pursuant to the preceding paragraph (the "Verification Report") and (ii) an opinion of Bond Counsel to the effect that the Bonds are no longer Outstanding. The Verification Report and opinion of Bond Counsel shall be acceptable in form and substance, and addressed to the District and the Fiscal Agent.

Provisions Constitute a Contract.

The provisions of the Indenture shall constitute a contract between the District and the Bondowners and the provisions of the Indenture shall be enforceable by any Bondowner for the equal

benefit and protection of all Bondowners similarly situated by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may hereafter be authorized under the laws of the State in any court of competent jurisdiction. Said contract is made under and is to be construed in accordance with the laws of the State.

No remedy conferred by the Indenture upon any Bondowner is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law of the State. No waiver of any default or breach of duty or contract by any Bondowner shall affect any subsequent default or breach of duty or contract or shall impair any rights or remedies on said subsequent default or breach. No delay or omission of any Bondowner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed as a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Bondowners may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and the Bondowner shall prevail, said Bondowner shall be entitled to receive from the Special Tax Fund reimbursement for reasonable costs, expenses, outlays and attorney's fees, and should said suit, action or proceeding be abandoned or be determined adversely to the Bondowners then, and in every such case, the District and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

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 Default

If a default in the payment of the Bonds shall occur and be continuing, all revenues and any other funds then held (excluding funds on deposit in the Rebate Fund) 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 of the Owners.

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 Indenture or 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 in the Indenture, out of the applicable 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.

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 the Indenture 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 hereunder 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 COMMUNITY FACILITIES DISTRICT CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and entered into as of November 1, 2011, by and among the Poway Unified School District, on behalf of the Poway Unified School District Community Facilities District No. 10 (Torrey Highlands – Subarea IV) (the “Community Facilities District”), Zions First National Bank, a national banking association organized and existing under and by virtue of the laws of the United States of America (the “Bank”) in its capacity as Fiscal Agent (the “Fiscal Agent”), and Dolinka Group, LLC, a California limited liability company, in its capacity as Dissemination Agent (the “Dissemination Agent”) under this Disclosure Agreement in connection with the issuance of the Poway Unified School District Community Facilities District No. 10 (Torrey Highlands – Subarea IV) Improvement Area F 2011 Special Tax Bonds (the “2011 Bonds”);

WITNESSETH:

WHEREAS, pursuant to the Bond Indenture, dated as of November 1, 2011 (the “Indenture”), by and between the Community Facilities District and the Fiscal Agent, the Community Facilities District has issued the 2011 Bonds in the aggregate principal amount of \$1,695,000; and

WHEREAS, the 2011 Bonds are payable from and secured by special taxes levied on certain of the taxable property within the Community Facilities 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 this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Community Facilities District for the benefit of the owners and beneficial owners of the 2011 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (as defined below).

Section 2. Definitions. In addition to the definitions set forth in the Indenture 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 Community Facilities 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 Community Facility District’s fiscal year, which fiscal year end, as of the date of this Disclosure Agreement, is June 30.

“Community Facilities District” means the Poway Unified School District Community Facilities District No. 10 (Torrey Highlands – Subarea IV).

“Disclosure Representative” shall mean the Superintendent of the School District, acting on behalf of the Community Facilities District 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 Dolinka Group, LLC, or any successor Dissemination Agent designated in writing by the Community Facilities District and which has filed with the Community Facilities District a written acceptance of such designation.

“EMMA System” shall mean the Electronic Municipal Market Access System of the MSRB or such other electronic system designated by the MSRB (as defined below) or the Securities and Exchange Commission (the “S.E.C.”) for compliance with S.E.C. Rule 15c2-12(b).

“Improvement Area F” means Improvement Area F of the Community Facilities District.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Participating Underwriter” shall mean Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus, Los Angeles, California, is acting as Underwriter (the “Underwriter”).

“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.

“School District” shall mean Poway Unified School District, Poway, California.

Section 3. Provision of Annual Reports.

(a) The Community Facilities District shall, or, shall cause the Dissemination Agent to, not later than the Annual Report Date commencing January 31, 2012, provide to the MSRB through the EMMA System in an electronic format and accompanied by identifying information as prescribed by the MSRB and to the Fiscal Agent an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to the Annual Report Date, the Community Facilities District shall provide the Annual Report to the Dissemination Agent and the Fiscal Agent. The 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 Community Facilities District and later than the Annual Report Date if not available by that date. If the School District’s or the Community Facilities District’s fiscal year changes, the Community Facilities District 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 the Annual Report Date in any year, the Dissemination Agent shall notify the Community Facilities District of such failure to receive the applicable Annual Report. The Community Facilities District shall provide a written certification with each 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 Community Facilities District and shall have no duty or obligation to review such Annual Report.

(b) If the Community Facilities District is unable to provide to the MSRB through the EMMA System and to the Fiscal Agent an Annual Report by the Annual Report

Date, the Dissemination Agent shall send a notice to the MSRB through the EMMA System, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the electronic filing requirements of the MSRB for the Annual Reports;

(ii) provide any Annual Report received by it to the MSRB through the EMMA System and to the Fiscal Agent as provided herein; and

(iii) if the Dissemination Agent is other than the Community Facilities District and to the extent it can confirm such filing of an Annual Report, file a report with the Community Facilities District, the Fiscal Agent and the Participating Underwriter certifying that an Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and confirming that it has been filed with the MSRB through the EMMA System.

Section 4. Content of Annual Reports. An Annual Report shall contain or incorporate by reference the following:

(a) 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.

(b) The following information regarding the 2011 Bonds and any parity bonds or refunding bonds:

(i) Principal amount of 2011 Bonds and any parity bonds or refunding bonds outstanding as of a date within 30 days preceding the date of the Annual Report;

(ii) Balance in the 2011 Bond Service Fund as of a date within 30 days preceding the date of the Annual Report;

(iii) Balance in the Reserve Fund and statement of Reserve Requirement as of a date within 30 days preceding the date of the Annual Report;

(iv) While there are funds in the Improvement Fund and each account or subaccount thereof, the balance in the Improvement Fund as of a date within 30 days preceding the date of the Annual Report, and of any other fund or account not referenced in clauses (i), (ii), (iii) or (iv) hereof;

(v) A table summarizing assessed value-to-lien ratios for the property in Improvement Area F and by the 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 Improvement Area F 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 2011 Bonds and any parity bonds or refunding bonds with

respect to Improvement Area F and all other debt secured by a tax or assessments levied on parcels within Improvement Area F;

(vi) Information regarding the annual special taxes levied with respect to Improvement Area F, amount collected, delinquent amounts and percent delinquent for the most recent fiscal year;

(vii) Status of foreclosure proceedings of parcels within Improvement Area F and summary of results of foreclosure sales, if available;

(viii) A land ownership summary listing property owners, if any, 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 Improvement Area F owned by such property owners, and the assessed value of such property, as shown on such assessment roll;

(ix) Concerning delinquent parcels as of the immediately preceding August 15:

- number of parcels in Improvement Area F 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 Community Facilities District related to any foreclosure proceedings upon delinquent properties within Improvement Area F,
- 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;

(x) A copy of any report for or concerning the Community Facilities District with respect to Improvement Area F as of the immediately preceding October 31 required under State law; and

(xi) Any changes to the Rate and Method of Apportionment of Special Tax for Improvement Area F approved or submitted to the qualified electors of Improvement Area F for approval prior to the filing of the Annual Report.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Community Facilities District shall provide such further information, if any, as may be necessary to make the statements required under Section 4(b), in the light of the circumstances under which they are made, not misleading for purposes of applicable federal securities laws.

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 Community Facilities District or related public entities, which

have been submitted to the MSRB through the EMMA System or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Community Facilities 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 Community Facilities District shall give, or cause to be given, in a timely manner, not in excess of ten business days after, the occurrence of the event, notice of any of the following events with respect to the 2011 Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security or other material events affecting the tax status of the security;
- (vii) Modifications to rights of security holders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the obligated person;⁽¹⁾
- (xiii) The consummation of a merger, consolidation or acquisition involving an obligated person or sale of all or substantially all of the assets of the obligated person,

⁽¹⁾ For the purposes of the event identified in subparagraph (xii), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Dissemination Agent shall, within three 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 Community Facilities District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (e). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of the Listed Events described under clauses (ii), (iii), (vi), (x), (xi) (xii), (xiii) and (xiv) 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) As soon as practicable so as to satisfy the notice requirements of Section 5(a), the Community Facilities District shall notify the Dissemination Agent in writing of the occurrence of any of the Listed Events. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e). The Community Facilities District shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the MSRB through the EMMA System.

(d) If the Community Facilities District determines that a Listed Event subject to a materiality requirement referenced in clauses (a)(ii), (vii), (viii) (x), (xiii) or (xiv) would not be material under applicable federal securities law, the Community Facilities District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e) If the Dissemination Agent has been instructed by the Community Facilities District to report the occurrence of a Listed Event, and has received a notice of the occurrence in a format suitable for filing with the MSRB, the Dissemination Agent shall file a notice of such occurrence with the MSRB through the EMMA System, and shall provide a copy of such notice to the Participating Underwriter.

Section 6. Termination of Reporting Obligation. All of the Community Facilities District’s obligations hereunder shall terminate upon the earliest to occur of (i) the legal defeasance of the 2011 Bonds, (ii) prior redemption of the 2011 Bonds or (iii) payment in full of all the 2011 Bonds. If such determination occurs prior to the final maturity of the 2011 Bonds, the Community Facilities District shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

Section 7. Dissemination Agent. The Community Facilities District may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Dolinka Group, LLC. The Dissemination Agent may resign by providing thirty days’ written notice to the Community Facilities District and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). 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 Community Facilities District in a timely manner and in a form suitable for filing.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Community Facilities District, the Fiscal Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent and the Dissemination Agent shall agree to any amendment so requested by the Community Facilities District, so long as such amendment does not adversely affect the rights or obligations of the Fiscal Agent 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 2011 Bonds, 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 2011 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 2011 Bonds in the manner provided in the Indenture for amendments to the 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 2011 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 Community Facilities District to meet its 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 MSRB through the EMMA System in the same manner as for a Listed Event under Section 5(e).

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Community Facilities 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 Community Facilities 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 Community Facilities 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 Community Facilities District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the written direction of the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding 2011 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent) or any owner or beneficial owner of the 2011 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Community Facilities District, the Fiscal Agent 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 Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Section 6.09 of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture, and the Fiscal Agent and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Fiscal Agent thereunder. The Dissemination Agent and the Fiscal Agent 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 Community Facilities District. The Dissemination Agent shall have no obligation to make any disclosure concerning the 2011 Bonds, the Community Facilities District 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 Fiscal Agent under the 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 Fiscal Agent has or may have any banking, fiduciary or other relationship with the Community Facilities District or any other party, apart from the relationship created by the Indenture and this Disclosure Agreement, shall not be construed to mean that the Fiscal Agent has knowledge or notice of any event or condition relating to the 2011 Bonds or the Community Facilities 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 Community Facilities District as to the materiality of any event for purposes of Section 5 hereof. Neither the Fiscal Agent 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 Community Facilities District 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 in the performance of its duties hereunder. The Community Facilities District's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. Beneficiaries. The Participating Underwriter and the owners and beneficial owners from time to time of the 2011 Bonds shall be third-party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the 2011 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 Community Facilities District:	Poway Unified School District Community Facilities District No. 10 (Torrey Highlands – Subarea IV) 15250 Avenue of Science San Diego, California 92128-3406 Telephone: (858) 679-2501 Telecopier: (858) 513-0967 Attention: Superintendent
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If to the Dissemination Agent:	Dolinka Group, LLC 20 Pacifica, Suite 900 Irvine, California 92618 Telephone: (949) 250-8300 Telecopier: (949) 250-8301
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If to the Fiscal Agent:	Zions First National Bank 550 South Hope Street, Suite 2650 Los Angeles, California 90071 Telephone: (213) 593-3150 Telecopier: (213) 593-3160
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If to the Participating Underwriter:	Stone & Youngberg, a Division of Stifel Nicolaus One Ferry Building San Francisco, California 94111 Attention: Municipal Research Department Telephone: (415) 445-2332 Telecopier: (415) 445-2395
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provided, however, that all such notices, requests or other communications may be made by telephone and promptly confirmed by writing. The parties may, by notice given as aforesaid, specify a different address for any such notices, requests or other communications.

Section 14. Future Determination of Obligated Persons. In the event the S.E.C. amends, clarifies or supplements the Rule in such a manner that requires any landowner within the Community Facilities District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the Community Facilities District to meet 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 Community Facilities District to disclose information concerning any owner of land within the Community Facilities District except as required as part of the information required to be disclosed by the Community Facilities 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,
on behalf of the Poway Unified School District
Community Facilities District No. 10 (Torrey
Highlands – Subarea IV)

By: _____
Authorized Officer

ZIONS FIRST NATIONAL BANK,
as Fiscal Agent

By: _____
Authorized Officer

DOLINKA GROUP, LLC,
as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

**NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF
FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Poway Unified School District
Community Facilities District No. 10 (Torrey Highlands – Subarea IV)

Name of Bond Issue: Poway Unified School District
Community Facilities District No. 10 (Torrey Highlands – Subarea IV)
Improvement Area F 2011 Special Tax Bonds

Date of Issuance: November ____, 2011

NOTICE IS HEREBY GIVEN that Poway Unified School District Community Facilities District No. 10 (Torrey Highlands – Subarea IV) (the “Community Facilities District”) has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of November 1, 2011, by and among the Community Facilities District, Zions First National Bank, as Fiscal Agent, and Dolinka Group, LLC, as Dissemination Agent. [The Community Facilities District anticipates that the Annual Report will be filed by _____.]

Dated: ____, 20__

Dolinka Group, LLC, as Dissemination Agent,
on behalf of the Community Facilities District

cc: Community Facilities District No. 10 (Torrey Highlands – Subarea IV)
Stone & Youngberg, a Division of Stifel Nicolaus
Zions First National Bank

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APPENDIX F

FORM OF DEVELOPER CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”) is executed and entered into as of November 1, 2011, by and between Zions First National Bank, a national banking association, organized and existing under and by virtue of the laws of the United States of America (the “Bank”), in its capacity as fiscal agent (the “Fiscal Agent”) and as Dissemination Agent, and D.R. Horton Los Angeles Holding Company, Inc., a California corporation (the “Developer”).

W I T N E S S E T H :

WHEREAS, pursuant to the Bond Indenture, dated as of November 1, 2011 (the “Indenture”), by and between Poway Unified School District Community Facilities District No. 10 (Torrey Highlands – Subarea IV) (the “Community Facilities District”) and the Fiscal Agent, the Community Facilities District has issued the Community Facilities District’s Improvement Area F 2011 Special Tax Bonds (the “2011 Bonds”), in the aggregate principal amount of \$1,695,000;

WHEREAS, the 2011 Bonds are payable from and secured by special taxes levied on certain property within Improvement Area F (“Improvement Area F”) of the Community Facilities District (the “Special Taxes”);

WHEREAS, the Developer is the owner of a substantial portion of the property within Improvement Area F of the Community Facilities District; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the Developer and the Bank for the benefit of the owners and beneficial owners of the 2011 Bonds and in order to assist the Participating Underwriter of the 2011 Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

NOW, THEREFORE, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

Section 1. Definitions. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. In addition, the following capitalized terms shall have the following meanings:

“Affiliate” means, with respect to a Person (i) any other Person directly, or indirectly through one or more intermediaries, controlling, controlled by or under common control with such Person, and (ii) for whom information, including financial information or operating data, concerning such Person referenced in clause (i) is material to an evaluation of the Community Facilities District and the 2011 Bonds (i.e. information relevant to the Developer’s development of its property within Improvement Area F, the Developer’s payment of Special Taxes, or such Person’s assets or funds that would materially affect the Developer’s ability to develop its property in Improvement Area F as proposed in the Official Statement or to pay its Special Taxes. For purposes hereof, the term “control,” (including the terms “controlling,” “controlled by” or “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“Assumption Agreement” means an agreement among a Major Developer, or an Affiliate thereof, the Fiscal Agent and the Dissemination Agent containing terms substantially similar to this Disclosure Agreement, whereby such Major Developer or Affiliate agrees to provide Semi-Annual Reports and notices of significant events with respect to the portion of the property within Improvement Area F owned by, or subject to a Land Bank Transaction with, such Major Developer and its Affiliates.

“Bond Counsel” means an attorney or a firm of attorneys experienced in matters relating to the issuance of obligations by the states and their political subdivisions and the tax-exempt status of the interest thereon.

“Development Plan” means, with respect to a Major Developer, the specific improvements such Major Developer intends to make, or cause to be made, to such Major Developer’s Property in order for such Property to enable production units to be completed and sold to third parties, the time frame in which such improvements are intended to be made and the estimated costs of such improvements; the Developer’s Development Plan, as of the date hereof, is described in the Official Statement under the caption “COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV) B Property Ownership and Development.”

“Disclosure Representative” means the Senior Vice President, Land Acquisition and Planning, of the South Coast/Inland Empire Division of D.R. Horton, on behalf of the Developer, or his or her written designee, or such other person as the Developer shall designate in writing to the Fiscal Agent from time to time.

“Dissemination Agent” means the Bank, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Developer and which has filed with the Fiscal Agent a written acceptance of such designation.

“EMMA System” shall mean the Electronic Municipal Market Access System of the MSRB or such other electronic system designated by the MSRB (as defined below) or the Securities and Exchange Commission (the “S.E.C.”) for compliance with S.E.C. Rule 15c2 12(b).

“Event of Bankruptcy” means, with respect to a Person, that such Person files a petition or institutes a proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby such Person asks or seeks or prays to be adjudicated as bankrupt, or is to be discharged from any or all of such Person’s debts or obligations, or offers to such Person’s creditors to effect a composition or extension of time to pay such Person’s debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of such Person’s debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character is filed or instituted or taken against such Person and the same shall remain undismissed for a period of 60 days, or if a receiver of the business or of the property or assets of such Person is appointed by any court, or if such Person makes a general assignment for the benefit of such Person’s creditors.

“Financial Statements” means, with respect to a Major Developer, the full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position of each entity, enterprise, fund, account or other person (other than a company acting as a lender in the ordinary course of business) identified in such Major Developer’s Financing Plan as a source of funding for such Major Developer’s Development Plan, provided that, if full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position are audited and prepared in accordance with generally accepted accounting principles as in effect from time to time, then Financial Statements shall include such audited financial statements or reports and provided further, that if audited financial statements of the Major Developer or its parent company are prepared, Financial Statements

shall mean the financial statements of the Major Developer or its parent and such Financial Statements may either be attached or incorporated by reference to material on file with the Securities and Exchange Commission.

“Financing Plan” means, with respect to a Major Developer, the method by which such Major Developer intends to finance its Development Plan, including specific sources of funding for such Development Plan; the Developer’s Financing Plan, as of the date hereof, is described in the Official Statement under the caption “COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV) B Property Ownership and Development.”

“Land Bank Transaction” means a transaction in which the Developer or a Major Developer has caused Property to be transferred to a separate entity but maintains an option to purchase the property pursuant to an option or other similar agreement.

“Listed Events” means any of the events listed in Section 4(a) hereof.

“Major Developer” means, (i) a Developer, so long as the sum of the portion of the Property owned by, or subject to a Land Bank Transaction with, such Developer and any Affiliate of such Developer is subject to 15% or more of the Special Tax levy within Improvement Area F of the Community Facilities District for the then current Fiscal Year of the Community Facilities District and (ii) any Property Owner, including a Developer, that owns any portion of such Property for which production units are not completed and sold to third parties and that, together with Property owned by, or subject to a Land Bank Transaction with, such Property Owner and together with Property owned by, or subject to a Land Bank Transaction with, Affiliates of such Property Owner, is subject to 15% or more of the Special Tax levy within Improvement Area F of the Community Facilities District for the then current Fiscal Year of the Community Facilities District; *provided, however*, that the term shall not include any Property Owner that would otherwise qualify as a Major Developer if such Property Owner has assumed the obligations hereunder pursuant to Section 5.

“March 1 Report Date” means March 1 of each year, commencing March 1, 2012.

“March 1 Report Period” means with respect to a Semi-Annual Report due on the March 1 Report Date, the last six months of the calendar year (July 1 to December 31 of each year) just ended.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Official Statement” means the Official Statement, dated October 26, 2011, relating to the 2011 Bonds.

“Participating Underwriter” means Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus, Los Angeles, California, is acting as Underwriter (the “Underwriter”).

“Person” means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“Property” means the real property within Improvement Area F of the Community Facilities District.

“Property Owner” means any Person that owns a fee interest in any Property.

“Report Dates” means, collectively, the March 1 Report Dates and the September 1 Report Dates.

“Report Period” means, with respect to a Semi-Annual Report due on the March 1 Report Date, the March 1 Report Period, and with respect to a Semi-Annual Report due on the September 1 Report Date, the September 1 Report Period.

“Rule” means 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.

“Semi-Annual Report” means any Semi-Annual Report provided by the Developer pursuant to, and as described in, Sections 2 and 3 hereof.

“September 1 Report Date” means September 1 of each year, commencing September 1, 2012.

“September 1 Report Period” means with respect to a Semi-Annual Report due on the September 1 Report Date, the first six months of each calendar year.

“Special Tax” means the special tax authorized to be levied in Improvement Area F to finance the acquisition or construction of City Facilities pursuant to the Act and the First Amended Rate and Method of Apportionment for Improvement Area F of the Community Facilities District, but excluding the Supplemental Annual Special Tax described therein.

Section 2. Provision of Semi-Annual Reports. (a) So long as the Developer’s obligations hereunder have not been terminated pursuant to Section 6, (i) such Developer shall prepare a Semi-Annual Report not later than March 1 and September 1 of each year, and (ii) not later than March 15 and September 15 (14 days after the Report Date), such Developer shall, or, upon receipt of the Semi-Annual Report by the Dissemination Agent, the Dissemination Agent shall, provide to the MSRB through the EMMA System in an electronic format and accompanied by identifying information as prescribed by the MSRB and to the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent), the Community Facilities District and the Participating Underwriter, a Semi-Annual Report which is consistent with the requirements of Section 3 of this Disclosure Agreement, commencing with the March 1 Report Date to occur, March 1, 2012. The Semi-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 3 hereof; *provided, however*, that the Financial Statements of such Developer may be submitted separately from the balance of the Semi-Annual Report that is to be provided no later than the March 1 Report Date, and later than the date required above for the filing of such Semi-Annual Report if not available by that date. If such Developer’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 4(b) hereof. The Developer shall provide the information required under this Disclosure Agreement for itself, with respect to its Property.

(b) If by March 15 or September 15 (14 days after a Report Date), the Fiscal Agent has not received a copy of the Semi-Annual Report (in a form suitable for reporting to the MSRB through the EMMA System), the Fiscal Agent shall notify the Developer and the Dissemination Agent of such failure to receive the Semi-Annual Report. The Developer shall provide a written certification with, or as part of, each Semi-Annual Report furnished to the Fiscal Agent to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it hereunder. The Fiscal Agent and the Dissemination Agent may conclusively rely upon such certification of such Developer and shall have no duty or obligation to review such Semi-Annual Report.

(c) If the Fiscal Agent is unable to verify that a Semi-Annual Report has been provided to the MSRB through the EMMA System by the date required in subsection (a), the Fiscal Agent shall send a notice

to the MSRB through the EMMA System, the Dissemination Agent, the Developer and the Participating Underwriter in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine prior to each Report Date the electronic filing requirements of the MSRB for the Semi-Annual Reports;

(ii) provide any Semi-Annual Report received by it to the MSRB through the EMMA System, as provided herein; and

(iii) with respect to each Semi-Annual Report received by it and provided by it to the MSRB through the EMMA System, file a report with the Community Facilities District, the Developer, the Fiscal Agent (if the Dissemination Agent is not the Fiscal Agent) and the Participating Underwriter certifying that the Semi-Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

Section 3. Content of Semi-Annual Reports. The Developer's Semi-Annual Report shall contain or incorporate by reference the following:

(a) With respect only to the Semi-Annual Report that is required to be provided no later than each March 1 Report Date, Financial Statements for each Major Developer (other than any Major Developer with respect to which such Developer's obligations hereunder have been assumed in accordance with Section 5 or terminated in accordance with Section 6 hereof) for the most recently ended fiscal year for the entity covered thereby. If audited Financial Statements are required to be provided, and such audited Financial Statements are not available by the time such Semi-Annual Report is required to be filed pursuant to Section 2(a) hereof, such Semi-Annual Report shall contain unaudited Financial Statements, if available, and the audited Financial Statements shall be filed as a supplement or amendment to the Semi-Annual Report when they become available. A Semi-Annual Report containing Financial Statements shall contain the following caveat about all Financial Statements delivered as a part of such Semi-Annual Report:

"The Financial Statements of the Developer included with, or referred to in, this Semi-Annual Report are for informational purposes only. In the event of a failure to pay any installment of Special Taxes, and after depletion of the Reserve Fund, the real property in Improvement Area F of the Community Facilities District is the sole security for the 2011 Bonds. The obligation of the Developer to pay unpaid Special Tax installments does not constitute a personal indebtedness of the Developer or any member, parent, subsidiary, or person or entity controlling, controlled by or under common control with the Developer (each an "Affiliate") for which the funds or assets (other than the Property in Improvement Area F of the Community Facilities District that is delinquent) of the Developer or any Affiliate may be required, by operation of law or otherwise, to be used to pay debt service on the 2011 Bonds. It should not be inferred from the inclusion of the Financial Statements in the Semi-Annual Report of the Developer that the funds or assets of the Developer or any Affiliate (other than the Property in Improvement Area F of the Community Facilities District) are available to cure any delinquencies in the payment of Special Taxes."

(b) With respect to all Semi-Annual Reports, the following information with respect to each Major Developer (other than any Major Developer with respect to which the Developer's obligations hereunder have been assumed in accordance with Section 5 or terminated in accordance with Section 6 hereof) for or as of the end of the applicable Report Period; *provided*, that, if such information is required

from such Developer as to another Major Developer which is not an Affiliate of the Developer, the Developer shall only be required to provide such information that it has actual knowledge of after due inquiry:

(i) If information regarding such Major Developer has not previously been included in a Semi-Annual Report or in the Official Statement, the Development Plan of such Major Developer or, if information regarding such Major Developer has previously been included in a Semi-Annual Report or in the Official Statement, a description of the progress made in the Development Plan of such Major Developer since the date of such information and a description of any material changes in such Development Plan and the causes or rationale for such changes.

(ii) If information regarding such Major Developer has not previously been included in a Semi-Annual Report or in the Official Statement, the Financing Plan of such Major Developer or, if information regarding such Major Developer has previously been included in a Semi-Annual Report or in the Official Statement, a description of any material changes in the Financing Plan of such Major Developer and the causes or rationale for such changes.

(iii) A description or update of the status of tentative and final maps recorded within Improvement Area F of the Community Facilities District relating to Property owned by, or subject to a Land Bank Transaction with, such Major Developer.

(iv) The number of building permits issued with respect to any of such Major Developer's Property during the applicable Report Period as well as the cumulative number of building permits issued with respect to such Major Developer's Property as of the end of the applicable Reporting Period.

(v) The following information shall be provided as of the end of the Report Period covered by such Semi-Annual Report: (A) A description of the number of residential lots or acres of Property owned by, or subject to a Land Bank Transaction with, such Major Developer; (B) the number of residential lots or acres of such Major Developer's Property which have production units completed and sold (escrows closed) to third parties; (C) with respect to the Property planned for park/open space, the number of acres that have been developed with a park or designated as open space on a final residential tract map; (D) with respect to the Property planned for infrastructure use, the status of construction of the infrastructure planned for such Property; and (E) with respect to any Property planned for park/open space and infrastructure use, the number of acres of such Major Developer's Property that had not reached the level of development described in clauses (C) and (D) above.

(vi) A description of any sales (escrows closed) of portions of such Major Developer's Property during the applicable Report Period, including the identification of each buyer (other than individual home buyers) and the number of residential lots and other acres sold (escrows closed); *provided, however*, that sales of five or fewer acres may be aggregated for the purpose of such description.

(vii) A statement as to whether or not such Major Developer and all of its Affiliates owning any Property paid, prior to their becoming delinquent, all property taxes, assessments and special taxes (including the Special Taxes) levied on the Property owned by it, or for which it is responsible for payment pursuant to a Land Bank Transaction, and if such Major Developer or any of such Affiliates is delinquent in the payment of such property taxes, assessments or special taxes (including the Special Taxes) levied on its respective Property, a statement identifying each parcel that is so delinquent, specifying the amount of each such delinquency and describing any plans to resolve such delinquency.

(viii) Unless disclosed in the Official Statement or a prior Semi-Annual Report, any material changes in the information relating to any Major Developer and/or the Property owned by, or subject to a Land Bank Transaction with, such Major Developer contained in the Official Statement under the caption “BONDOWNERS’ RISKS – Factors Affecting Parcel Values and Aggregate Value – Endangered and Threatened Species” and “– Factors Affecting Parcel Values and Aggregate Value – Hazardous Substances.”

(ix) An update of the status of any previously reported Listed Event described in Section 4 hereof and information regarding Listed Events, if any, required to be reported pursuant to Section 4 hereof.

(x) Unless disclosed in the Official Statement or a prior Semi-Annual Report, any material change in the legal structure or organization of a Major Developer (e.g., a change from a partnership to a limited liability company, or any sale or transfer of substantially all of the assets of or a controlling ownership interest in a Major Developer).

(xi) The filing and service of process on such Major Developer of a lawsuit against such Major Developer seeking damages, or a judgment in a lawsuit against such Major Developer, either of which could reasonably be expected to have a significant impact on the Major Developer’s ability to pay its Special Taxes or to sell or develop all or any portion of such Major Developer’s Property.

(xii) If applicable, a statement that a Property Owner no longer meets the definition of Major Developer, which statement shall be provided in the manner required for Semi-Annual Reports by the next succeeding date on which a Semi-Annual Report would have been filed unless such fact has previously been reported under Section 3 or Section 4.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Developer shall provide such further information, if any, as may be necessary to make the statements required under Section 3(b), in the light of the circumstances under which they are made, not misleading for purposes of applicable federal securities laws.

Major Developers that are Affiliates of each other may, but are not required to, file a single Semi-Annual Report covering all such entities. Any or all of the items listed in this Section 3 may be included by specific reference to other documents, including official statements of debt issues of the Community Facilities District or related public entities, which have been submitted to the MSRB through the EMMA System or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Developer shall clearly identify each such other document so included by reference. If a Property Owner which was a Major Developer no longer meets the definition of Major Developer, no Semi-Annual Report shall be required to be filed by or with respect to such Property Owner under this Section 3; *provided, however*, that notice that the Property Owner does not meet the definition of Major Developer shall be provided in the manner required for Semi-Annual Reports by the next succeeding date on which a Semi-Annual Report would have been filed unless such fact has previously been reported under Section 3 or Section 4.

Section 4. Reporting of Listed Events. (a) Pursuant to the provisions of this Section 4, the Developer shall give, or cause to be given in a timely manner, not in excess of ten business days after, the occurrence of the event, notice of any of the following events with respect to each Major Developer (other than any Major Developer with respect to which the Developer’s obligations hereunder have been assumed in accordance with Section 5 or terminated in accordance with Section 6 hereof); provided, that, if such information is required from such Developer as to another Major Developer which is not an Affiliate of the Developer, the

Developer shall only be required to provide such information that it has actual knowledge of after due inquiry:

(i) Unless disclosed in the Official Statement or a prior Semi-Annual Report, any conveyance by such Major Developer of any of its Property to an entity that is not an Affiliate of such Major Developer, the result of which conveyance is to cause the transferee to become a Major Developer. In addition, if the transferee has assumed any obligations of the Developer under this Disclosure Agreement pursuant to Section 5 hereof, a copy of the executed Assumption Agreement shall be attached to the Notice. Notwithstanding the foregoing, the Developer shall have no obligation to provide notice of the transfer of Property from the Developer to an Affiliate of the Developer.

(ii) Any failure of such Major Developer, or any Affiliate of such Major Developer owning any Property, or responsible for the payment of property taxes with respect to Property subject to a Land Bank Transaction with the Developer or an Affiliate, to pay when due general property taxes, special taxes or assessments with respect to its Property.

(iii) Any denial or termination of credit, any denial or termination of, or default under, any line of credit or loan or any other loss of a source of funds expected to be used by such Major Developer to complete the proposed development of its Property that would have a material adverse affect on such Major Developer's most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer owning any Property, to pay Special Taxes levied against its respective Property within Improvement Area F of the Community Facilities District when due.

(iv) The occurrence of an Event of Bankruptcy with respect to such Major Developer, or any Affiliate of such Major Developer that owns Property, or is subject to a Land Bank Transaction, that, in the reasonable judgment of such Major Developer would have a material adverse affect on such Major Developer's most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer that owns any portion of the Property, to pay Special Taxes levied against its respective Property when due.

(v) Any significant amendments to land use entitlement approvals for such Major Developer's Property, if such amendments, in the reasonable judgment of such Major Developer, would prevent or significantly delay the implementation of such Major Developer's Development Plan as described in the Official Statement or in any previous Semi-Annual Report.

(vi) Any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development on such Major Developer's Property, if such preconditions, in the reasonable judgment of such Major Developer, would prevent or significantly delay such Major Developer's Development Plan as described in the Official Statement or in any previous Semi-Annual Report.

(vii) Any previously undisclosed legislative, administrative or judicial challenges to development on such Major Developer's Property, if such challenges, in the reasonable judgment of such Major Developer, would prevent or significantly delay such Major Developer's Development Plan as described in the Official Statement or in any previous Semi-Annual Report.

(viii) Any changes in the alignment, design or likelihood of completion of significant public improvements affecting such Major Developer's Property, including major thoroughfares, sewers, water conveyance systems and similar facilities that, in the reasonable judgment of such Major Developer, would prevent or significantly delay such Major Developer's Development Plan as described in the Official Statement or any previous Semi-Annual Report.

(ix) The filing of any lawsuit against a Major Developer which, in the reasonable judgment of such Major Developer, will have a material adverse effect on such Major Developer's most recently disclosed Development Plan as described in the Official Statement or in any previous Semi-Annual Report, or litigation which if decided against such Major Developer, in the reasonable judgment of such Major Developer, would have a material adverse effect on such Major Developer's most recently disclosed Financing Plan as described in the Official Statement or in any previous disclosed Semi-Annual Report.

(b) As soon as practicable so as to satisfy the notice requirements of Section 5(a), the Developer shall notify the Dissemination Agent, the Fiscal Agent, the Participating Underwriter, and the Community Facilities District in writing of the occurrence of any of the Listed Events. The Dissemination Agent shall report the occurrence pursuant to subsection (c) below. The Developer shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the MSRB through the EMMA System.

(c) If the Dissemination Agent has received notice of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with MSRB through the EMMA and shall provide a copy of such notice to the Participating Underwriter, to the Fiscal Agent and to the Community Facilities District. In the event there is no Dissemination Agent, the Fiscal Agent shall file the notice required in clause (b) if the form of notice is provided to the Fiscal Agent by the Developer, and the Developer shall compensate the Fiscal Agent for providing such notices.

(d) If the Developer determines that a Listed Event subject to a materiality requirement referenced in clause (a) would not be material under applicable federal securities law, the Developer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (c).

Section 5. Assumption of Obligations; Assumption of Developer's Obligations. If any portion of the Property owned by, or subject to a Land Bank Transaction with, the Developer, or any Affiliate of the Developer, is conveyed to a Person such that, upon such conveyance, such Person will be a Major Developer, all of the obligations of the Developer hereunder with respect to the Property owned by, or subject to a Land Bank Transaction with, such Major Developer and its Affiliates shall be assumed by such Major Developer or by an Affiliate. In order to effect such assumption, such Major Developer or Affiliate thereof shall enter into an Assumption Agreement. A copy of the Assumption Agreement shall be provided to the Participating Underwriter, the Dissemination Agent, the Fiscal Agent and the Community Facilities District as set forth in Section 4(i) in the manner provided in 4(b) and (c). Notwithstanding the foregoing, there shall be no requirement that a transferee enter into an Assumption Agreement provided that such transferee is an Affiliate of the Developer.

Section 6. Termination of Reporting Obligation. The Developer's obligations under this Disclosure Agreement with respect to a Major Developer (including its obligations with respect to itself as a Major Developer) shall terminate upon the earliest to occur of (a) the date on which such Major Developer is no longer a Major Developer, as defined herein, (b) the date on which the Developer's obligations with respect to such Major Developer are assumed under an Assumption Agreement entered into pursuant to Section 5 hereof, or (c) the date on which all Special Taxes levied on any Property owned by, or subject to a Land Bank Transaction with, such Major Developer and its Affiliates are paid or prepaid in full; *provided, however*, that upon the occurrence of any of the events described in clauses (a), (b) or (c) with respect to a Major Developer, the Developer's obligations hereunder with respect to each other Major Developer, if any, not previously terminated shall remain in full force and effect. All of the Developer's obligations under this Disclosure

Agreement shall terminate, except as provided in Section 11 hereof, upon the earliest to occur of (x) the date on which no Property Owner is a Major Developer, (y) the date on which (i) the Developer is no longer a Major Developer, and (ii) the Developer no longer has any obligations under this Disclosure Agreement with respect to any remaining Property as a result of such obligations having been assumed under one or more Assumption Agreements entered into pursuant to Section 5 hereof, or (z) the date on which all of the 2011 Bonds have been legally defeased, redeemed, or paid in full. Upon the occurrence of any such termination prior to the final maturity of the 2011 Bonds, the Developer shall give notice of such termination in the same manner as for a Listed Event under Section 4 hereof.

Section 7. Dissemination Agent. The initial Dissemination Agent shall be the Bank. The Developer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge the Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days' written notice to the Developer, the Community Facilities District and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent), such resignation to become effective upon acceptance of the appointment by a successor Dissemination Agent. Upon receiving notice of such resignation, the Developer shall promptly appoint a successor Dissemination Agent by an instrument in writing, delivered to the Fiscal Agent. If no appointment of a successor Dissemination Agent shall be made pursuant to the foregoing provisions of this Section within forty-five (45) days after the Dissemination Agent shall have given to the Developer, the Community Facilities District and the Fiscal Agent written notice of its resignation, the Dissemination Agent may apply to any court of competent jurisdiction to appoint a successor Dissemination Agent. Said court may thereupon after such notice, if any, as such court may deem proper, appoint a successor Dissemination Agent. The Developer shall provide the Community Facilities District and the Fiscal Agent with written notice of the identity of any successor Dissemination Agent appointed or engaged by the Developer. The Dissemination Agent shall have no duty to prepare any Semi-Annual Report nor shall the Dissemination Agent be responsible for filing any Semi-Annual Report not provided to it by the Developer in a timely manner and in a form suitable for filing. If the Dissemination Agent is other than the Fiscal Agent, the Developer shall be responsible for paying the fees and expenses of the Dissemination Agent for its services provided hereunder, in accordance with its schedule of fees as amended from time to time. If the Dissemination Agent is the Fiscal Agent, the Community Facilities District shall be responsible for paying the fees and expenses of the Dissemination Agent for its services provided hereunder in accordance with its agreement with the Community Facilities District.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Developer, the Fiscal Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent and the Dissemination Agent shall agree to any amendment so requested by the Developer, provided that the Fiscal Agent or the Dissemination Agent shall not be obligated to enter into such amendment that modifies or increases its duties and obligations hereunder), and any provision of this Disclosure Agreement may be amended or waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to Sections 2(a), 3 or 4(a) hereof, 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 (as defined in the Rule) with respect to the 2011 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of Bond Counsel approved by the Community Facilities District, have complied with the requirements of the Rule at the time of the primary offering of the 2011 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 2011 Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of owners of the 2011

Bonds, or (ii) does not, in the opinion of Bond Counsel approved by the Community Facilities District, materially impair the interests of owners or beneficial owners of the 2011 Bonds.

If the financial information or operating data contained within the Financial Statements to be provided in the Semi-Annual Report or amendment or supplement thereto is amended pursuant to the provisions hereof, the first Semi-Annual Report or amendment or supplement thereto containing the operating data or financial information in accordance with such amendment 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.

As required by the Rule, if an amendment is made to the provisions hereof specifying the accounting principles to be followed in preparing Financial Statements, the 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 Statements, in order to enable investors to evaluate the ability of the Major Developer to generally meet its 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 MSRB through the EMMA System in the same manner as for a Listed Event under Section 4 hereof.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Developer 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 Semi-Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Developer chooses to include any information in any Semi-Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Developer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Semi-Annual Report or notice of occurrence of a Listed Event.

The Developer acknowledges and understands that a variety of state and federal securities laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Developer and that under some circumstances compliance with this Disclosure Agreement without additional disclosures or other action, may not fully discharge all duties and obligations of the Developer under such securities laws.

Section 10. Default. In the event of a failure of a Developer, the Dissemination Agent or the Fiscal Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent at the written direction of the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding Bonds, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent shall, or any owner or beneficial owner of the 2011 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Developer, the Dissemination Agent or the Fiscal Agent, as the case may be, 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 Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Developer, the Dissemination Agent or the Fiscal Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Neither the Fiscal Agent nor the Dissemination Agent (if other than the Fiscal Agent or the Fiscal Agent in its capacity as

Dissemination Agent) shall have any responsibility for the content of any Semi-Annual Report. The Dissemination Agent (if other than the Fiscal Agent or the Fiscal Agent in its capacity as Dissemination Agent) and the Fiscal Agent shall have only the duties as are specifically set forth in this Disclosure Agreement. The Developer agrees to indemnify and save each of the Fiscal Agent and the Dissemination Agent, and their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which it or they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the reasonable costs and expenses (including attorneys fees) of defending against any such claim of liability with counsel approved by the Developer, which approval shall not be unreasonably withheld, but excluding losses, expenses and liabilities due to the Fiscal Agent's or the Dissemination Agent's, and their respective officers, directors, employees, and agents', negligence, willful misconduct or failure to comply with any provision of this Disclosure Agreement. The obligations of the Developer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2011 Bonds and the resignation or removal of the Fiscal Agent. The Dissemination Agent and Fiscal Agent shall have no responsibility for the preparation, review, form or content of any Semi-Annual Report or any notice of a Listed Event. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent or Fiscal 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 and Fiscal Agent may conclusively rely on the determination of the Developer as to the materiality of any event for purposes of Section 4 hereof. Neither the Fiscal Agent nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. A Developer's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. 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 Developer: D.R. Horton Los Angeles Holding Company, Inc.
2280 Wardlow Circle, Suite 100
Corona, California 92880
Telephone: (961) 272-9000
Telecopier: (866) 774-0369
Attention: David A. Stearn, Senior Vice President – Acquisitions &
Planning (South Coast/Inland Empire Division)

and to: D.R. Horton, America's Builder
1601 South Victoria, Suite 250
Oxnard, CA 93035
Attn: Christopher J. Chambers and William E. Mayer
Phone: (805) 382-9244; Fax (805) 382-9245

D.R. Horton, Inc.
301 Commerce Street, Suite 500
Fort Worth, TX 76102
Attn: Ted I. Harbour and Thomas Montano
Phone: (817) 390-8200; Fax (817) 390-8249

If to the Community
Facilities District: Poway Unified School District
Community Facilities District No. 10 (Torrey Highlands – Subarea IV)
15250 Avenue of Science
San Diego, California 92128-3406
Telephone: (858) 679-2501
Telecopier: (858) 513-0967
Attention: Superintendent

If to the
Fiscal Agent or
Dissemination Agent: Zions First National Bank
550 South Hope Street, Suite 2650
Los Angeles, California 90071
Telephone: (213) 593-3150
Telecopier: (213) 593-3160

If to the
Participating
Underwriter: Stone & Youngberg, a Division of Stifel Nicolaus
One Ferry Building
San Francisco, California 94111
Attention: Municipal Research Department
Telephone: (415) 445-2300
Telecopier: (415) 445-2395

provided, however, that all such notices, requests or other communications may be made by telephone and promptly confirmed by writing. The parties may, by notice given as aforesaid, specify a different address for any such notices, requests or other communications.

Section 13. Beneficiaries. The Participating Underwriter and the owners and beneficial owners from time to time of the 2011 Bonds shall be third party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Developer, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the 2011 Bonds, and shall create no rights in any other person or entity. Any action by a beneficiary of this Agreement shall be subject to Section 18 below.

Section 14. 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 15. 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.

Section 16. 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 17. 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 18. Attorneys' Fees. In the event of the bringing of any action or suit by any party against another party arising out of this Disclosure Agreement, the party in whose favor final judgment shall be entered shall be entitled to recover from the other party all costs and expenses of suit, including reasonable attorneys' fees.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

D.R. HORTON LOS ANGELES HOLDING COMPANY,
INC., a California corporation

By: _____
Name:
Title:

ZIONS FIRST NATIONAL BANK,
as Fiscal Agent and Dissemination Agent

By: _____
Authorized Officer

[EXECUTION PAGE OF DEVELOPER CONTINUING DISCLOSURE AGREEMENT]

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE SEMI-ANNUAL REPORT**

Name of Obligated Person: D.R. Horton Los Angeles Holding Company, Inc., a California corporation

Name of Bond Issue: Poway Unified School District Community Facilities District
No. 10 (Torrey Highlands – Subarea IV)
Improvement Area F 2011 Special Tax Bonds

Date of Issuance: November __, 2011

NOTICE IS HEREBY GIVEN that D.R. Horton Los Angeles Holding Company, Inc. (the “Developer”), a California corporation, has not provided a Semi-Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of November 1, 2011, by and between the Developer and Zions First National Bank, as Fiscal Agent and as Dissemination Agent. [The Developer anticipates that the Semi-Annual Report will be filed by _____.]

Dated: ____, 20__

Zions First National Bank,
as Dissemination Agent

cc: Poway Unified School District Community
Facilities District No. 10 (Torrey Highlands – Subarea IV)
c/o Poway Unified School District
Stone & Youngberg, a Division of Stifel Nicolaus
D.R. Horton Los Angeles Holding Company, Inc.

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APPENDIX G

FORM OF OPINION OF BOND COUNSEL

Board of Education
Poway Unified School District
15250 Avenue of Science
San Diego, California 92128-3406

\$1,695,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 10
(TORREY HIGHLANDS - SUBAREA IV)
IMPROVEMENT AREA F
2011 SPECIAL TAX BONDS

BOND OPINION

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the Poway Unified School District (the "School District") of Community Facilities District No. 10 (Torrey Highlands - Subarea IV) Improvement Area F 2011 Special Tax Bonds in the aggregate principal amount of \$1,695,000 (the "Bonds"). The Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), Resolution No. 11-2012 adopted by the Board of Education of the Poway Unified School District (the "School District"), acting in its capacity as the Legislative Body of the District, on October 10, 2011, and the Bond Indenture executed in connection therewith, dated as of November 1, 2011, by and between the District and Zions First National Bank, as Fiscal Agent (the "Bond Indenture"). Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Bond Indenture.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings in connection with the formation of the District, the designation of Improvement Area F and the issuance of the Bonds (the "District Proceedings"). We have also examined certificates and representations of fact made by public officials and officers of the School District on behalf of the District and others as we have deemed necessary to render this opinion.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the District or the School District other than the record of the District Proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof which has been or may be supplied to any purchaser of the Bonds. In rendering this opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the accuracy of the factual matters represented, warranted or certified therein.

The Bond Indenture and other related documents refer to certain requirements and procedures which may be changed and certain actions which may be taken, in circumstances and subject to terms and conditions

set forth in such documents, upon the advice or with an approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to any Bond or the interest thereon if any such change is made or action is taken upon the advice or approval of counsel other than ourselves.

No opinion is expressed herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. The opinions may be affected by actions or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events occur. As to questions of fact material to our opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein.

It is to be understood that the rights and obligations under the Bonds and the Bond Indenture are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws heretofore or hereafter enacted, affecting the enforcement of creditors' rights and remedies, to the application of equitable principles when equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases.

Based on and subject to the foregoing, and in reliance thereon, and our consideration of such questions of law as we have deemed relevant to the circumstances, we are of the following opinions:

1. The District has, and the District Proceedings show, full power and authority to issue the Bonds. The Bonds constitute legal, valid and binding obligations of the District, payable in accordance with their terms. The District has the full right, power and authority to levy and pledge the Improvement Area F Special Taxes to the Owners of the Bonds. The Bonds are limited obligations of the District payable solely from and secured by a pledge of the Net Special Tax Revenues, and from certain other funds and accounts pursuant to the Bond Indenture and are not obligations of the School District, the State of California, or any public agency thereof (other than the District).

2. The Bond Indenture has been duly and validly authorized, executed and delivered by, and constitutes a valid and binding obligation of, the District.

3. 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 Bond Indenture, the District 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 District 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.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion as to any matter other than as expressly set forth above.

Respectfully Submitted,

BEST BEST & KRIEGER LLP

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APPENDIX H

BOOK-ENTRY SYSTEM

The following description under the heading “Procedures and Record Keeping” with respect to beneficial ownership interests in the 2011 Bonds, payment of principal of and interest on the 2011 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2011 Bonds, confirmation and transfer of beneficial ownership interests in the 2011 Bonds and other bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2011 Bonds is based solely on information furnished by DTC to the School District which the School District believes to be reliable, but the School District, the Community Facilities District 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.

Procedures and Record Keeping

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2011 Bonds. The 2011 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 2011 Bond will be issued for each maturity of the 2011 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2011 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2011 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through

which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2011 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 2011 Bonds, except in the event that use of the book-entry system for the 2011 Bonds is discontinued.

To facilitate subsequent transfers, all 2011 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2011 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 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2011 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2011 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2011 Bonds, such tenders, defaults, and proposed amendments to the 2011 Bonds documents. For example, Beneficial Owners of the 2011 Bonds may wish to ascertain that the nominee holding the 2011 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 Fiscal Agent and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the School District 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 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the 2011 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 School District or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent or the School District, subject to any statutory or 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 School District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2011 Bonds at any time by giving reasonable notice to the School District or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, the 2011 Bond certificates are required to be printed and delivered.

The School District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the 2011 Bond certificates will be printed and delivered to DTC.

The information in this Section concerning DTC and DTC's book-entry system has been obtained from sources that the School District believes to be reliable, but the School District 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 2011 Bonds, or (b) the School District determines that DTC shall no longer act and delivers a written certificate to the Fiscal Agent to that effect, then the School District will discontinue the Book-Entry System with DTC for the 2011 Bonds. If the School District determines to replace DTC with another qualified securities depository, the School District will prepare or direct the preparation of a new single separate, fully-registered 2011 Bond for each maturity of the 2011 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Indenture. If the School District fails to identify another qualified securities depository to replace the incumbent securities depository for the 2011 Bonds, then the 2011 Bonds shall no longer be restricted to being registered in the 2011 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 2011 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2011 Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the 2011 Bonds will be payable upon surrender thereof at the trust office of the Fiscal Agent identified in the Indenture, and (iii) the 2011 Bonds will be transferable and exchangeable as provided in the Indenture.

The School District and the Fiscal Agent 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 2011 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 2011 Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the 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 2011 Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the 2011 Bonds or the Indenture. The School District and the Fiscal Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of or interest on the 2011 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 School District and the Fiscal Agent 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 2011 Bonds or any error or delay relating thereto.

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APPENDIX I

**BOUNDARY MAP OF IMPROVEMENT AREA F OF
THE COMMUNITY FACILITIES DISTRICT**

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**PROPOSED BOUNDARIES
OF POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 10
SAN DIEGO COUNTY
STATE OF CALIFORNIA**

- (1) Filed in the office of the Secretary to the Board of Education this 16th day of April, 2001.

[Signature]
Secretary of the Board of Education

- (2) I hereby certify that the within map showing the proposed boundaries of Community Facilities District No. 10, San Diego County, State of California, was approved by the Board of Education at a regular meeting thereof, held on this 16th day of April, 2001, by its Resolution No. 42-2001.

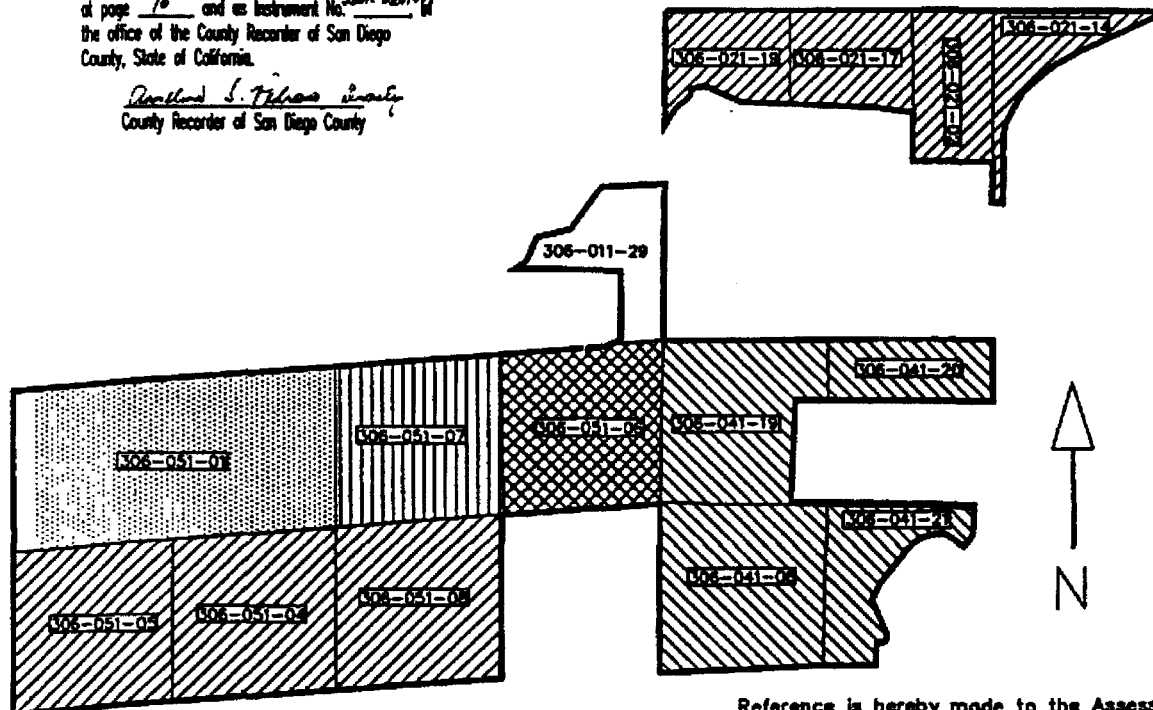
[Signature]
Secretary of the Board of Education

- (3) Filed this 19th day of APRIL, 2001, at the hour of 2:25 o'clock P.M., in Book 35 of Maps of Assessment and Community Facilities Districts of page 10 and as Instrument No. 2001-024148 in the office of the County Recorder of San Diego County, State of California.

[Signature]
County Recorder of San Diego County

LEGEND

	CFO Boundary
	Assessor Parcel Boundary
nnn-nnn-nn	Assessor Parcel Number
	Improvement Area A
	Improvement Area B
	Improvement Area C
	Improvement Area D
	Improvement Area E
	Improvement Area F



PREPARED BY
DAVID TAUSSIG & ASSOCIATES, INC.

Reference is hereby made to the Assessor maps of the County of San Diego for an exact description of the lines and dimensions of each lot and parcel.

BK 35 PG 19

2001-024148

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