

NEW ISSUE

NOT RATED

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 2001 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.

**POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 10
(TORREY HIGHLANDS — SUBAREA IV)
\$9,700,000 IMPROVEMENT AREA A SPECIAL TAX BONDS AND
\$6,345,000 IMPROVEMENT AREA B SPECIAL TAX BONDS**

Dated: Date of Delivery

Due: September 1, as shown below

The Improvement Area A Special Tax Bonds (the "Improvement Area A Bonds") and the Improvement Area B Special Tax Bonds (the "Improvement Area B Bonds," and together with the Improvement Area A Bonds, the "2001 Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and two Bond Indentures, each dated as of September 1, 2001, each by and between the Community Facilities District No. 10 (Torrey Highlands — Subarea IV) of the Poway Unified School District (the "Community Facilities District") and State Street Bank and Trust Company of California, N.A., as fiscal agent (the "Fiscal Agent"). The Improvement Area A Bonds and Improvement Area B Bonds are payable from proceeds of Special Taxes (as defined herein) levied on property within Improvement Area A and Improvement Area B, respectively, of the Community Facilities District according to the Rate and Method of Apportionment of Special Tax approved by the qualified electors of each such Improvement Area 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 2001 Bonds are being issued (i) to finance, either directly or indirectly, the acquisition and construction of certain road improvements (the "City Facilities"), (ii) to fund separate reserve funds for the Improvement Area A Bonds and the Improvement Area B Bonds, (iii) to pay interest on the Improvement Area A Bonds and the Improvement Area B Bonds through September 1, 2002, (iv) to pay certain administrative expenses of the Community Facilities District, and (v) to pay the costs of issuing the 2001 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "CITY FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2001 BONDS" herein.

Interest on the 2001 Bonds is payable on March 1, 2002 and semiannually thereafter on each March 1 and September 1. The 2001 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The 2001 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 2001 Bonds as described herein under "THE 2001 BONDS — Book-Entry System."

The 2001 Bonds are subject to optional redemption, mandatory redemption from prepayment of Special Taxes and mandatory redemption as described herein.

THE 2001 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2001 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 2001 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 2001 BONDS. OTHER THAN THE SPECIAL TAXES OF THE APPLICABLE IMPROVEMENT AREA, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE IMPROVEMENT AREA A BONDS OR THE IMPROVEMENT AREA B BONDS. THE IMPROVEMENT AREA A BONDS AND THE IMPROVEMENT AREA B 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 THE APPLICABLE IMPROVEMENT AREA 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 2001 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 2001 Bonds.

The 2001 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, Lake Forest, California, Disclosure Counsel. It is anticipated that the 2001 Bonds, in book-entry form, will be available for delivery to DTC in New York, New York on or about October 25, 2001.

Stone & Youngberg LLC

Dated: October 11, 2001

MATURITY SCHEDULE

**IMPROVEMENT AREA A
SPECIAL TAX BONDS
\$2,065,000 Serial Bonds**

Base CUSIP No. 738855

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP. No.</u>	<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP. No.</u>
2003	\$ 5,000	3.75%	100%	BV6	2011	\$125,000	5.30%	100%	CD5
2004	15,000	4.00	100	BW4	2012	145,000	5.40	100	CE3
2005	30,000	4.20	100	BX2	2013	165,000	5.50	100	CF0
2006	40,000	4.40	100	BY0	2014	190,000	5.60	100	CG8
2007	55,000	4.70	100	BZ7	2015	215,000	5.70	100	CH6
2008	70,000	4.90	100	CA1	2016	240,000	5.80	100	CJ2
2009	90,000	5.00	100	CB9	2017	270,000	5.90	100	CK9
2010	105,000	5.20	100	CC7	2018	305,000	5.95	100	CL7

**\$705,000 6.00% Term Improvement Area A Bonds due September 1, 2020,
Price 100% CUSIP No. 738855CN3**

**\$2,495,000 6.00% Term Improvement Area A Bonds due September 1, 2025,
Price 99.75% CUSIP No. 738855CP8**

**\$4,435,000 6.10% Term Improvement Area A Bonds due September 1, 2031,
Price 100% CUSIP No. 738855CQ6**

MATURITY SCHEDULE

**IMPROVEMENT AREA B
SPECIAL TAX BONDS
\$1,335,000 Serial Bonds**

Base CUSIP No. 738855

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP. No.</u>	<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP. No.</u>
2004	\$ 10,000	4.00%	100%	CR4	2012	\$ 95,000	5.40%	100%	CZ6
2005	20,000	4.20	100	CS2	2013	110,000	5.50	100	DA0
2006	25,000	4.40	100	CT0	2014	125,000	5.60	100	DB8
2007	35,000	4.70	100	CU7	2015	140,000	5.70	100	DC6
2008	45,000	4.90	100	CV5	2016	155,000	5.80	100	DD4
2009	55,000	5.00	100	CW3	2017	175,000	5.90	100	DE2
2010	70,000	5.20	100	CX1	2018	195,000	5.95	100	DF9
2011	80,000	5.30	100	CY9					

**\$460,000 6.00% Term Improvement Area B Bonds due September 1, 2020,
Price 100% CUSIP No. 738855DG7**

**\$1,630,000 6.00% Term Improvement Area B Bonds due September 1, 2025,
Price 99.75% CUSIP No. 738855DH5**

**\$2,920,000 6.10% Term Improvement Area B Bonds due September 1, 2031,
Price 100% CUSIP No. 738855DJ1**

POWAY UNIFIED SCHOOL DISTRICT

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David Taussig & Associates, Inc.
Newport Beach, California

FISCAL AGENT

State Street Bank and Trust Company of California, N.A.
Los Angeles, California

NO DEALER, BROKER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION WITH RESPECT TO THE 2001 BONDS, OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, ANY SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE DESCRIBED ON THE COVER PAGE OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE 2001 BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE 2001 BONDS.

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

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

IN CONNECTION WITH THE OFFERING OF THE 2001 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2001 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 2001 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE 2001 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2001 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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OFFICIAL STATEMENT

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS - SUBAREA IV) \$9,700,000 IMPROVEMENT AREA A SPECIAL TAX BONDS AND \$6,345,000 IMPROVEMENT AREA B 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 2001 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 A Special Tax Bonds (the "Improvement Area A Bonds") and Improvement Area B Special Tax Bonds (the "Improvement Area B Bonds," and together with the Improvement Area A Bonds, the "2001 Bonds"). For purposes hereof, "Subarea" refers to each separate Developer's ownership.

The 2001 Bonds are issued pursuant to the Act (as defined below) and two Bond Indentures, each dated as of September 1, 2001 (each a "Bond Indenture" and together, the "Bond Indentures"), each by and between the School District (as defined below) and State Street Bank and Trust Company of California, N.A., as fiscal agent (the "Fiscal Agent"). See "THE 2001 BONDS - Authority of Issuance" herein. The Community Facilities District may issue additional bonds payable on a parity with either Series of the 2001 Bonds for refunding purpose only.

The School District

The Poway Unified School District (the "School District") is located north of the City of San Diego (the "City"). The School District was originally formed in 1962. The School District currently covers approximately 99.1 square miles in the central portion of the County of San Diego (the "County") and includes the City of Poway and portions of the City of San Diego and the County, including the communities of Black Mountain Ranch, Carmel Mountain Ranch, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santaluz, Santa Fe Valley, Torrey Highlands and 4S Ranch. The School District currently operates twenty-one (21) elementary schools, five (5) middle schools, three (3) high schools, one (1) continuation high school and one (1) adult school. The School District had approximately 32,500 students enrolled during Fiscal Year 2000-2001. 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 A authorized bonded indebtedness in the aggregate not-to-exceed amount of \$13,000,000 and the qualified electors of Improvement Area B authorized bonded indebtedness in the aggregate not-to-exceed amount of \$9,000,000 and approved the levy of special taxes (the "Special Taxes") in each respective Improvement Area. 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 levied on property within the Community Facilities District (including Improvement Area C, Improvement Area D, Improvement Area E and Improvement Area F).

The cost of the School Facilities is expected to exceed the cost of the City Facilities. The School Facilities will be financed through the payment of a one-time special tax on or before the date a building permit is issued and by the levy of an annual special tax on Developed Property as set forth in the Community Facilities District No. 10 Rate and Method of Apportionment of Special Tax. See "SECURITY FOR THE 2001 BONDS - Rate and Method - *Community Facilities District No. 10 Rate and Method.*" The School District will use such special taxes and bond proceeds for the acquisition, construction, rehabilitation, improvement of the School Facilities and related administrative expenses. The 2001 Bonds are not secured by or payable from the special tax levied to finance the School Facilities. The 2001 Bonds will only finance City Facilities and will not finance School 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 non-contiguous, but generally is located along the future extension of Camino Ruiz south of Carmel Valley Road in the northern portion of the City. The Community Facilities District consists of approximately 470 gross acres of partially developed property. Improvement Area A consists of approximately 187 gross acres (approximately 50.8 net acres) and Improvement Area B consists of approximately 106 gross acres (approximately 37.2 net acres).

The property within Improvement Area A of the Community Facilities District is owned by two major landowners (or their affiliates) and the taxable property within Improvement Area B is owned by two major landowners. It is expected that approximately 50.8 net acres in Improvement Area A and approximately 37.23 net acres in Improvement Area B proposed for residential development will be subject to the Special Tax.

The major landowners in Improvement Area A are: (i) three Delaware limited liability companies formed by Western Pacific Housing (collectively the "WPH LLCs") or affiliates thereof, which in the aggregate own approximately 42.3 net acres expected to be developed with approximately 301 single family detached homes; and (ii) DR Horton San Diego Holding Company Incorporated, a California corporation ("DR Horton") which owns approximately 8.5 net acres expected to be developed with approximately 65 single family detached homes ("Bryn Glen").

The major landowners in Improvement Area B are: (i) LEN - Greystone Torrey Highlands, LLC ("LEN - Greystone"), a Delaware limited liability company which owns approximately 26.2 net acres expected to be developed with approximately 157 single family detached homes and Greystone Homes, Inc., a Delaware corporation ("Greystone Homes") which acquires from LEN - Greystone lots for which building permits have been issued and (ii) Standard Pacific Corp., a Delaware corporation ("Standard Pacific") which owns approximately 11.0 net acres to be developed with approximately 78 single family detached homes. The WPH LLCs, DR Horton, LEN - Greystone (including Greystone Homes ownership interest in the LEN - Greystone parcels) and Standard Pacific are each individually referred to as a "Developer" and collectively referred to as the "Developers"). 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 2001 Bonds

The Community Facilities District was formed pursuant to a Torrey Highlands - Subarea IV School Impact Mitigation Agreement dated as of July 1, 1996 among the School District and various landowners, as amended by the Supplement to School Impact Mitigation Agreement dated as of August 27, 2001 by and

among the School District and the owners of land or the holders of options to purchase land within the Community Facilities District, including the Developers (collectively, the "Impact Mitigation Agreement"). 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 to provide assurances to the School District for the timely construction of Camino Ruiz (Phase 1) between Carmel Valley Road and State Route 56 providing construction and permanent access to the Westview High School (currently scheduled to open in September 2002) and of Street "B" from Camino Ruiz to provide both construction and permanent access to the elementary school to be constructed within the Community Facilities District. See "CITY FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2001 BONDS" and "COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS - SUBAREA IV) - Property Ownership and Development -Development Plan" herein.

Sources of Payment for the 2001 Bonds

The Improvement Area A Bonds and the Improvement Area B Bonds are secured by and payable from a first pledge of "Net Special Tax Revenues," of the applicable Improvement Area which is defined as proceeds of the Special Taxes levied and received by the Community Facilities District with respect to the applicable Improvement Area, including the net amounts collected from the redemption of delinquent Special Taxes including the penalties and interest thereon and from the sale of property sold as a result of the foreclosure of the lien of the Special 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 applicable Bond Indenture) not to exceed \$15,000 with respect to Improvement Area A and \$15,000 with respect to Improvement Area B. "Special Taxes" are defined in each Bond Indenture as the proceeds of the special taxes levied and received by the Community Facilities District within the applicable Improvement Area of the Community Facilities District and the "Delinquency Proceeds" as described above.

Pursuant to the Act, the applicable Rate and Method of Apportionment of Special Tax for the Community Facilities District, and for each Improvement Area therein (each a "Rate and Method"), the Resolution of Formation (as defined herein) and the applicable Bond Indenture, so long as each Series of 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 the applicable 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 the Improvement Area for inclusion on the next real property tax roll. See "SECURITY FOR THE 2001 BONDS - Special Taxes" herein.

Each 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 2001 BONDS - Rates and Methods" and "BONDOWNERS' RISKS - Exempt Properties."

The Improvement Area A Bonds and the Improvement Area B Bonds are secured by a first pledge of all moneys deposited in the applicable Reserve Fund. See "SECURITY FOR THE 2001 BONDS." A separate Reserve Fund will be established out of the proceeds of the sale of the Improvement Area A Bonds and the Improvement Area B Bonds, respectively, in an amount equal to the applicable Reserve Requirement. Each Bond Indenture defines each 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 Improvement Area A Bonds or Improvement Area B Bonds, as applicable, (ii) 125% of the then average annual debt service on the Improvement Area A Bonds or Improvement Area B Bonds, as applicable or (iii) 10% of the initial principal amount of the Improvement Area A Bonds or Improvement Area B Bonds, as applicable, 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 annual Special Taxes levied to replenish each Reserve Fund is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of the applicable Improvement Area. The moneys in a Reserve Fund will only be used for payment of principal of, interest and any redemption premium on, the related Improvement Area A Bonds or Improvement Area B

Bonds, as applicable, and at the direction of the Community Facilities District, for payment of rebate obligations related to the applicable Series of Bonds. See "SECURITY FOR THE 2001 BONDS - Reserve Funds."

The Community Facilities District has also covenanted in the Bond Indentures 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 2001 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 2001 BONDS. OTHER THAN THE SPECIAL TAXES OF THE APPLICABLE IMPROVEMENT AREA, NO TAXES ARE PLEDGED TO THE PAYMENT OF IMPROVEMENT AREA A BONDS OR THE IMPROVEMENT AREA B BONDS. THE IMPROVEMENT AREA A BONDS AND THE IMPROVEMENT AREA B 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 THE APPLICABLE IMPROVEMENT AREA AS MORE FULLY DESCRIBED HEREIN.

Appraisal

An MAI appraisal of the land and existing improvements for each development within Improvement Area A and Improvement Area B of the Community Facilities District dated August 14, 2001 (the "Appraisal"), was prepared by Stephen G. White, MAI of Fullerton, California (the "Appraiser") in connection with issuance of the Improvement Area A Bonds and the Improvement Area B Bonds. The purpose of the appraisal was to estimate the market value of the land in its as is condition, subject to the lien of Special Taxes of each such development. The subject property in Improvement Area A includes property proposed for development of 366 single family detached units. The subject property in Improvement Area B includes property proposed for development of 235 single family detached units. The Appraisal is based on certain assumptions. Subject to these assumptions, the Appraiser estimated that the market value of the land within the Improvement Areas (subject to the lien of the Special Taxes) as of July 1, 2001 was as follows:

<u>Improvement Area A</u>	
Western Pacific Housing - Torrey Glenn, LLC	\$11,800,000
Western Pacific Housing - Montellano, LLC	18,450,000
Western Pacific Housing - Cabrera, LLC	15,250,000
DR Horton - Bryn Glen	<u>7,470,000</u>
Total	\$52,970,000
 <u>Improvement Area B</u>	
LEN - Greystone - Greystone Highlands	\$43,150,000 ⁽¹⁾

⁽¹⁾ Subsequent to the date of value of the Appraisal, 78 lots were sold by LEN - Greystone to Standard Pacific on July 11, 2001.

The market values include the value of tract map approvals on each of the projects, grading completed on four of the projects, and homes under construction on the LEN - Greystone Highlands project. The \$52,970,000 and \$43,150,000 aggregate market values reported in the Appraisal results in an estimated value-to-lien ratios of 5.41 to 1 with respect to Improvement Area A and 6.75 to 1 with respect to Improvement Area B, calculated in each case with respect to all direct and overlapping tax and assessment debt as of the estimated closing date. The value-to-lien ratios of individual parcels will differ from the foregoing aggregate values. See "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. See APPENDIX D - "Summary

Market Absorption Study” for a discussion of the assumptions and limiting conditions of the Market Absorption Study.

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 2001 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 2001 Bonds will be exempt from State personal income taxes. See “LEGAL MATTERS - Tax Exemption” herein.

Risk Factors Associated with Purchasing the 2001 Bonds

Investment in the 2001 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 2001 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” 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 Developments” 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

State Street Bank and Trust Company of California, N.A., Los Angeles, California, will serve as the fiscal agent for the 2001 Bonds and will perform the functions required of it under the Bond Indentures for the payment of the principal of and interest and any premium on the 2001 Bonds and all activities related to the redemption of the 2001 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. Stone & Youngberg LLC is acting as Underwriter in connection with the issuance and delivery of the 2001 Bonds. McFarlin & Anderson, Lake Forest, California, is acting as Disclosure Counsel.

The appraisal work was done by Stephen G. White, MAI of Fullerton, California. David Taussig & Associates, Inc., Newport Beach, California, acted as special tax consultant, administrator and dissemination agent to the Community Facilities District. The Market Study was prepared by The Meyers Group, Solana Beach, California.

Except for some Bond Counsel fees paid from advances made to the School District by the Developers, payment of the fees and expenses of Bond Counsel, Disclosure Counsel, the Underwriter and the Fiscal Agent is contingent upon the sale and delivery of the 2001 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 2001 Bonds, certain sections of the Bond Indentures, security for the 2001 Bonds, special risk factors, the Community Facilities District, the Improvement Areas, the School District, the Developers' projects, the Developers 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 2001 Bonds, the Bond Indentures, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the 2001 Bonds, the Bond Indentures, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Assistant Superintendent, Business Support Services, of the Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3034.

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 F - "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 2001 Bonds, to provide certain financial information and operating data relating to the Community Facilities District and the 2001 Bonds by not later than January 31 in each year commencing on January 31, 2002 (the "Community Facilities District Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material.

The Community Facilities District Annual Report will be filed by the Community Facilities District, or David Taussig & Associates, Inc. as Dissemination Agent on behalf of the Community Facilities District, with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State repository, if any (collectively, the "Repositories"), with a copy to the Fiscal Agent and the Underwriter. Any notice of a material event will be filed by the Community Facilities District, or the Dissemination Agent on behalf of the Community Facilities District, with the Municipal Securities Rulemaking Board and the appropriate State repository, if any, 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 material 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 Bond Indentures, 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.

Developers. Each Developer, other than DR Horton, has covenanted in its Developer Continuing Disclosure Agreement, the form of which is set forth in APPENDIX G - "Form of Developer Continuing Disclosure Agreements" (the "Developer Continuing Disclosure Agreements"), for the benefit of owners and beneficial owners of the 2001 Bonds, to provide certain financial and operating information by not later than April 1 and October 1 of each year commencing April 1, 2002 (a "Developer Semi-Annual Report") and to provide notices of the occurrence of certain enumerated material events. Each Developer's obligations under its Developer Continuing Disclosure Agreement terminates upon the occurrence of certain events. See APPENDIX G - "Form of Developer Continuing Disclosure Agreements."

The Developer Semi-Annual Reports will be filed by each Developer, or the "Dissemination Agent" (as that term is defined in the Developer Continuing Disclosure Agreements) on behalf of the applicable

Developer, with the Repositories, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. Any notice of a material event will be filed by each Developer, or by the Dissemination Agent on behalf of the applicable Developer, with the Municipal Securities Rulemaking Board and the appropriate State repository, if any, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. The specific nature of the information to be contained in each Developer Semi-Annual Reports or the notices of material events is set forth in the applicable Developer Continuing Disclosure Agreement. The covenants of each 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 Bond Indentures, and the sole remedy under each Developer Continuing Disclosure Agreement in the event of any failure of the applicable Developer or the Dissemination Agent to comply with such Developer Continuing Disclosure Agreement will be an action to compel performance.

Each Developer has indicated that it has never failed to comply in any material respect with an undertaking under the Rule to provide annual or semi-annual reports or notices of material events.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the 2001 Bonds will be deposited into the following respective accounts and funds established by the School District under the Bond Indentures, as follows:

IMPROVEMENT AREA A BONDS SOURCES

Principal Amount of Improvement Area A Bonds	\$9,700,000.00
Less: Underwriter's Discount	(177,346.00)
Less: Underwriter's Discount	<u>(6,237.50)</u>
<i>Total Series A Sources</i>	\$9,516,416.50

USES

Deposit into Series A Reserve Fund (1)	\$ 948,539.85
Deposit into Series A Costs of Issuance Fund (2)	156,982.01
Deposit into Series A Improvement Fund (3)	7,927,828.51
Deposit into Capitalized Interest Subaccount of the Series A Bond Service Fund (4)	468,066.13
Deposit into Administrative Expense Fund	<u>15,000.00</u>
<i>Total Series A Uses</i>	\$9,516,416.50

IMPROVEMENT AREA B BONDS SOURCES

Principal Amount of Improvement Area B Bonds	\$6,345,000.00
Less: Underwriter's Discount	(122,889.15)
Less: Underwriter's Discount	<u>(4,075.00)</u>
<i>Total Series B Sources</i>	\$6,218,035.85

USES

Deposit into Series B Reserve Fund (1)	\$ 621,416.87
Deposit into Series B Costs of Issuance Fund (2)	143,399.19
Deposit into Series B Improvement Fund (3)	5,131,929.91
Deposit into Capitalized Interest Subaccount of the Series B Bond Service Fund (4)	306,289.88
Deposit into Administrative Expense Fund	<u>15,000.00</u>
<i>Total Series B Uses</i>	\$6,218,035.85

- (1) Equal to the Reserve Requirement with respect to the Improvement Area A Bonds and with respect to the Improvement Area B Bonds as of the date of delivery of the 2001 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 Market Study, the fees of the Special Tax Consultant, and reimbursement to the School District and the Developers of costs incurred in the formation of the Community Facilities District.
- (3) See "CITY FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2001 BONDS" below.
- (4) Represents capitalized interest on the Improvement Area A Bonds and on the Improvement Area B Bonds, as applicable, through September 1, 2002.

CITY FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2001 BONDS

Proceeds of the 2001 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 Ruiz from "A" Street to Carmel Valley Road (4 full lanes) (b) construction of "B" Street from "A" Street to Camino Ruiz, (c) construction of "A" Street; and (d) Camino Ruiz/SR 56 Phase I interchange improvements.

Proceeds of future special taxes levied pursuant to the Community Facilities District No. 10 Rate and Method (the "Community Facilities District No. 10 Rate and Method") or bonds issued payable from special taxes levied pursuant to the Community Facilities District No. 10 Rate and Method 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 2001 BONDS

Authority for Issuance

The 2001 Bonds will be issued pursuant to the Act and the Bond Indentures.

General Provisions

The 2001 Bonds 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, 2002 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page hereof. The 2001 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 2001 Bonds. Ownership interests in the 2001 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 2001 Bonds are held in book-entry form, principal of, premium, if any, and interest on the 2001 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2001 Bonds in accordance with the procedures adopted by DTC. See "THE 2001 BONDS - Book-Entry and DTC."

The 2001 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 2001 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 2001 Bonds; provided, however, that if at the time of authentication of a 2001 Bond, interest is in default, interest on that 2001 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 2001 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 2001 Bonds are in book-entry form), or (ii) to an account in the continental United States of America designated by such Owner. Such instructions shall continue in effect until revoked in writing, or until such 2001 Bonds are transferred to a new Owner. The principal of the 2001 Bonds and any premium on the 2001 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 2001 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 2001 Bonds (including sinking fund redemptions), assuming that there are no optional redemptions.

<u>Year Ending September 1</u>	<u>IMPROVEMENT AREA A BONDS</u>		<u>Total Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	
2002	--	\$490,229.00	\$490,229.00
2003	\$ 5,000	576,740.00	581,740.00
2004	15,000	576,552.50	591,552.50
2005	30,000	575,952.50	605,952.50
2006	40,000	574,692.50	614,692.50
2007	55,000	572,932.50	627,932.50
2008	70,000	570,347.50	640,347.50
2009	90,000	566,917.50	656,917.50
2010	105,000	562,417.50	667,417.50
2011	125,000	556,957.50	681,957.50
2012	145,000	550,332.50	695,332.50
2013	165,000	542,502.50	707,502.50
2014	190,000	533,427.50	723,427.50
2015	215,000	522,787.50	737,787.50
2016	240,000	510,532.50	750,532.50
2017	270,000	496,612.50	766,612.50
2018	305,000	480,682.50	785,682.50
2019	335,000	462,535.00	797,535.00
2020	370,000	442,435.00	812,435.00
2021	410,000	420,235.00	830,235.00
2022	450,000	395,635.00	845,635.00
2023	495,000	368,635.00	863,635.00
2024	545,000	338,935.00	883,935.00
2025	595,000	306,235.00	901,235.00
2026	650,000	270,535.00	920,535.00
2027	705,000	230,885.00	935,885.00
2028	765,000	187,880.00	952,880.00
2029	835,000	141,215.00	976,215.00
2030	905,000	90,280.00	995,280.00
<u>2031</u>	<u>575,000</u>	<u>35,075.00</u>	<u>610,075.00</u>
Total	\$9,700,000	\$12,951,131.50	\$22,651,131.50

<u>Year Ending September 1</u>	<u>IMPROVEMENT AREA B BONDS</u>		<u>Total Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	
2002	--	\$320,804.88	\$320,804.88
2003	--	377,417.50	377,417.50
2004	\$10,000	377,417.50	387,417.50
2005	20,000	377,017.50	397,017.50
2006	25,000	376,177.50	401,177.50
2007	35,000	375,077.50	410,077.50
2008	45,000	373,432.50	418,432.50
2009	55,000	371,227.50	426,227.50
2010	70,000	368,477.50	438,477.50
2011	80,000	364,837.50	444,837.50
2012	95,000	360,597.50	455,597.50
2013	110,000	355,467.50	465,467.50
2014	125,000	349,417.50	474,417.50
2015	140,000	342,417.50	482,417.50
2016	155,000	334,437.50	489,437.50
2017	175,000	325,447.50	500,447.50
2018	195,000	315,122.50	510,122.50
2019	220,000	303,520.00	523,520.00
2020	240,000	290,320.00	530,320.00
2021	270,000	275,920.00	545,920.00
2022	295,000	259,720.00	554,720.00
2023	325,000	242,020.00	567,020.00
2024	355,000	222,520.00	577,520.00
2025	385,000	201,220.00	586,220.00
2026	420,000	178,120.00	598,120.00
2027	460,000	152,500.00	612,500.00
2028	500,000	124,440.00	624,440.00
2029	545,000	93,940.00	638,940.00
2030	590,000	60,695.00	650,695.00
<u>2031</u>	<u>405,000</u>	<u>24,705.00</u>	<u>429,705.00</u>
Total	\$6,345,000	\$8,494,434.88	\$14,839,434.88

Redemption

Optional Redemption. The 2001 Bonds maturing on and after September 1, 2009 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, 2008, 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 2001 Bonds to be redeemed), together with accrued interest to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
September 1, 2008 and March 1, 2009	102%
September 1, 2009 and March 1, 2010	101
September 1, 2010 and any Interest Payment Date thereafter	100

Redemption from Proceeds of Special Tax Prepayment. The 2001 Bonds are subject to redemption on any Interest Payment Date, prior to maturity, as a whole or in part on a pro rata basis among maturities

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 Special Tax Revenues of the applicable Improvement Area transferred to the Redemption Fund pursuant to the Bond Indenture to redeem 2001 Bonds. B. Such extraordinary mandatory redemption of the 2001 Bonds shall be at the following redemption prices (expressed as percentages of the principal amount of the 2001 Bonds to be redeemed), together with accrued interest thereon to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
March 1, 2002 through March 1, 2009	102%
September 1, 2009 and March 1, 2010	101
September 1, 2010 and any Interest Payment Date thereafter	100

Mandatory Sinking Payment Redemption. The 2001 Bonds maturing on September 1, 2020, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2019, at a redemption price equal to the principal amount of the 2001 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:

<u>IMPROVEMENT AREA A BONDS</u>	
<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2019	\$335,000
2020 (maturity)	370,000

<u>IMPROVEMENT AREA B BONDS</u>	
<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2019	\$220,000
2020 (maturity)	240,000

The 2001 Bonds maturing on September 1, 2025, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2021, at a redemption price equal to the principal amount of the 2001 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:

<u>IMPROVEMENT AREA A BONDS</u>	
<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2021	\$410,000
2022	450,000
2023	495,000
2024	545,000
2025 (maturity)	595,000

<u>IMPROVEMENT AREA B BONDS</u>	
<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2021	\$270,000
2022	295,000
2023	325,000
2024	355,000
2025 (maturity)	385,000

The 2001 Bonds maturing on September 1, 2031, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2026, at a redemption price equal to the principal amount of the 2001 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:

IMPROVEMENT AREA A BONDS

<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2026	\$650,000
2027	705,000
2028	765,000
2029	835,000
2030	905,000
2031 (maturity)	575,000

IMPROVEMENT AREA B BONDS

<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2026	\$420,000
2027	460,000
2028	500,000
2029	545,000
2030	590,000
2031 (maturity)	405,000

The amounts in the foregoing tables shall be reduced as a result of any prior partial redemption of the applicable Series of the 2001 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 2001 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 applicable Bond 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 2001 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 2001 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 2001 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 2001 Bonds to be redeemed, and in the case of 2001 Bonds to be redeemed in part, the respective principal portions to be redeemed; provided, however, that whenever any call includes all 2001 Bonds of a maturity, the numbers of the 2001 Bonds of such maturity need not be stated; (d) state that such 2001 Bonds must be surrendered at the principal corporate trust office of the Fiscal Agent; (e) state that further interest on the 2001 Bonds will not accrue from and after the designated redemption date; (f) state the date of the issue of the 2001 Bonds as originally issued; (g) state the rate of interest borne by each 2001 Bond being redeemed; and (h) state that any other descriptive information needed to identify accurately the 2001 Bonds being redeemed as the Community Facilities District shall direct.

Partial Redemption. Whenever provision is made for the redemption of less than all of the 2001 Bonds, the Fiscal Agent shall select the 2001 Bonds to be redeemed, among maturities as directed in writing by the Community Facilities District, acting on behalf of the Community Facilities District (who shall specify Bonds to be redeemed so as to maintain, as much as practicable, the same debt service profile for the Bonds as in effect prior to such redemption; except that, in connection with any partial redemption pursuant to optional redemption provisions discussed above, other than from amounts in the Bond Service Fund as a result of transfers from the Special Tax Prepayments and the Reserve Fund, the 2001 Bonds to be redeemed shall be selected pro rata among maturities), and by lot within a maturity, such selection within a maturity to be done in any manner which the Fiscal Agent deems appropriate.

Effect of Redemption. When notice of redemption has been given substantially as provided for in the applicable Bond Indenture, and when the amount necessary for the redemption of the 2001 Bonds called for redemption is set aside for that purpose in the applicable Redemption Fund, the 2001 Bonds designated for redemption shall become due and payable on the date fixed for redemption thereof, and upon presentation and surrender of said 2001 Bonds at the place specified in the notice of redemption, said 2001 Bonds shall be redeemed and paid at the redemption price out of the applicable Redemption Fund and no interest will accrue on such 2001 Bonds or portions of 2001 Bonds called for redemption from and after the redemption date specified in said notice, and the Owners of such 2001 Bonds so called for redemption after such redemption date shall look for the payment of principal and premium, if any, of such 2001 Bonds or portions of 2001 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 2001 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 applicable Bond 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 2001 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 2001 Bond or Bonds shall be authenticated and delivered in exchange for such 2001 Bond, in the name of the transferee, of any denomination or denominations authorized by the Bond Indenture, and in an aggregate principal amount equal to the principal amount of such 2001 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) 2001 Bonds for a period of 15 days next preceding to the date of any selection of the 2001 Bonds for redemption, or (ii) any 2001 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 2001 Bonds of authorized denominations, interest rate and maturity, subject to the terms and conditions of the applicable Bond Indenture, including the payment of certain charges, if any, upon surrender and cancellation of a 2001 Bond.

Book-Entry and DTC

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2001 Bonds. The 2001 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2001 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX I - "Book-Entry System."

SECURITY FOR THE 2001 BONDS

General

The Improvement Area A Bonds and the Improvement Area B Bonds issued with respect to the applicable Improvement Area are secured by a first pledge of all of the Net Special Tax Revenues of the applicable Improvement Area and all moneys deposited in the applicable Bond Service Fund and in the applicable Reserve Fund and, until disbursed as provided in the applicable Bond Indenture, in the applicable Special Tax Fund. Pursuant to the Act and the Bond Indentures, the Community Facilities District will annually levy the Special Taxes in each Improvement Area in an amount required for the payment of principal of, and interest on, any outstanding 2001 Bonds of such Improvement Area becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the applicable Reserve Fund for the 2001 Bonds issued with respect to such Improvement Area and an amount estimated to be sufficient to pay such Improvement Areas' share of the Administrative Expenses during such year. The Net Special Tax Revenues of each Improvement Area and all moneys deposited into the applicable Accounts (until disbursed as provided in the applicable Bond Indenture) are pledged to the payment of the principal of, and interest and any premium on, the 2001 Bonds applicable to such Improvement Area as provided in the applicable Bond Indenture and in the Act until all of the Bonds of such Improvement Area have been paid and retired or until moneys or Federal Securities (as defined in each Bond Indenture) have been set aside irrevocably for that purpose.

Amounts in the Administrative Expense Funds, the Costs of Issuance Funds, and the Improvement Funds are not pledged to the repayment of the 2001 Bonds. The City Facilities constructed and acquired with the proceeds of the 2001 Bonds are not in any way pledged to pay the debt service on the 2001 Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2001 Bonds are not pledged to pay the debt service on the 2001 Bonds.

Special Taxes

The Community Facilities District has covenanted in each Bond Indenture to comply with all requirements of the Act so as to assure the timely collection of Special Taxes in the applicable Improvement Area, including without limitation, the enforcement of delinquent Special Taxes. Each 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 applicable Rate and Method, no assurance can be given that, in the event of Special Tax delinquencies in an Improvement Area, the receipt of Special Taxes in such Improvement Area will, in fact, be collected in sufficient amounts in any given year to pay debt service on the 2001 Bonds applicable to such Improvement Area. The Special Taxes levied in Improvement Area A are not available to pay principal of or interest on the Improvement Area B Bonds and the Special Taxes levied in Improvement Area B are not available to pay principal of or interest on the Improvement Area A Bonds. The Special Taxes levied pursuant to the Community Facilities District No. 10 Rate and Method are not available to pay principal of or interest on the Improvement Area A Bonds or the Improvement Area B Bonds.

Although the Special Taxes, when levied, will constitute a lien on parcels subject to taxation within the applicable Improvement Area, 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 an Improvement Area will be financially able to pay the annual Special Tax or that they will pay such tax even if financially able to do so. See "BONDOWNERS' RISKS" herein.

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 IMPROVEMENT AREA A BONDS OR THE IMPROVEMENT AREA B BONDS. OTHER THAN THE SPECIAL TAXES OF THE APPLICABLE IMPROVEMENT AREA, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE

IMPROVEMENT AREA A BONDS OR THE IMPROVEMENT AREA B BONDS. THE IMPROVEMENT AREA A BONDS AND THE IMPROVEMENT AREA B 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 EACH SUCH IMPROVEMENT AREA AS MORE FULLY DESCRIBED HEREIN.

Rate and Method

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 Developers and other applicants requested that the School District institute proceedings pursuant to the Act to (a) create a new Community Facilities District, (b) designate improvement areas within such Community Facilities District, (c) 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, record a notice of cancellation of special taxes of CFD No. 2 with respect to all land within the Community Facilities District.

The Developers 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 Community Facilities District 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."

In addition, pursuant to such proceedings, a Special Tax may be levied and collected within Improvement Area A and a Special Tax may be levied and collected within Improvement Area B to finance City Facilities and other authorized facilities according to the applicable Improvement Area Rate and Method.

The Improvement Area A Rate and Method has three Zones, Zone 1 encompassing Western Pacific Housing - Torrey Glenn, LLC's Torrey Glenn project, Zone 2 encompassing Western Pacific Housing - Montellano, LLC's Montellano project and Western Pacific Housing - Cabrera, LLC's Cabrera project and Zone 3 encompassing DR Horton's Bryn Glen project.

The Improvement Area B Rate and Method has three Zones encompassing LEN - Greystone's Highlands project and Standard Pacific's Cordero project with each Zone relating to portions of the development with differing lot sizes. Zone 1 lot sizes are approximately 75 by 100 feet, Zone 2 lot sizes are approximately 55 by 91 feet and Zone 3 lot sizes are approximately 50 by 100 feet. Standard Pacific owns 75 lots in Zone 2 and 3 lots in Zone 3.

The qualified electors of each Improvement Area approved each Rate and Method on August 27, 2001. Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the Rate and Method.

Improvement Area A Rate and Method. The Improvement Area A Rate and Method provides the means by which the Board of Education may annually levy the Special Taxes within Improvement Area A of the Community Facilities District up to the applicable Maximum Special Tax to pay for City Facilities. The 2001 Bonds, when issued, will fund City Facilities and will be secured by any Special Taxes levied pursuant to the Improvement Area A Rate and Method. The Improvement Area A Rate and Method provides that the Annual Special Tax shall be levied for a term of 34 Fiscal Years after the issuance of the 2001 Bonds, but in no event later than Fiscal Year 2045-46. A copy of the Improvement Area A Rate and Method is included in Appendix B hereto.

Annual Improvement Area A Special Tax Requirement. Annually, at the time of levying the Special Tax for Improvement Area A, the Board of Education will determine the amount of money to be collected

from Taxable Property in Improvement Area A (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 Non-School Bonds (i.e., the 2001 Bonds applicable to Improvement Area A or any refunding bonds), or other indebtedness or other periodic cost on the Non-School Bonds;
- (ii) the Administrative Expenses of Improvement Area A,
- (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 Non-School Bonds, *less*
- (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to any applicable Bond Indenture.

Developed and Undeveloped Property; Exempt Property. The Improvement Area A Rate and Method declares that for each Fiscal Year, all Assessor’s Parcels within Improvement Area A shall be classified as Taxable Developed Property, Taxable Undeveloped Property or Exempt Property and shall be assigned to Zone 1, Zone 2 or Zone 3 and shall be subject to Special Taxes in accordance with the Improvement Area A 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 Board of Education.

(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 A 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,

(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,

(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 15.10 acres of Acreage (as defined in the Improvement Area A Rate and Method) in Zone 1, 27.14 acres of acreage in Zone 2 and 8.54 acres of Acreage in Zone 3.

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 the Improvement Area for such property. The minimum taxable acres referenced in (e) above will remain subject to the Special Tax.

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

(i) Undeveloped Property: the amount determined by the application of the Assigned Annual Special Tax. The Assigned Annual Special Tax for Undeveloped Property for Fiscal Year 2001-02 is \$10,027.10 per acre in Zone 1, \$16,354.07 per acre in Zone 2 and \$5,786.40 per acre in Zone 3. On each July 1, commencing July 1, 2002, the Assigned Annual Special Tax per acre for each Zone shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

(ii) Developed Property: the *greater* of (i) the application of the Assigned Annual Special Tax or (ii) the application of the Backup Annual Special Tax.

The Assigned Annual Special Tax for Developed Property (whether detached or attached) in Fiscal Year 2001-02 ranges from \$2,061.39 to \$2,513.08 per Unit in Zone 1, \$1,383.85 to \$2,437.80 per Unit in Zone 2 and \$593.47 to \$894.59 per Unit in Zone 3. Each July 1, commencing July 1, 2002, the Assigned Annual Special Tax is subject to escalation of 2.00% of the amount in effect in the prior Fiscal Year. See Improvement Area A in 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 A, currently estimated as 66 in Zone 1, 235 in Zone 2 and 65 in Zone 3 by the applicable Developers (see "COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS - SUBAREA IV) - Property Ownership and Development"). Because all Lots have not been created by a Final Map within Improvement Area A, the Backup Annual Special Tax for an Assessor's Parcel of Developed Property for any Fiscal Year cannot be determined for all Lots. The Backup Annual Special Tax for an Assessor's Parcel of Developed Property for any Fiscal Year for the parcels in Improvement Area A can not be calculated until final maps are recorded.

The minimum taxable acreage is 15.10 acres for Zone 1, 27.14 acres for Zone 2 and 8.54 acres for Zone 3 of Improvement Area A.

Method of Apportionment. The Improvement Area A Rate and Method provides that commencing Fiscal Year 2001-02 and for each subsequent Fiscal Year, the Board of Education shall levy Annual Special Taxes within Improvement Area A as follows:

Step One: The Board of Education shall levy an Annual Special Tax on each Assessor's Parcel of Taxable Developed Property at the Assigned Annual Special Tax applicable to each such Assessor's Parcel.

Step Two: If the sum of the amounts levied on Assessor's Parcels in Step One is less than the Annual Special Tax Requirement, then the Annual Special Tax shall be levied proportionately on each Assessor's Parcel of Taxable Undeveloped Property up to the Assigned Annual Special Tax applicable to each such Assessor's Parcel to satisfy the Annual Special Tax Requirement.

Step Three: If the sum of the amounts collected in Steps One and Two is less than the Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Taxable Developed Property whose Maximum Special Tax is 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.

Prepayment of Annual Special Taxes. The Improvement Area A 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 G" herein.

Improvement Area B Rate and Method. The Improvement Area B Rate and Method is substantially the same as described above for the Improvement Area A Rate and Method, except that the amounts of the Maximum Special Tax are as follows:

(i) Undeveloped Property: the amount determined by the application of the Assigned Annual Special Tax. The Assigned Annual Special Tax for Undeveloped Property for Fiscal Year 2001-02 is \$12,394.06 per acre in Zone 1, \$11,623.36 per acre in Zone 2 and \$10,354.94 per acre in Zone 3. On each July 1, commencing July 1, 2002, the Assigned Annual Special Tax per acre for each Zone shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

(ii) Developed Property: the *greater* of (i) the application of the Assigned Annual Special Tax or (ii) the application of the Backup Annual Special Tax.

The Assigned Annual Special Tax for Developed Property (whether detached or attached) in Fiscal Year 2001-02 ranges from \$2,467.99 to \$2,686.30 per Unit in Zone 1, \$1,368.87 to \$1,737.75 per Unit in Zone 2 and \$1,361.34 to \$1,542.02 per Unit in Zone 3. Each July 1, commencing July 1, 2002, 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 B, currently estimated as 67 in Zone 1, 81 in Zone 2* and 87 in Zone 3 by the applicable Developer (see "COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS - SUBAREA IV) - Property Ownership and Development"). Because all Lots have not been created by a Final Map within Improvement Area B, the Backup Annual Special Tax for an Assessor's Parcel of Developed Property for any Fiscal Year can not be determined for all Lots. The Backup Annual Special Tax for an Assessor's Parcel of Developed Property for any Fiscal Year for the 168 Assessor's Parcels in Improvement Area B for which there is a Final Map is \$1,582.07 per Lot in Fiscal Year 2001-02, subject to escalation at 2% per year thereafter.

The minimum taxable acreage is 14.04 acres for Zone 1, 10.97 acres for Zone 2 and 12.14 acres for Zone 3 of Improvement Area B.

The method of apportionment of the Improvement Area B Special Tax and the provisions relating to prepayment of annual Improvement Area B Special Taxes are substantially the same as described above for the Improvement Area A Rate and Method. See also the Improvement Area B Rate and Method 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 G" herein.

Community Facilities District No. 10 Rate and Method. The Community Facilities District 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 2001 Bonds do not include any funding for School Facilities, and the 2001 Bonds are not secured by any Special Taxes levied pursuant to the Community Facilities District No. 10 Rate and Method.* The Community Facilities District 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. The Community Facilities District No. 10 Rate and Method includes a 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) \$2.14 per square foot of Building Square Feet ("BSF") for Detached Units, (ii) \$2.14 per square foot of BSF for Attached Units, (iii) \$.36 per square foot of BSF for Senior Citizen Units and (iv) \$.36 per gross floor area of a commercial or industrial structure for May 1, 2001 through April 30, 2002 (escalated thereafter). Developed Property is subject to an Assigned Annual Special Tax in Zone 1 (as specified in the Community Facilities District No. 10 Rate and Method) of \$1,817.70 per Detached Unit and \$749.15 per Attached Unit and in Zone 2 (as specified in the Community Facilities District No. 10 Rate and Method) of \$1,817.70 per Detached Unit and \$1,012.00 per Attached Unit in Fiscal Year 2001-02 (escalated thereafter).

* 3 lots in Zone 2 will be developed by LEN - Greystone as part of its Montea project.

Each of the foregoing special taxes represents the applicable Fiscal Year 2001-02 rate and is subject to escalation by an inflator until the property is classified as Developed Property and by 2% of the amount in effect in the prior Fiscal Year thereafter. A copy of the Community Facilities District No. 10 Rate and Method is included in Appendix B hereto. It is not known when bonds for School Facilities will be 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 each Bond 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 Special Tax in an Improvement Area is delinquent in the payment of that Improvement Area's Special Taxes in the aggregate amount of \$5,000 or more or (ii) any single parcel or parcels under common ownership subject to the Improvement Area Special Taxes is delinquent in the payment of such Improvement Area's Special Taxes in the aggregate of \$10,000 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 the Improvement Area's Special Taxes remain delinquent.

Aggregate Delinquencies. If the Community Facilities District determines that it has collected less than 95% of the Improvement Area 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 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 applicable 2001 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 applicable Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property within the applicable Improvement Area 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 applicable Reserve Fund. There is, however, no assurance that the maximum Special Tax rates of an Improvement Area will be at all times sufficient to pay the amounts required to be paid on such Improvement Area's applicable 2001 Bonds by the applicable Bond Indenture.

Special Tax Fund

Pursuant to each Bond Indenture, the Special Tax Revenues of each Improvement Area 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 applicable 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 each 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 applicable 2001 Bonds. Pending disbursement, moneys in the Special Tax Fund will be subject to a lien in favor of the Bondowners of the applicable 2001 Bonds as established under each Bond Indenture.

Disbursements. Moneys in each 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 each Improvement Area to pay Administrative Expenses, (ii) amounts required to be deposited into the applicable Accounts in the applicable Bond Service Fund in order to pay debt service on the applicable 2001 Bonds and any refunding bonds on the next Interest Payment Date, (iii) amounts required to replenish the applicable Reserve Fund to the applicable Reserve Requirement (as defined below), (iv) amounts required to fund the Rebate Fund 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 each Bond Indenture), any amounts in excess of such amounts remaining in the applicable 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 District notifies the Fiscal Agent that the levy of Special Taxes on Developed Property exceeds the Annual Special Tax Requirement (as defined in the applicable 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 each 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 each Bond Service Fund in trust for the benefit of the applicable Bondowners. Within each 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 each Bond Service Fund and pay to the owners of the applicable 2001 Bonds the principal, interest and any premium then due and payable on such 2001 Bonds, including any amounts due on such 2001 Bonds by reason of the sinking payments or a redemption of such 2001 Bonds.

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

The Community Facilities District has covenanted in each Bond Indenture to increase the levy of the Special Taxes of the applicable Improvement Area in the next Fiscal Year (subject to the maximum amount authorized by the applicable 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 each Redemption Fund shall be set aside and used solely for the purpose of redeeming Bonds in accordance with the applicable Bond Indenture.

Reserve Fund

In order to further secure the payment of principal of and interest on each Improvement Area's 2001 Bonds, certain proceeds of the Improvement Area A Bonds and of the Improvement Area B Bonds will be deposited into the applicable Reserve Fund in an amount equal to the applicable Reserve Requirement (see "ESTIMATED SOURCES AND USES OF FUNDS" herein). Reserve Requirement is defined in each Bond 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 Improvement Area A Bonds or Improvement Area B Bonds, as applicable, (ii) 125% of the then average annual debt service on the Improvement Area A Bonds or Improvement Area B Bonds, as applicable, or (iii) 10% of the initial principal amount of the applicable Improvement Area A Bonds or Improvement Area B Bonds, as applicable, less original issue discount, if any, plus original issue premium, if any.

If Special Taxes are prepaid and a portion of an Improvement Area's 2001 Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the applicable Reserve Fund (determined on the basis of the principal of such 2001 Bonds to be redeemed and the original principal of such 2001 Bonds) will be applied to the redemption of such 2001 Bonds.

Moneys in each Reserve Fund will be invested and deposited as described in "Investment of Moneys in Funds" below.

See APPENDIX E - "Summary of Bond Indentures" for a description of the timing, purpose and manner of disbursements from each Reserve Fund.

Administrative Expense Fund

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

Pursuant to each Bond Indenture, moneys in an Administrative Expense Fund will not be construed as a trust fund held for the benefit of the Owners of the applicable Series of Bonds and will not be available for the payment of debt service on the 2001 Bonds.

Improvement Fund

The Fiscal Agent will deposit proceeds of the 2001 Bonds in an 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 each Bond Indenture, moneys in the Improvement Fund will not be construed as a trust fund held for the benefit of the Owners of the applicable Series of Bonds and will not be available for the payment of debt service on the 2001 Bonds.

Investment of Moneys in Funds

Moneys in any fund or account created or established by each Bond 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 each Bond 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 E - "Summary of Bond Indentures" 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 each Bond 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

As a condition precedent to issuance of the 2001 Bonds, each Developer shall provide a Letter of Credit in the applicable Stated Amount therefor (having the Fiscal Agent as beneficiary) or cash deposits in lieu thereof. Each Letter of Credit and/or cash deposit shall secure payment of Special Taxes levied against the Developer's property within the applicable Improvement Area (each such ownership being hereafter referred to as a "Project Area"). Each 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 applicable 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 applicable 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 Officer, immediately, with no further authorization or instruction, draw upon the applicable 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 each Bond Service Fund on that Interest Payment Date will be sufficient to pay principal of and interest on such Improvement Area's applicable 2001 Bonds that will be due and payable on such Interest Payment Date and notify the Community Facilities District of any deficiency. If amounts in a Bond Service Fund will be insufficient to pay principal of and interest on such Improvement Area's 2001 Bonds and such insufficiency is attributable to the delinquency in the payment of Special Taxes levied on properties owned by a Developer that provided a Letter of Credit or cash deposit pursuant to the Supplement to Mitigation Agreement or an Affiliate of such Developer, the Fiscal Agent shall upon the receipt of written direction of an Authorized Officer (prior to any withdrawals from the applicable Reserve Fund permitted by the applicable Bond Indenture) draw upon the applicable Letter of Credit; provided, however, that the amount of such draw or withdrawal (as set forth in

said written direction of the Authorized Officer) shall be no greater than the delinquent Special Taxes levied on such properties and then owed to the Community Facilities District by the applicable Developer.

The Fiscal Agent shall deposit the proceeds of any such draw upon a Letter of Credit into the applicable 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 applicable Letter of Credit Fund to the applicable Bond Service Fund.

In the event of a draw on a Letter of Credit or transfer of funds from a cash deposit, the Community Facilities District, 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 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 from such Delinquency Proceeds in an amount not to exceed such transfer.

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 is 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 draws upon a Letter of Credit as described above, the Fiscal Agent shall deposit the proceeds of such draw into the applicable Letter of Credit Fund and pending any transfer to the applicable 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 Government Obligations or money market funds. At no time shall the Community Facilities District direct that the proceeds of a draw on any Letter of Credit held in a Letter of Credit Fund be invested by the Fiscal Agent at a yield exceeding the Yield on the applicable Improvement Area’s 2001 Bonds. Investment earnings and profits from such investments shall be retained in the Letter of Credit Fund.

Final Release of Moneys from the Letter of Credit Fund. If moneys remain on deposit in a Letter of Credit Fund and an Authorized Officer 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 applicable Letter of Credit Fund funded on behalf of such Developer to the applicable 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 applicable 2001 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 following describes how each Developer intends to comply with the requirement to provide a Letter of Credit or Cash Deposit.

Western Pacific Housing. Western Pacific Housing intends to obtain a Letter of Credit from First Hawaiian Bank (“First Hawaiian”) in connection with the issuance of Improvement Area A Bonds. First Hawaiian is a national banking association organized under the laws of the United States of America and is a subsidiary of BancWest Corporation (“BancWest”). Banc West is listed on the New York Stock Exchange under the trading symbol “BWE”. Information about First Hawaiian and BancWest is contained in reports filed with the Securities and Exchange Commission and the Federal Deposit Insurance Corporation.

Additional information regarding First Hawaiian and BancWest is available on the Internet at www.fhb.com and www.bancwestcorp.com, respectively. *These Internet addresses are included for reference only and the information on these Internet sites are not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the Internet sites.*

DR Horton. DR Horton intends to obtain a Letter of Credit from Bank of America, National Association ("Bank of America") in connection with the issuance of Improvement Area A Bonds. Bank of America is a national banking association organized under the laws of the United States of America, and is a subsidiary of Bank of America Corporation Inc. ("Bank of America Corp."). Bank of America Corp. is listed on the New York Stock Exchange under the trading symbol "BAC". Information about Bank of America and Bank of America Corp. is contained in reports filed with the Securities and Exchange Commission and the Federal Deposit Insurance Corporation.

Additional information regarding Bank of America and Bank of America Corp. is available on the Internet at www.bankofamerica.com. *This Internet address is included for reference only and the information on the Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the Internet site.*

LEN - Greystone. LEN - Greystone also intends to obtain a Letter of Credit from Bank of America in connection with the issuance of the Improvement Area B Bonds. For information regarding Bank of America and Bank of America Corp., see *DR Horton* above.

Standard Pacific. Standard Pacific also intends to obtain a Letter of Credit from Bank of America. For information regarding Bank of America and Bank of America Corp., see *DR Horton* above.

Additional Bonds for Refunding Purposes Only

Bonds issued on a parity with the Improvement Area A Bonds or on a parity with the Improvement Area B Bonds (each 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 applicable Bond 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 E - "Summary of Bond Indentures."

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 each Improvement Area 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 469 gross acres of rolling terrain with slopes and knolls and approximately 142.62 net acres of future residential property (excluding affordable 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. Extension of State Route 56 from Interstate 5 to Interstate 15 is fully funded and started construction in June 2001 with completion scheduled for the third quarter of 2004. When completed State Route 56 will traverse the Community Facilities

District. The area is bounded on the east by completed Rancho Peñasquitos subdivisions and on the north, east 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 will be provided by San Diego Gas & Electric (gas and electricity), the City of San Diego (water, sewage, stormwater drainage and refuse), Cox Communication (cable - DR Horton), Southwestern Cable (cable - Western Pacific Housing), and Pacific Bell Telephone (telephone). Cable for LEN - Greystone and Standard Pacific is not known.

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 2001 Bonds are issued pursuant to the Act and the Bond Indentures. 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 2001 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 a separate Rate and Method of Apportionment of Special Tax for the Community Facilities District and a separate Rate and Method of Apportionment of Special Tax for each Improvement Area. 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, \$13,000,000 with respect to Improvement Area A and \$9,000,000 with respect to Improvement Area B. The Community Facilities District No. 10 Rate and Method will finance School Facilities. The Improvement Area A Rate and Method and the Improvement Area B Rate and Method will finance City Facilities. See "CITY FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2001 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 with respect to the Community Facilities District, \$13,000,000 with respect to Improvement Area A and \$9,000,000 with respect to Improvement Area B and submitting each 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 A and Improvement Area B, in which the landowners eligible to vote, being the qualified electors within each Improvement Area, 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, the landowners within Improvement Area A approved a ballot propositions authorizing the issuance of up to \$13,000,000 of bonds for Improvement Area A to finance the acquisition and construction of City Facilities, and the landowners within Improvement Area B

approved a ballot proposition authorizing the issuance of up to \$9,000,000 of bonds for Improvement Area B to finance the acquisition and construction of City Facilities. The qualified electors within the Community Facilities District and each Improvement Area also approved the levy of a special tax in accordance with the applicable Rate and Method 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, one for Improvement Area A and one for Improvement Area B, 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 Authorizing Issuance of the 2001 Bonds: On September 24, 2001 the Board of Education adopted Resolution No. 30-2002 approving issuance of the 2001 Bonds.

Environmental Review

As indicated above in “ - General Information,” the City Council adopted the NCFUA Framework Plan on October 26, 1993 and adopted the 1,134 acre Torrey Highlands Subarea IV Plan on August 5, 1996. The Torrey Highlands Public Facilities Financing Plan and Development Impact Fee was adopted by the City Council on October 22, 1996 and updated as the Torrey Highlands Public Facilities Financing Plan and Facilities Benefit Assessment on August 7, 2001. The final EIR for the Torrey Highlands Subarea IV Plan, dated June 1996, which included the Traffic Study, was certified by the City Council on August 5, 1996 as being in compliance with the California Environmental Quality Act (“CEQA”).

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. However, it is possible that future discretionary approvals necessary to complete the development of the property in the Community Facilities District will be subject to CEQA. Challenges to such discretionary approvals could slow the rate of development in the Community Facilities District. The Community Facilities District believes that no action with respect to environmental compliance is necessary in connection with the formation of the Community Facilities District.

Pursuant to CEQA, in addition to the City’s certification of the EIR, additional environmental analysis is required to be conducted for the City’s review to determine whether the analysis contained in the EIR with respect to the property in the Community Facilities District has adequately addressed the environmental impact of each subsequent discretionary approval related thereto. Each Developer reports that the reviews by the City conducted to date have resulted in findings of no significant impact not previously discussed in the EIR. Each Developer generally expects that, as further entitlement approvals (*e.g.*, any necessary tentative subdivision map and zoning modifications, area plans, subdivision maps and site development permits) are pursued, the EIR will be determined by the City to have adequately addressed the environmental impacts of each such subsequent entitlement and that there would be no significant impact not previously discussed in the EIR. However, no assurance can be given as to these matters, and if new significant impacts are found, it could have an adverse effect on the development of the property within the Community Facilities District. Western Pacific Housing, on behalf of the WPH LLCs and LEN - Greystone (including the portion of the property sold to Standard Pacific) have conducted substantial reviews as discussed below in “Environmental Permits.” DR Horton acquired its property within Improvement Area A in November 1999 and is in the process of developing plans for review and engaging consultants to obtain subsequent entitlements necessary for development as discussed below in “Environmental Permits.”

Environmental Permits

Prior to the approval of the tentative subdivision maps for the land encompassing the Community Facilities District and certain nearby developments, the City Council approved the City of San Diego MSCP Subarea Plan (the “Subarea Plan”). The Subarea Plan includes all of the NCFUA and, consequently, all of

the property within the Community Facilities District. The Subarea Plan establishes a preserve area boundary line around sensitive habitat. The Subarea Plan was later incorporated into the City's Multiple Species Conservation Program. Pursuant to the Implementing Agreement (the "Implementing Agreement"), dated as of July 18, 1997 entered into among the City, the United States Fish and Wildlife Service and the California Department of Fish and Game, the City is authorized to issue "take" authorization pursuant to the federal and State endangered species acts for property within the NCFUA for the plant and animal species described in the Implementing Agreement. So long as property owners within the NCFUA area do not disturb habitat within the Subarea Plan's preserve area boundary line, the property owners are permitted to disturb sensitive habitat and sensitive species outside the preserve area boundary line. The current development entitlements for the development project within the Community Facilities District have been designed to avoid the preserve areas. As a result, with respect to the 82 species covered by the Implementing Agreement, so long as the development project maintains its current development entitlement footprints outside of the preserve areas, each Developer will not need to seek any additional permits under either the federal or the State endangered species acts. However, future listing by federal or State authorities of additional plant or animal species as threatened or endangered could impact the planned development within the Community Facilities District.

WPH LLCs. WPH LLCs caused a biological survey and report to be completed for its project and the results are available for public review in the Land Development Review Division (Biological Technical Report, City of San Diego; Helix, February 12, 1999). No sensitive plant and animal species were observed on site. Impacts to wetland and riparian habitats require application for a Section 404 Permit with the U.S. Army Corps of Engineers (obtained March 2000), a 401 Water Quality Certification/Waiver with the California Regional Water Quality Board and a Section 1603 Streambed Alteration Agreement with the California Department of Fish and Game (obtained March 2000). A wetland mitigation plan (Helix, May 22, 2001) fulfilling the City's requirements and the referenced agencies was prepared. A Covenant of Easement for Protection of Environmentally Sensitive Lands Agreement dated February 25, 2000 among Western Pacific Housing - Torrey Santa Fe, LLC, Western Pacific Housing - Torrey Glenn, LLC and the City of San Diego was recorded on February 25, 2000 as File No. 2000-0095895. The Agreement contains a description of the environmentally sensitive lands which will be preserved ("Conserved Property") in accordance with the discretionary approvals granted by the City for development of the property, zoning regulations and the MSCP and grants enforcement rights to the City, the California Department of Fish and Game and the United States Fish and Wildlife Service to enforce the restrictions.

DR Horton. DR Horton caused a biological survey and report to be completed for its project and the results are available for public review in the Land Development Review Division (Biological Technical Report, City of San Diego; DUDEK, May 2000). No state or federally-listed plant or animal species were observed on site. Two San Diego barrel cactus plants (considered sensitive) occur within the proposed project footprint; however, these have been relocated in order to avoid direct impacts. Impacts to wetland and riparian habitats require application for a Section 404 Permit with the U.S. Army Corps of Engineers (obtained August 23, 2000), a 401 Water Quality Certification/Waiver with the California Regional Water Quality Board (obtained August 21, 2000) and a Section 1603 Streambed Alteration Agreement with the California Department of Fish and Game (obtained November 20, 2000). A Final Conceptual Wetlands Mitigation and Monitoring Plan (DUDEK, December 2000) fulfilling the City's requirements and the referenced agencies was prepared.

LEN - Greystone. LEN - Greystone caused a biological survey and report to be completed for its project (including the portion sold to Standard Pacific) and the results are available for public review in the Land Development Review Division (Biological Technical Report, City of San Diego; Helix, July 27, 2000). Sensitive plant species were observed on site and sensitive animal species were observed on site, including San Diego fairy shrimp and the coastal California gnatcatcher. Only the San Diego fairy shrimp (endangered) and coastal California gnatcatcher (threatened) are federal listed species. The San Diego fairy shrimp is a covered species under the MSCP. Impacts to wetland and riparian habitats require application for a Section 404 Permit with the U.S. Army Corps of Engineers (obtained February 16, 2001), a 401 Water Quality Certification/Waiver with the California Regional Water Quality Board (obtained December 18, 2000) and a Section 1603 Streambed Alteration Agreement with the California Department of Fish and Game (obtained February 16, 2001). A draft wetland mitigation plan (Helix, July 25, 2000) fulfilling the City's requirements and the referenced agencies was prepared.

See "BONDOWNERS' RISKS - Endangered and Threatened Species". Each Developer believes that the likelihood of a listing of additional species is remote at this stage of development because each Developer has completely cleared and graded all of its land within Improvement Area A and Improvement Area B of the Community Facilities District. 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.

Property Ownership and Development

The information about the Developers and the other owners of land within the Community Facilities District contained in this Official Statement has been provided by representatives of the Developers 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 2001 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 Developers, 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 Developers are not personally liable for payment of the Special Taxes or the 2001 Bonds, and the following information should not be construed to suggest that the Special Taxes or the 2001 Bonds are personal obligations or indebtedness of the Developers or any other landowners in Improvement Area A and Improvement Area B.

The Developers and Landowners. The Developers or affiliates are composed of separate entities which together own the majority of the land within Improvement Area A and Improvement Area B of the Community Facilities District. The table below sets forth the name of each Developer and landowner and the name(s) of the project(s) being developed by each of the Developers.

Table 1
Community Facilities District No. 10 (Torrey Highland - Subarea IV)
of the Poway Unified School District
Property Ownership and Development Status

Name of Landowner/Developer	Improve- ment Area	Development Name	Number of Units	No. of Acres	Status of Development
Western Pacific Housing - Torrey Glenn, LLC	Area A	Torrey Glenn	66 units 10,493 sq. ft. average lot size	15.1 net acres	Final maps recorded Sept. 2001; rough grading in 3 rd quarter of 2001; models scheduled to open in 1 st Quarter 2002; initial sales scheduled for 4 th quarter 2002.
Torrey Santa Fe -Carmel Valley, L.P. -option to Western Pacific Housing - Cabrera, LLC	Area A	Cabrera	123 units; 4,700 sq. ft. average lot size	12.8 net acres	Final maps recorded Sept. 2001; rough grading in 3 rd quarter of 2001; models scheduled to open in 2 nd quarter 2002; initial sales scheduled for 4 th quarter 2002.
Torrey Santa Fe - Carmel Valley, L.P. - option to Western Pacific Housing - Montellano, LLC ⁽¹⁾	Area A	Montellano	112 sfd units 5,887 sq. ft. average lot size	14.4 net acres	Final maps recorded Sept. 2001; rough grading in 3 rd quarter of 2001; models scheduled to open in 2 nd quarter 2002; initial sales scheduled for 4 th quarter 2002.
DR Horton San Diego Holding Company Incorporated ⁽²⁾	Area A	Bryn Glen	65 sfd units 6,027 sq. ft. average lot size	8.5 net acres	Final maps est. to be recorded in 1 st quarter of 2002; and rough grading in first quarter, 2002; models schedule to start in 3 rd quarter 2002, initial sales scheduled for 4 th quarter 2002.
LEN - Greystone Torrey Highlands, LLC ⁽³⁾	Area B	Montea	90 dsf units 6,186 average sq. ft.	12.14 net acres	Final maps recorded July 2001 and rough graded; models schedule to start in Aug. 2001; initial sales scheduled for November, 2001.
LEN - Greystone Torrey Highlands, LLC ⁽³⁾	Area B	Valonia	67 dsf units 9,607 average sq. ft.	14.04 net acres	Final maps recorded July 2001; rough graded; models started in June 2001; initial sales scheduled for September, 2001.
Standard Pacific Corp.	Area B	Cordero	78 units 6,449 average sq. ft.	10.97 net acres	Final map recorded July 2001; rough graded; acquired from Greystone July 11, 2001.

(1) Western Pacific Housing - Montellano, LLC and Western Pacific Housing - Cabrera, LLC have options with Torrey Sant Fe - Carmel Valley, L.P. to purchase the improved lots at completion for the purposes of building homes on those lots. See WPH LLC's below.

(2) Upon recordation of the final maps, DR Horton intends to transfer title to its subsidiary Continental Homes Holding Corp.

(3) As building permits are issued, LEN - Greystone intends to transfer title to Greystone Homes for construction of homes.

Information with Respect to Each Developer.

WPH LLCs.

Western Pacific Housing - Torrey Glenn, LLC acquired approximately 15.1 net acres to be developed with approximately 66 single family detached homes. Western Pacific Housing - Torrey, LLC and Western Pacific Housing - Torrey Santa Fe, LLC acquired property, approximately 27.1 net acres of which is to be developed with approximately 235 single family homes in two developments. Western Pacific Housing - Torrey, LLC and Western Pacific Housing - Torrey Santa Fe, LLC formed a joint venture partnership with Hearthstone Companies⁽¹⁾ called Torrey Sante Fe - Carmel Valley, L.P. for the development of the 235 lots.

Western Pacific Housing - Montellano, LLC and Western Pacific Housing - Cabrera, LLC have options with the joint venture to purchase the improved lots at completion for the purposes of building homes on those lots.

Description of Project. The three developments which constitute WPH LLCs project together with the estimated lot sizes, unit sizes, base sales price range are set forth below.

<u>Project Name</u>	<u>Avg. Lot Size (sq. ft.)</u>	<u>Estimated Unit Size (sq. ft.)</u>	<u>Estimated Base Sales Price Range</u>	<u>Units to be Sold</u>
Cabrera	4,756	2,326 to 2,626	\$445,000-\$470,000	123
Montellano	5,887	2,849 to 3,693	\$550,000-\$610,000	112
Torrey Glenn	10,493	2,886 to 3,734	\$540,000-\$595,000	<u>66</u>
				301

Status of Permits and Approvals. Approvals and permits have been obtained for grading and public improvements and models. Tentative Maps were approved for all 301 units in December 2000. Final subdivision maps were recorded on September 20, 2001. In addition, Torrey Santa Fe-Carmel Valley, L.P., the City and the Housing Authority of the City of San Diego entered into a "Master Affordable Housing Agreement Authorizing Affordable Housing Density Bonus and Imposing Covenants, Conditions and Restrictions on Real Property," dated as of September 5, 2001 (the "Affordable Housing Agreement"). The Affordable Housing Agreement requires the construction of at least 76 Affordable Housing Units (as defined therein) within the Improvement Area A and which are in addition to the 301 detached units described above. In order to complete the development by the WPH LLC's within Improvement Area A, the WPH LLCs' are required to meet certain milestones with respect to the construction of the Affordable Housing Units, including (i) that the issuance of building permits for not less than 76 Affordable Housing Units shall occur on or before the earlier of the issuance of building permits for construction of the 151st market rate dwelling unit or 18 months after September 20, 2001 (the date the final maps were recorded as referenced above), (ii) completion of construction of the Affordable Housing Project shall occur upon the earlier of 12 months after issuance of building permits for the Affordable Housing Project or two and one half years from September 20, 2001 and (iii) the issuance of building permits for the construction of the 227th market rate unit shall not occur until the completion of at least 76 Affordable Housing Units is authorized by the City. The WPH LLC's do not expect satisfaction of the Affordable Housing Agreement to impact the expected timing of the development and sale of the market rate units.

As managing member of the WPH LLCs', Western Pacific Housing Inc. is currently grading the property and constructing backbone infrastructure improvements, including water, sewer, drainage, streets improvements, paving and street lights. In June 2001, Western Pacific Housing Inc. began grading and constructing lots and in-tract street, sewer, water and dry utility improvements for the detached single family housing lots within the Community Facilities District for development or sale.

In order to complete its development plan, the WPH LLCs must continue to cause substantial improvements to the property within the Community Facilities District, including grading, storm drains, sewer, water, dry utilities, major roadways and interior road systems. As of August 1, 2001, the cost to develop the 301 lots to a finished lot basis, ready to build homes with the foregoing backbone infrastructure was estimated as follows:

⁽¹⁾The Hearthstone Companies consist of Hearthstone, a registered investment advisor, and its affiliated investment funds, which are devoted exclusively to investing institutional capital in single-family home-building. Hearthstone was formed in 1992. On March 29, 2001, pursuant to a limited partnership agreement, Western Pacific Housing - Torrey, LLC and Western Pacific Housing Torrey Sante Fe, LLC transferred title to the 235 lots to Torrey Sante Fe - Carmel Valley, L.P. a California limited partnership in exchange for investment in the project. Western Pacific Housing - Torrey, LLC, Western Pacific Housing - Torrey Sante Fe, LLC and Hearthstone are co-general partners of Torrey Sante Fe - Carmel Valley, L.P. Under a subdivision development agreement, Western Pacific Housing - Torrey, LLC and Western Pacific Housing - Torrey Sante Fe, LLC are responsible for development of the parcels and for payment of *ad valorem* taxes, Special Taxes and other costs associated with ownership and development of the parcels. Investors in Torrey Sante Fe - Carmel Valley, L.P. are paid a portion of the sale proceeds under the option agreements and as limited partners have no obligations with respect to the parcels. Torrey Sante Fe - Carmel Valley, L.P. is a single purpose entity created for investment purposes and has no assets other than the parcels subject to a subdivision development agreement. Hearthstone and the limited partners have no personal liability with respect to payment of Special Taxes or development of the parcels.

<u>Description</u>	<u>Status of Completion</u>	<u>Estimated Cost</u>
Infrastructure	30% complete	\$4,520,000
Local improvements	25% complete	3,250,000
Fees	12% paid	<u>1,200,000</u>
Total:		8,970,000

As of September 1, 2001, mass grading of all of the WPH LLCs' developable property within Improvement Area A was approximately 30% completed. As of September 1, 2001, construction of the local improvements was approximately 25% complete and is expected to be completed in December 2001. As of September 1, 2001, construction of the local improvements was approximately 60% complete and the grading was approximately 80% complete.

As of September 1, 2001, the WPC LLCs had expended approximately \$28.5 million for land acquisition, entitlement, grading and infrastructure costs of a total estimated cost through completion of the WPH LLCs' project of \$65 million.

Plan of Finance. WPH LLCs were established to facilitate Western Pacific Housing's (defined below) financing of the backbone infrastructure and the construction of the lots to a finished condition and of initial houses. Western Pacific Housing - Torrey Glenn, LLC, as successor to Western Pacific Housing has access to its parent company's, Schuler (described below), unsecured line of credit from First Hawaiian Bank, as agent in the amount of \$350 million of which no amount was outstanding as of June 30, 2001 and \$190 million remains available to be drawn based on the covenants and restrictions included in the lending agreement. Western Pacific Housing - Torrey, LLC and Western Pacific Housing - Torrey Sante Fe, LLC have formed a joint venture partnership with Hearthstone Companies called Torrey Sante Fe - Carmel Valley, L.P. Western Pacific Housing - Montellano, LLC and Western Pacific Housing - Cabrera, LLC have entered into option agreement with Torrey Sante Fe - Carmel Valley, L.P. to purchase the improved lots at completion for the purposes of building homes on those lots. Western Pacific Housing - Montellano, LLC and Western Pacific Housing - Cabrera, LLC expect to finance construction of homes through access to the parent company's aforementioned \$350 million revolving credit line.

On April 3, 2001, Schuler Homes, Inc., a Delaware corporation ("Schuler") announced its successful merger with a group of privately held partnerships and limited liability companies (including the WPH LLCs) controlled by Western Pacific Housing, Inc., a California corporation (collectively, "Western Pacific Housing"). The combined company has retained the name Schuler Homes.

Schuler is among the top fifteen homebuilders in the United States of America based on the number of homes sold and designs, constructs, markets and sells single-family residences, townhomes and condominiums primarily to entry-level and first-time and second-time move-up buyers. Schuler operates in seven geographic markets: Arizona, Colorado, Hawaii, Northern California, Oregon, Southern California and Washington, and closed the sales of 4,897 units during the year ended March 31, 2001, generating revenues of over \$1.3 billion on a pro forma basis to include Western Pacific Housing's results.

Schuler is subject to the informational reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Such filings, particularly Schuler's Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 at prescribed rates. Such filings can also be accessed over the Internet at the SEC's website at www.sec.gov. All documents subsequently filed by Schuler pursuant to the requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") after the date of this Official Statement will be available for inspection in the same manner as described above.

Schuler is publicly traded on the NASDAQ under the symbol "SHLR." Schuler's Internet home page and website is located at www.schulermhomes.com. *These Internet addresses are included for reference only and the information on any Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

Prior to its merger with Schuler, Western Pacific Housing was a California builder of single-family attached and detached homes with operations in Orange County, the Inland Empire (Riverside and San Bernardino counties), the Sacramento Valley, San Diego, Los Angeles/Ventura County and the Bay Area surrounding San Francisco and San Jose. Western Pacific Housing was formed in 1993 by Eugene Rosenfeld and private institutional equity investors including entities associated with Apollo Real Estate Advisor, LP and Highridge Partners, L.P.

The Western Pacific Housing arm of Schuler has land development and home building operations in 32 communities in seven different regions in California, including Los Angeles, Orange, San Diego and Riverside counties, the San Francisco Bay Area, San Jose and Sacramento.

If and to the extent that internal financing sources, including access to the \$350 million revolving credit facility of Schuler, land sales revenues and proceeds of WPH LLCs' proportionate share of Improvement Area A Bonds are inadequate to pay the costs to complete WPH LLCs' planned development within Improvement Area A, portions of the project may not be developable without additional capital contributions from Schuler or from loans to fund such contributions. However, there can be no assurance whatsoever of Schuler's willingness or ability to do so; and they have no legal obligation of any kind to Bondowners to make any such contributions or loans. Other than pointing out the willingness of Schuler to make contributions to other projects and of certain lenders to make loans in the past, Schuler has not represented in any way that it or the lenders will do so for this project in the future.

Development Experience. Western Pacific Housing reported revenues and unit closings of \$709.15 million and 2,098 homes during its fiscal year ended March 31, 2001. Recent projects under development by Western Pacific Housing in southern California include the following:

<u>Site Name</u>	<u>City</u>	<u>No. of Units</u>	<u>Proposed Base Prices</u>	<u>Square Feet</u>	<u>Bedrooms</u>
Malina at Mission Grove	Riverside	92	from high \$100,000s	1,585-2,676	3-6
Serena	Stanton	84	from mid \$200,000s	1,355-1,805	3-5
Pallazo	Murrieta	120	from high \$100,000s	2,192-2,783	3-6
Esplanade	Murrieta	150	from low \$200,000s	2,583-3,315	4-7
Bridlecrest at Hidden Valley	Norco	56	from low \$300,000s	2,404-2,942	4-6
Crestmont at Hidden Valley	Norco	109	from high \$300,000s	3,394-3,995	4-7
Rose Canyon	Norco	52	from mid \$300,000s	3,054-3,397	3-6
Cottonwood	Corona	84	from low \$200,000s	2,133-2,900	3-6
Sundance	Santa Clarita	84	from mid \$100,000s	1,045-1,460	2-3
Magnolia at Haskel Canyon Ranch	Santa Clarita	116	from low \$200,000s	1,426-1,672	3-4
Acacia at Haskel Canyon Ranch	Santa Clarita	115	from low \$200,000s	1,590-1,853	3-4
Wisteria at Haskel Canyon Ranch	Santa Clarita	122	from mid \$200,000s	2,150-2,412	3-5
Cantar at Serenta	Moorpark	138	from mid \$400,000s	3,125-3,505	4-6
Monte Claire	San Diego	50	from low \$700,000s	2,852-3,374	4-6
Sausalito	San Diego	101	from low \$300,000s	1,580-1,978	3-4
San Raphael	San Diego	126	from high \$300,000s	2,024-2,886	2-4
Ivy Crest	San Diego	131	from low \$200,000s	1,103-1,538	2-3
Sonoma Hills	Oceanside	125	from mid \$200,000s	1,680-2,680	3-5
Viadanna	Carlsbad	82	from low \$400,000s	3,105-3,980	3-6

Absorption. The Cabrera project has a projected absorption rate of 15 units per quarter, commencing in the fourth quarter of 2001 with final sales estimated to occur in the fourth quarter of 2003. The Montellano project has a projected absorption rate of 12 units per quarter commencing in the fourth quarter of 2001 with final sales estimated to occur in the fourth quarter of 2003. The Torrey Glenn project has a projected absorption rate of 12 units per quarter commencing in the fourth quarter of 2001 with final sales estimated to occur in the first quarter of 2002. See “- Market Absorption Study,” and APPENDIX D - “Summary Market Absorption Study” herein.

History of Property Tax Payment; Loan Defaults; Bankruptcy. The WPH LLCs have made the following representations:

- neither it nor any of its current Affiliates (as defined in the Developer Continuing Disclosure Agreement) has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- neither it nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in the Community Facilities District or any of its other projects which default would in any way materially and adversely affect its ability to develop its development in the Community Facilities District as described in the Official Statement or to pay the Special Taxes for which it is responsible,
- neither it nor any of its Affiliates has any proceeding pending or threatened in which it may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations,
- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to the WPH LLC's or an Affiliate having been accomplished) against the WPH LLC's or any Affiliate or, to such WPH LLC's actual knowledge, threatened, which if successful, would materially adversely affect the ability of the WPH LLCs to complete the development and sale of the property currently owned within the Community Facilities District or to pay Community Facilities District special taxes or *ad valorem* tax obligations when due on its property within the Community Facilities District.

DR Horton San Diego Holding Company Incorporated.

DR Horton San Diego Holding Company Incorporated, a California corporation, ("DR Horton") owns approximately 8.5 net acres in Improvement Area A to be developed with approximately 65 single family detached homes ("Bryn Glen"). DR Horton currently owns other property within Improvement Area C of the Community Facilities District. DR Horton acquired a portion of the Bryn Glen property in November of 1999 and the remaining portion of the Bryn Glen property in February 2001. DR Horton intends to develop the property itself. DR Horton expects to transfer title to the property to Continental Homes Holding Corp., a subsidiary of DR Horton once the final maps are recorded.

Description of Project. The Bryn Glen development together with the estimated lot sizes, unit sizes, base sales price range are set forth below.

<u>Project Name</u>	<u>Avg. Lot Size (sq. ft.)</u>	<u>Estimated Unit Size</u>	<u>Estimated Base Sales Price Range</u>	<u>Units to be Sold</u>
Bryn Glen	6,027	1,603 to 2,127	\$375,000-\$405,000	65 single family detached

Status of Permits and Approvals. The Bryn Glen property is zoned for residential development. Plans, specification, and environmental documents necessary to obtain approvals and permits for development are being prepared. Tentative Maps were recorded for 65 units in September, 2000. Final maps are being prepared and are estimated to begin recording in the first quarter of 2002. Rough grading plans will be prepared during 2001 with rough grading permit estimated to be issued at the end of the second quarter of 2002. Models are estimated to open in the second or third quarter of 2002, with other models opening in 2003. There is no development agreement with respect to the DR Horton property.

Pursuant to DR Horton's agreement with Western Pacific Housing - Camino Ruiz, LLC, Western Pacific Housing - Camino Ruiz is responsible for substantial improvements relating to the construction of Camino Ruiz serving Improvement Area A. See WPH LLCs' - Status of Permits and Approvals for a description of the status of completion of the infrastructure improvements.

As of September 1, 2001, mass grading of DR Horton's developable property within Improvement Area A is estimated to commence at the end of the second quarter of 2002. Construction of the regional

sewer, water, storm drain and road improvements will be completed as part of the Camino Ruiz improvements and are estimated to be substantially complete by September 2002.

In-tract improvements necessary for development of the property include in-tract sewer, water, storm drains and road improvements.

As of September 1, 2001, DR Horton had expended approximately \$5.1 million for acquisition and DR Horton estimates that it will expend approximately \$300,000 for entitlement, grading and infrastructure costs of a total estimated cost through completion of DR Horton's Bryn Glen project of \$3.0 million. Home construction costs are in addition to the foregoing amounts.

Plan of Finance. DR Horton is a subsidiary of DR Horton Inc. ("DHI"), a Delaware corporation. DR Horton expects to finance the construction of its lots within Improvement Area A to a finished condition and of initial houses through internal resources and expects to finance construction of the later housing units through home sales.

DHI is subject to the informational reporting requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the SEC. Such filings, particularly DHI's Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 at prescribed rates. Such filings can also be accessed over the Internet at the SEC's web site at www.sec.gov. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. DHI is listed on the NYSE (trading symbol "DHI"). All documents subsequently filed by DHI pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above.

DHI's Internet home page and website is www.drhorton.com. *This Internet address is included for reference only and the information on the Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the Internet site.*

If and to the extent that internal financing sources, land sales revenues and DR Horton's proportionate share of proceeds of the 2001 Bonds are inadequate to pay the costs to complete the planned development by DR Horton within Improvement Area A, portions of the Bryn Glen project may not be developable without additional capital contributions or loans from its parent entities. While its parent entities have made such contributions or loans in the past, there can be no assurance whatsoever of their willingness or ability to do so in the future; and they have no legal obligation of any kind to Bondowners to make any such contributions or loans. Other than pointing out the willingness of its parent entities to make contributions or loans in the past, DR Horton has not represented in any way that its parent entities will do so in the future.

Development Experience. DR Horton and its affiliates built approximately 300 homes in 2000, and anticipate closing approximately 450 homes in 2001. Recent projects under development by DR Horton in southern California include the following:

<u>Site Name</u>	<u>City/ Location</u>	<u>No. of Units</u>	<u>Proposed Base Prices</u>	<u>Square Feet</u>	<u>Bedrooms</u>
The Highlands	The Crosby Estates (Rancho Santa Fe)	55	\$1,000,000	4,611-5,573	5-7
The Haven	Bernardo Springs	82	\$300,000	1,900-2,140	3-4
Cedar Creek	4S Ranch	80	\$400,000	2,156-2,700	3-4
Sitella	Bernardo Springs	105	\$200,000	975-1,410	2-3
Collins Ranch	Torrey Del Mar	52	\$800,000	3,950-5,500	4-8
Villamontes	Torrey Del Mar	112	\$500,000	2,156-2,700	3-4
Portico	Rancho Carrillo (Carlsbad)	105	\$200,000	1,340-1,540	2-3
37 Ranch Road	Encinitas Ranch (Encinitas)	37	\$500,000	2,000-2,700	3-5
Brae Mar	Encinitas Ranch (Encinitas)	100	\$600,000	2,551-3,347	3-6
Miraval	Rancho Del Oro (Oceanside)	97	\$200,000	2,007-2,446	3-5
Tivoli Villas	Sunbow (south San Diego County)	117	\$100,000	1,040-1,431	2-3
Adler Run	Otay Ranch (south San Diego County)	69	\$200,000	1,780-2,188	3-4

Absorption. The Bryn Glen project has a projected absorption rate ranging from 21 to 22 units during the first through third quarters of 2002. See “- Market Absorption Study” and APPENDIX D - “Summary Market Absorption Study” herein.

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

- neither it nor to its actual knowledge any of its current Affiliates (as defined in the Developer Continuing Disclosure Agreement) has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- neither it nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in the Community Facilities District or any of its other projects which default would in any way materially and adversely affect its ability to develop its development in the Community Facilities District as described in the Official Statement or to pay the Special Taxes for which it is responsible,
- neither it nor any of its Affiliates has any proceeding pending or threatened in which it may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations,
- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to DR Horton or an Affiliate having been accomplished) against DR Horton or any Affiliate or, to DR Horton’s actual knowledge, threatened, which if successful, would materially adversely affect the ability of DR Horton to complete the development and sale of the property currently owned within the Community Facilities District or to pay Community Facilities District special taxes or *ad valorem* tax obligations when due on its property within the Community Facilities District.

Len - Greystone Torrey Highlands, LLC.

LEN - Greystone Torrey Highlands LLC, a Delaware limited liability company owns approximately 26.2 net acres to be developed with approximately 157 single family detached homes in Improvement Area B.* Title to the property is expected to be transferred to Greystone Homes, Inc., a subsidiary of Lennar Corporation, at the time of issuance of building permits.

Description of Project. The two developments which constitute LEN - Greystone’s project together with the estimated lot sizes, unit sizes, base sales price range are set forth below.

* On July 11, 2001, Greystone concluded the sale to Standard Pacific Corp., a Delaware corporation of approximately 11.71 net acres for approximately 78 single family detached units which is referenced in the Appraisal as being owned by Greystone.

<u>Project Name</u>	<u>Avg. Lot Size (sq. ft.)</u>	<u>Estimated Unit Size</u>	<u>Estimated Base Sales Price Range</u>	<u>Units To Be Sold</u>
Montea	6,186	2,400 to 2,694	\$470,000-\$500,000	90
Valonia	9,607	3,500 to 3,970	\$600,000-\$625,000	67

The LEN - Greystone Torrey Highlands Residential Development Permit. LEN - Greystone Torrey Highlands has an approved Planned Residential Development Permit No. 98-0392 (the "Development Permit") granted by the City to LEN - Greystone Torrey Highlands LLC on November 14, 2000. The Development Permit sets forth a number of conditions to the development of the subject property. In addition, the Development Permit sets forth the environmental/mitigation requirements for the residential property and certain planning/design requirements for the development of the property. Prior to the filing of the first final map, LEN - Greystone was required to comply with the requirements of the Torrey Highlands Subarea Plan for Affordable Housing by satisfaction of the requirements of the Development Permit. LEN - Greystone expects to satisfy those requirements by May, 2002.

Status of Permits and Approvals. The Development Permit has been issued by the City to subdivide the property for 235 single family detached units. The City approved an amendment to the Torrey Highlands Subarea IV Plan and rezoned the site for such purposes. The City is authorized by the United States Fish and Wildlife Service and the California Department of Fish and Game as part of a Multiple Species Conservation Program ("MSCP") and has conferred upon LEN - Greystone the right to utilize the take authorizations granted to the City pursuant to the MSCP. Final Subdivision Map Nos. 14237, 14214 and 14238 have been approved. As noted above in "Environmental Permits," LEN - Greystone obtained a Section 404 Permit with the U.S. Army Corps of Engineers (obtained February 16, 2001), a 401 Water Quality Certification/Waiver with the California Regional Water Quality Board (obtained December 18, 2000) and a Section 1603 Streambed Alteration Agreement with the California Department of Fish and Game (obtained February 16, 2001).

LEN - Greystone is currently completing all grading and constructing all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the detached single family housing lots within the community for development. Six models are under construction and homes sales commenced in September, 2001.

In order to complete its development plan, LEN - Greystone must continue to make substantial improvements to its property within Improvement Area B, including grading, storm drains, sewer, water, dry utilities, major roadways and interior road systems. As of August, 2001, the cost to develop the 157 lots to the stage of finished lots ready to build homes with the foregoing backbone infrastructure was estimated as follows:

<u>Description</u>	<u>Status of Completion</u>	<u>Estimated Cost</u>
Infrastructure	25% complete	\$8,277,052*
Local improvements	10% complete	5,489,993
Fees	80% complete	430,010
Total:		\$14,197,055

*Estimated reimbursement from bond proceeds of \$3,868,144.53.

As of September 1, 2001, mass grading of all of LEN - Greystone's developable property within Improvement Area B was substantially completed and construction of the other local improvements was approximately 15% complete.

Other improvements and their approximate stage of completion as of September 1, 2001 include the storm drains at approximately 75% complete, and on-site sewer at approximately 30% complete. Approximately 39 finished lots for single family detached housing were completed by September 1, 2001, with the remaining 118 finished lots for single family detached housing expected to be completed by the fourth quarter of 2001.

As of September 1, 2001, LEN - Greystone had expended approximately \$22 million for acquisition, entitlement, grading and infrastructure costs of a total estimated cost through completion of LEN - Greystone's project of \$36 million.

Merchant Builder Sales. On July 11, 2001, LEN - Greystone concluded its sale to Standard Pacific Corp. of 78 lots (approximately 11.71 net acres) for single family detached homes (Portions of Final Map No. 14238). A description of Standard Pacific Corp. set forth below.

Plan of Finance. LEN - Greystone is financing the construction of its lots within Improvement Area B to a finished condition through a loan from GMAC Residential Funding Corporation. The loan is approved in an amount up to \$30,000,000 of which approximately \$17,802,528 was drawn as of August 31, 2001. The loan is current. LEN - Greystone expects to finance the construction of housing units through the funds available under the foregoing loan and home sales.

Lennar Homes of California, Inc. is the managing member of LEN - Greystone Torrey Highlands, LLC. Lennar Homes of California, Inc., a California corporation, and Greystone Homes, Inc., a Delaware corporation, are subsidiaries of Lennar Corporation ("Lennar"). LEN - Greystone LLC is a subsidiary of Greystone Homes Inc., a Delaware corporation, which is a subsidiary of Lennar. Lennar is subject to the informational reporting requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the SEC. Such filings, particularly Lennar's Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 at prescribed rates. Such filings can also be accessed over the Internet at the SEC's web site at www.sec.gov. In addition, the aforementioned material may also be inspected at the offices of the NYSE at 20 Broad Street, New York, New York 10005. Lennar Corporation is listed on the NYSE (trading symbol "LEN"). All documents subsequently filed by Lennar Corporation pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above.

Lennar Corporation's website is www.Lennar.com. *This Internet address is included for reference only and the information on the Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the Internet site.*

If and to the extent that internal financing, land sales revenues and proceeds of LEN - Greystone's proportionate share of Improvement Area B Bonds are inadequate to pay the costs to complete the planned development within Improvement Area B, portions of the project may not be developable without additional capital contributions or loans from LEN - Greystone's parent entities. While its parent entities has made such contributions or loans in the past, there can be no assurance whatsoever of their willingness or ability to do so in the future; and they have no legal obligation of any kind to Bondowners to make any contributions or loans. Other than pointing out the willingness of its parent entities to make contributions or loans in the past, LEN - Greystone has not represented in any way that its parent entities will do so in the future.

Development Experience. Greystone Homes and its affiliates built approximately 275 homes in 2000, and anticipate closing approximately 250 homes in 2001. Recent projects under development by Greystone Homes in southern California include the following:

<u>Site Name</u>	<u>City</u>	<u>No. of Units</u>	<u>Proposed Base Prices</u>	<u>Square Feet</u>	<u>Bedrooms</u>
Barcelona	San Diego	108	\$500,000-\$700,000	2,715-3,883	3-6
The Gables	San Diego	44	\$600,000-\$700,000	3,108-3,575	3-5
Vistamonte	Oceanside	72	\$190,000-\$250,000	1,042-1,561	2-3
Greystone Collection	Carlsbad	109	\$500,000-\$700,000	2,716-3,536	3-6
Santalina	Carlsbad	56	\$400,000-\$600,000	1,946-2,223	3
Breakers	San Diego	68	\$650,000-\$850,000	3,409-3,730	3-6

Absorption. The portion of the development with the smaller lots has a projected absorption rate of 15 units per quarter, commencing in the fourth quarter of 2001. The portion of the development with the

largest lots has a projected absorption rate of 12 units per quarter commencing in the third quarter of 2001. See “- Market Absorption Study” and APPENDIX D - “Summary Market Absorption Study” herein.

History of Property Tax Payment; Loan Defaults; Bankruptcy. LEN - Greystone has made the following representations:

- neither it nor to its actual knowledge any of its current Affiliates (as defined in the Developer Continuing Disclosure Agreement) has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- neither it nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in the Community Facilities District or any of its other projects which default would in any way materially and adversely affect its ability to develop its development in the Community Facilities District as described in the Official Statement or to pay the Special Taxes for which it is responsible,
- neither it nor any of its Affiliates has any proceeding pending or threatened in which it may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations,
- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to LEN - Greystone or an Affiliate having been accomplished) against LEN - Greystone or any Affiliate or, to LEN - Greystone’s actual knowledge, threatened, which if successful, would materially adversely affect the ability of LEN - Greystone to complete the development and sale of the property currently owned within the Community Facilities District or to pay Community Facilities District special taxes or *ad valorem* tax obligations when due on its property within the Community Facilities District.

Standard Pacific Corp.

Standard Pacific Corp., a Delaware corporation (“Standard Pacific”) owns approximately 11.0 net acres in Improvement Area B that it plans to develop with approximately 78 single family detached homes. These lots were acquired from LEN - Greystone on July 11, 2001.

Description of Project. The development which constitutes Standard Pacific’s project together with the estimated lot sizes, unit sizes, base sales price range is set forth below.

<u>Project Name</u>	<u>Avg. Lot Size (sq. ft.)</u>	<u>Estimated Unit Size</u>	<u>Estimated Base Sales Price Range</u>	<u>Units to be sold</u>
Cordero	6,449	2,800 to 3,450	\$515,000-\$550,000	78

Status of Permits and Approvals. The City approved an amendment to the Torrey Highlands Subarea IV Plan and rezoned the site for residential purposes. The City is authorized by the United States Fish and Wildlife Service and the California Department of Fish and Game as part of a Multiple Species Conservation Program and has conferred upon Standard Pacific, as successor to LEN - Greystone the right to utilize the take authorizations granted to the City pursuant to the MSCP. Final Subdivision Map No. 14238, which includes the 78 lots acquired by Standard Pacific, has been recorded. As noted above in “- Environmental Permits,” LEN - Greystone obtained a Section 404 Permit with the U.S. Army Corps of Engineers (obtained February 16, 2001), a 401 Water Quality Certification/Waiver with the California Regional Water Quality Board (obtained December 18, 2000) and a Section 1603 Streambed Alteration Agreement with the California Department of Fish and Game (obtained February 16, 2001).

Pursuant to its purchase agreement with LEN - Greystone, LEN - Greystone is obligated to deliver finished lots to Standard Pacific. As described above, under LEN - Greystone - Status of Permits and Approvals, LEN - Greystone is currently completing grading and constructing all backbone public improvements, finished lots and in-tract street, sewer, water and dry utility improvements for the detached single family housing lots within Improvement Area B. Standard Pacific will construct model and production

homes. Standard Pacific intends to begin model construction by November 2001. Homes sales are expected to commence in January or February, 2002.

Grading and sewer for the lots is substantially complete and water, streets, curbs and gutters are estimated to be completed by the end of the fourth quarter of 2001.

Because Standard Pacific acquired “finished lots,” Standard Pacific’s remaining costs relate primarily to model and production home construction.

Plan of Finance. Standard Pacific expects to finance the construction of housing units through internal resources and home sales.

Standard Pacific is subject to the informational reporting requirements of the Exchange Act, and in accordance therewith files reports, proxy statements and other information with the SEC. Such filings, particularly Standard Pacific’s Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC’s regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 at prescribed rates. Such filings can also be accessed over the Internet at the SEC’s web site at www.sec.gov. In addition, the aforementioned material may also be inspected at the offices of the NYSE at 20 Broad Street, New York, New York 10005. Standard Pacific is listed on the NYSE (trading symbol “SPF”). All documents subsequently filed by Standard Pacific pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above.

Standard Pacific’s website is www.standardpacifichomes.com. *This Internet address is included for reference only and the information on the Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the Internet site.*

If and to the extent that internal financing, land sales revenues and proceeds of Standard Pacific’s proportionate share of Improvement Area B Bonds are inadequate to pay the costs to complete the planned development of Standard Pacific within Improvement Area B, portions of the project may not be developable. While Standard Pacific has made such internal financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future; and its has no legal obligation of any kind to Bondowners to make any such contributions or to obtain loans. Other than pointing out the willingness of Standard Pacific to provide internal financing in the past, Standard Pacific has not represented in any way that it will do so in the future.

Development Experience. Standard Pacific, together with its subsidiaries, operate primarily as a geographically diversified builder of single-family homes throughout major metropolitan markets in California, Texas and Arizona. Standard Pacific’s predecessor began home building in 1966 with a single tract of land in Orange County, California. Through its eight homebuilding divisions, Standard Pacific delivered 3,472 homes in 1999 and 3,871 homes in 2000, and anticipate closing approximately 4,500 homes in 2001. Recent projects under development by Standard Pacific in southern California include the following:

<u>Site Name</u>	<u>City</u>	<u>No. of Units</u>	<u>Proposed Base Prices</u>	<u>Square Feet</u>	<u>Bedrooms</u>
Sansonnet	San Diego	183	\$550,000-700,000	2,700-3,875	3-5
Cedar Crossing	San Marcos	93	\$350,000-400,000	1,700-2,600	3-4
Blossom Ridge	Chula Vista	95	\$270,000-300,000	1,885-2,340	3-4
Rose Creek	Chula Vista	73	\$250,000-270,000	1,500-2,000	3-4
Shorepointe	Carlsbad	146	\$425,000-500,000	1,800-2,890	3-5
Maravu	Encinitas	43	\$700,000-800,000	3,200-4,500	3-5

Absorption. Standard Pacific’s development has a projected absorption rate of 14 units per quarter, commencing the first quarter of 2002. This is slightly later than estimated by the Market Consultant in its report dated July 1, 2001. See “ - Market Absorption Study” and APPENDIX D - “Summary Market Absorption Study” herein.

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

- neither it nor to its actual knowledge any of its current Affiliates (as defined in the Developer Continuing Disclosure Agreement) has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- neither it nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in the Community Facilities District or any of its other projects which default would in any way materially and adversely affect its ability to develop its development in the Community Facilities District as described in the Official Statement or to pay the Special Taxes for which it is responsible,
- neither it nor any of its Affiliates has any proceeding pending or threatened in which it may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations,
- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to Standard Pacific or an Affiliate having been accomplished) against Standard Pacific or any Affiliate or, to Standard Pacific's actual knowledge, threatened, which if successful, would materially adversely affect the ability of LEN - Greystone to complete the development and sale of the property currently owned within the Community Facilities District or to pay Community Facilities District special taxes or *ad valorem* tax obligations when due on its property within the Community Facilities District.

Neither the Developers nor the merchant builders are under any legal obligation of any kind to expend funds for the development of the property within the Community Facilities District and will continue to expend such funds only if they determine that doing so is in their best interests. There is no assurance of any kind that the Developers' expectations described above will actually materialize or that the money necessary in order to implement the Developers' development plan will in fact be available, or if available, will be used for such purpose.

Market Absorption Study

The Market Absorption Consultant has prepared a market analysis of the property in the Community Facilities District in its Market Absorption Study, dated July 1, 2001 (the "Market Absorption Study").

Based upon its analysis of the expected demographic-economic trends, the Market Consultant estimated the Community Facilities District is expected to accommodate the 366 residential units in Improvement Area A and the 235 residential units in Improvement Area B at build-out by the fourth quarter of 2003 and second quarter of 2003, respectively. The Market Absorption Consultant's estimated absorption rates of the different categories of residential units are as follows:

**Table 2
Community Facilities District No. 10 (Torrey Highlands - Subarea IV)
of the Poway Unified School District
Improvement Area A and Improvement Area B
Projected Absorption**

		PROJECTED ABSORPTION (QTR/YR)												
		2001				2002				2003				
Developer	Development Name	Units	Base Unit Size/Range	Avg. Base Price	2001 3Q	2001 4Q	2002 1Q	2002 2Q	2002 3Q	2002 4Q	2003 1Q	2003 2Q	2003 3Q	2003 4Q
Improvement Area A														
Western Pacific Housing - Cabrera, LLC	Cabrera	123	2,326-2,626	\$459,167	-	15	15	15	15	15	15	15	15	3
Western Pacific Housing - Montellano, LLC	Montellano	112	2,849-3,693	\$538,333	-	12	12	14	14	12	12	12	12	12
Western Pacific Housing - Torrey Glenn, LLC	Torrey Glenn	66	2,886-3,734	\$563,333	-	8	12	12	12	12	10			
DR Horton	Bryn Glen	<u>65</u>	1,603-2,127	\$390,000	=	=	<u>21</u>	<u>22</u>	<u>22</u>	=	=	=	=	=
Total		366			35	60	63	63	63	39	37	27	27	15
Improvement Area B														
LEN - Greystone (50 x 100)	Torrey Highlands	90	2,400-2,800	\$486,667	-	10	15	15	15	15	15	5	=	=
Standard Pacific (purchased from LEN - Greystone) (55 x 91)*	Torrey Highlands	78	2,800-3,250	\$533,333	-	10	14	14	14	14	12	=	=	=
LEN - Greystone (75 x 100)	Torrey Highlands	<u>67</u>	3,480-3,878	\$615,000	<u>8</u>	<u>11</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>	=	=	=	=
Total		235			8	31	41	41	41	41	27	5	=	=
ANNUAL FOR-SALE LOTS IMPROVEMENT AREAS A and B:												74	389	138

* As of September 1, 2001, Standard Pacific has estimated its sales will commence in the first quarter of 2002.

The Market Absorption Study is subject to a number of assumptions and limiting conditions. See APPENDIX D - "Summary Market Absorption Study" for a discussion of the assumptions and limit conditions of the Market Absorption Study.

Appraised Property Values

The purpose of the appraisal was to estimate the market value of the land in its as is condition for each of the separate projects, subject to the lien of Special Taxes of Improvement Area A and Improvement Area B for the subject properties. The subject property includes property proposed for development of 367 single family detached units in Improvement Area A and 235 single family detached units in Improvement Area B. 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 all of the premises, assumptions and limiting conditions set forth therein, the Appraiser estimated the market value of the taxable property in Improvement Area A and Improvement Area B as of July 1, 2001, to be \$52,970,000 and \$43,150,000, respectively. The market value includes the value of extensive grading and infrastructure improvements.

The Appraisal estimated the value of the property in Improvement Area A and Improvement Area B as "finished lots," that is, the lots have had fine grading, all in-tract streets and utilities have been completed and fees have been paid or credited (sewer, water, road, library, park, etc.) Up to the stage of pulling building permits (which, as described in "Property Ownership" above, is not yet the condition of the property within the Improvement Areas), less the remaining cost to the Developers to achieve finished lots (based on the status of the development process as of July 1, 2001). The estimate of value was based on fee simple ownership, subject only to easements of record and the lien of the Special Taxes.

The Appraiser used a sales comparison approach, in which listings and sales of similar bulk residential properties in the general area are analyzed in order to derive an indication of the most probable sales price of the property being appraised. The estimate of value for the property in Improvement Area A and Improvement Area B was achieved using the sales price of comparable bulk residential lots in the area that were listed or had sold within the prior 24 months.

Subject to these assumptions, the Appraiser estimated that the market value of the land within Improvement Area A and Improvement Area B (subject to the lien of the Special Taxes) as of July 1, 2001 was as follows:

<u>Improvement Area A</u>	
Western Pacific Housing - Torrey Glenn	\$11,800,000
Western Pacific Housing - Montellano	18,450,000
Western Pacific Housing - Cabrera	15,250,000
DR Horton - Bryn Glen	<u>7,470,000</u>
Total	\$52,970,000
 <u>Improvement Area B</u>	
LEN - Greystone - Greystone Highlands	\$43,150,000 ⁽¹⁾

⁽¹⁾ Subsequent to the date of value of the Appraisal, 78 lots were sold by LEN - Greystone to Standard Pacific on July 11, 2001.

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.

The \$52,970,000 and \$43,150,000 market values reported in the Appraisal results in an estimated value-to-lien ratios of 5.41 to 1 in Improvement Area A and 6.75 to 1 in Improvement Area B calculated with respect to all direct and overlapping tax and assessment debt as of the estimated date of issuance of the 2001 Bonds. See "Direct and Overlapping Debt" below.

Table 3
Community Facilities District No. 10 (Torrey Highlands - Subarea IV)
of the Poway Unified School District
Improvement Area A and Improvement Area B
Value to Lien Analysis

<u>Improvement Area A</u>						
<u>Merchant Builder</u>	<u>Lots</u>	<u>Appraised Value</u>	<u>FY 2002-03 Special Tax</u>	<u>Percentage of Total Special Tax</u>	<u>Bond Allocation</u>	<u>Value-to-Lien¹</u>
Western Pacific Housing	301	\$45,500,000	\$523,932	92.33%	\$8,956,010	5.08
DR Horton	<u>65</u>	<u>7,470,000</u>	<u>43,495</u>	<u>7.67%</u>	<u>743,990</u>	<u>10.04</u>
Total	366	\$52,970,000	\$567,427	100.00%	\$9,700,000	5.46

<u>Improvement Area B</u>						
<u>Merchant Builder</u>	<u>Lots</u>	<u>Appraised Value</u>	<u>FY 2002-03 Special Tax</u>	<u>Percentage of Total Special Tax</u>	<u>Bond Allocation</u>	<u>Value-to-Lien</u>
LEN - Greystone	157	\$28,258,236	\$263,513	69.97%	\$4,439,596	6.36
Standard Pacific	<u>78</u>	<u>14,891,764</u>	<u>113,077</u>	<u>30.03%</u>	<u>1,905,404</u>	<u>7.82</u>
Total	235	\$43,150,000	\$376,590	100.00%	\$6,345,000	6.80

¹ Includes Improvement Area bonded indebtedness and excludes other overlapping indebtedness. See, "Direct and Overlapping Debt" below.

Source: David Taussig & Associates, Inc.

Estimated Special Tax Allocation by Project

As of August 27, 2001, the Developers own in the aggregate 366 final and tentative lots in Improvement Area A and 235 final lots in Improvement Area B and are responsible for all of the Special Taxes. As a result, in determining the investment quality of the 2001 Bonds, Bondowners should assume that a portion of the Special Taxes in Improvement Area A and Improvement Area B will be paid by the Developers until such time as the parcels are transferred to individual owners. To date, the Developers have been current in the payment of the County *ad valorem* property taxes.

Table 3 shows the amount of the Special Tax for which each such Developer is currently responsible and the percentage of the estimated total amount of the Special Tax for Fiscal Year 2002-03, if Special Taxes were to be levied based on current ownership. Interest on the 2001 Bonds is capitalized until September 1, 2002, so the first year of Special Tax levy will be Fiscal Year 2002-03.

Direct and Overlapping Debt

Tables 4 and 5 below set forth the existing authorized indebtedness payable from taxes and assessments that may be levied within Improvement Area A and Improvement Area B prepared by California Municipal Statistics, Inc. and dated July 1, 2001 (the "Debt Reports"). The Debt Reports are 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 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 Reports generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement Area A and Improvement Area B in whole or in part. Such long term obligations generally are not payable from property taxes, assessment or special taxes on land in Improvement Area A and Improvement Area B. 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, the City 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 F hereto for the form of Community Facilities District Continuing Disclosure Agreement.

Table 4
Community Facilities District No. 10 (Torrey Highlands - Subarea IV)
of the Poway Unified School District
IMPROVEMENT AREA A

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 10, IMPROVEMENT AREA A

2000-01 Assessed Valuation: \$9,663,500

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 7/1/01</u>
Metropolitan Water District	0.001%	\$ 5,275
San Diego County Water Authority	0.006	284
City of San Diego	0.011	1,988
City of San Diego Open Space Park District	0.011	5,007
Poway Unified School District Community Facilities District No. 10, Improvement Area A	100.	-
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$12,554
Less: San Diego Open Space Park District (100% self-supporting)		<u>5,007</u>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 7,547
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Diego County General Fund Obligations	0.005%	\$26,663
San Diego County Pension Obligations	0.005	15,867
San Diego County Superintendent of Schools Obligations	0.005	109
Palomar Community College District Certificates of Participation	0.024	1,663
City of San Diego General Fund Obligations	0.011	<u>42,732</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$87,034
GROSS COMBINED TOTAL DEBT		\$99,588 (2)
NET COMBINED TOTAL DEBT		\$94,581

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

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

Ratios to 2000-01 Assessed Valuation:

Direct Debt	-	%
Total Gross Direct and Overlapping Tax and Assessment Debt	0.13%	
Total Net Direct and Overlapping Tax and Assessment Debt	0.08%	
Gross Combined Total Debt	1.03%	
Net Combined Total Debt	0.98%	

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/00: \$0

Source: California Municipal Statistics, Inc.

Table 5
Community Facilities District No. 10 (Torrey Highlands - Subarea IV)
of the Poway Unified School District
IMPROVEMENT AREA B

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 10, IMPROVEMENT AREA B

2000-01 Assessed Valuation: \$4,511,957

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 7/1/01</u>
Metropolitan Water District	0.0005%	\$2,637
San Diego County Water Authority	0.003	142
City of San Diego	0.005	904
City of San Diego Open Space Park District	0.005	2,276
Poway Unified School District Community Facilities District No. 10, Improvement Area B	100.	-
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$5,959
Less: San Diego Open Space Park District (100% self-supporting)		<u>2,276</u>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$3,683
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Diego County General Fund Obligations	0.003%	\$15,998
San Diego County Pension Obligations	0.003	9,520
San Diego County Superintendent of Schools Obligations	0.003	65
Palomar Community College District Certificates of Participation	0.011	762
City of San Diego General Fund Obligations	0.005	<u>19,424</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$45,769
 GROSS COMBINED TOTAL DEBT		\$51,728
NET COMBINED TOTAL DEBT		\$49,452

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

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

Ratios to 2000-01 Assessed Valuation:

Direct Debt	-	%
Total Gross Direct and Overlapping Tax and Assessment Debt	0.13%	
Total Net Direct and Overlapping Tax and Assessment Debt	0.08%	
Gross Combined Total Debt	1.15%	
Net Combined Total Debt	1.10%	

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/00: \$0

Source: California Municipal Statistics, Inc.

Table 6 below sets forth estimated Fiscal Year 2001-02 overall tax rates projected to be applicable to a detached single family residential unit within Zone 2 of Improvement Area A with 2,626 of building square feet. Table 6 also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

Table 6
Community Facilities District No. 10 (Torrey Highlands - Subarea IV)
of the Poway Unified School District
Improvement Area A
Estimated Fiscal Year 2001-02 Tax Rates
(Zone 2 Detached Unit of 2,626 Building Square Feet)

Assessed Valuation and Property Taxes	Percent	Projected Amount	Maximum Amount
ESTIMATED SALES PRICE		\$470,000	
Homeowner Exemption		<u>(7,000)</u>	
ASSESSED VALUE		\$463,000	
AD VALOREM PROPERTY TAXES			
General Purpose	1.00000%	\$4,630	\$4,630
San Diego City	0.00743%	34	34
County Water Authority - Debt Service	0.00091%	4	4
Metropolitan Water District Debt Service	<u>0.00880%</u>	<u>41</u>	<u>41</u>
Total General Property Taxes and Overrides	1.01714%	\$4,709	\$4,709
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES (1)			
County Mosquito/Rat Control		\$3	\$3
County Water Authority Standby Charge (2)		10	10
Metropolitan Water District Standby Charge (2)		12	12
Peñasquitos East Maintenance District		11	11
Poway Unified School District CFD No. 10		1,818	1,818
Poway Unified School District CFD No. 10 Improvement Area A		1,760	1,760
Total Assessments, Special Taxes and Parcel Changes		<u>\$3,614</u>	<u>\$3,614</u>
PROJECTED TOTAL PROPERTY TAXES		\$8,323	\$8,323
Projected Total Effective Tax Rate (as % of Sales)		1.77084%	1.77084%

Notes:

- (1) All assessment amounts reflect the Fiscal Year 2001-02 amounts.
- (2) Assumes that the lot size is less than or equal to one acre.

Source: David Taussig & Associates, Inc.

Table 7 below sets forth estimated Fiscal Year 2001-02 overall tax rates projected to be applicable to a single family residential unit within Improvement Area B with 3,055 of building square feet. Table 7 sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

Table 7
Community Facilities District No. 10 (Torrey Highlands - Subarea IV)
of the Poway Unified School District
Improvement Area B
Estimated Fiscal Year 2001-02 Tax Rates
(Zone 2 Detached Unit of 3,055 Building Square Feet)

Assessed Valuation and Property Taxes	Percent	Projected Amount	Maximum Amount
ESTIMATED SALES PRICE		\$535,000	
Homeowner Exemption		<u>(7,000)</u>	
ASSESSED VALUE		\$528,000	
<i>AD VALOREM PROPERTY TAXES</i>			
General Purpose	1.00000%	\$5,280	\$5,280
San Diego City	0.00743%	39	\$39
County Water Authority - Debt Service	0.00091%	5	\$5
Metropolitan Water District debt Service	<u>0.00880%</u>	<u>46</u>	<u>46</u>
Total General Property Taxes and Overrides	1.01714%	\$5,370	\$5,370
<i>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES (1)</i>			
County Mosquito/Rat Control		\$3	\$3
County Water Authority Standby Charge (2)		10	10
Metropolitan Water District Standby Charge (2)		12	12
Peñasquitos East Maintenance District		11	11
Poway Unified School District CFD No. 10		1,818	1,818
Poway Unified School District CFD No. 10 Improvement Area B		1,738	1,738
Total Assessments, Special Taxes and Parcel Changes		<u>\$3,592</u>	<u>\$3,592</u>
PROJECTED TOTAL PROPERTY TAXES		\$10,826	\$10,826
Projected Total Effective Tax Rate (as % of Sales Price)		1.697348%	1.697348%

Notes:

- (1) All assessment amounts reflect the Fiscal Year 2001-02
- (2) Assumes that the lot size is less than or equal to one acre.

Source: David Taussig & Associates, Inc.

Overlapping Assessment and Maintenance Districts

Metropolitan Water District Standby Charge. The Metropolitan Water District imposes an annual direct assessment at the rate of \$11.50 per acre, or \$11.50 per parcel if the parcel is less than an acre. This assessment is used for capital improvements of the distribution system and the construction and maintenance of reservoirs. This assessment was first levied in the 1992-93 tax year and will continue to be levied for an indefinite period. The Metropolitan Water District holds a public hearing once every year. Parcels with their own wells may be exempted from this assessment.

Peñasquitos East Maintenance District. This special assessment is based on land use and benefit factors. One equivalent benefit unit ("EBU") is equal to \$11.14. There are 17 land use classes. For single family detached units the EBU is 1.0 and the Fiscal Year 2000-01 special assessment levy was \$11.14. Single family attached units and apartments are categorized as .7 EBU, and the Fiscal Year 2000-01 special assessment levy was \$7.80 per unit.

County Water Authority Standby Charge. All property in the Community Facilities District is subject to an annual direct assessment at the rate of \$10.00 per acre, or \$10.00 per parcel if the parcel is less than an acre. This pay-as-you-go assessment is used to fund capital improvements and will continue to be levied for an indefinite period.

County Mosquito/Rat Control. The San Diego County Department of Environmental Health imposes an annual direct assessment on all property at the rate of \$3 per parcel. This assessment is fixed unless there is a vote to increase the assessment. This pay-as-you-go assessment is used for vector surveillance and control programs. The County Department of Environmental Health provides free services to the residents to control mosquito breeding and rodent activity.

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 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 2001 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 2001 Bonds. The School 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 2001 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 A or Improvement Area B to pay their Special Taxes when due. Any such failure to pay Special Taxes could result in the inability of the School District to make full and punctual payments of debt service on the 2001 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 A and Improvement Area B.

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 A or Improvement Area B, 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.

Concentration of Ownership

As of September 1, 2001, the Developers and the affiliate landowners are responsible for 100% percent of the Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT - Property Ownership and Development." If the Developers or affiliate landowners are unwilling or unable to pay the Special Tax when due, a potential shortfall in the Bond Service Fund could occur, which would result in the depletion of the 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 2001 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 A or Improvement Area B. 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 A and Improvement Area B may be subject to economic considerations and unexpected delays, disruptions and chances which may affect the willingness and ability of the Developers 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. Final maps have been recorded for all but 65 lots within Improvement Area A and most discretionary governmental approvals have been obtained with respect to such lots. The property within Improvement Area A and Improvement Area B is partially developed with public infrastructure improvements and construction, some of which are substantially complete; however, additional approvals are necessary to complete the development. It is possible that the approvals necessary to complete development of the property within Improvement Area A and Improvement Area B will not be obtained on a timely basis. Failure to obtain any such approval could adversely affect land development operations within Improvement Area A and Improvement Area B. In addition, there is a risk that future governmental restrictions on land development within Improvement Area A or Improvement Area B 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 A or Improvement Area B 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 A or Improvement Area B 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 A and Improvement Area B would cause the property values within Improvement Area A and Improvement Area B to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within Improvement Area A and Improvement Area B to pay the Special Taxes when due.

Special Taxes Are Not Personal Obligations

The current and future owners of land within Improvement Area A and Improvement Area B 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 A and Improvement Area B. If the value of the land within Improvement Area A and Improvement Area B 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 2001 Bonds have been issued.

The 2001 Bonds Are Limited Obligations of the Community Facilities District

The Community Facilities District has no obligation to pay principal of and interest on the 2001 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 2001 Bonds.

Appraised Values

The Appraisal summarized in APPENDIX C hereto estimates the fee simple interest market value of the residential property within Improvement Area A and Improvement Area B. This value is merely the present opinion of the Appraiser, and is qualified by the Appraiser as stated in the Appraisal. The School 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 A and Improvement Area B 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

A major risk to the Bondowners is that development by the property owners in Improvement Area A and Improvement Area B 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 A and Improvement Area B 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 which might result from the September 11, 2001 airline hijackings and catastrophic destruction of the World Trade Center in New York, New York and damage to the Pentagon in Washington D.C. , and by other similar factors. There can be no assurance that land

development operations within Improvement Area A or Improvement Area B 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 2001 Bonds (and therefore to the owners of the 2001 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 2001 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 A and Improvement Area B as planned will reduce the expected diversity of ownership of land within Improvement Area A and Improvement Area B, making the payment of debt service on the 2001 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 2001 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 table in the section entitled "COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS - SUBAREA IV) - Direct and Overlapping Debt" states 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 table does 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 2001 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 2001 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 "Hazardous Substances" below.

Disclosure to Future Purchasers

The Community Facilities District has recorded Notices of Special Tax Lien on behalf of itself, Improvement Area A and Improvement Area B in the Office of the San Diego County Recorder on

September 21, 2001 as Document Nos. 2001-0681525, 2001-0681526 and 2001-0681527, respectively. 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 A or Improvement Area B 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.

Government Approvals

The Developers or their predecessors have secured most discretionary approvals, permits and government entitlements necessary to develop the land within Improvement Area A and Improvement Area B. Nevertheless, development within Improvement Area A and Improvement Area B is contingent upon the construction of a number of major public improvements as well as the necessary local in-tract improvements. The installation of the necessary improvements and infrastructure is subject to the receipt of construction or building permits from the City and other public agencies. The failure to obtain any such approval could adversely affect construction within Improvement Area A or Improvement Area B. A slow down or stoppage of the construction process could adversely affect land values. No assurance can be given that permits will be obtained in a timely fashion, if at all. The failure to do so may result in the prevention, or significant delays in the development of the projects or portions thereof. See "Failure to Develop Properties" above.

Local, State and Federal Land Use Regulations

There can be no assurance that land development operations within Improvement Area A or Improvement Area B will not be adversely affected by future government policies, including, but not limited to, governmental policies which directly or indirectly restrict or control development. During the past several years, citizens of a number of local communities in California have placed measures on the ballot designed to control the rate of future development. During the past several years, state and federal regulatory agencies have significantly expanded their involvement in local land use matters through increased regulatory enforcement of various environmental laws, including the Endangered Species Act, the Clean Water Act and the Clear Air Act, among others. Such regulations can substantially impair the rate and amount of development without requiring just compensation unless the effect of the regulation is to deny all economic use of the affected property. Bondowners should assume that any event that significantly impacts the ability to construct homes on land in Improvement Area A and Improvement Area B could cause the land values within Improvement Area A and Improvement Area B to decrease substantially and could affect the willingness and ability of the owners of land to pay the Special Taxes when due or to proceed with development of land in Improvement Area A and Improvement Area B. See "Failure to Develop Properties" above.

Utility Deregulation

The State of California is currently experiencing a crisis in the supply and pricing of electricity and gas. The crisis has resulted in blackouts in several areas of the State and further outages were predicted for the summer months when demand increases. The Community Facilities District is served by the San Diego Gas and Electric Company. Under the current terms of State regulation, San Diego Gas and Electric Company has been able to pass through significant portions of the substantial increase in the wholesale cost of gas and electricity to its customers. Other electrical utilities, such as Southern California Edison Company and Pacific Gas and Electric Company have experienced a significant cash crisis and Pacific Gas and Electric Company submitted a Chapter 11 bankruptcy filing for protection from its creditors on April 6, 2001. The effect of the crisis on the local or State economy can not be predicted.

Endangered and Threatened Species

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 A or Improvement Area B or reduce the value of undeveloped property. Failure to develop the vacant property in Improvement Area A or Improvement Area B 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 A or Improvement Area B to pay the Special Taxes when due.

At present, other than the species covered by the Implementing Agreement and the Habitat Management Plan, the vacant property within Improvement Area A and Improvement Area B is not known 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 listed as endangered or threatened. See "THE COMMUNITY FACILITIES DISTRICT - Environmental Permits" for a discussion of the Implementing Agreement and Subarea Plan and the Habitat Management Plan. Furthermore, each Developer reports that the vacant property within the Community Facilities District proposed to be developed by such Developer is not known by the applicable 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.

Hazardous Substances

While governmental taxes, assessments, and charges are a common claim against the value of a 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 hazardous substances. In general, the owners and operators of parcels within Improvement Area A or Improvement Area B may be required by law to remedy conditions of the parcels related to the releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, sometimes referred to as "CERCLA" or the "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 substances condition of a property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect, therefore, should any parcel within Improvement Area A or Improvement Area B be affected by a hazardous substance, would be to reduce the marketability and value of the parcel by the costs of remedying the condition, because the owner (or operator) is obligated to remedy the condition. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling or disposing of it. All of these possibilities could significantly affect the financial and legal ability of a property owner to develop the affected parcel or other parcels, as well as the value of the property that is realizable upon a delinquency and foreclosure.

In 1998, Western Pacific Housing retained Geocon Incorporated to conduct a geotechnical investigation of its proposed development site (Report Dated October 7, 1998). In its opinion, the site could be developed as planned provided certain recommendations of the report were followed. In 1999, Western Pacific Housing retained Pacific Soils Engineering, Inc. to conduct a preliminary geotechnical study and grading plan review of Torrey Glenn, in its opinion, the proposed development was feasible and the most significant issues were the recommended unsuitable soil removal, monitoring of time-dependent settlement and possible delays in improvement construction caused by time-dependant settlement. (Report dated December 14, 1999).

LEN - Greystone retained Geotechnics Incorporated to conduct subsurface exploration and laboratory testing regarding the feasibility of (including the portion sold to Standard Pacific Corp.) proposed development sites and to make recommendations for earthwork construction and foundation design. (Report dated February 15, 2000).

The value of the property within Improvement Area A and Improvement Area B, as set forth in the appraised values set forth in the Appraisal hereto do not, take into account the possible reduction in

marketability and value of any of the parcels of Taxable Property by reason of the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the parcel. The Community Facilities District has not independently verified and is not aware that the owner (or operator) has such a current liability with respect to any of the parcels of Taxable Property, except as expressly noted. However, it is possible that such liabilities do currently exist and that the Community Facilities District is not aware of them.

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

Insufficiency of the Special Tax

The principal source of payment of principal of and interest on the 2001 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within Improvement Area A and Improvement Area B. 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 2001 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 2001 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 each Rate and Method. Application of each 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 A and Improvement Area B. 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 2001 BONDS - Special Taxes" and "- Rate and Method" herein, each Bond 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 2001 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 2001 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by

the School District of the proceeds of sale if the Reserve Fund is depleted. See "SECURITY FOR THE 2001 BONDS - Proceeds of Foreclosure Sales."

In addition, the 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 A or Improvement Area B. See "SECURITY FOR THE 2001 BONDS - Rate and Method" herein.

Exempt Properties

Certain properties are exempt from the Special Tax in accordance with the Rate and Method (see "SECURITY FOR THE 2001 BONDS - Rate and Method" 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 A or Improvement Area B 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 School 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

Each Reserve Fund is to be maintained at an amount equal to the applicable Reserve Requirement (see "SECURITY FOR THE 2001 BONDS - Reserve Fund" herein). Funds in a Reserve Fund may be used to pay principal of and interest on the applicable 2001 Bonds in the event the proceeds of the levy and collection of the Special Tax against property within Improvement Area A or Improvement Area B are insufficient. If funds in a Reserve Fund for the applicable 2001 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 applicable Bond Indenture. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within the Improvement Area A or Improvement Area B, as applicable, 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 2001 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."

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 A or Improvement Area B 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 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 will take up to two or three years from initiation to the lien foreclosure sale. At a Special Tax lien foreclosure sale, each parcel will be sold for not less than the "minimum bid amount" which is equal to the sum of all delinquent Special Tax installments, penalties and interest thereon, costs of collection (including reasonable attorneys fees), post-judgment interest and costs of sale. Each parcel is sold at foreclosure for the amounts secured by the Special Tax lien on such parcel and multiple parcels may not be aggregated in a single "bulk" foreclosure sale. If any parcel fails to obtain a "minimum bid," the 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 2001 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 2001 Bonds. See "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 2001 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 2001 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 2001 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 A and Improvement Area B is owned by the Developers, 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 School 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 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 School 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 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 FDIC has filed claims against the County of Orange with respect to Mello-Roos community facilities district special taxes in the United States Bankruptcy Court and in Federal District Court in which the FDIC has taken a position similar to the position outlined in the Policy Statement. While all of such claims have not been resolved, the Bankruptcy Court has issued a tentative ruling in favor of the FDIC on certain of such claims. The County of Orange has appealed such ruling and the FDIC has cross-appealed. The decision of the United States Court of Appeals for the 9th Circuit (the "9th Circuit Court") was filed on August 28, 2001. In its decision, the Court stated that the FDIC as a federal agency is exempt from the Mello-Roos Special Tax. The FDIC has also filed suit (the "post-bankruptcy" suit) regarding special taxes imposed after 1994. However, such action has been stayed pending resolution of the 9th Circuit Court appeal by the FDIC regarding the bankruptcy case. The post-bankruptcy suit has recently been consolidated with the cases filed by the FDIC against other California counties and is pending in the United States District Court in Los Angeles. The FDIC has filed a motion to lift the bankruptcy stay.

The School 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 A and Improvement Area B 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 2001 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 applicable Reserve Fund and perhaps, ultimately, a default in payment on the 2001 Bonds. Based upon the secured tax roll as of January 1, 2001, the FDIC does not presently own any of the property in Improvement Area A and Improvement Area B. The School District expresses no view concerning the likelihood that the risks described above will materialize while the 2001 Bonds are outstanding.

Factors Affecting Parcel Values and Aggregate Value

Geologic, Topographic and Climatic Conditions. The value of the Taxable Property in Improvement Area A and Improvement Area B 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 A and Improvement Area B, 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 A or Improvement Area B 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.

Legal Requirements. Other events which may affect the value of a parcel of Taxable Property in Improvement Area A and Improvement Area B include changes in the law or application of the law. 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 2001 Bonds do not contain a provision allowing for the acceleration of the 2001 Bonds in the event of a payment default or other default under the terms of the 2001 Bonds or the Bond Indentures. Pursuant to each Bond Indenture, a bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies (see APPENDIX E - "Summary of Bond Indentures" herein). So long as the 2001 Bonds are in book-entry form, DTC will be the sole bondowner and will be entitled to exercise all rights and remedies of bondowner.

District Formation

California voters, on June 6, 1978, approved an amendment ("Article XIII A") to the California Constitution. Section 4 of Article XIII A, requires a vote of two-thirds of the qualified electorate to impose "special taxes," or any additional *ad valorem*, sales or transaction taxes on real property. At an election held in Improvement Area A and in Improvement Area B pursuant to the Act, more than two-thirds of the qualified electors within Improvement Area A and Improvement Area B, consisting of the landowners within the boundaries of Improvement Area A and Improvement Area B, authorized the Community Facilities District to incur bonded indebtedness to finance the City Facilities and approved each applicable 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 A or Improvement Area B 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 2001 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 2001 Bonds, it is necessary that the Special Tax levied against land within Improvement Area A and Improvement Area B be paid in a timely manner. The Community Facilities District has covenanted in each Bond Indenture under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the 2001 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 2001 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 2001 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 of California at the November 5, 1996 general election. The Initiative added Article XIII C ("Article XIII C") and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative have not yet been interpreted by the courts, although a number of lawsuits have been filed requesting the courts to interpret various aspects of the Initiative.

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2001 Bonds.

It may be possible, however, for voters or Improvement Area A or Improvement Area B to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2001 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 2001 Bonds.

Like its antecedents, Proposition 218 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 Proposition 218 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 Proposition 218 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 Proposition 218 on the 2001 Bonds as well as the market for the 2001 Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

Ballot Initiatives and Legislative Measures

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

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the 2001 Bonds or, if a secondary market exists, that such 2001 Bonds can be sold for any particular price. Although the School District, the Community Facilities District and the Developers have committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of credit rating for the 2001 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 2001 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2001 Bonds as a result of acts or omission of the Community Facilities District and the School District in violation of certain provisions of the Code and the covenants of each Bond Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2001 Bonds, the School District has covenanted in each Bond Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2001 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2001 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the applicable Bond Indenture. See "THE 2001 BONDS - Redemption."

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 2001 Bonds or to preserve the tax-exempt status of the 2001 Bonds. See "Payments by FDIC and other Federal Agencies," "No Acceleration Provision" and "Billing of Special Taxes" herein.

The Board of Education has not evaluated the foregoing risks, and further, is not aware of any evaluation of these risks by the landowners. Since these are largely business risks of the type that landowners customarily evaluate individually, and inasmuch as changes in land ownership may well mean changes in the evaluation with respect to any particular parcel of Taxable Property, the Board of Education has undertaken financing of the acquisition and construction of the City Facilities without regard to any such evaluation, as an incident to the orderly, planned development of the project site. Thus, formation of the Community Facilities District by the Board of Education in no way implies that the Board of Education has evaluated these risks or the reasonableness of these risks, but to the contrary, the Board of Education has made no such evaluation and is undertaking acquisition and construction of the City Facilities even though such risks may be serious and may ultimately halt or slow the progress of land development and forestall the realization of Taxable Property values.

LEGAL MATTERS

Legal Opinion

The legal opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, approving the validity of the 2001 Bonds will be made available to purchasers at the time of original delivery and is attached hereto as Appendix H. A copy of the legal opinion will be printed on each 2001 Bond. McFarlin & Anderson, Lake Forest, 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 2001 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 2001 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 each Bond 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 2001 Bonds.

In the further opinion of Bond Counsel, interest on the 2001 Bonds is exempt from California personal income taxes.

To the extent the issue price of any maturity of the 2001 Bonds is less than the amount to be paid at maturity of such 2001 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2001 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 2001 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2001 Bonds is the first price at which a substantial amount of such maturity of the 2001 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 2001 Bonds accrues daily over the term to maturity of such 2001 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 2001 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2001 Bonds. Owners of the 2001 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the 2001 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2001 Bonds in the original offering to the public at the first price at which a substantial amount of such 2001 Bonds is sold to the public.

The 2001 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 2001 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2001 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 2001 Bonds other than as expressly described above.

Absence of Litigation

No litigation is pending or threatened concerning the validity of the 2001 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 2001 Bonds or in any way contesting or affecting the validity of the 2001 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 will be delivered to the Underwriter simultaneously with the delivery of the 2001 Bonds.

No General Obligation of School District or Community Facilities District

The 2001 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 the applicable Improvement Area and proceeds of the Improvement Area A Bonds or Improvement Area B Bonds, respectively, including amounts in the applicable Reserve Fund, Special Tax Fund and Bond Service Fund and investment income on funds held pursuant to the applicable Bond 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 Improvement Area A Bonds or the Improvement Area B Bonds shall be limited to the Special Taxes to be collected within the applicable Improvement Area of the Community Facilities District.

NO RATINGS

The 2001 Bonds have not been rated by any securities rating agency.

UNDERWRITING

The Improvement Area A Bonds are being purchased by the Stone & Youngberg LLC at a purchase price of \$9,516,416.50 (which represents the aggregate principal amount of the Improvement Area A Bonds of \$9,700,000, less an underwriter's discount of \$177,346.00 less original issue discount of \$6,237.50). The Improvement Area B Bonds are being purchased by the Stone & Youngberg LLC at a purchase price of \$6,218,035.85 (which represents the aggregate principal amount of the Improvement Area B Bonds of \$6,345,000, less an underwriter's discount of \$122,889.15 less original issue discount of \$4,075.00).

The purchase agreement relating to the 2001 Bonds provides that the Underwriter will purchase all of the 2001 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 2001 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 Bond Counsel fees paid from advances made to the School District by the Developer, fees payable to certain professionals, including the Underwriter, McFarlin & Anderson, as Disclosure Counsel, Best Best & Krieger LLP, as Bond Counsel, and State Street Bank and Trust Company of California, N.A., as the Fiscal Agent, are contingent upon the issuance of the 2001 Bonds. The fees of David Taussig & Associates, Inc., as Special Tax Consultant, are in part contingent upon the issuance of the 2001 Bonds. The fees of Stephen G. White, MAI, as Appraiser, and The Meyers Group, as Market Consultant, are not contingent upon the issuance of the 2001 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 2001 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/ Rob Ball
Rob Ball, Assistant Superintendent - Business
Support Services, 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, 13626 Twin Peaks Road, Poway, California 92064-3098, Attention: Director of Finance.

General Information

The School District is a school district organized under the laws of the State of California. The School District was established in 1962. The District provides education instruction for grades K-12 within an approximately 99.1 square mile area of San Diego County. The School District currently operates 21 K-5 elementary schools, 5 6-8 middle schools, 3 comprehensive high schools and 1 continuation high school. The School District includes the City of Poway and the City of San Diego in San Diego County, California. The School District's projected average daily attendance ("ADA") computed in accordance with State law for the 2001-02 academic year is approximately 31,394. As of January, 2001, the estimated population within the School District's boundaries was approximately 162,250 with approximately 32,483 students attending schools in the School District. The pupil/teacher ratio is approximately 20:1 for grades K-3 and 30:1 for grades 4-12. The School District has implemented classroom size reduction in grades K through 3 and in such classes, the pupil/teacher ratio is approximately 20:1.

Administration and Enrollment

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

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

From fiscal year 1994-95 through fiscal year 2000-01 the School District's enrollment increased by 3,491, an average of approximately 2 percent per year. Information concerning enrollment for these years, as well as estimated fiscal year 2001-02 are set forth below:

**Poway Unified School District
Student Enrollment**

	<u>Fiscal Year</u>	<u>Enrollment</u>	<u>District Average Daily Attendance</u>	<u>District Base Revenue Limit</u>
<i>Historical</i>	1994-95	29,037	29,020	\$3,468.39
	1995-96	29,940	29,893	3,615.36
	1996-97	30,664	30,531	3,809.77
	1997-98	31,309	31,214	3,912.12
	1998-99 ⁽¹⁾	31,831	30,877	4,214.70
	1999-00	32,546	31,515	4,274.70
<i>Estimated</i>	2000-01	32,528	31,203	4,412.70
	2001-02	31,992	31,351	4,587.70

Source: California Department of Education and the School District.

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

Labor Relations

As of September 1, 2001, the School District employed approximately 2,362 certificated professionals and approximately 1,616 classified employees. The certificated professionals, except management and some part-time employees, are represented by the bargaining unit as noted below:

**Poway Unified School District
District Employees**

<u>Labor Organization</u>	<u>Approximate Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
Poway Federation of Teachers (PFT), Local 2357	1,750	6/30/02

Source: The School District

Retirement Programs

The School District participates in the State of California Teachers Retirement System ("STRS"). This plan covers certificated employees. The School District's contribution to STRS for Fiscal Year 1999-00 was \$7,853,513.41, in Fiscal Year 2000-01 was \$8,814,311.32, and in Fiscal Year 2001-02 is budgeted at \$8,970,793.00. In order to receive STRS benefits, an employee must be at least 55 years old and have provided ten years of service to California public schools.

The School District also participates in the State of California Public Employees Retirement Systems ("PERS"). This plan covers all classified personnel who are employed more than four hours per day. The School District's contribution to PERS since 1998 has been \$0.00.

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

Insurance

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

The State of California has authorized the School District to operate a Self-Insured Workers' Compensation Plan to finance liabilities arising from employee industrial injuries. Under this program, the Fund provides coverage for individual claims up to a limit of \$250,000. Commercial insurance is purchased to cover claim costs exceeding the self-insured retention level.

The School District operates a Self-Insurance Program to cover general liability claim losses up to a limit of \$50,000 per claim and property losses up to \$100,000 per claim. Lower self-insured retentions apply to boiler and machinery/energy systems breakdown (\$1,000 per claim) and crime losses (\$500 per claim). Excess property and liability insurance is acquired through a combination of pooling through a joint powers authority and purchase of commercial insurance and reinsurance policies.

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APPENDIX B

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

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**RATE AND METHOD OF APPORTIONMENT FOR
COMMUNITY FACILITIES DISTRICT NO. 10
OF THE POWAY UNIFIED SCHOOL DISTRICT
(IMPROVEMENT AREA A)**

An Annual Special Tax shall be levied on and collected in Improvement Area A ("IA A") of 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 IA A 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 expenses of the School District to carry out its duties as the legislative body of IA A 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 F. In each Fiscal Year 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.

"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 indebtedness or other periodic costs on the Non-School Bonds, (ii) the Administrative Expenses of IA A of CFD No. 10, (iii) any costs associated with the release of funds from an escrow account, (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 (iv) above pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

“Assessor’s Parcel” means a lot or parcel of land in IA A 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.

“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 an Affordable Unit or a Senior Citizen Unit.

“Backup Annual Special Tax” means the Special Tax of that name described in Section E 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 A 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, an Affordable Unit, or a Senior Citizen Unit.

“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 Assistant Superintendent.

“Exempt Property” means the property designated as Exempt Property in Section J.

“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 3 and adjusted as set forth in Section G.

“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, for any Zone, the applicable acreage listed in Table 4 below.

“Non-School Bonds” means any Bonds which are not School Bonds.

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

“Prepayment Amount” means the dollar amount required to prepay all of the Annual Special Tax obligation on any Assessor’s Parcel, determined pursuant to Sections G.

“Proportionately” means that the ratio of the actual Annual Special Tax levy to the applicable Special Tax is equal for all applicable Assessor’s Parcels.

“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 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 in IA A of CFD No. 10 under the Act.

“Taxable Developed Property” means all Assessor’s Parcels of Developed Property which are not Exempt Property.

“Taxable Property” means all Assessor’s Parcels which are not Exempt Property.

“Taxable Undeveloped Property” means all Assessor’s Parcels of Undeveloped Property 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. Each Unit shall be classified as an Affordable Unit, an Attached Unit, a Detached Unit, or a Senior Citizen Unit.

“Zone” means any 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.

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

“Zone 3” means all property located within the area identified as Zone 3 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 Developed Property or Undeveloped Property; (ii) each Assessor’s Parcel of Developed Property shall be classified as Taxable Developed Property or Exempt Property; (iii) each Assessor’s Parcel of Undeveloped Property shall be classified as Taxable Undeveloped Property or Exempt Property; and (iv) each Assessor’s Parcel shall be assigned to a Zone in accordance with Exhibit A.

**SECTION C
MAXIMUM SPECIAL TAX**

1. Taxable Developed Property

The Maximum Special Tax for each Assessor’s Parcel classified as Taxable Developed Property in any Fiscal Year shall be the greater of (i) the Assigned Annual Special Tax or (ii) the Backup Annual Special Tax.

2. Taxable Undeveloped Property

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

**SECTION D
ASSIGNED ANNUAL SPECIAL TAXES**

1. Taxable Developed Property

The Assigned Annual Special Tax for each Assessor’s Parcel of Taxable Developed Property in Fiscal Year 2001-02 shall be the amount determined by reference to Table I below. No Assigned Annual Special Tax shall apply to Affordable Units or Senior Citizen Units.

TABLE 1

ASSIGNED ANNUAL SPECIAL TAX FOR TAXABLE DEVELOPED PROPERTY FOR FISCAL YEAR 2001-02		
Zone	Building Square Feet	Assigned Annual Special Tax ¹
1	<= 3,000	\$2,061.39 per Detached/Attached Unit
1	3,001 - 3,300	\$2,287.23 per Detached/Attached Unit
1	> 3,300	\$2,513.08 per Detached/Attached Unit
2	<= 2,400	\$1,383.85 per Detached/Attached Unit
2	2,401 - 2,600	\$1,609.70 per Detached/Attached Unit
2	2,601 - 2,800	\$1,760.26 per Detached/Attached Unit
2	2,801 - 3,100	\$1,986.11 per Detached/Attached Unit
2	3,101 - 3,400	\$2,136.67 per Detached/Attached Unit
2	> 3,400	\$2,437.80 per Detached/Attached Unit
3	<= 1,700	\$593.47 per Detached/Attached Unit
3	1,701 - 1,850	\$668.75 per Detached/Attached Unit
3	1,851 - 2,000	\$819.31 per Detached/Attached Unit
3	> 2,000	\$894.59 per Detached/Attached Unit

1. No Assigned Annual Special Tax shall apply to Affordable Units or Senior Citizen Units.

Each July 1, commencing July 1, 2002, the Assigned Annual Special Tax for each Assessor's Parcel of Taxable Developed Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

2. Taxable Undeveloped Property

The Assigned Annual Special Tax for an Assessor's Parcel of Taxable Undeveloped Property in Fiscal Year 2001-02 shall be the amount determined by reference to Table 2.

TABLE 2

ASSIGNED ANNUAL SPECIAL TAX FOR TAXABLE UNDEVELOPED PROPERTY FOR FISCAL YEAR 2001-02	
Zone	Assigned Annual Special Tax
Zone 1	\$10,027.10 per Acre
Zone 2	\$16,354.07 per Acre
Zone 3	\$5,786.40 per Acre

On each July 1, commencing July 1, 2002, the Assigned Annual Special Tax per Acre for each Zone shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

**SECTION E
BACKUP ANNUAL SPECIAL TAX**

Each Fiscal Year, each Assessor's Parcel of Taxable Developed Property shall be subject to a Backup Annual Special Tax. In each Fiscal Year, the Backup Annual Special Tax rate for Taxable Developed Property shall be the rate per Lot calculated according to the following formula:

$$B = (Z H A) L$$

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 Taxable Undeveloped Property for the applicable Zone for the applicable Fiscal Year
- A = Acreage of Taxable Developed Property expected to exist in the applicable Final Subdivision Map at buildout, as determined by the Assistant Superintendent pursuant to Section J
- L = Lots in the Final Subdivision Map

Notwithstanding the foregoing, if all or any portion of 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 that is changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Annual Special Taxes anticipated to apply to the changed or modified Final Subdivision Map area prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Taxable Property which is ultimately expected to exist in such changed or modified Final Subdivision Map area, 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 which shall be applicable to Assessor's Parcels of Developed Property in such changed or modified Final Subdivision Map area for all remaining Fiscal Years in which the Special Tax may be levied.

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 determine the Annual Special Tax Requirement to be collected in IA A of CFD No. 10 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

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

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

Third: If the sum of the amounts 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 Taxable Developed Property whose Maximum Special Tax is 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 G
PREPAYMENT OF ANNUAL SPECIAL TAX**

The Annual Special Tax obligation of an Assessor's Parcel of Taxable Developed Property or an Assessor's Parcel of Taxable 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 Non-School Bonds

Prior to the issuance of Non-School 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 3.

TABLE 3

<i>GROSS PREPAYMENT AMOUNT FOR MAY 1, 2001 TO APRIL 30, 2002</i>		
Zone	Building Square Feet	Assigned Annual Special Tax ¹
1	≤ 3,000	\$22,830.62 per Detached/Attached Unit
1	3,001 - 3,300	\$25,331.95 per Detached/Attached Unit
1	> 3,300	\$27,833.27 per Detached/Attached Unit
2	≤ 2,400	\$19,508.20 per Detached/Attached Unit
2	2,401 - 2,600	\$19,508.20 per Detached/Attached Unit
2	2,601 - 2,800	\$19,508.20 per Detached/Attached Unit
2	2,801 - 3,100	\$21,996.84 per Detached/Attached Unit
2	3,101 - 3,400	\$23,664.40 per Detached/Attached Unit
2	> 3,400	\$26,999.50 per Detached/Attached Unit
3	≤ 1,700	\$19,508.20 per Detached/Attached Unit
3	1,701 - 1,850	\$19,508.20 per Detached/Attached Unit
3	1,851 - 2,000	\$19,508.20 per Detached/Attached Unit
3	> 2,000	\$19,508.20 per Detached/Attached Unit

1. No Assigned Annual Special Tax shall apply to Affordable Units or Senior Citizen Units.

On each May 1, commencing May 1, 2002, the Gross Prepayment Amount for each Unit shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year, 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 Non-School Bonds

Subsequent to the issuance of Non-School 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 Taxable Developed Property, compute the Assigned Annual Special Tax and the Backup Annual Special Tax. For each Assessor's Parcel of Taxable Undeveloped Property, compute the Assigned Annual Special Tax and the Backup Annual Special Tax applicable to the Assessor's Parcel as though it was already designated as Taxable Developed Property, based upon the building permit issued for that Assessor's Parcel.
2. For each Annual Special Tax obligation to be prepaid, (a) 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 Taxable Developed Property at buildout, as reasonably determined by the Assistant Superintendent, and (b) divide the Backup Annual Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the estimated Backup Annual Special Tax applicable to all Assessor's Parcels of Taxable Developed Property at buildout, as reasonably determined by the Assistant Superintendent.
3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the face value of all outstanding Non-School Bonds. The product is the "Bond Redemption Amount."

4. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the outstanding Non-School Bonds to be redeemed with the proceeds of the Bond Redemption Amount. This product is the "Redemption Premium."
5. Compute the amount needed to pay interest on the Bond Redemption Amount, the Redemption Premium, and the Reserve Fund Credit (see step 9) to be redeemed with the proceeds of the Prepayment Amount until the earliest call date for the outstanding Non-School Bonds.
6. 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 Non-School Bonds.
7. Subtract the amount computed pursuant to paragraph 6 from the amount computed pursuant to paragraph 5. This difference is the "Defeasance."
8. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Non-School Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."
9. 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 Non-School 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 Non-School 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.
10. 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 IA A 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 IA A of CFD No. 10, net of an allocable portion 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, as reasonably determined by the Assistant Superintendent.

SECTION H PARTIAL PREPAYMENT OF SPECIAL TAX

Prior to the issuance of a building permit for the construction of a production Unit on a Lot within a Final Subdivision Map area, the owner of no less than the entire Final Subdivision Map area may elect to prepay any portion of the applicable Annual Special Tax obligations for all of the Assessor's Parcels within such Final Subdivision Map area. In order to prepay any portion of the applicable Annual Special Tax obligations, the residential Final Subdivision Map area must contain at least 25 Detached Units or 50 Attached Units. The partial prepayment of each Annual Special Tax obligation shall be collected at the issuance of each applicable building permit, provided that the Annual Special Tax obligations with respect to model Units for which building permits have already been issued must be partially prepaid at the time of the election. The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = P_G \ H \ F$$

These terms have the following meanings:

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

The owner of any Assessor's Parcel who desires such partial prepayment shall notify the Assistant Superintendent of (i) such owner's intent to partially prepay the Annual Special Tax obligation and (ii) the percentage by which the Annual Special Tax obligation shall be prepaid.

With respect to any Assessor's Parcel's Annual Special Tax obligation that is partially prepaid, the Assistant Superintendent shall indicate in the records of IA A of CFD No. 10 that there has been a partial 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 partial prepayment, to indicate the partial prepayment of Annual Special Tax obligation and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease. The portion of the Annual Special Tax with respect to any Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Annual Special Tax, shall continue to be levied on such Assessor's Parcel.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Annual Special Tax that may be levied in IA A of CFD No. 10, net of an allocable portion 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, as reasonably determined by the Assistant Superintendent.

**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 A of CFD No. 10, but in no event shall the Annual Special Tax be levied later than Fiscal Year 2045-46.

**SECTION J
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, (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, (vi) Assessor's Parcels for which building permits were issued on or before May 1 of the prior Fiscal Year for the construction of GFA and Assessor's Parcels which directly service such Assessor's Parcels, such as parking lots, as reasonably determined by the Assistant Superintendent, and (vii) other types of Assessor's Parcels, at the reasonable discretion of the Assistant Superintendent, provided that no such classification would reduce the Acreage of all Taxable Property in any Zone to less than the Minimum Taxable Acreage for such Zone. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property in a Zone to less than the Minimum Taxable Acreage for such Zone 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.

TABLE 4

<i>MINIMUM TAXABLE ACREAGE</i>	
Zone	Minimum Taxable Acreage
Zone 1	15.10
Zone 2	27.14
Zone 3	8.54

**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 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 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 A 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.

**RATE AND METHOD OF APPORTIONMENT FOR
COMMUNITY FACILITIES DISTRICT NO. 10
OF THE POWAY UNIFIED SCHOOL DISTRICT
(IMPROVEMENT AREA B)**

An Annual Special Tax shall be levied on and collected in Improvement Area B (“IA B”) of 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 IA B 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 expenses of the School District to carry out its duties as the legislative body of IA B 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 F. In each Fiscal Year 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.

“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 indebtedness or other periodic costs on the Non-School Bonds, (ii) the Administrative Expenses of IA B of CFD No. 10, (iii) any costs associated with the release of funds from an escrow account, (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 (iv) above pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

“Assessor’s Parcel” means a lot or parcel of land in IA B 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.

“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 an Affordable Unit or a Senior Citizen Unit.

“Backup Annual Special Tax” means the Special Tax of that name described in Section E 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 B 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, an Affordable Unit, or a Senior Citizen Unit.

“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 Assistant Superintendent.

“Exempt Property” means the property designated as Exempt Property in Section J.

“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 3 and adjusted as set forth in Section G.

“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, for any Zone, the applicable acreage listed in Table 4 below.

“Non-School Bonds” means any Bonds which are not School Bonds.

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

“Prepayment Amount” means the dollar amount required to prepay all of the Annual Special Tax obligation on any Assessor’s Parcel, determined pursuant to Sections G.

“Proportionately” means that the ratio of the actual Annual Special Tax levy to the applicable Special Tax is equal for all applicable Assessor’s Parcels.

“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 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 in IA B of CFD No. 10 under the Act.

“Taxable Developed Property” means all Assessor’s Parcels of Developed Property which are not Exempt Property.

“Taxable Property” means all Assessor’s Parcels which are not Exempt Property.

“Taxable Undeveloped Property” means all Assessor’s Parcels of Undeveloped Property 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. Each Unit shall be classified as an Affordable Unit, an Attached Unit, a Detached Unit, or a Senior Citizen Unit.

“Zone” means any 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.

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

“Zone 3” means all property located within the area identified as Zone 3 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 Developed Property or Undeveloped Property; (ii) each Assessor’s Parcel of Developed Property shall be classified as Taxable Developed Property or Exempt Property; (iii) each Assessor’s Parcel of Undeveloped Property shall be classified as Taxable Undeveloped Property or Exempt Property; and (iv) each Assessor’s Parcel shall be assigned to a Zone in accordance with Exhibit A.

**SECTION C
MAXIMUM SPECIAL TAX**

1. Taxable Developed Property

The Maximum Special Tax for each Assessor's Parcel classified as Taxable Developed Property in any Fiscal Year shall be the greater of (i) the Assigned Annual Special Tax or (ii) the Backup Annual Special Tax.

2. Taxable Undeveloped Property

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

**SECTION D
ASSIGNED ANNUAL SPECIAL TAXES**

1. Taxable Developed Property

The Assigned Annual Special Tax for each Assessor's Parcel of Taxable Developed Property in Fiscal Year 2001-02 shall be the amount determined by reference to Table 1 below. No Assigned Annual Special Tax shall apply to Affordable Units or Senior Citizen Units.

TABLE 1

ASSIGNED ANNUAL SPECIAL TAX FOR TAXABLE DEVELOPED PROPERTY FOR FISCAL YEAR 2001-02		
Zone	Building Square Feet	Assigned Annual Special Tax ¹
1	<= 3,600	\$2,467.99 per Detached/Attached Unit
1	3,601 - 3,900	\$2,626.08 per Detached/Attached Unit
1	> 3,900	\$2,686.30 per Detached/Attached Unit
2	<= 2,600	\$1,368.87 per Detached/Attached Unit
2	2,601 - 3,000	\$1,602.24 per Detached/Attached Unit
2	> 3,000	\$1,737.75 per Detached/Attached Unit
3	<= 2,450	\$1,361.34 per Detached/Attached Unit
3	2,451 - 2,650	\$1,429.10 per Detached/Attached Unit
3	> 2,650	\$1,542.02 per Detached/Attached Unit
1. No Assigned Annual Special Tax shall apply to Affordable Units or Senior Citizen Units.		

Each July 1, commencing July 1, 2002, the Assigned Annual Special Tax for each Assessor's Parcel of Taxable Developed Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

2. Taxable Undeveloped Property

The Assigned Annual Special Tax for an Assessor's Parcel of Taxable Undeveloped Property in Fiscal Year 2001-02 shall be the amount determined by reference to Table 2.

TABLE 2

<i>ASSIGNED ANNUAL SPECIAL TAX FOR TAXABLE UNDEVELOPED PROPERTY FOR FISCAL YEAR 2001-02</i>	
Zone	Assigned Annual Special Tax
Zone 1	\$12,394.06 per Acre
Zone 2	\$11,623.36 per Acre
Zone 3	\$10,354.94 per Acre

On each July 1, commencing July 1, 2002, the Assigned Annual Special Tax per Acre for each Zone shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

**SECTION E
BACKUP ANNUAL SPECIAL TAX**

Each Fiscal Year, each Assessor's Parcel of Taxable Developed Property shall be subject to a Backup Annual Special Tax. In each Fiscal Year, the Backup Annual Special Tax rate for Taxable Developed Property shall be the rate per Lot calculated according to the following formula:

$$B = (Z H A) L$$

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 Taxable Undeveloped Property for the applicable Zone for the applicable Fiscal Year
- A = Acreage of Taxable Developed Property expected to exist in the applicable Final Subdivision Map at buildout, as determined by the Assistant Superintendent pursuant to Section J
- L = Lots in the Final Subdivision Map

Notwithstanding the foregoing, if all or any portion of 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 that is changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Annual Special Taxes anticipated to apply to the changed or modified Final Subdivision Map area prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Taxable Property which is ultimately expected to exist in such changed or modified Final Subdivision Map area, 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 which shall be applicable to Assessor's Parcels of Developed Property in such changed or modified Final Subdivision Map area for all remaining Fiscal Years in which the Special Tax may be levied.

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 determine the Annual Special Tax Requirement to be collected in IA B of CFD No. 10 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

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

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

Third: If the sum of the amounts 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 Taxable Developed Property whose Maximum Special Tax is 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 G
PREPAYMENT OF ANNUAL SPECIAL TAX**

The Annual Special Tax obligation of an Assessor's Parcel of Taxable Developed Property or an Assessor's Parcel of Taxable 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 Non-School Bonds

Prior to the issuance of Non-School 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 3.

TABLE 3

<i>GROSS PREPAYMENT AMOUNT FOR MAY 1, 2001 TO APRIL 30, 2002</i>		
Zone	Building Square Feet	Assigned Annual Special Tax ¹
1	≤ 3,600	\$26,948.40 per Detached/Attached Unit
1	3,601 - 3,900	\$28,674.64 per Detached/Attached Unit
1	> 3,900	\$29,332.25 per Detached/Attached Unit
2	≤ 2,600	\$19,851.06 per Detached/Attached Unit
2	2,601 - 3,000	\$19,851.06 per Detached/Attached Unit
2	> 3,000	\$19,851.06 per Detached/Attached Unit
3	≤ 2,450	\$19,851.06 per Detached/Attached Unit
3	2,451 - 2,650	\$19,851.06 per Detached/Attached Unit
3	> 2,650	\$19,851.06 per Detached/Attached Unit
1. No Assigned Annual Special Tax shall apply to Affordable Units or Senior Citizen Units.		

On each May 1, commencing May 1, 2002, the Gross Prepayment Amount for each Unit shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year, 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 Non-School Bonds

Subsequent to the issuance of Non-School 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
less	<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 Taxable Developed Property, compute the Assigned Annual Special Tax and the Backup Annual Special Tax. For each Assessor's Parcel of Taxable Undeveloped Property, compute the Assigned Annual Special Tax and the Backup Annual Special Tax applicable to the Assessor's Parcel as though it was already designated as Taxable Developed Property, based upon the building permit issued for that Assessor's Parcel.
2. For each Annual Special Tax obligation to be prepaid, (a) 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 Taxable Developed Property at buildout, as reasonably determined by the Assistant Superintendent, and (b) divide the Backup Annual Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the estimated Backup Annual Special Tax applicable to all Assessor's Parcels of Taxable Developed Property at buildout, as reasonably determined by the Assistant Superintendent.
3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the face value of all outstanding Non-School Bonds. The product is the "Bond Redemption Amount."
4. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the outstanding Non-School Bonds to be redeemed with the proceeds of the Bond Redemption Amount. This product is the "Redemption Premium."
5. Compute the amount needed to pay interest on the Bond Redemption Amount, the Redemption Premium, and the Reserve Fund Credit (see step 9) to be redeemed with the proceeds of the Prepayment Amount until the earliest call date for the outstanding Non-School Bonds.

6. 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 Non-School Bonds.
7. Subtract the amount computed pursuant to paragraph 6 from the amount computed pursuant to paragraph 5. This difference is the "Defeasance."
8. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Non-School Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."
9. 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 Non-School 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 Non-School 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.
10. 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 IA B 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 IA B of CFD No. 10, net of an allocable portion 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, as reasonably determined by the Assistant Superintendent.

SECTION H PARTIAL PREPAYMENT OF SPECIAL TAX

Prior to the issuance of a building permit for the construction of a production Unit on a Lot within a Final Subdivision Map area, the owner of no less than the entire Final Subdivision Map area may elect to prepay any portion of the applicable Annual Special Tax obligations for all of the Assessor's Parcels within such Final Subdivision Map area. In order to prepay any portion of the applicable Annual Special Tax obligations, the residential Final Subdivision Map area must contain at least 25 Detached Units or 50 Attached Units. The partial prepayment of each Annual Special Tax obligation shall be collected at the issuance of each applicable building permit, provided that the Annual Special Tax obligations with respect to model Units for which building permits have already been issued must be partially prepaid at the time of the election. The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = P_G H F$$

These terms have the following meanings:

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

The owner of any Assessor's Parcel who desires such partial prepayment shall notify the Assistant Superintendent of (i) such owner's intent to partially prepay the Annual Special Tax obligation and (ii) the percentage by which the Annual Special Tax obligation shall be prepaid.

With respect to any Assessor's Parcel's Annual Special Tax obligation that is partially prepaid, the Assistant Superintendent shall indicate in the records of IA B of CFD No. 10 that there has been a partial 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 partial prepayment, to indicate the partial prepayment of Annual Special Tax obligation and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease. The portion of the Annual Special Tax with respect to any Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Annual Special Tax, shall continue to be levied on such Assessor's Parcel.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Annual Special Tax that may be levied in IA B of CFD No. 10, net of an allocable portion 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, as reasonably determined by the Assistant Superintendent.

**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 B of CFD No. 10, but in no event shall the Annual Special Tax be levied later than Fiscal Year 2045-46.

**SECTION J
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, (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, (vi) Assessor's Parcels for which building permits were issued on or before May 1 of the prior Fiscal Year for the construction of GFA and Assessor's Parcels which directly service such Assessor's Parcels, such as parking lots, as reasonably determined by the Assistant Superintendent, and (vii) other types of Assessor's Parcels, at the reasonable discretion of the Assistant Superintendent, provided that no such classification would reduce the Acreage of all Taxable Property in any Zone to less than the Minimum Taxable Acreage for such Zone. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property in a Zone to less than the Minimum Taxable Acreage for such Zone 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.

TABLE 4

<i>MINIMUM TAXABLE ACREAGE</i>	
Zone	Minimum Taxable Acreage
Zone 1	14.04
Zone 2	10.97
Zone 3	12.14

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 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 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 B 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.

**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 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.

“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 1 ¹	Assigned Annual Special Tax in Zone 2 ¹
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 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 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
Community Facilities District No. 10
(Torrey Highlands-Improvement Areas A & B)

DATE OF VALUE:

July 1, 2001

SUBMITTED TO:

Ms. Sandi Burgoyne
Poway Unified School District
13626 Twin Peaks Rd.
Poway, CA 92064-3098

DATE OF REPORT:

August 14, 2001

SUBMITTED BY:

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

Stephen G. White, MAI



Real Estate Appraiser

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

August 14, 2001

Ms. Sandi Burgoyne
Poway Unified School District
13625 Twin Peaks Rd.
Poway, CA 92064-3098

Re: Community Facilities District
No. 10 (Torrey Highlands-
Improvement Areas A & B)

Dear Ms. Burgoyne:

In accordance with your request and the District's authorization, I have completed a Complete Appraisal of the taxable properties within Improvement Areas A and B of the above-referenced Community Facilities District (CFD). These properties consist of mostly undeveloped land for five separate residential projects, currently owned by three different merchant builders. There will be a total of 601 single-family lots, with seven different product lines of homes reflecting that one of the projects has multiple products. Land development work is underway on four of the five projects, and one project has homes under construction.

The purpose of this appraisal is to estimate the market value of the land in its as is condition for each of these five separate projects. This reflects the tract map approvals on each of the projects, much grading completed on four of the projects, and homes under construction on one of the projects. This appraisal also reflects the proposed public bond financing, as well as the overall $\pm 1.7\%$ to 1.8% tax rate including special taxes.

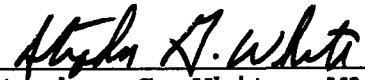
Based on the inspections of the properties and analysis of matters pertinent to value, the following conclusions of market value have been arrived at, subject to the Assumptions and Limiting Conditions, and as of July 1, 2001:

<u>Project-Builder</u>	<u>Value</u>
Bryn Glen - D.R. Horton	\$ 7,470,000
Torrey Glenn - Western Pacific Housing	\$11,800,000
Greystone Highlands - Greystone Homes	\$43,150,000
Montellano - Western Pacific Housing	\$18,450,000
Cabrera - Western Pacific Housing	<u>\$15,250,000</u>
	\$96,120,000

MS. SANDI BURGOYNE
AUGUST 14, 2001
PAGE 2

The following is the balance of this 44-page Summary Appraisal Report which includes the Certification, Assumptions and Limiting Conditions, definitions, property data, exhibits, valuation and market data from which the conclusions were derived.

Sincerely,



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

SGW:sw
ref:01035

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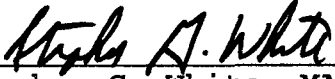
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CERTIFICATION

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

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

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



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

ASSUMPTIONS AND LIMITING CONDITIONS

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

1. No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is 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. The plot plans and 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 property, subsoil, or structures that render it 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 property is 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 property conforms to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents and other legislative or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.

ASSUMPTIONS AND LIMITING CONDITIONS, Continuing

11. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of such substances may affect the valuation of the property.

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

12. Any allocation of the values estimated in this report between the land and the improvements applies only under the stated program of utilization. The separate values allocated to the land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
13. Possession of this report, or a copy thereof, does not carry with it the right of publication, unless otherwise authorized. It is understood and agreed that this report will be utilized in the Official Statement, as required for the bond issuance.
14. The appraiser, by reason of this appraisal, is not required to give further consultation or testimony or to be in attendance in court with reference to the property in question unless arrangements have been previously made.

SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS

1. Estimated land development costs and fees to get the land from its as is condition to finished and buildable residential lots has been obtained from the various property owners; these figures have been assumed to be reasonably accurate, and have been relied upon in this appraisal, but are subject to engineering review.

PURPOSE AND USE OF THE APPRAISAL

The purpose of this appraisal is to estimate the market value of all of the taxable property located within Improvement Areas A and B of Community Facilities District No. 10 of Poway Unified School District. This Summary Appraisal Report is to be used as required in the bond issuance.

SCOPE OF THE APPRAISAL

It is the intent of this Complete Appraisal that all appropriate data considered pertinent in the valuation of the subject properties be collected, confirmed and reported in a Summary Appraisal Report in conformance with the Uniform Standards of Professional Appraisal Practice. This has included a general inspection of the subject properties and their surroundings; review of various maps and documents relating to the properties and the planned developments; obtaining of property data about the subject properties; obtaining of comparable residential land sales; and analysis of all of the data to the value conclusions.

DATE OF VALUE

The date of value for this appraisal is July 1, 2001.

PROPERTY RIGHTS APPRAISED

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

DEFINITION OF MARKET VALUE

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

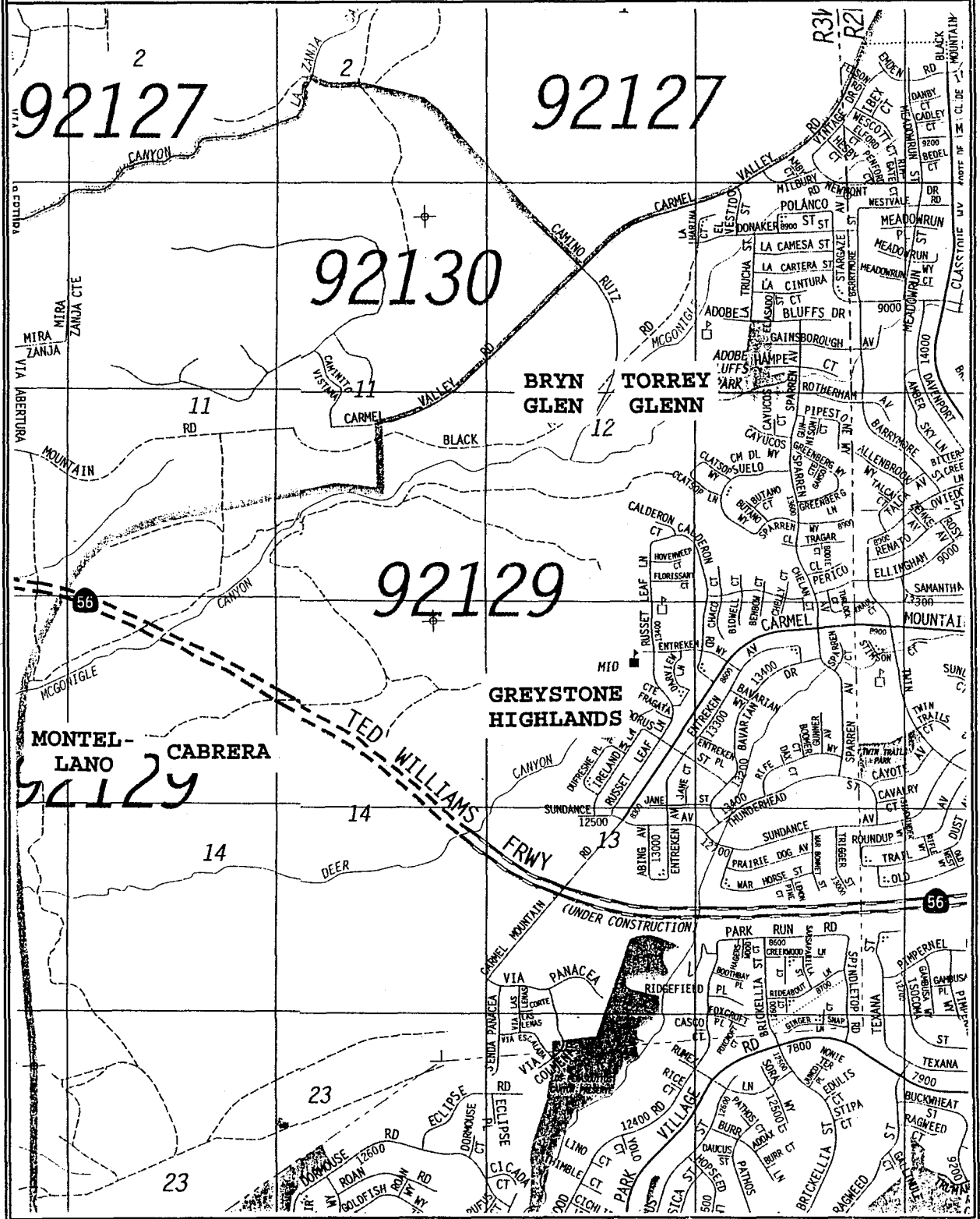
DEFINITION OF FINISHED LOT

This term describes 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 had fine grading, all in-tract streets and utilities have been completed and fees have been paid or credited (sewer, water, road, library, park, etc.) up to the stage of pulling building permits.

DEFINITION OF BLUE-TOP LOT

This term describes residential lots in a single-family subdivision for detached homes in which the lots and streets have been rough graded, and the offsite infrastructure of streets and utilities are completed to the tract, but not within the tract.

LOCATION MAP



INTRODUCTION

GENERAL LOCATION

The map on the opposite page indicates the approximate locations of the five subject projects. Three of the projects are located on either side of future Camino Ruiz between Carmel Valley Rd. at the north and future State Route 56 (Ted Williams Freeway) at the south. Two of the projects are located about ¼ mile west of future Camino Ruiz and just to the southwest of future S.R. 56.

This location is within and toward the north end of the City of San Diego. The location 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 Penasquitos to the east. Nearby to the south is the community of Mira Mesa and nearby to the northeast is the community of Rancho Bernardo.

The subject location is more specifically referred to as Torrey Highlands which is a newly developing area. The subject properties are located within Torrey Highlands Subarea IV, and this is discussed in more detail on the following page.












OVERVIEW OF CFD NO. 10

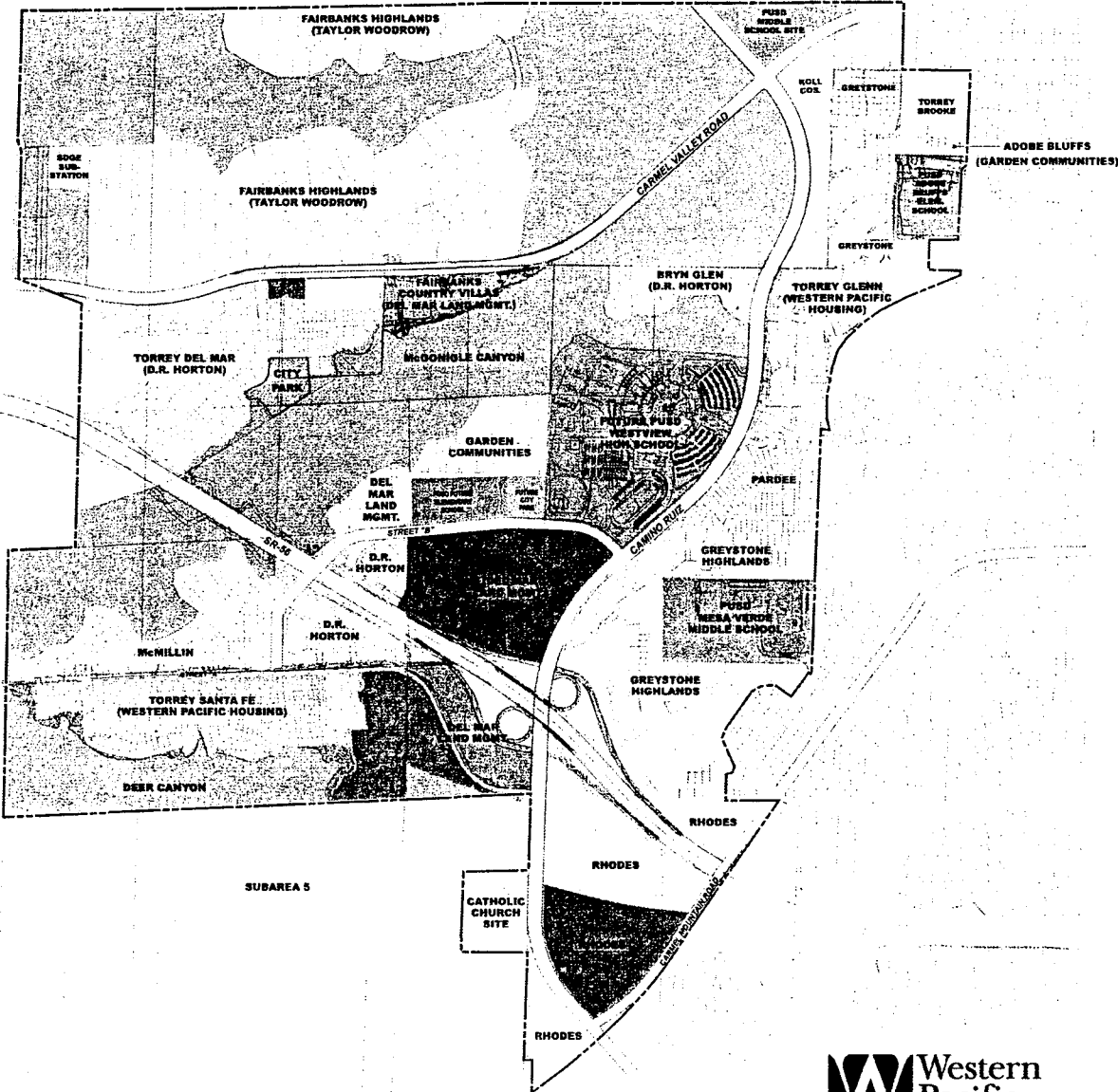
Community Facilities District No. 10 comprises a total of approximately 476 acres. This land is planned to be developed with a total of approximately 1,200 dwelling units, which will range from attached units at higher densities to detached homes on minimum size lots of ±4,000 s.f. to 7,500 s.f. There will also be some commercial development within this CFD, which will include both office and retail uses. In addition, there is much natural open space within McGonigle Canyon and Deer Canyon, and there will be a city park.

The CFD is divided into six Improvement Areas, identified as Improvement Areas A through F. The first bond issuance is only on Improvement Areas A and B. Thus, only the properties contained within Improvement Areas A and B are included in this appraisal.

Improvement Areas A and B comprise the five separate residential development projects as previously noted. These five projects contain a total of 601 single-family lots, which will be developed with seven different product types. Each of these projects is discussed in greater detail on later pages.

LAND USE LEGEND

-  LOW DENSITY (2.5 DU/ACRE)
-  LOW MEDIUM DENSITY (5-10 DU/ACRE)
-  LOCAL MIXED USE
-  COMMERCIAL NEIGHBORHOOD
-  COMMERCIAL REGIONAL
-  COMMERCIAL LIMITED
-  UTILITIES
-  EMPLOYMENT CENTER/TRANSIT CENTER
-  SCHOOLS
-  RESOURCE (PROPOSED MSCP RESERVE)
-  OPEN SPACE



Torrey Highlands Subarea IV

LAND USE COMPOSITE MAP

Western Pacific Housing
 SAN DIEGO DIVISION
 T&R Planning Consultants, Inc.

Scale: 1" = 400'±
 Date: November 25, 2009

DESCRIPTION OF TORREY HIGHLANDS SUBAREA IV

The map on the opposite page indicates the area and land uses which comprise Torrey Highlands Subarea IV. This is part of the North City Future Urbanizing Area which comprises the large undeveloped area in this northerly part of the City of San Diego. Subarea 1 is located to the north, Subarea 3 is located to the west and Subarea 5 is located to the south.

As the map indicates, three of the subject projects are located at the east side of this Subarea, and two of the projects are located at the southwest end. Adjacent to the east of the Subarea are existing neighborhoods of homes which are part of the community of Rancho Penasquitos, and adjacent to the south is undeveloped land in future Subarea 5.

Subarea IV will consist of a wide range of housing, including attached units at higher densities to large estate-type homes on \pm 1-acre lots. The estate homes are located at the north end of the Subarea, the multi-family housing will be located in the central and southerly portions, and the balance of the housing will be on \pm 4,000 to 7,500 s.f. lots. There is much open space which runs diagonally through the center of the Subarea, and also across the north and south ends.

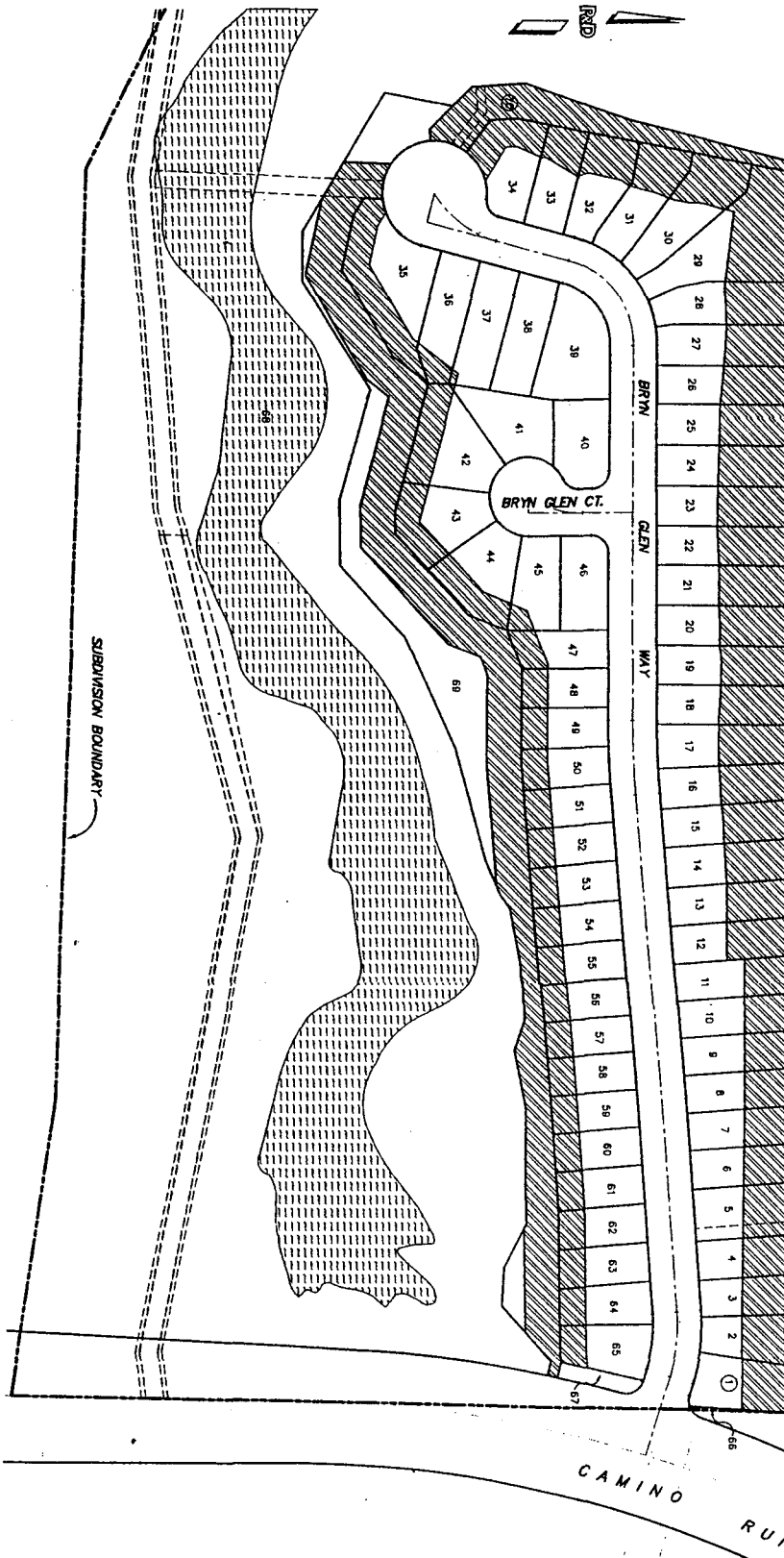
The Subarea will also include two elementary schools, two middle schools and a high school. The middle school and elementary school along the east side of the Subarea are existing. Westview High School is under construction and due to be completed and opened by September 2002. The middle school site at the north end and the elementary school site in the center area are for future construction.

Carmel Valley Rd. will be a major east-west arterial through this Subarea, and it is currently improved and providing access, though for much of the distance it is only two lanes. Camino Ruiz will be a major north-south arterial through this area. It is currently under construction, and the portion from Westview High School north to Carmel Valley Rd. is due to be completed by December. The portion south to S.R. 56 is due to be completed by March 2002.

S.R. 56 will run east-west through this Subarea. It currently terminates nearby to the east and several miles to the west. The completion of this $2\frac{1}{2}$ -mile link will provide good freeway access through this area to the I-5 Freeway at the west and the I-15 Freeway at the east. The segment east from Camino Ruiz is due to be completed next year, and completion of the entire segment is due by September 2004.

In summary, this Subarea is a desirable location for residential development, due to the good future freeway proximity, its close-in location to central San Diego, and the good mix of planned housing types and commercial development, as well as the abundance of surrounding open space.

MAP OF BRYN GLEN



LEGEND

INDICATES FIRE HAZARD REDUCTION ZONE PER SECTION 6 OF THE CITY OF SAN DIEGO LANDSCAPE TECHNICAL MANUAL, APPROVED RESOLUTION NO. 0480-FC AND APPROVED BY THE CITY COUNCIL ON OCTOBER 3, 1989 AS RESOLUTION NO. 274506, AND ANY OTHER BUILDING CODE REGULATION.

INDICATES LIMITS OF 100 YR FLOODPLAIN PER "APPLICATION FOR REVISION TO NATIONAL FLOOD INSURANCE PROGRAM MAP - CONDITIONAL LETTER OF MAP REVISION, BRYN GLEN, CITY OF SAN DIEGO, OCTOBER 2000.

BRYN GLEN NON TITLE INFORMATION

BRYN GLEN - D.R. HORTON

PROPERTY DATA

Location

This property is located on the west side of future Camino Ruiz, $\pm\frac{1}{4}$ mile south of Carmel Valley Rd.

Surroundings

This project is surrounded on the north, west and south by natural open space, with a ridge to the north and McGonigle Canyon area along the south and west. Nearby to the south is Westview High School, and across Camino Ruiz to the east is the Torrey Glenn project by Western Pacific Housing, discussed on later pages.

Record Owner/Ownership History

The record owner is D.R. Horton San Diego Holding Company, Inc. They acquired this property in November 1999 as raw land with no tentative tract map approvals.

Legal Description

The land is currently described as Parcels 1 and 2 of Parcel Map No. 6902 in the City of San Diego. The buildable land for the 65 single family lots is also referred to as Lots 1 through 65 of Tentative Map No. 96-7676.

Assessment Data

The subject property comprises Assessor Parcel Nos. 306-021-17 & 19. The assessed value is \$5,150,000 for land and 0 for improvements. The tax rate area is 08-190. It is projected that the overall tax rate for the homes to be built in this CFD will be between 1.75% and 1.80%, including the special taxes for the special tax bonds to be issued.

Land Area/Lot Sizes

The overall site contains 37.28 gross acres, of which 8.3 gross acres are proposed for development and the balance will be open space.

The 65 single-family lots will be a minimum size of 42' by 100' or 4,200 s.f.

Physical Condition

The land is currently in a raw condition, and it ranges from mostly level to gently undulating.

PROPERTY DATA, Continuing

Streets and Access

Camino Ruiz runs along the east side of the tract and will provide the direct access to the tract. Bryn Glen Way will be a long cul-de-sac street extending west into the tract from Camino Ruiz, and Bryn Glen Court will be a short cul-de-sac off of it.

Utilities

The utilities will be installed in the streets, and are provided by the following:

Water/Sewer:	City of San Diego
Electric:	San Diego Gas & Electric
Gas:	San Diego Gas & Electric
Telephone:	Pacific Bell
Cable:	Cox Communications

Land Use Approvals

The subject property has general entitlement or approval for residential development by the Low Density designation as part of Torrey Highlands Subarea IV. In addition, tentative tract map approval was obtained in September 2000, and the final tract map should be approved and ready for recordation within several months.

Topography

The subject site is in a low area below the ridge along the north side, but above grade of the open space to the west and south. The site is near grade of future Camino Ruiz.

Drainage/Flood Hazard

Onsite drainage will be within gutters and into underground storm drain facilities to be constructed. The subject lots are elevated above the surrounding canyon/creek areas and not within the floodplain.

Soil/Geologic Conditions

This appraisal has assumed that all necessary grading and compacting will be properly completed, as part of the costs to get the land from its as is condition to finished single family lots. It is also assumed that there are no abnormal soil or geologic conditions which would affect development of the lots with homes, as planned.

PROPERTY DATA, Continuing

Environmental Conditions

This appraisal has assumed that all necessary environmental permits and approvals have been obtained for development of the planned single-family lots. It has also been assumed that there are no other environmental conditions, including endangered species or significant watercourses or wetlands, which would have a negative effect on the planned development of the lots.

Title Report

A title report has not been reviewed on the subject property. Thus, it has been assumed that there are no pertinent exceptions to title which would have a negative effect on development of the lots as planned.

Proposed Development/Timing

The 65 single family lots are planned to be developed with a tract of detached homes, with four floor plans at 1,600 s.f., 1,780 s.f., 1,956 s.f. and 2,127 s.f. D.R. Horton projects the pricing to be from the high \$300,000's to the low \$400,000's. The Meyers Group projects base pricing of \$375,000 to \$405,000 or an average of \$390,000.

The land development work will commence by the end of Summer, with the lots being completed to a finished condition by next January. The model homes are expected to be completed and opened by next June.

Highest and Best Use

The term highest and best use is defined as that reasonable and probable use that will support the highest present value as defined, as of the effective date of the appraisal. Alternatively, it is that use from among reasonable, probable and legal alternative uses, found to be physically possible, legally permissible, appropriately supported, financially feasible and which results in the highest land value.

Based on the foregoing, as well as the following valuation analysis which indicates good demand for residential land in this general area, I have concluded that the proposed development represents the highest and best use of the land. Furthermore, the Market Analysis and Absorption Projection for Torrey Highlands: Areas A & B, dated June 2001 by The Meyers Group indicates that there would be good demand for homes in this community. This report estimates that each product line could achieve monthly sales rates of 4 to 7 homes, with all products selling concurrently.

VALUATION

Method of Analysis

The Sales Comparison Approach has been used to estimate the value of the subject lots, as if in a finished condition. This approach compares recent sales of similar bulk residential lots in the general area to the subject property, considering pertinent differences from the sales to the subject. Then, a deduction is made for the estimated remaining costs to get the subject land from its as is condition to finished lots.

Thus, a search was made in this general area for recent sales of similar residential land or bulk single family lots. A detailed tabulation of the sales data is in the Addenda tab section at the end of this report. The following discussion and analysis of the data references that tabulation.

Discussion and Analysis of Land Sales Data

Sale Nos. 1 through 7 are located in the newly-developing master-planned community of 4S Ranch. This community is located just over 3 miles northeasterly of the subject property, in unincorporated area adjacent to the west of the Rancho Bernardo area. These were sales by the master developer of single family lots in a partially finished condition located in Phase 1 of the community.

In general, the location is considered to be inferior to the subject, as supported by discussions with builders and land brokers, and by the pricing of product in 4S Ranch which tends to be lower than in the subject area. However, the overall tax rate of $\pm 1.5\%$ to 1.6% is slightly lower than projected for the subject Subarea.

As to an upward value trend over time, the comparison of Sale No. 7 to Sale No. 4 is of interest. For fairly similar lot sizes with similar size homes being built or planned, Sale No. 7 is a current escrow at a price of \$230,000 per finished lot, and Sale No. 4 was a closed sale in December 1999 at a price of \$200,000 per finished lot. This indicates an increase or upward adjustment of 15% to the price of Sale No. 4.

Sale No. 1 was a sale of 6,000 s.f. minimum lots which took place over $1\frac{1}{2}$ years ago. Thus, there could be an upward time adjustment to the sale price of \$205,000 per finished lot. The lots are much larger than the subject lots at 4,200 s.f. minimum, resulting in the potential for much larger and higher priced homes. This is evident by the pricing for homes in the low to mid-\$500,000's in contrast to the projected pricing for the subject in the high \$300,000's to low \$400,000's.

Overall, upward adjustments to the sale price for time and the inferior location are far more than offset by a downward

VALUATION, Continuing

adjustment for the larger lot size. Thus, the indication at \$205,000 per finished lot supports a firm upper limit for the subject.

Sale No. 2 is similar to the subject as 4,200 s.f. lots, though many lots have territorial views which are superior to the subject. In addition, larger and higher-priced homes are planned for these lots than on the subject lots. The sale closed last Fall at \$155,000 per finished lot, though the price was set before that time, thus an upward time adjustment is supportable. The buyer considers the current value to be ±\$175,000 per finished lot. Considering at least a 10% upward time adjustment, the indicated price is \$170,500 per finished lot, which supports a close but firm upper limit for the subject due to the smaller and lower-priced homes planned for the subject lots.

Sale No. 3 was the first of two takedowns to total 80 lots, 5,000 s.f. minimum size, with the second takedown due to close next March. However, the price of \$160,000 per finished lot was negotiated about 1½ years ago. Thus, an upward adjustment of at least 10% for time results in a current indication at ±\$176,000 per finished lot. Due to the larger lot size than the subject, this indication supports an upper limit for the subject.

Sale Nos. 4 through 7 are of 5,000 s.f. to 7,000 s.f. lots, and indicate prices of \$200,000 to \$230,000 per finished lot. Similar to the discussion of Sale No. 1, downward adjustments for the larger lot sizes are more than offsetting to upward adjustments for location and date of sale, thus these prices support far upper limits for the subject.

Sale No. 8 is a pending sale of a portion of one of the subject projects, as discussed later for Greystone Highlands. These lots have a recorded tract map, and grading is well underway. These lots will be delivered in finished condition, other than some fees which will be paid by the buyer. In comparison to the subject, these are larger lots at 5,000 s.f., with the potential for larger and much higher-priced homes. Thus, the indication at \$251,000 per finished lot supports a far upper limit for the subject.

Sale Nos. 9 and 10 are located at the west side of Torrey Highlands Subarea IV. Sale No. 9 was a purchase of 149 lots and Sale No. 10 was a more recent resale of 69 of those lots at a slightly higher price. These are 5,000 s.f. lots which are being developed with homes in the \$500,000 to \$635,000 range. Thus, these lots are far superior to the subject due to the size and support a far upper limit for the subject at \$230,000 to \$235,000 per finished lot.

Sale No. 11 is located along Black Mountain Rd./Carmel Valley

VALUATION, Continuing

Rd. in Torrey Highlands Subarea III, about 1½ miles to the west of the subject. This was a recent sale of raw land with an approved tentative tract map for 162 lots, 4,000 s.f. minimum size. This sale is similar to the subject in terms of the minimum lot size, and the planned homes are similar in size at 1,600 to 2,100 s.f. However, the pricing from \$395,000 to \$470,000 is higher than projected for the subject, evidencing the superior location. Thus, the indication at \$208,000 per finished lot supports a firm upper limit for the subject.

Sale No. 12 is located in the Torrey Hills community, just east of I-5 and 1½ miles south of S.R. 56, or about 6 miles southwesterly of the subject. This was a purchase of just 18 lots in a rough graded condition. These lots are much larger than the subject at 5,700 s.f. minimum size, and some have good territorial views. In addition, the coastal location is also far superior to the subject, resulting in much higher-priced homes at \$570,000 to \$720,000. Thus, the indication at \$322,222 per finished lot supports a far upper limit for the subject.

Sale No. 13 is located adjacent to the west of Sale No. 12, and was a purchase of 75 lots, many with good views. The price of \$266,279 per finished lot can be adjusted up by at least 10% for time since May 2000, resulting in a current indication at \$293,000 per finished lot. This also supports a far upper limit for the subject due to the superior coastal location and potential view premiums, resulting in the potential for much higher-priced homes.

Conclusion of Finished Lot Value

In summary, the data supports close but firm upper limits for the subject at \$170,000 to \$176,000 per finished lot, and far upper limits from \$200,000 to over \$300,000 per finished lot. It is evident that the subject lots of 4,200 s.f. minimum size are at the small end of the range, and are also projected for relatively low-priced homes, thus impacting the lot value.

Thus, the comparison of the data to the subject in terms of the finished lot ratio (finished lot price divided by average base price of homes) provides a more supportable value indication. As indicated, the data indicates finished lot ratios ranging from 36% to 50%. The lower end is mostly indicated by the sales in 4S Ranch, though the current escrow indicates a ratio of 46%.

I have considered a finished lot ratio for the subject at 42% to 44%, and an average home price of \$390,000, as projected by The Meyers Group. This results in the following:

$$\$390,000 \times .42-.44 = \$163,800 \text{ to } \$171,600/\text{fin. lot}$$

VALUATION, Continuing

Based on the foregoing, I have concluded on a value for the subject lots at \$168,000 per lot, if in a finished condition.

Conclusion of Value, As Is Condition

Information provided by D.R. Horton is that the estimated costs and fees to get from the as is raw condition to finished lots is a total of \$4,000,000, allocated as \$2,000,000 in land development costs and \$2,000,000 in fees, including the FBA (Facilities Benefit Assessment) fee. However, the CFD credit towards the FBA fees for this project was indicated to be \$8,549.69 per unit or a total of \$555,730 for the 65 units or lots. This amount is credited from the \$2,000,000 figure noted above.

Thus, the total remaining land development costs and fees to get from as is condition to finished lots is \$3,444,270, reflecting the CFD bond proceeds.

This results in the following:

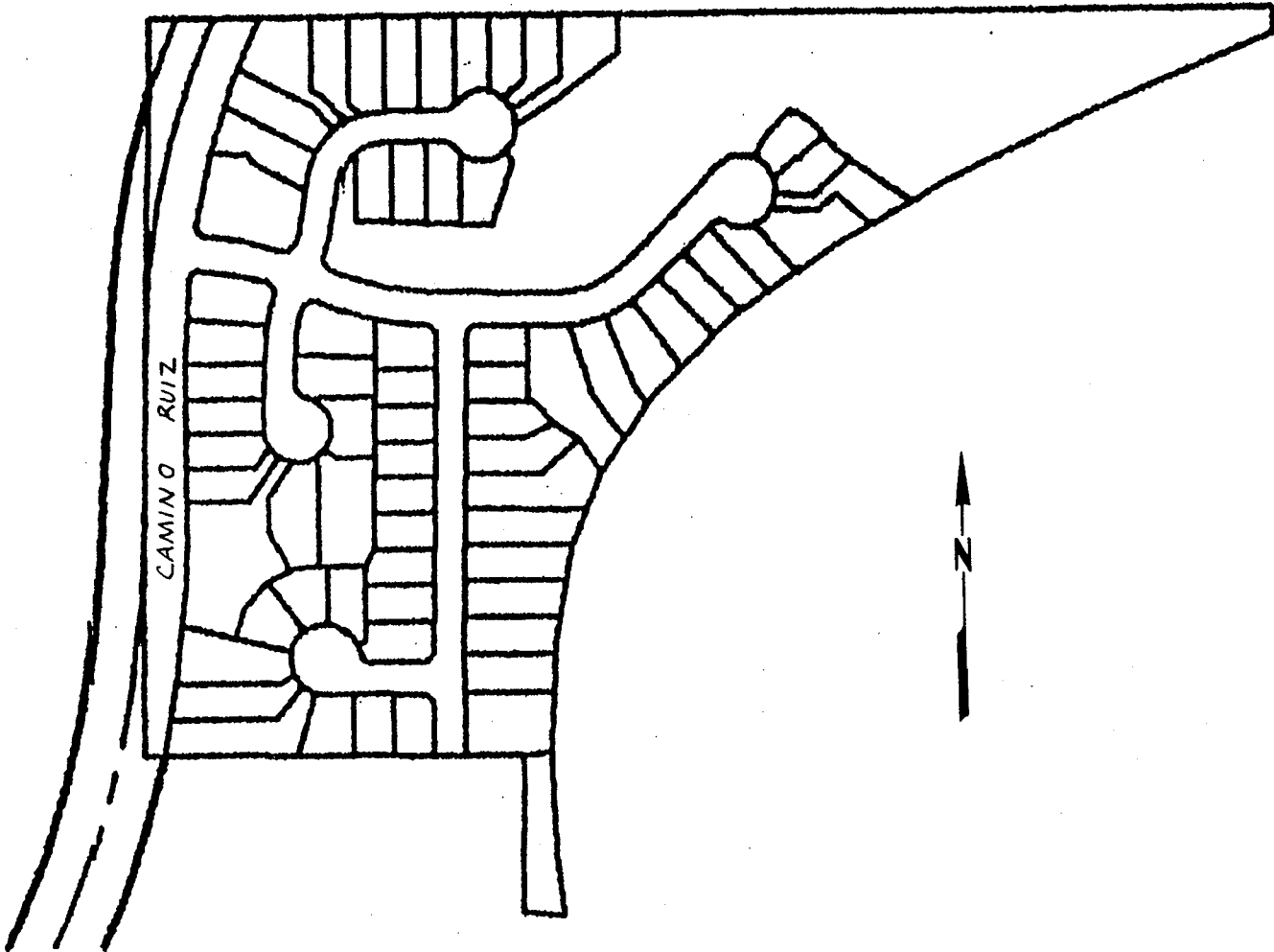
As If Finished: 65 lots @ \$168,000/lot =	\$10,920,000
Less Costs/Fees to Achieve Finished Condition:	<u>- 3,444,270</u>
Value Indication, As Is Condition:	\$7,475,730

Thus, as the result of this analysis, the following conclusion of market value has been arrived at, subject to the Assumptions and Limiting Conditions, and as of July 1, 2001:

\$7,470,000

(SEVEN MILLION FOUR HUNDRED SEVENTY THOUSAND DOLLARS)

MAP OF TORREY GLEN



TORREY GLENN - WESTERN PACIFIC HOUSING

PROPERTY DATA

Location

This property is located on the east side of future Camino Ruiz, $\pm\frac{1}{4}$ mile south of Carmel Valley Rd.

Surroundings

To the north is an area of open space along the east side of Camino Ruiz, and east of that is the south part of the Barcelona project being built by Greystone Homes. The Barcelona tract will contain 108 homes on 8,000 s.f. lots, ranging in size from 2,715 s.f. to 3,883 s.f., with current pricing of \$584,000 to \$650,000. To the northeast of the subject is the Adobe Bluffs Elementary School.

Across Camino Ruiz to the west is the planned Bryn Glen project and much open space, with the Westview High School to the southwest. To the south is a planned tract of homes by Pardee Homes, and to the east is the existing single family residential area.

Record Owner/Ownership History

The record owner is Western Pacific Housing - Torrey Glenn, LLC. They acquired this property in June 1999 at a price of \$2,000,000. At that time the land was in raw condition, without an approved tentative tract map.

Legal Description

The land is currently described as Parcel 6 of Map No. 14576 in the City of San Diego, except the portion lying within Black Mountain Vistas North Unit No. 5; and the east half of the northeast quarter of the southwest quarter of Section 13, Township 14 South, Range 3 West, S.B.B.M. The buildable lots are also referred to as Lots 1 through 66 of Tentative Map No. 98-0261.

Assessment Data

The subject property comprises Assessor Parcel Nos. 306-021-02 & 14. The assessed value is \$4,513,500 for land and 0 for improvements. The tax rate area is 08-190. It is projected that the overall tax rate for the homes to be built in this CFD will be between 1.7% and 1.8%, including the special taxes for the special tax bonds to be issued.

Land Area/Lot Sizes

The overall site contains 32.23 gross acres, of which 20.7 acres are proposed for development, 8.7 acres will be open

PROPERTY DATA, Continuing

space, and the balance will be within Camino Ruiz.

The 66 single-family lots will be a minimum size of 6,000 s.f., exclusive of slopes, with a typical size range of 6,000 to 8,000 s.f., exclusive of slopes.

Physical Condition

The land is currently being graded, and this is about 65% completed. In addition, the storm drain has been installed.

Streets and Access

Camino Ruiz runs along the westerly side of the tract and will provide the direct access to the tract. In-tract streets, including three cul-de-sacs will provide access to the lots.

Utilities

This is the same as for Bryn Glen, other than Southwestern Cable will provide the cable.

Land Use Approvals

The subject property has general entitlement or approval for residential development by the Low Density designation as part of Torrey Highlands Subarea IV. In addition, there is the approved Tentative Tract Map for the 66 single-family lots. It was expected that the final tract map would record by the end of July 2001.

Topography

Upon completion of the grading, the lots will range from slightly to well above grade of Camino Ruiz, and will be terraced up to the south and east, with the southerly end being much higher. The north center and northeast parts of the site will be a lower open space area, below grade of the adjacent single family lots. The lots will be below grade of the land to the north and south of the tract, and will range from above to below grade of the land to the east. Thus, some of the lots will have territorial views to the north and west.

Drainage/Flood Hazard, Soil/Geologic Conditions, Environmental Conditions, Title Report, Highest and Best Use

This is all the same as for Bryn Glen.

Proposed Development/Timing

The 66 single family lots are planned to be developed with a tract of detached homes, with three floor plans of 2,886 s.f., 3,120 s.f. and 3,734 s.f. Per the study by The Meyers Group,

PROPERTY DATA, Continuing

the pricing is projected to be from \$540,000 to \$595,000, or an average of \$563,333.

The lots are due to be completed to a finished condition by December. The models are also due to be completed by December, with the first move-ins next March, and build-out by March 2003.

VALUATION

Method of Analysis

This is the same as for Bryn Glen.

Discussion and Analysis of Land Sales Data

Reference is made to much of the discussion of this data in the Bryn Glen analysis. The pertinent sales for Torrey Glenn are discussed in the following paragraphs.

Sale No. 1 is similar with 6,000 s.f. lots, though the location is slightly inferior as evidenced by the lower-priced homes being built. Considering also an upward time adjustment due to the sale date in late 1999, this sale supports a far lower limit for the subject at \$205,000 per finished lot.

Sale No. 5 has larger lots at 7,000 s.f. While the planned homes are larger than projected for the subject, the pricing is similar to only slightly higher, which reflects the slightly inferior location of 4S Ranch. Overall, this sale is considered to support a close indication to close lower limit for the subject at ±\$223,000 per finished lot.

Sale No. 6 is similar with 6,000 s.f. lots, but based on previous discussion the price of \$218,000 per finished lot supports a lower limit for the subject.

Sale No. 7 consists of smaller lots at 5,000 s.f., and the projected home prices are lower than projected for homes on the subject lots. Thus, this sale supports a lower limit for the subject at \$230,000 per finished lot.

Sale No. 8 is located nearby to the south of the subject, and consists of smaller lots at 5,000 s.f., though the smaller size is partially offset by being 55' wide lots. The planned homes are similar to only slightly smaller than those planned on the subject lots, and the projected pricing is also similar to only slightly lower. Overall, this sale would tend to close indication for the subject at \$251,000 per finished lot.

Sale Nos. 9 and 10 are smaller lots at 5,000 s.f., though Sale No. 10 is being developed with larger and higher-priced homes. This reflects the slightly superior location than the subject,

VALUATION, Continuing

being identified more with Carmel Valley than Rancho Penasquitos. Considering an upward time adjustment of at least 10% since the sale dates in December 1999 and July 2000, the indications are \$253,000 to \$258,500 per finished lot, which support an upper limit for the subject due to the superior location.

Sale No. 11 is a superior location, but it consists of much smaller lots which are planned for much smaller and lower-priced homes. Overall, the price of \$208,000 per finished lot supports a far lower limit for the subject.

Sale Nos. 12 and 13 are similar size lots but far superior locations, being developed with smaller to similar size homes as planned on the subject, but the prices are much higher. Overall, the indications at ±\$320,000 per finished lot support a far upper limit for the subject.

Conclusion of Finished Lot Value

In summary, on a finished lot basis, the data supports far lower limits at \$205,000 and \$208,000, a closer but firm lower limit at \$218,000, a close indication to close lower limit at \$223,000, close indications at \$230,000 and \$251,000, close but firm upper limits at \$253,000 to \$258,500, and far upper limits at \$293,000 and \$320,000. The most supportable range is from \$225,000 to \$250,000 per finished lot.

Considering a finished lot ratio of 42% to 44%, and an average base home price of \$563,333 as per The Meyers Group study, the following range results:

$$\$563,333 \times .42-.44 = \$236,600 \text{ to } \$247,867/\text{fin. lot}$$

Based on the foregoing, I have concluded on a value for the subject lots at \$242,000 per lot, if in a finished condition.

Conclusion of Value, As Is Condition

Information provided by Western Pacific Housing is that the estimated costs and fees to get from the as is partially graded condition to finished lots is a total of \$89,000 per lot, or a total of \$5,874,000 for 66 lots. However, similar to the analysis of Bryn Glen, a deduction is made for the amount of the bond proceeds or CFD credits toward the FBA fees. For this project the credit amount was indicated to be \$25,799.18 per unit, or a total of \$1,702,746 for the 66 lots. Thus, the net amount of costs and fees to get to finished condition is \$4,171,254.

This results in the following:

VALUATION, Continuing

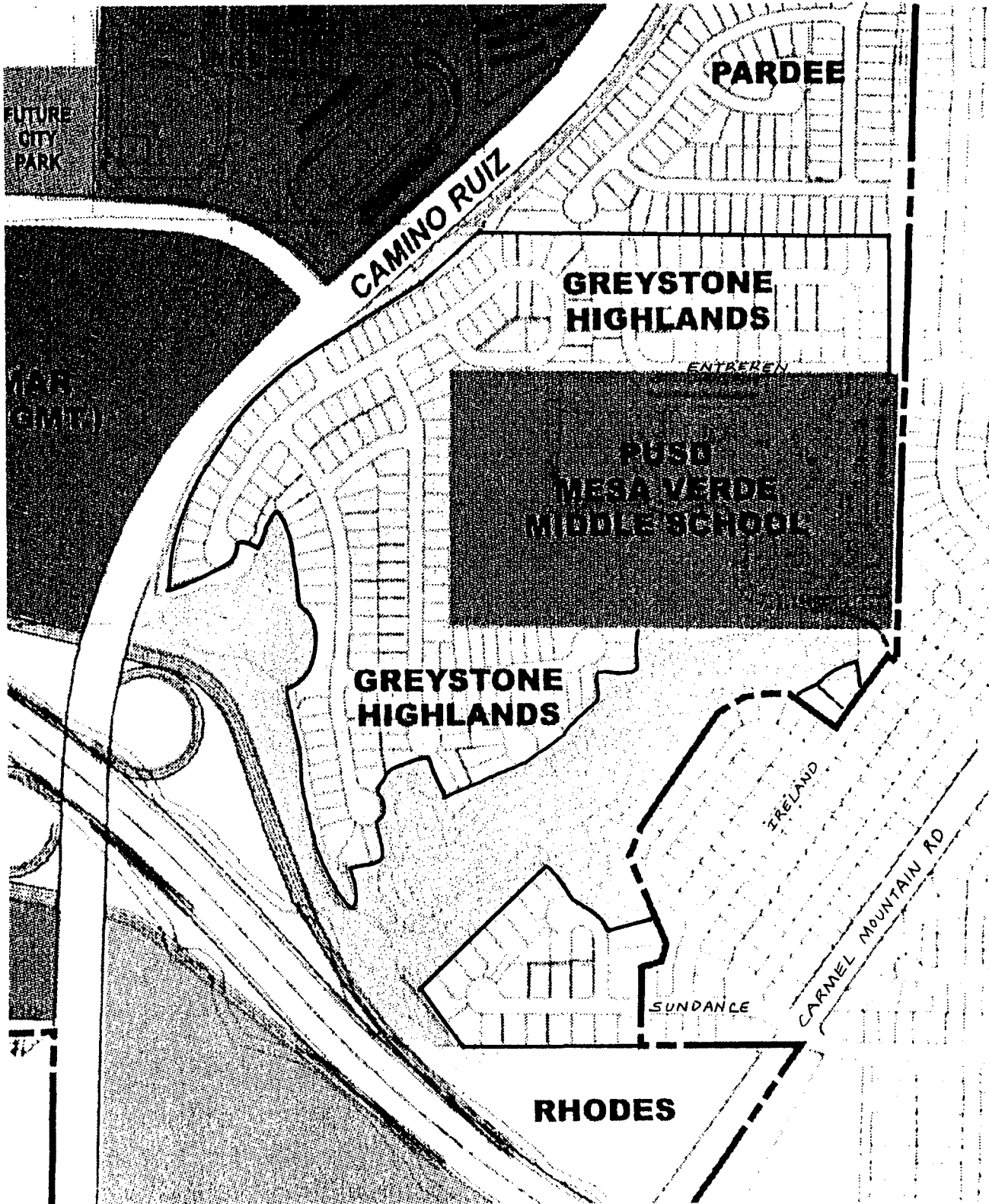
As If Finished: 66 lots @ \$242,000/lot =	\$15,972,000
Less Costs/Fees to Achieve Finished Condition:	<u>- 4,171,254</u>
Value Indication, As Is Condition:	\$11,800,746

Thus, as the result of this analysis, the following conclusion of market value has been arrived at, subject to the Assumptions and Limiting Conditions, and as of July 1, 2001:

\$11,800,000

(ELEVEN MILLION EIGHT HUNDRED THOUSAND DOLLARS)

MAP OF GREYSTONE HIGHLANDS



GREYSTONE HIGHLANDS - GREYSTONE HOMES

PROPERTY DATA

Location

This property is located on the easterly side of future Camino Ruiz, about 1 mile south of Carmel Valley Rd. and several hundred feet north of future S.R. 56.

Surroundings

This site wraps around the north, west and south sides of the existing Mesa Verde Middle School. To the north is the planned tract of homes by Pardee Homes, and to the east is the existing residential development of the Rancho Penasquitos area. To the south is a planned residential development by Rhodes, then S.R. 56 and then another planned residential development by Rhodes. Across Camino Ruiz to the west is the future local mixed-use site which is planned for residential and commercial development. To the northwest is Westview High School and to the southwest is S.R. 56.

Record Owner/Ownership History

The record owner is LEN-Greystone Torrey Highlands, LLC. They acquired this property in January 2001 at a price of \$20,636,000, including some multi-family and commercial land on the westerly side of future Camino Ruiz. At that time the land was in raw condition, with an approved tentative tract map. It is noted that 78 of the lots are currently in escrow to Standard Pacific Corp. based on a finished lot price of \$19,578,000. This sale is due to close some time during July or August 2001.

Legal Description

The buildable land comprising the 235 single family lots was referred to as Greystone Highlands Unit Nos. 1, 2 and 3, and Lots 1 through 235 of Tentative Map No. 98-0392. The tract maps have recently recorded, and are Map No. 14237 for Unit No. 1, Map No. 14214 for Unit No. 2, and Map No. 14238 for Unit No. 3. Unit No. 1 comprises the south end of the project, Unit No. 2 comprises the northeast portion, and Unit No. 3 comprises the west and center portions.

Assessment Data

The subject property comprises Assessor Parcel Nos. 306-041-06, 19, 20 & 21. The assessed value is \$4,511,957 for land and 0 for improvements. The tax rate area is 08-190. It is projected that the overall tax rate for the homes to be built in this CFD will be between 1.75% and 1.80%, including the special taxes for the special tax bonds to be issued.

PROPERTY DATA, Continuing

Land Area/Lot Sizes

The overall site contains 97.67 gross acres, or 78.10 acres net of streets but inclusive of open space/slopes.

The minimum/typical lot sizes of the 235 lots are as follows:

90 lots @ 50' x 100' or 5,000 s.f. (portion of Unit 3)

78 lots @ 55' x 91' or 5,005 s.f. (portion of Unit 3)

67 lots @ 75' x 100' or 7,500 s.f. (Units 1 and 2)

Physical Condition

Overall, the land is currently about 70% mass graded with the storm drain in and installation of sewer and water just underway. More specifically, the description is as follows:

Unit No. 1 consists of graded lots in a blue-top condition with utilities now being installed.

Unit No. 2 consist of lots ranging from a blue-top to finished condition; 3 model homes are under construction in the framing stage; and trenching is underway on the first phase of 23 homes.

Unit No. 3 consists of lots which are still being graded, not yet to a blue-top condition.

Streets and Access

Camino Ruiz runs along the westerly side of the tract and will provide the only direct access to Unit No. 3. Unit No. 1 will be accessed by the extension of Sundance Ave. from the existing neighborhood to the east, and two lots will front on existing Ireland Ln. within the existing neighborhood. Unit No. 2 will be accessed by the extension of Entreken Way from the existing neighborhood to the east.

Utilities

This is the same as for Bryn Glen, other than the provider of cable is not known.

Land Use Approvals

The subject property had the general entitlement or approval for residential development by the Low Density designation as part of Torrey Highlands Subarea IV. In addition, there are now the three recorded tract maps.

Topography

The lots at the northeast end of the project (Unit No. 2) are mostly flat and approximately at grade with surrounding lots

PROPERTY DATA, Continuing

and adjacent school. The lots at the west side of the project (Unit No. 3) will slope or terrace down gradually to the west, and will be slightly above Camino Ruiz, and looking down over the open space which wraps around the southerly end of this tract of lots. The lots at the south end of the project (Unit No. 1) terrace down to the west and are above the grade of the open space area.

Drainage/Flood Hazard, Soil/Geologic Conditions, Environmental Conditions, Title Report, Highest and Best Use

This is all the same as for Bryn Glen.

Proposed Development/Timing

The 67 lots at 7,500 s.f. are planned to be developed with a tract of detached homes called Valonia. Per Greystone Homes, these homes are to range from about 3,500 to 3,970 s.f., and pricing is anticipated to be from the mid-\$500,000's to the \$600,000's. Per The Meyers Group, the homes will be 3,480 s.f., 3,797 s.f. and 3,878 s.f., with projected base pricing of \$600,000 to \$625,000 or an average of \$615,000.

The 90 lots at 50' x 100' or 5,000 s.f. are planned to be developed with a tract of detached homes called Montea. Per Greystone Homes, these homes are to range from about 3,400 to 3,500 s.f., and pricing is anticipated to be from the low \$500,000's. However, per The Meyers Group, the homes will be 2,400 s.f., 2,650 s.f. and 2,800 s.f., with projected base pricing of \$470,000 to \$500,000 or an average of \$486,667.

The 78 lots at 55' x 91' or 5,005 s.f. are currently in escrow to Standard Pacific Corp. They plan to build detached homes in the general size range of 2,800 to 3,400 s.f., with pricing anticipated to be from the mid \$500,000's to the low \$600,000's. The Meyers Group indicates that the homes will be 2,800 s.f., 3,055 s.f. and 3,250 s.f., with projected base pricing of \$515,000 to \$550,000 or an average of \$533,333.

As previously indicated, grading and utility installation is currently underway, with some of the lots in a blue-top or near finished condition. All of the lots are due to be completed to a finished condition by November or December. The models for one of the tracts are under construction and due to be completed by the end of August. The other model homes will follow soon thereafter.

VALUATION

Method of Analysis

This is the same as for Bryn Glen.

VALUATION, Continuing

Analysis of Finished Lots

Based on the previous discussion for Bryn Glen and Torrey Glenn, and considering the projected homes prices, the data would generally support over \$200,000 per finished lot but well under \$230,000 for the 5,000 s.f. lots, but higher for the 5,005 s.f. lots which are 55' wide. The pending sale of the 5,005 s.f. lots (Sale No. 8) at \$251,000 per finished lot is at the top end for this lot size. However, considering the relatively larger and higher-priced homes which are planned, the finished lot ratio of 43% is supportable.

For the 7,500 s.f. lots, the sales data best supports far lower limits at ±\$220,000 to \$250,000 per finished lot, and a far upper limit at ±\$320,000 per finished lot.

Considering a finished lot ratio of 42% to 44%, and the average base pricing as estimated by The Meyers Group, the following indications result:

5,000 sf lots: $\$486,667 \times .42-.44 = \$204,400$ to $\$214,133/\text{fin. lot}$

5,005 sf lots: $\$533,333 \times .42-.44 = \$224,000$ to $\$234,667/\text{fin. lot}$

7,500 sf lots: $\$615,000 \times .42-.44 = \$258,300$ to $\$270,600/\text{fin. lot}$

For the 5,000 s.f. lots I have concluded on a finished lot value of \$210,000.

For the 5,005 s.f. lots, it is evident that the data and the finished lot ratio support a range which is under the pending sale price of \$251,000 per finished lot. In part, this is due to the buyer's projection of higher home prices than projected by The Meyers Group. It also likely indicates the buyer's desire to be in this marketplace. Since this pending sale appears to be solid and is due to close imminently, I have concluded on a value at close to the sale price, but rounded down to \$250,000 per finished lot.

For the 7,500 s.f. lots, there is the bonus of the model homes which are under construction, and minimal work thus far completed on the other 23 homes. I have concluded on a finished lot value of \$265,000.

Conclusion of Value, As Is Condition

Information provided by Greystone Homes is that the estimated costs and fees to get from the as is condition to finished lots is a total of \$13,000,000. This does not include the cost allocation to Camino Ruiz which is to be funded through the bond issuance.

Thus, the resulting as is value indication is as follows:

VALUATION, Continuing

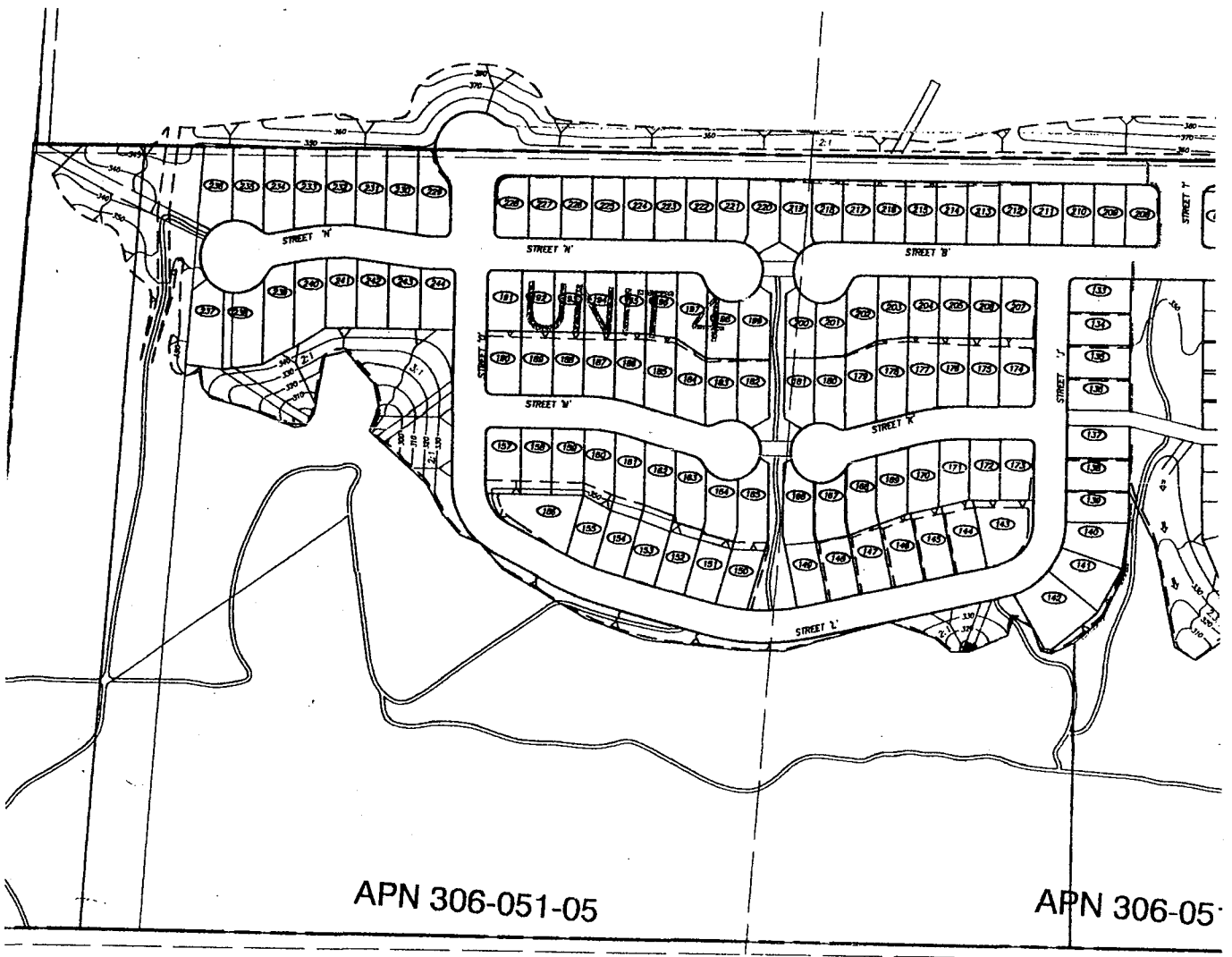
As If Finished:	
90 lots (5,000 sf) @ \$210,000/lot =	\$18,900,000
78 lots (5,005 sf) @ \$250,000/lot =	\$19,500,000
67 lots (7,500 sf) @ \$265,000/lot =	<u>\$17,755,000</u>
	\$56,155,000
Less Costs/Fees to Achieve Finished Condition:	<u>-13,000,000</u>
Value Indication, As Is Condition:	\$43,155,000

Thus, as the result of this analysis, the following conclusion of market value has been arrived at, subject to the Assumptions and Limiting Conditions, and as of July 1, 2001:

\$43,150,000

(FORTY-THREE MILLION ONE HUNDRED FIFTY THOUSAND DOLLARS)

MAP OF MONTELLANO



MONTELLANO - WESTERN PACIFIC HOUSING

PROPERTY DATA

Location

This property is located on the south side of future Street "A", ±700' west of Street "B", and just over ½ mile westerly of future Camino Ruiz.

Surroundings

The open space area of Deer Canyon wraps around the west and south sides of this tract. Adjacent to the east is the planned tract of Cabrera, which is discussed next. Across Street "A" is a planned tract of homes by McMillin.

Record Owner/Ownership History

The record owner is Western Pacific Housing-Montellano, LLC. They acquired this property in late 1999 and early 2000 as part of a larger land purchase which includes the adjacent Cabrera project and commercial land east of that. The total purchase price was \$22,000,000. The 16-acre commercial parcel was subsequently sold in March 2000 at \$3,000,000, and will be delivered as a sheet graded pad, with perimeter streets and utilities completed.

Legal Description

The land is currently described as Parcel 1 of Parcel Map No. 18411, in the City of San Diego. The buildable land comprising the 112 single family lots is also referred to as Lots 133 through 244 of Tentative Map No. 98-0292 (Torrey Santa Fe Unit 4).

Assessment Data

The subject property comprises Assessor Parcel No. 306-051-11. This is a new parcel number and there is no indicated assessed value. The tax rate area is 08-190. It is projected that the overall tax rate for the homes to be built in this CFD will be between 1.75% and 1.80%, including the special taxes for the special tax bonds to be issued.

Land Area/Lot Sizes

The overall site contains 56.46 gross acres, of which ±25 acres are the net developable area including in-tract streets and ±31 acres is open space.

The 112 single-family lots will be a minimum size of 5,000 s.f., or an average size of 5,850 s.f.

PROPERTY DATA, Continuing

Physical Condition

The land is currently about 80% graded, with all of the storm drain installed and 25% of the sewer installed.

Streets and Access

Street "A" will extend westerly from future Camino Ruiz, at a point just south of future S.R. 56, and along the north side of the subject tract. It will terminate in a cul-de-sac at a point just east of the west end of the subject tract, and will provide two direct access points to the subject tract. Then, there will be various in-tract streets with five cul-de-sacs to provide access to the subject lots.

Utilities

This is the same as for Bryn Glen, except that cable will be provided by Southwestern Cable.

Land Use Approvals

The subject property has general entitlement or approval for residential development by the Low Density designation as part of Torrey Highlands Subarea IV. In addition, there is the approved Tentative Tract Map for the 112 single-family lots, with final approval and recordation expected in July 2001.

Topography

Upon completion of the grading, the lots in the tract will be terraced down slightly to the south, approximately at grade of Street "A" and the residential projects to the north and east. To the west and south of the lots the land will slope down into the open space area.

Drainage/Flood Hazard, Soil/Geologic Conditions, Environmental Conditions, Title Report, Highest and Best Use

This is all the same as for Bryn Glen.

Proposed Development/Timing

The 112 lots are planned to be developed with a tract of detached homes called Montellano, with three floor plans of 2,849 s.f., 3,246 s.f. and 3,693 s.f. Per the study by The Meyers Group, the pricing is projected to be from \$510,000 to \$570,000, or an average of \$538,333.

As previously indicated, grading and utility installation is currently underway. Model homes are projected to be completed and opened by March 2002, with the first closed sales/move-ins to be in June 2002 and sell-out by March 2003.

VALUATION

Method of Analysis

This is the same as for Bryn Glen.

Analysis of Finished Lots

Based on the previous analyses, and considering the projected price of homes on these lots, the supportable range for these 5,000 s.f. lots is well over \$200,000 per finished lot but under \$250,000. Considering the finished lot ratio of 42-44%, and the average base price of \$538,333 as estimated by The Meyers Group, the following range results:

$$\$538,333 \times .42-.44 = \$226,100 \text{ to } \$236,867/\text{fin. lot}$$

I have concluded on a finished lot value of \$232,000.

Conclusion of Value, As Is Condition

Information provided by Western Pacific Housing is that the estimated costs and fees to get from the as is partially graded condition to finished lots is a total of \$92,000 per lot or \$10,304,000 for 112 lots. Similar to previous analyses, a deduction is made for the amount by which the bond issuance will reduce the FBA fees. This was indicated to be \$24,739.53 per unit for this project, or a total of \$2,770,827 for the 112 lots.

Thus, the total net deduction for costs and fees to get from as is condition to finished lots is \$7,533,173.

This results in the following:

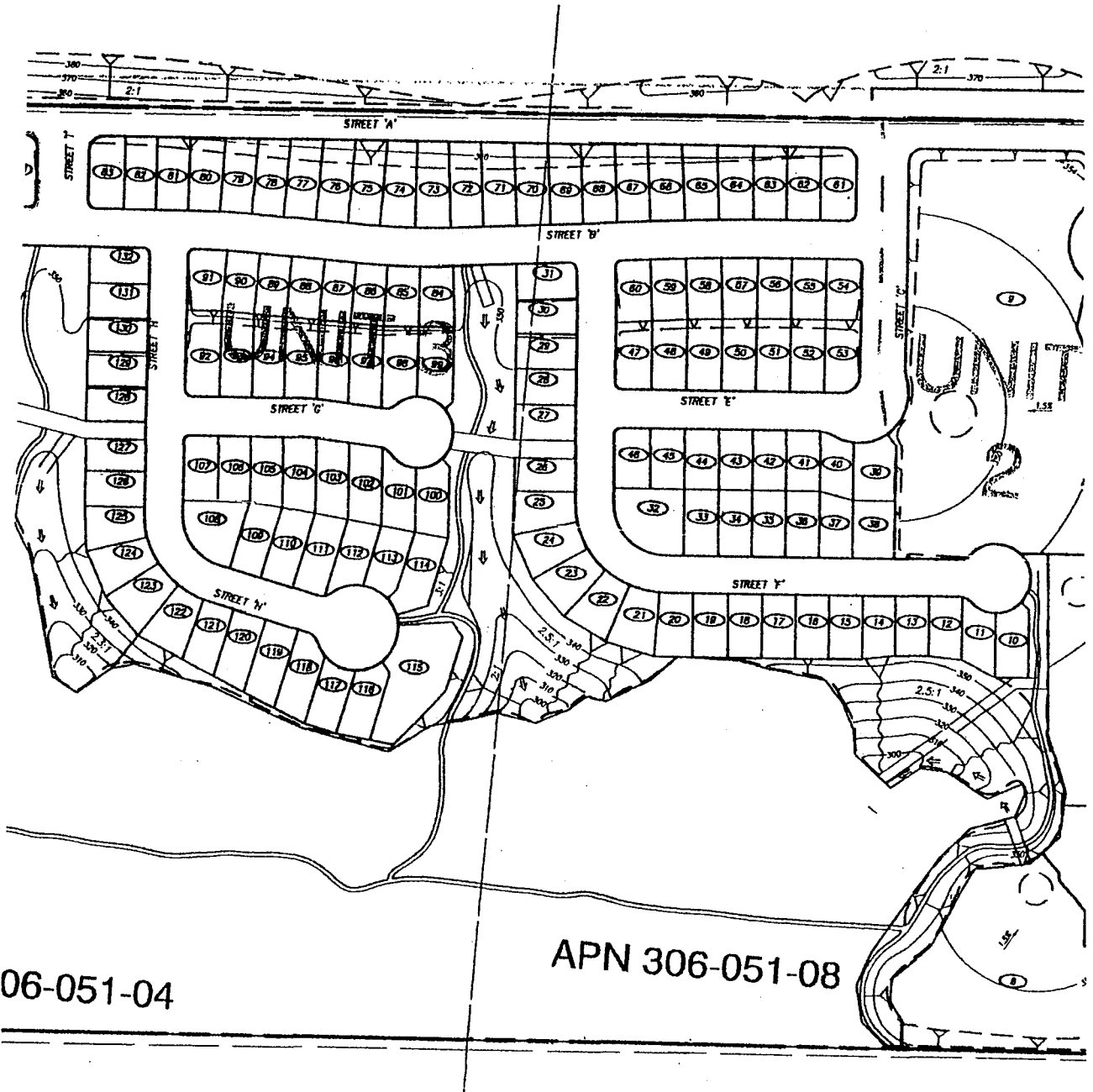
As If Finished: 112 lots @ \$232,000/lot =	\$25,984,000
Less Costs/Fees to Achieve Finished Condition:	<u>- 7,533,173</u>
Value Indication, As Is Condition:	\$18,450,827

Thus, as the result of this analysis, the following conclusion of market value has been arrived at, subject to the Assumptions and Limiting Conditions, and as of July 1, 2001:

\$18,450,000

(EIGHTEEN MILLION FOUR HUNDRED FIFTY THOUSAND DOLLARS)

MAP OF CABRERA



06-051-04

APN 306-051-08

CABRERA - WESTERN PACIFIC HOUSING

PROPERTY DATA

Location

This property is located on the south side of future Street "A", opposite Street "B", and $\pm\frac{1}{4}$ mile westerly of future Camino Ruiz.

Surroundings

Adjacent to the west is the Montellano tract, adjacent to the south is the open space area of Deer Canyon, and adjacent to the east will be the 16-acre commercial development by Kilroy. Across Street "A" to the northwest is a planned tract of homes by McMillin and to the northeast is a planned tract of homes by D.R. Horton.

Record Owner/Ownership History

The record owner is Western Pacific Housing-Cabrera, LLC. The ownership history was discussed for the Montellano project.

Legal Description

The land is currently described as Parcel 2 of Parcel Map No. 18411, in the City of San Diego. The buildable land comprising the 123 single family lots is also referred to as Lots 110 through 132 of Tentative Map No. 98-0292 (Torrey Santa Fe Unit 3).

Assessment Data

The subject property comprises Assessor Parcel No. 306-051-12. This is a new parcel number and there is no indicated assessed value. The tax rate area is 08-190. It is projected that the overall tax rate for the homes to be built in this CFD will be between 1.75% and 1.80%, including the special taxes for the special tax bonds to be issued.

Land Area/Lot Sizes

The overall site contains 45.89 gross acres, of which ± 30 acres are the net developable area including in-tract streets and ± 16 acres is open space.

The 123 single-family lots will be a minimum size of $\pm 4,000$ s.f., or an average size of 4,545 s.f.

Physical Condition

The mass grading of the land has been completed, with all of the storm drain installed and 25% of the sewer installed.

PROPERTY DATA, Continuing

Streets and Access

Street "A" will extend across the north side of this tract, and provide two direct access points. Then, there will be various in-tract streets with three cul-de-sacs to provide access to the subject lots.

Utilities

This is the same as for Montellano.

Land Use Approvals

The subject property has general entitlement or approval for residential development by the Low Medium Density designation as part of Torrey Highlands Subarea IV. In addition, there is the approved Tentative Tract Map for the 123 single-family lots. It was expected that the final tract map will record some time in July 2001.

Topography

This is the same as for Montellano.

Drainage/Flood Hazard, Soil/Geologic Conditions, Environmental Conditions, Title Report, Highest and Best Use

This is all the same as for Bryn Glen.

Proposed Development/Timing

The 123 lots are planned to be developed with a tract of detached homes called Cabrera with three floor plans of 2,326 s.f., 2,539 s.f. and 2,626 s.f. Per the study by The Meyers Group, the pricing is projected to be from \$445,000 to \$470,000, or an average of \$459,167.

As previously indicated, mass grading is complete and utility installation is currently underway. Model homes are projected to be completed and opened by December 2001, with the first closed sales/move-ins to be in March 2002 and sell-out by December 2003.

VALUATION

Method of Analysis

This is the same as for Bryn Glen.

Analysis of Finished Lots

Based on the previous analyses, and considering the projected price of homes on these lots, the supportable range for these

VALUATION, Continuing

4,000 s.f. lots is well over \$170,000 per finished lot but under \$208,000. Considering the finished lot ratio of 42-44%, and the average base price of \$459,167 as estimated by The Meyers Group, the following range results:

$$\$459,167 \times .42-.44 = \$192,850 \text{ to } \$202,033/\text{fin. lot}$$

I have concluded on a finished lot value of \$198,000.

Conclusion of Value, As Is Condition

Information provided by Western Pacific Housing is that the estimated costs and fees to get from the as is partially graded condition to finished lots is a total of \$92,000 per lot or \$11,316,000 for 123 lots. The reduction of the FBA fees due to the CFD credit from the bond issuance is \$18,054.45 per unit for this project, or a total of \$2,220,697 for the 123 lots.

Thus, the total amount of land development costs and fees to get from as is condition to finished lots is \$9,095,303.

This results in the following:

As If Finished: 123 lots @ \$198,000/lot =	\$24,354,000
Less Costs/Fees to Achieve Finished Condition:	<u>- 9,095,303</u>
Value Indication, As Is Condition:	\$15,258,697

Thus, as the result of this analysis, the following conclusion of market value has been arrived at, subject to the Assumptions and Limiting Conditions, and as of July 1, 2001:

\$15,250,000

(FIFTEEN MILLION TWO HUNDRED FIFTY THOUSAND DOLLARS)

ADDENDA

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TABULATION OF RESIDENTIAL LAND SALES

No.	Location/(Project)	Seller/Buyer	Rec. Date	No. Lots	Min Lot Size	Product	Price/Lot Fin. Lot	Fin. Lot Ratio	Remarks
1	SWC 4S Ranch Pkwy & Camino Del Norte, Rancho Bernardo (Ryland Heritage)	4S Kelwood Gen'l Ptnshp Ryland Homes	12/99	75	6,000	3,640-4,039 s.f. \$528,000-\$547,000	\$179,000 \$205,000	38%	4S Ranch; partially finished lots; 1.5-1.6% tax rate
2	SEC 4S Ranch Pkwy & Camino Del Norte, Rancho Bernardo (Cedar Creek)	4S Kelwood Gen'l Ptnshp D.R. Horton	10/00	80	4,200	2,156-2,712 s.f. \$405,990-\$451,990	n/a \$155,000	36%	4S Ranch; partially finished lots; 1.5-1.6% tax rate
3	NRC 4S Ranch Pkwy & Lone Quail, Rancho Bernardo (Amherst)	4S Kelwood Gen'l Ptnshp Brookfield Bernardo LLC	3/01	44	5,000	2,900-3,400 s.f. \$450,000 avg	n/a \$160,000	36%	4S Ranch; partially finished lots; 1.5-1.6% tax rate
4	NWC 4S Ranch Pkwy & Camino San Bernardo, Rancho Bernardo (Homestead at 4S Ranch)	4S Kelwood Gen'l Ptnshp Fieldstone Homes	12/99	103	5,040	2,860-3,300 s.f. \$489,900-\$509,900	n/a \$200,000	40%	4S Ranch; partially finished lots; 1.5-1.6% tax rate
5	S/S Camino San Bernardo, opp. Deer Ridge, Rancho Bernardo (n/a)	4S Kelwood Gen'l Ptnshp Davidson Communities	1/01	67	7,000	3,450-4,030 s.f. Mid-\$500,000's to Low-\$600,000's	n/a \$222,800	38%	4S Ranch; mostly finished lots; 1.5-1.6% tax rate
6	SWC 4S Ranch Pkwy & Camino San Bernardo, Rancho Bernardo (Providence)	4S Kelwood Gen'l Ptnshp 4S Lot 12, LLC (Wm. Lyon)	12/00	66	6,000	3,200-3,800 s.f. \$505,000-\$550,000	\$203,000 \$218,000	41%	4S Ranch; mostly finished lots; 1.5-1.6% tax rate
7	SEC 4S Ranch Pkwy & Camino San Bernardo, Rancho Bernardo (n/a)	4S Kelwood Gen'l Ptnshp PLC Land	Escrow	108	5,000	2,850-3,200 s.f. \$475,000-\$525,000	n/a \$230,000	46%	4S Ranch; mostly finished lots; 1.5-1.6% tax rate
8	S'lly corner Camino Ruiz & Torrey Meadows, San Diego (n/a)	Greystone Homes Standard Pacific	Escrow	78	5,005	2,800-3,400 s.f. Mid \$500,000's to Low \$600,000's	n/a \$251,000	43%	Torrey Highlands Subarea IV; to be delivered as finished lots with some unpaid fees
9	Torrey Del Mar, S/O Carmel Valley Rd., San Diego (Palma Real)	D.R. Horton Barratt American	12/99	149	5,000	2,700-3,675 s.f. \$500,000-\$550,000	\$194,630 \$230,000	44%	Torrey Del Mar; mostly finished lots; 1.6% tax rate
10	Torrey Del Mar, S/O Carmel Valley Rd., San Diego (Terrazo)	Barratt American Cornerstone Communities	7/00	69	5,000	3,094-3,845 s.f. \$568,990-\$634,990	\$205,171 \$235,171	39%	Torrey Del Mar; resale of portion of No. 8; mostly finished lots
11	SWC & SEC Black Mtn Rd & Rancho Santa Fe Farms, San Diego (n/a)	D.R. Horton Barratt American	3/01	162	4,000	1,600-2,100 s.f. \$395,000-\$470,000	\$123,457 \$208,000	48%	Torrey Highlands Subarea III; raw land with approved tent. tract map
12	Abalone Landing Terr. @ Sand Crab Pl., San Diego (Vantage Point)	Christa McReynolds, et al TopMark Homes, Inc.	11/00	18	5,700-7,700	2,500-3,100 s.f. \$570,000-\$720,000	\$216,667 \$322,222	50%	Torrey Hills; rough graded w/ approved map; good views; 1.5% tax rate
13	E. Ocean Aire Dr. @ Senda Acuario, San Diego (La Strada)	Westbrook Torrey Hills SCH Torrey III	5/00	75	6,000	2,925-3,756 s.f. \$655,880-\$689,880	\$219,579 \$266,279	40%	Torrey Hills; rough graded w/ approved map; good views; 1.5% tax rate

**QUALIFICATIONS
OF
STEPHEN G. WHITE, MAI**

PROFESSIONAL EXPERIENCE

Real Estate Appraiser since 1976.

1983 through current date: Self-employed; office located at 1370 N. Brea Blvd., Suite 205, Fullerton, CA 92835 (Phone: 714-738-1595)

1976 - 1982: Employed by Cedric A. White, Jr., MAI, independent appraiser located in Anaheim.

Real estate appraisals have been completed on most types of properties for purposes of fair market value, leased fee value, leasehold value, easement value, partial acquisitions and severance damages.

PROFESSIONAL ORGANIZATIONS

- * Member, Appraisal Institute; MAI designation obtained 1985
- * Affiliate Member, Pacific West Association of Realtors

LICENSES

Licensed by the State of California as a Certified General Real Estate Appraiser; OREA ID No. AG013311; valid through September 22, 2000.

EDUCATION

B.A. Economics & Business, Westmont College, Santa Barbara (1976)

Appraisal Institute Courses:

Basic Appraisal Principles, Methods and Techniques
Capitalization Theory and Techniques
Urban Properties
Litigation Valuation
Standards of Professional Appraisal Practice

Numerous seminars and continuing education on various appraisal subjects, including valuation of easements and leased fee interests, litigation, the money market and its impact on real estate, and standards of professional appraisal practice.

COURT/TESTIMONY EXPERIENCE

Qualified as an expert witness in the Superior Courts of Orange, Los Angeles, Riverside and San Bernardino Counties; also before the Assessment Appeals Boards of Orange and Los Angeles Counties.

TYPES OF PROPERTY APPRAISED

Residential: vacant lots, acreage and subdivisions; single family residences, condominiums, townhomes and apartment complexes.

QUALIFICATIONS, PAGE 2

Commercial: vacant lots/acreage; office buildings, retail stores, shopping centers, restaurants, hotels and 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.

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
Citation Builders
Davison-Ferguson Investment Devel.
D.T. Smith Homes
Irvine Company
Kathryn Thompson Developers
Mark Taylor, Inc.

Mission Viejo Co.
Premier Homes
Presley Homes
Rockefeller & Associates
Taylor Woodrow Homes
Unocal Land & Development

Law Firms:

Baldikoski, Klotz & Dragonette
Best, Best & Krieger
Bowie, Arneson, Kadi, Wiles & Giannone
Bradshaw, John
Bye, Hatcher & Piggott
Callahan, McCune & Willis
Cooksey, Coleman & Howard
Hamilton & Samuels
Horgan, Rosen, Beckham & Coren
Kent, John
Kirkland & Ellis
Lathan & Watkins
McKee, Charles C.
Mosich, Nicholas J.
Lewin, Robert S.

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

Financial Institutions:

Barclays Bank
Chino Valley Bank

San Clemente Savings & Loan
United Calif. Savings Bank

QUALIFICATIONS, PAGE 3

Continental Bank
First Interstate Mortgage
Security Pacific Bank
Washington Square Capital

National Credit Union Admin
First Wisconsin Bank
Ahmanson Trust Company
Sunwest Bank

Cities:

City of Anaheim
City of Baldwin Park
City of Buena Park
City of Cypress
City of Duarte
City of La Habra
City of Laguna Beach
City of Mission Viejo

City of Orange
City of Placentia
City of Riverside
City of Santa Ana
City of Santa Fe Springs
City of Stanton
City of Tustin
City of Yorba Linda

Counties:

County of Orange

County of Riverside

Other Governmental:

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

School Districts:

Anaheim Union High School Dist.
Banning Unified School Dist.
Capistrano Unified School Dist.
Castaic Union School Dist.
Cypress School Dist.
Etiwanda School Dist.
Fullerton School Dist.
Garden Grove Unified School Dist.
Irvine Unified School Dist.
Lake Elsinore Unified School Dist.
Moreno Valley Unified School Dist.

Newhall School Dist.
Newport-Mesa Unified School Dist.
Placentia-Yorba Linda Unified Dist.
Poway Unified School Dist.
Rialto Unified School Dist.
Saddleback Unified School Dist.
Santa Ana Unified School Dist.
South Orange County Community
College Dist.
Temple City School Dist.

Churches:

Calvary Church, Santa Ana
Central Baptist Church, Pomona
Christian & Missionary Alliance Church, Santa Ana
Christian Church Foundation
Congregational Church, Fullerton
First Church of the Nazarene, Fullerton
Good Shepherd Lutheran Home
Long Beach First Church of the Nazarene
Lutheran Church, Missouri Synod
Presbytery of Los Ranchos
St. Mark's Lutheran Church, Hacienda Heights
Vineyard Christian Fellowship

Other:

Biola University
Cedars-Sinai Medical Center

Garden Grove Boys' Club
The Sheepfold

APPENDIX D

SUMMARY MARKET ABSORPTION STUDY

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July 1, 2001

Mr. Robert Ball
Assistant Superintendent, Business Support Services
POWAY UNIFIED SCHOOL DISTRICT
13626 Twin Peaks Road
Poway, California 92064-3098

Subject: Market Analysis and Absorption Projection for CFD No. 10 (Torrey Highlands, Improvement Areas A & B) in the City of San Diego; San Diego County, California

Dear Mr. Ball:

Pursuant to our agreement, we have completed our analysis relative to the above subject. Our primary objective was to conduct a market-driven absorption analysis assessing current and future supply and demand conditions in the new detached for-sale housing market and develop a residential build-out projection for Improvement Areas A and B of CFD No. 10 (Torrey Highlands).

This summary presents the key conclusions reached with respect to product positioning in the San Diego County and North County competitive market and buildout projections. The Absorption Analysis report for CFD No. 10 (Torrey Highlands, Improvement Areas A and B) was completed in June 2001 and is available for those seeking greater detail.

A. Regional Overview

Success in the development and sale of the remaining residential units within CFD No. 10 will be correlated with the strength of national, regional and local economic conditions during the sales period. Economic conditions in San Diego County now support the development of all types of residential housing in appropriate locations and the regional economy is expected to remain strong in the near to medium term.

The peak period of product availability within CFD No. 10 will be in the next two years, and a review of key market indicators indicates that while there is increasing evidence that economic growth in the nation overall is moderating, growth expectations for San Diego County remain quite good. The economy has experienced some slowing coming into 2001, but aggressive interest rates cuts by the Federal Reserve have helped to stabilize the economy and leading economic indicators have trended upwards for the past few months (the worst may be over).



POWAY UNIFIED SCHOOL DISTRICT

July 1, 2001

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Despite the fear of a decreasing economy, the national housing market has remained stable and the San Diego County housing market remains healthy given the relative undersupply of new housing in the context of continued job growth. Consumer insecurity in the latter part of 2000 has been eased somewhat by the aggressive interest rate cuts by the Federal Reserve and consumers are still buying homes. In 2001 alone, mortgage interest rates have been cut by two percentage points. Sales volumes in the first part of 2001 are healthy at housing projects in the North County area and in the areas around CFD No. 10, although the market is not as accelerated as it was a year or two ago.

San Diego's economy is still performing well. Job growth has slowed in recent months, but year-to-year growth remains at a level above the national average. The unemployment rate in the nation is beginning to increase, but the unemployment rate in San Diego is still near a record low. The unemployment rate in the San Diego region was 2.7% in the first quarter of 2001, compared to 4.2% for Southern California and 4.1% for the nation in the same time period.

While recent performance remains good, the near-term outlook foretells a more moderate pace of growth through the rest of the year. The primary factor driving a slowdown is diminished investor confidence in e-commerce and dot com firms in the region (as in the overall nation). While there are few high-profile instances of failures, venture funding is slowing and there have been staff reductions. The slowdown will also temper the expansion of service industries for the technology sector. On the plus side, the region may benefit from a shift in venture funding from e-commerce to biotech and other leading industries. The San Diego region has the highest concentration of biotech industries in Southern California.

As San Diego County ends its first full year of the energy crisis, periodic rolling blackouts and higher energy bills predicted for the summer could have a negative impact on the local economy. Efforts to promote conservation and ensure enough supply for the summer months are underway, but long-term resolution will depend on the development of more energy sources, improved conservation and securing alternate supplies when needed. The utility crisis is impacting the regional economy, although it is still growing. For consumers, the impacts are psychological and financial. If bills go up, it could impact the ability of buyers to qualify or trade-up. On the plus side, new homes could benefit because they are more energy efficient. Builders are starting marketing campaigns around this.



POWAY UNIFIED SCHOOL DISTRICT

July 1, 2001

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Near-term risks for San Diego are substantial due to the downturn in business investment and the uncertainty of power supplies. Longer term, however, the area's considerable advantage in biotech, military services, tourism and export trade will bring the local economy forward. Despite high costs for housing and business, the San Diego region can still attract firms from more expensive locations within the state such as the Bay Area. The long-term outlook for the regional economy remains above average.

San Diego's housing market continues to show strength in a slowing national economy. Annual sales have trended upwards in 2001 and supply, particularly in the under \$400,000 price categories, still sells well. Low housing affordability is a concern, but recent mortgage rate declines will help San Diego County buyers.

Residential growth in the county will continue to increase in both the southern and eastern areas of the county where there is more available land. County new home sales will continue to this shift, as land in the western region of the county is becoming increasingly less available. In the next few years, look for the bulk of the activity in the northern region to occur in a few master plans (San Elijo Hills, Torrey Highlands, 4S Ranch).

B. Market Positioning of the Residential Products in Areas A and B

The North City Future Urbanizing Area (NCFUA) is a 12,000-acre undeveloped swath of the county stretching from the Interstate 5 freeway and Carmel Valley to the Rancho Penasquitos and Rancho Bernardo communities in the Interstate 15 corridor. The framework plan for the NCFUA established five subareas for which phased development plans were to be prepared as the areas began development. A portion of SubArea IV, known as Torrey Highlands, is the subject of this analysis. The subareas all contain environmentally sensitive areas, open space and some have views of the Pacific Ocean to the west. SubArea IV is located in the southeast area of the NCFUA, bordering the largely built-out Rancho Penasquitos neighborhood of the City of San Diego. Development of the area is now underway.

The neighborhoods that are initially subject to CFD No. 10 within Torrey Highlands are in Improvement Areas A and B. The neighborhoods total 601 residential units, all detached for-sale.



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Area A includes 366 units in four distinct neighborhoods. Lot sizes range from 4,000 to 6,000 square feet. Anticipated pricing ranges from the high \$300,000s to about \$600,000. Residential builders in Area A include Western Pacific Housing and D.R. Horton (both have other active projects in the immediate area). All four neighborhoods will start marketing in the next six months.

Area B consists of 235 detached for-sale units on 5,000 to 7,000 square foot lots. Greystone Homes initially owned all three neighborhoods, but recently sold 78 lots to Standard Pacific Homes. The anticipated pricing of homes in these neighborhoods ranges from the mid \$400,000s to the mid \$600,000s. These three neighborhoods will start marketing in the next six months.

The development plan for Areas A and B is consistent with the housing currently developed in the Carmel Valley area to the west and with housing projects in the immediate area and in the nearby Central I-15 Corridor area (Scripps Ranch, 4-S Ranch, etc.). The residential market is well-established in areas to the east and west of the subject area and Torrey Highlands is the next large parcel of land available for housing development relatively close-in to Central San Diego employment. The Highway 56 freeway is now being added to connect the 15 and 5 Freeways and areas to the north and south are opening up for development. The initial performance of active projects in the Torrey Highlands area indicates that homebuyers are willing to pay premium prices for new housing in the area given good schools, proximity to the affluent Rancho Santa Fe area to the north and an orientation to the coastal Carmel Valley area to the west.

The market positioning of the products in Improvement Areas A and B versus residential projects in the competitive market areas around them was analyzed. Using current home price levels, the planned products were positioned among new home developments in the local housing market. Generally, it is our conclusion that the planned projects were either positioned in-line with the projects currently selling or alternate conclusions were derived based on project specifics and current market conditions. The subject units are positioned against new homes in each of these areas as follows:

- **Carmel Valley/Sorrento Hills:** This area is located west of the Torrey Highlands area, just off the Interstate 5 freeway and due east of Del Mar and the 5/805 Freeway merge. With a more coastal location, homes in the Carmel Valley area are primarily positioned significantly above the planned units in Torrey Highlands (Improvement Areas A and B). Homes are



POWAY UNIFIED SCHOOL DISTRICT

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comparable in size, lot size and overall construction quality. This area has a coastal location and quality schools. From the resale perspective, the subject homes will be positioned typically \$100,000 to \$150,000 (on average) below the linear regression line for Carmel Valley resales (zip code 92130).

- **Future Urbanizing Area (including SubArea IV projects not in Areas A and B):** The Future Urbanizing Area will eventually have a variety of housing options in five subareas. Many of the new home developments that are now active are high-end (Fairbanks Highlands, Santa Fe Valley), but some housing priced similar to Torrey Highlands products is active and additional higher-density residential housing of the types consistent with Torrey Highlands and built-out areas (Rancho Penasquitos, Carmel Valley) will come on-line in SubArea III to the immediate west of Torrey Highlands (Pacific Highlands Ranch). The trendline for the Future Urbanizing Area is typically \$30,000 to \$100,000 above the Torrey Highlands product, but as the area continues to develop, look for more homes in the \$400,000 to \$500,000 range and a lower linear regression trendline for the area. The recommended pricing is in-line with actual prices being achieved for active projects in SubArea IV itself, such as Barcelone, Villamontes, Palma Real and Terrazo. Resales in the Rancho Penasquitos area to the east and west of SubArea IV (Zip Code 92129) are generally positioned slightly below the new products at Torrey Highlands, but most are older, smaller homes that were developed before the area had access to the coastal area.

■ **Central I-15 Corridor:** The most competitively priced homes can be found along the I-15 corridor, more specifically, in the Scripps Ranch master plan. The subject products are generally positioned with projects in Scripps Ranch and Poway, and above products in 4S Ranch, which is located further north along Interstate 15 (further from employment in Central San Diego county). The projected housing is generally priced comparatively with new development in the Scripps Ranch area, but that community is largely built-out and remaining housing is elevated with dramatic views of the coastal area to the west.

■ The projected base pricing for Torrey Highlands products in Areas A and B currently ranges from the high \$300,000's to the mid \$600,000's. These are base prices and do not include location premiums, options and upgrades. In actuality, with the addition of premiums and upgrades, homes will generally sell in the \$400,000s to the \$700,000s.



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July 1, 2001

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Positioning

Following is a positioning analysis comparing all active projects in the Torrey Highlands area with active competitive projects. Projects were broken down into three categories by lot size as follows:

4,000 Square Foot Lots:

There are two projects in Torrey Highlands that fall into this category, Bryn Glen (D.R. Horton) and Cabrera (Western Pacific Housing). The projects are positioned slightly below the trendline for competitive I-15 Corridor projects, and competitively with some active projects in the Carmel Valley area. This is a good price point with strong demand potential. Projected pricing is in the high \$300,000s to mid \$400,000s, entry-level housing for this area. Active projects are selling well and many are close to selling out.

5,000 Square Foot Lots:

Three neighborhoods fall into this category. One by Greystone (Montea), another by Standard Pacific (no marketing name), and Montellano by Western Pacific Housing. These projects are generally positioned in-line, but slightly more expensive than most of the competitive projects along the I-15 Corridor. There are a few projects currently active in the Carmel Valley area that are competitive, but most are positioned above these neighborhoods. Within the Future Urbanizing Area, most active projects are also positioned higher, but are located further north and west towards Carmel Valley. These neighborhoods are located further south in SubArea IV and will feature open space and canyon views for some lots.

6,000+ Square Foot Lots:

There are two projects in Torrey Highlands that fall into this grouping, one project by Greystone Homes (Valonia); the other is called Torrey Glenn by Western Pacific Housing. Torrey Glenn has the smaller lots of the two and is positioned slightly above the planned 5,000 square foot product and the I-15 Corridor trendline. The Valonia project is built on the larger 7,200 square foot lots and is positioned \$20,000 to \$50,000 higher than I-15 Corridor homes, and competitively with a few projects in the Future Urbanizing Area and Carmel Valley area, but generally \$80,000 to \$150,000 below the trendline for similarly sized units in both of those areas.



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Active New Home Market Conclusions

In the past years, the primary residential growth in this area has occurred in the Carmel Valley, Sorrento Hills and Scripps Ranch areas to the east and west. Both areas are becoming built-out and a majority of the area residential development going forward will be in the Future Urbanizing Area, and particularly in SubArea IV (Torrey Highlands) and SubArea III (Pacific Highlands Ranch, by Pardee Construction). There are a few new master plans in the area that have a significant amount of land remaining for development, but many offer a golf-course or low-density land plan (oriented to Rancho Santa Fe) and will feature luxury housing. In the next two to three years, the most competition will come from higher-priced projects to the west (Carmel Valley and Pacific Highlands Ranch as it starts to come online in 2003+), from projects in the immediate subject area and from 4S Ranch near Rancho Bernardo, which offers a location further to the north away from central San Diego County employment.

C. Absorption Projection for the CFD No. 10 Residential Products

A detailed buildout schedule was developed for the CFD No. 10 development plan. The detailed buildout schedule is shown in Exhibits I-2 through I-5. None of the Area A and B neighborhoods are active at this point, but several are starting marketing efforts and all of them will start selling in the next six months.

Absorption estimates are based on the performance of active projects. Most of the active projects reviewed are selling fairly well, but 2001 project sales rates have declined due to a combination of factors, including: higher overall sales prices, an increased number of competing projects and overall uncertainty in the direction of the economy. Homes are still selling, but not as fast as they were a few years ago. In the active market around Torrey Highlands, overall project sales rates average 5.87 units per month, but 2001 sales average 4.57 sales per month (still a relatively healthy 1.0 sale per week). Projects in the immediate Torrey Highlands area have 2001 sales rates ranging from 1.25 to 9.50 sales per week, with Barcelona (Greystone) being the fastest selling project in the area. 2001 sales rates in Carmel Valley average 2.2 sales per month, in Scripps Ranch average from 4.0 to 7.0 units per month and in Ranch Bernardo average 5.0 to 12.0 units per month. Per project sales of 4.0 to 7.0 units per month were used for the various projects in Areas A and B of Torrey Highlands. Conservative sales rates are appropriate given



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July 1, 2001

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the more competitive nature of the market in the second half of 2001 as a number of projects in the Torrey Highlands area open up.

Given the proposed product and pricing parameters, it is our conclusion that for-sale residential units within CFD No. 10 (Areas A & B) should be fully absorbed by the Fourth Quarter of 2003.

With the exception of Bryn Glen (Area A) which is scheduled to open in early 2002, all of the other neighborhoods in Areas A and B will begin marketing homes by the end of 2001. As outlined in Exhibit I-1, 74 units will be absorbed in 2001 (if current schedules are maintained), nearly 400 units will be sold in 2002 and the area will complete sales in 2003.

This sales projection assumes that Area A and B builders will maximize the market potential to bring residential product into a relatively healthy new home market by adhering to the following:

- strict product segmentation, allowing differentiation within and among projects;
- appropriate pricing with other competitive products given locational pluses and minuses; and,
- a smooth schedule of approvals processing, home construction and infrastructure completion. Local roads will need to be completed to provide access to certain neighborhoods.

Going forward, demand is projected to range from 5,500 to 6,000 detached units per year in the North San Diego County competitive market, however these demand figures are for a wide area that achieved sales 6,022 units in 2000. The land supply is relatively constrained in North San Diego County. Areas like Scripps Ranch, Rancho Bernardo, Carmel Valley, Sorrento Hills and Carlsbad area projects (Aviara, La Costa Valley) that have supplied the bulk of new housing in recent years are nearing buildout. In some cases, new supply is entering the market, such as 4-S Ranch, San Elijo Hills and Torrey Highlands, but such housing is generally either further from employment centers or is at higher price points. Going forward, the supply of new housing, particularly at relatively affordable price points or in areas close-in to the employment concentration in the central areas of the county will be lower than in the past few decades.

Projected sales for Areas A and B of Torrey Highlands average 200 units per year, or up to about 7% of total projected demand in the North County, and no more than 5% of county demand in the peak sales year (2002). Peak sales of up to 389 sales per year appear reasonable for an array of up to seven well-segmented residential products concurrently selling. On average, this assumes 1.0 sales per week for each product line. Scripps Ranch Villages sold 500 to 650 units



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per year from 1996 to 1999 when the residential product array was at its peak (200 sales in 2000) and Carmel Valley sales have ranged from 250 to 600 sales per year in the past five years.

Going back a few years to a time when Rancho Penasquitos had a number of new housing projects, sales in that community ranged from 450 to 700 units per year for much of the period from 1988 to 1994, or 6% to 8% of county new home sales. While most of the housing being planned today is higher priced than was generally developed in the built-out neighborhoods to the south of Torrey Highlands (it does target similar move-up and professional households, but at higher current price points), these sales figures demonstrate that housing in the general Torrey Highlands area has sold well when available and that projected sales of up to 400 units per year when the maximum product spectrum is available is reachable.

The proposed products are well segmented and there will generally be no more than two projects in any one lot category selling at a time. Unit sizes and prices overlap somewhat, but actual differences in location, timing, included features and developer will minimize direct competition. The developers for Areas A and B are all experienced builders that have developed homes in the area. Most of them will control more than one product line and will minimize direct competition.

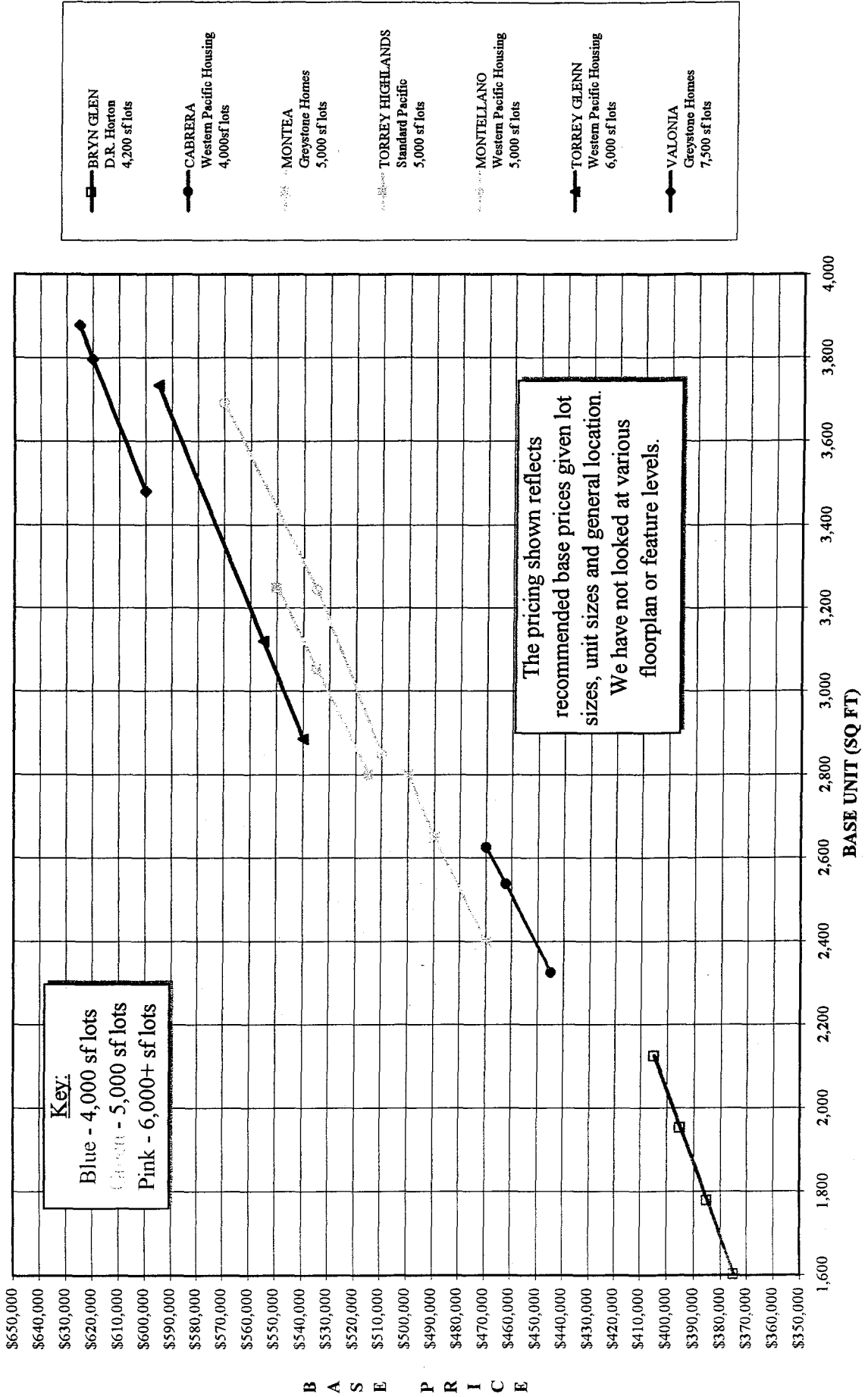
The recommended buildout schedule is in-line with market characteristics and achievable given the locational advantages offered by Torrey Highlands and projected continued good conditions in the regional housing market in the next two to three years.

This assignment was directed by Peter F. Dennehy, Managing Director. It has been a pleasure working with the Financing Team on this assignment. We are available to answer any questions you may have regarding the conclusions in this report.

Very truly yours,

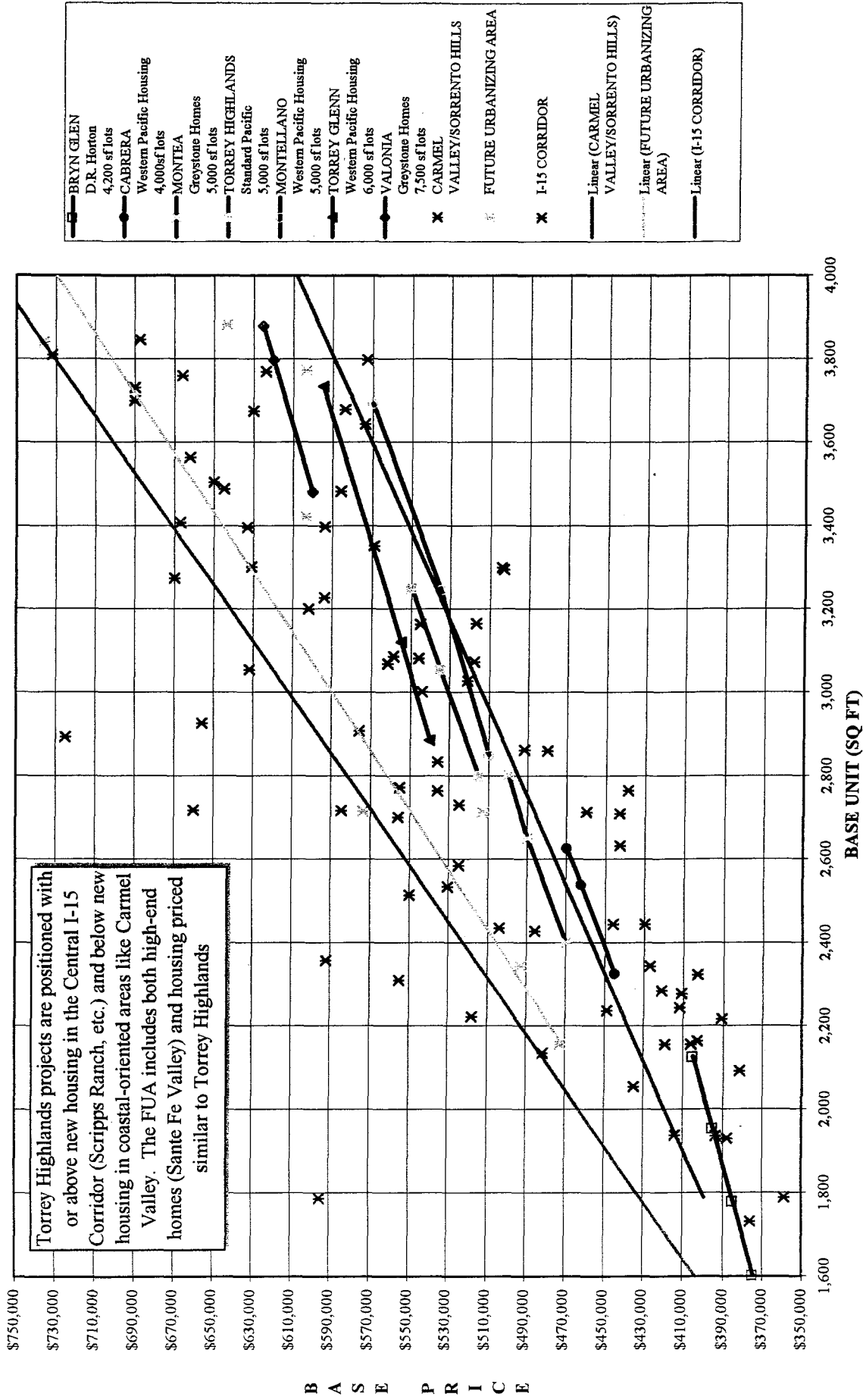
THE MEYERS GROUP

Exhibit I - 2
TORREY HIGHLANDS RESIDENTIAL PRODUCT ARRAY
 Areas A and B; June 2001



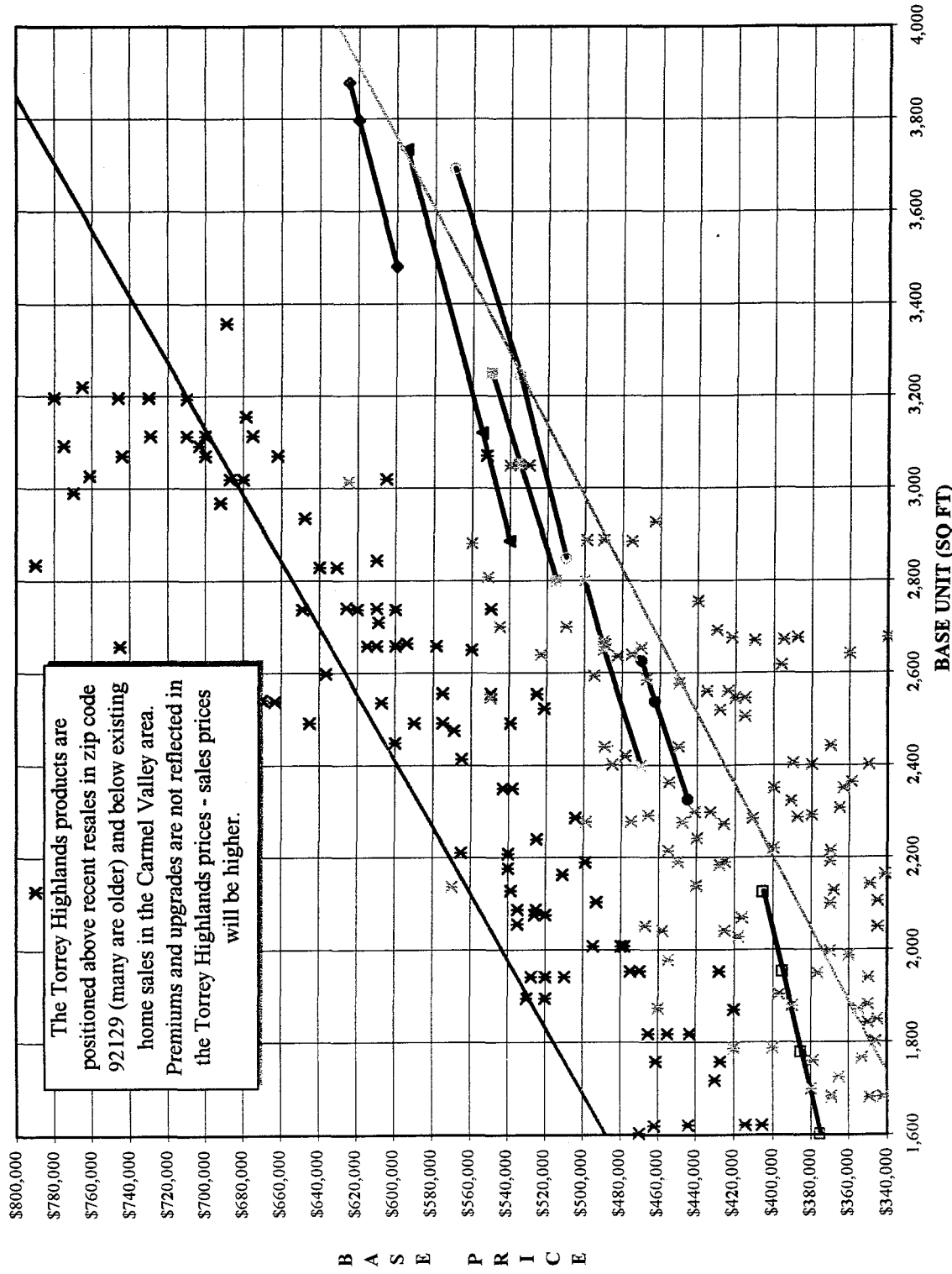
POWAY UNIFIED SCHOOL DISTRICT

Exhibit I - 3
PRODUCT ARRAY VERSUS NEW SFD IN COMPETITIVE MARKET AREAS
 June 2001



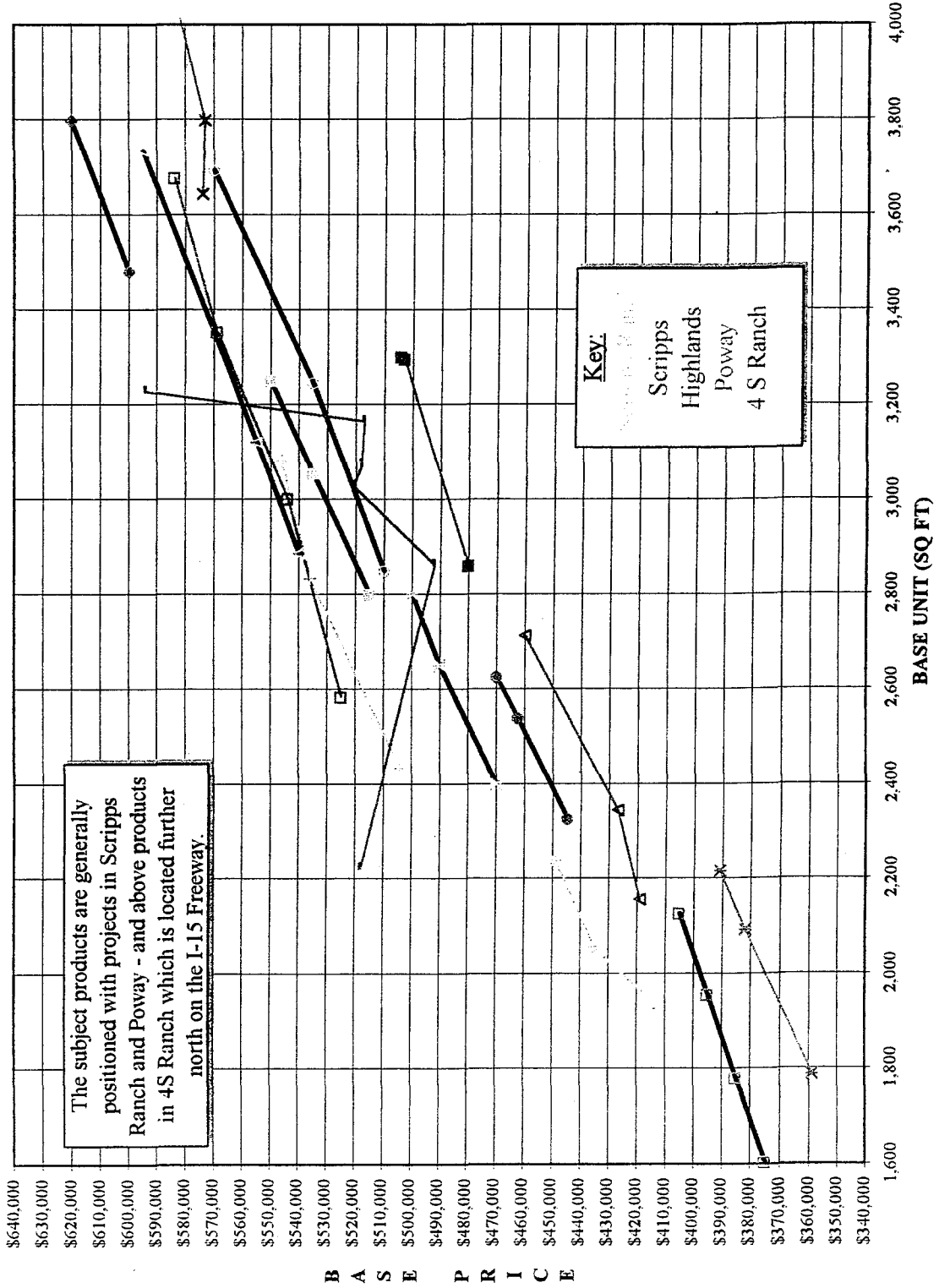
POWAY UNIFIED SCHOOL DISTRICT

Exhibit I - 4
SUBJECT PRODUCT ARRAY VERSUS RESALES (92129 & 92130 ZIP CODES)
June 2001



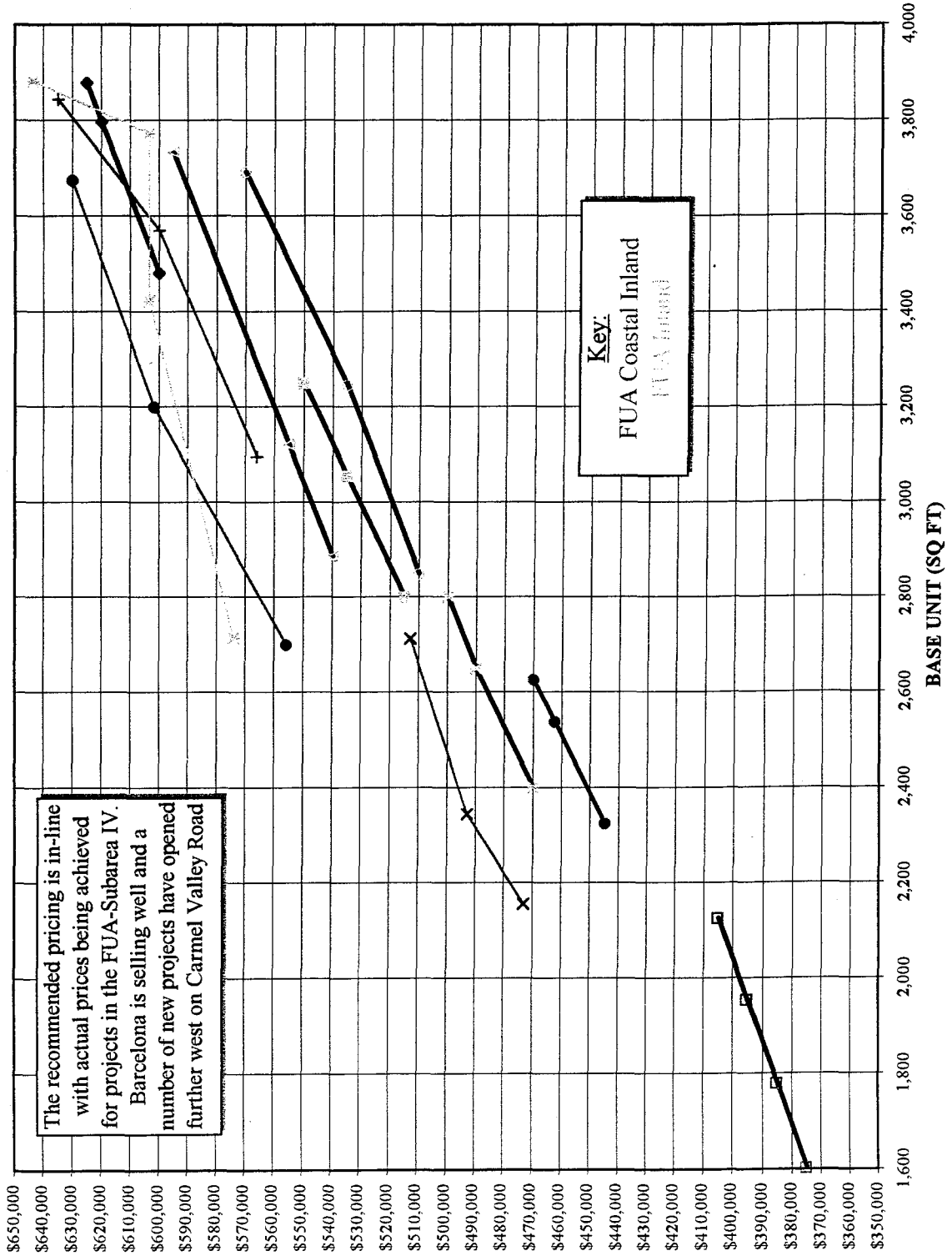
POWAY UNIFIED SCHOOL DISTRICT

**Exhibit I - 5
PRODUCT ARRAY
TORREY HIGHLANDS VS COMPETITIVE PROJECTS (Interstate 15 Corridor)
June 2001**



- BRYN GLEN
D.R. Horton
4,200 sf lots
- CABRERA
Western Pacific Housing
4,000sf lots
- TORREY GLENN
Western Pacific Housing
6,000 sf lots
- TORREY HIGHLANDS
Standard Pacific
5,000 sf lots
- MONTELLANO
Western Pacific Housing
5,000 sf lots
- MONTEA
Creststone Homes
5,000 sf lots
- VALONIA
Creststone Homes
7,500 sf lots
- RAVEL, 4.98/mo.
3,000 sf lots
- TRAVIATA, 7.65/mo.
6,000 sf lots
- TIEMPO, 7.29/mo.
5,000 sf lots
- SAN ANGELO, 4.22/mo.
8,000 sf lots
- MORNINGSIDE, 9.57/mo.
3,300 sf lots
- HOMESTEAD, 5.39 sf/mo.
6,000 sf lots
- ▲ CEDAR CREEK, 4.59/mo.
4,200 sf lots
- ★ HERITAGE, 5.19/mo.
7,500 sf lots

Exhibit I - 6
 PRODUCT ARRAY
 TORREY HIGHLANDS VS COMPETITIVE PROJECTS (FUA - SubArea IV)
 June 2001



B
A
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C
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**Exhibit I - 7
PRODUCT ARRAY
TORREY HIGHLANDS VS COMPETITIVE PROJECTS (Carmel Valley/Torrey Hills)
June 2001**

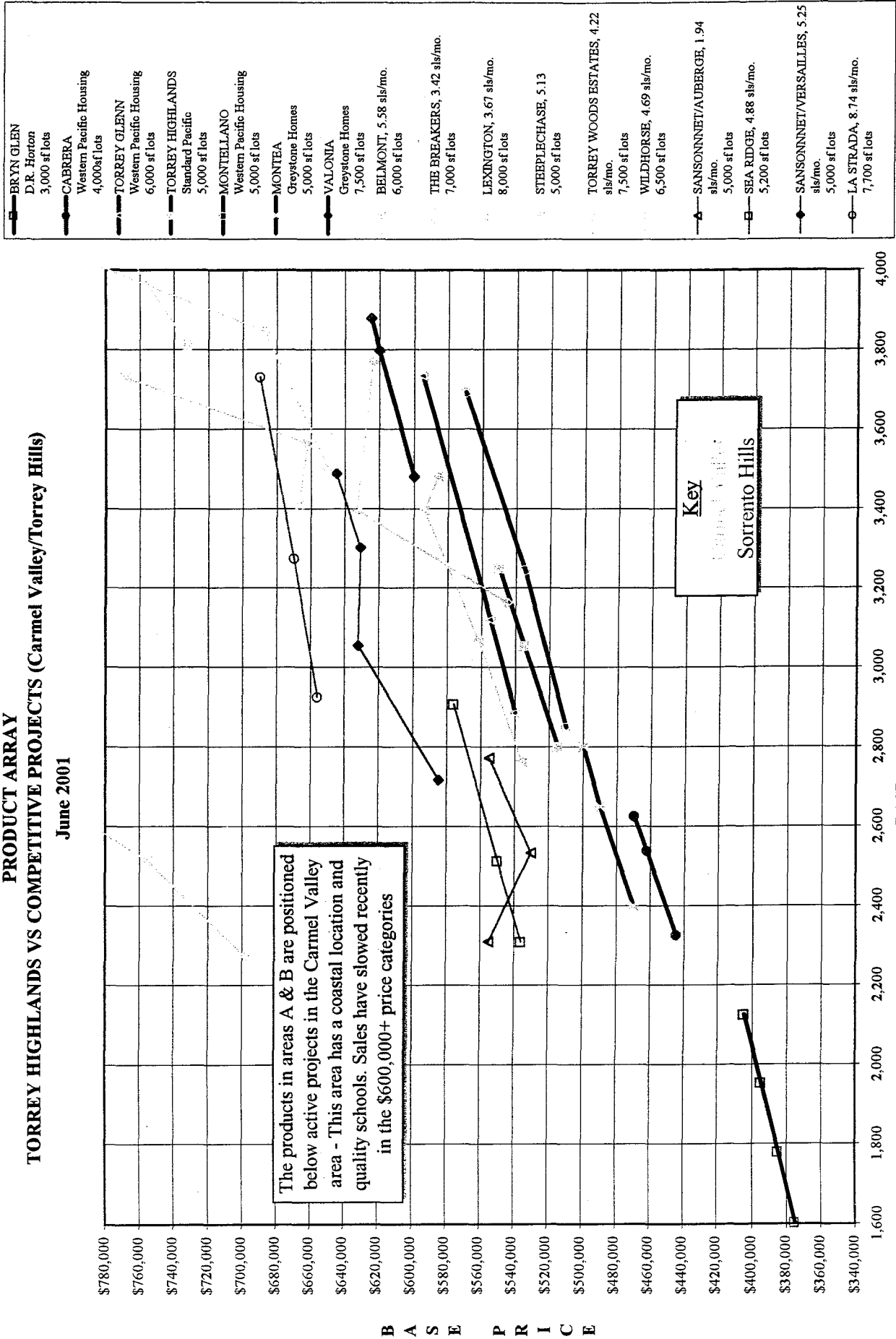
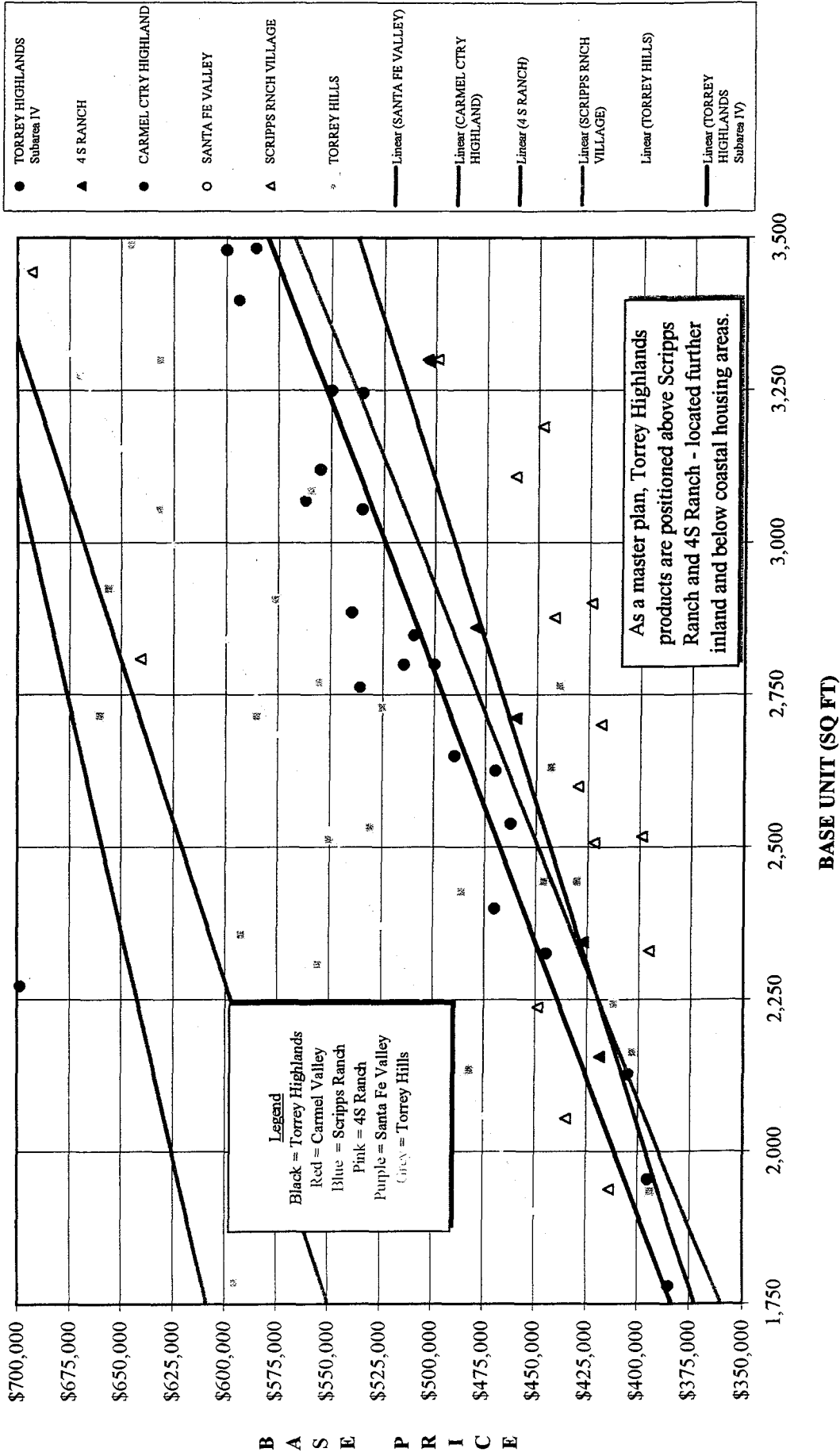


Exhibit I - 8
TORREY HIGHLANDS MARKET POSITIONING
 vs. Competitive Master Planned Communities



POWAY UNIFIED SCHOOL DISTRICT

Exhibit I - 9 COMPARISON OF BUILDING PERMIT AND NEW DETACHED HOME SALES San Diego County and North County ** 1980 - 2008

Year	SAN DIEGO COUNTY				
	Building Permits (1)			New Detached Sales (2)	
	SF	MF	TOTAL	TOTAL	Ratio of Sales to Permits
1980	6,254	6,913	13,167		
1981	3,915	5,083	8,998		
1982	3,735	3,767	7,502		
1983	11,052	9,729	20,781		
1984	12,318	20,862	33,180		
1985	12,890	25,349	38,239		
1986	16,585	27,545	44,130		
1987	15,466	15,143	30,609	10,315	67%
1988	14,749	13,803	28,552	10,784	73%
1989	10,856	7,854	18,710	7,193	66%
1990	6,621	9,175	15,796	4,234	64%
1991	5,346	2,570	7,916	4,187	78%
1992	3,762	2,297	6,059	3,635	97%
1993	4,076	1,526	5,602	3,324	82%
1994	5,247	1,688	6,935	3,971	76%
1995	4,731	1,872	6,603	3,925	83%
1996	5,816	1,052	6,868	4,538	78%
1997	8,338	3,064	11,402	6,867	82%
1998	9,160	3,013	12,173	7,228	79%
1999	9,993	6,434	16,427	7,234	72%
2000	9,167	6,760	15,927	8,573	94%
Minimum	3,735	1,052	5,602	3,324	64%
Maximum	16,585	27,545	44,130	10,784	97%
Average	8,575	8,357	16,932	6,143	78%
Median	8,338	6,434	13,167	5,703	78%

North County **	
New Detached Sales (2)	
TOTAL	% of County
8,487	
9,310	86%
5,305	74%
3,299	78%
3,341	80%
3,341	92%
2,844	86%
3,024	76%
2,863	73%
3,428	76%
5,376	78%
5,208	72%
4,976	69%
6,022	70%
2,844	69%
9,310	92%
4,773	78%
4,202	76%

By Year, If Total New Detached Home Sales Are:

	San Diego County	North County (avg. 65%)	CFD NO. 10 Absorption (3)	CFD No. 10 County	North County
2000	8,573	6,022			
2001	8,500	5,500	74	0.9%	1.3%
2002	8,500	5,500	389	4.6%	7.1%
2003	8,500	5,500	138	1.6%	2.5%
2004	8,500	5,500			
2005	8,500	5,500			
2006	8,500	5,500			
2007	8,500	5,500			
2008	8,500	5,500			
TOTAL			601		

Minimum	8,500	5,500	74	0.9%	1.3%
Maximum	8,573	6,022	389	4.6%	7.1%
Average	8,508	5,558	200	2.4%	3.6%
Median	8,500	5,500	138	1.6%	2.5%

SOURCE: (1) Construction Industry Research Board; (2) The Meyers Group; (3) Estimated for-sale absorption per Exhibit I - 1.

** North County includes the Inland North, Coastal North and Central submarkets

APPENDIX E

SUMMARY OF BOND INDENTURES

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APPENDIX E

SUMMARY OF BOND INDENTURES

The following summary discussion of selected provisions of the Bond Indentures is made subject to all of the provisions of each such document. Except where otherwise specified, this summary applies to each of the Bond Indentures. 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 applicable 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” 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 provisions of 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 A or Improvement Area B Special Taxes, as applicable, and preparing the annual Improvement Area A or Improvement Area B Special Tax collection schedules (whether by the School District or a designee thereof or both), as applicable; the costs of collecting the Improvement Area A or Improvement Area B Special Taxes (whether by the County, the School District or otherwise), as applicable; the costs of remitting the Improvement Area A or Improvement Area B Special Taxes, as applicable, 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 each 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 A or Improvement Area B Special Tax disclosure statements, as applicable, and responding to public inquiries regarding the Improvement Area A or Improvement Area B Special Taxes, as applicable; the costs of the School District, District or any designee thereof related to an appeal of the Improvement Area A or Improvement Area B Special Tax, as applicable; 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 \$15,000 which amount shall escalate by 2% in each Bond Year commencing in the Bond Year beginning on September 2, 2002.

“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.

“Appraisal” means an appraisal prepared by the Appraiser or an MAI appraiser who is also a state certified appraiser, as defined in California Business and Professions Code Section 11340(c) appointed and retained by the School District or the District. Such appraisal shall be substantially based upon the then applicable assumptions of and subject to the then applicable qualifications and limitations contained in the appraisal prepared by the Appraiser and dated July 1, 2001.

“Appraiser” means Stephen G. White, MAI.

“Assessor’s Parcel” means an Assessor’s Parcel as defined in the Improvement Area A or Improvement Area B Special Tax RMA, as applicable.

“Assistant Superintendent, Business Support Services” means the Assistant Superintendent, Business Support Services of the School District, acting for and on behalf of the District.

“Authorized Representative” of the District means the Superintendent or Assistant Superintendent, Business Support Services, acting on behalf of the District, or any other person designated by the Board of Education and authorized to act on behalf of the District under or with respect to the Indenture and all other agreements related thereto.

“Average Annual Debt Service” means, as of the date of any calculation, the average annual debt service on the Improvement Area A or Improvement Area B Bonds, as applicable, based upon a Bond Year during the current or any future Bond Year.

“Bond Counsel” means an attorney or firm of attorneys, selected by the District, of nationally recognized standing in matters pertaining to the tax treatment of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of the State.

“Bondowner” or “Owner”, or any similar term, means any person who shall be the registered owner or his duly authorized attorney, trustee, representative or assign of any Outstanding Bond which shall at the time be registered.

“Bonds” means, as applicable, the \$9,700,000 Poway Unified School District Community Facilities District 10 (Torrey Highlands - Subarea IV) Improvement Area A Special Tax Bonds and the \$6,345,000 Poway Unified School District Community Facilities District 10 (Torrey Highlands - Subarea IV) Improvement Area B Special Tax Bonds, issued pursuant to the applicable Indenture.

“Bond Service Fund” means the fund created and established pursuant to the provisions of 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, 2002.

“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.

“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.

“Costs of Issuance” means, as to each respective series of the Bonds, all of the costs of formation of the District and the costs of issuing each respective series of the Bonds, including but not limited to, all printing and document preparation expenses in connection with the applicable Indenture and any Supplemental Indenture, the respective series of 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 each respective series of the Bonds; the initial fees and expenses of the Fiscal Agent (including without limitation, 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 each respective series 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 provisions of 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 A or Improvement Area B Special Taxes, as applicable.

“Delinquency Proceeds” means the net amounts collected from the redemption of delinquent Improvement Area A or Improvement Area B Special Taxes, as applicable, 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 A or Improvement Area B Special Tax, as applicable, resulting from the delinquency in the payment of Improvement Area A or Improvement Area B Special Taxes, as applicable, due and payable on such property and net of County of San Diego, foreclosure counsel and other fees and expenses incurred by or on behalf of the District or the School District in undertaking such foreclosure proceedings.

“Delivery Date” means the date on which the Bonds are issued and delivered to the initial purchaser thereof.

“Depository” shall mean DTC and its successors and assigns or if (a) the then Depository resigns from its functions as 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 Treasurer.

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

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

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

“Fiscal Agent” means State Street Bank and Trust Company of California, N.A., 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 A” means Improvement Area A of the District.

“Improvement Area A Special Tax” means the Special Tax authorized to be levied in Improvement Area A to finance the acquisition or construction of the City Improvements pursuant to the Act and the Improvement Area A Special Tax RMA.

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

“Improvement Area A Special Tax RMA” means the rate and method of apportionment of the Improvement Area A Special Tax approved at the special election held in Improvement Area A of the District on August 27, 2001, as may be modified from time to time in accordance with the Act.

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

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

“Improvement Area B Special Tax” means the Special Tax authorized to be levied in Improvement Area B to finance the acquisition or construction of the City Improvements pursuant to the Act and the Improvement Area B Special Tax RMA.

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

“Improvement Area B Special Tax RMA” means the rate and method of apportionment of the Improvement Area B Special Tax approved at the special election held in Improvement Area B of the District on August 27, 2001, as may be modified from time to time in accordance with the Act.

“Improvement Area B Special Tax Revenues” means (a) the proceeds of the Improvement Area B 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 thereof.

“Independent Accountant” means any certified public accountant or firm of such certified public accountants appointed and paid by the District, and who, or each of whom:

1. is in fact independent and not under domination of the District or the School District;
2. does not have any substantial interest, direct or indirect, in the District or the School District; and
3. is not an officer or employee of the District or the School District, but who may be regularly retained to make annual or other audits of the books of or reports to the School District or the District.

“Interest Payment Date” means March 1 and September 1 of each year, commencing March 1, 2002.

“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.

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

“Net Special Tax Revenues” means Improvement Area A or Improvement Area B Special Tax Revenues, as applicable, minus amounts applied to pay the Administrative Expense Requirement.

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

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

1. Bonds theretofore canceled or surrendered for cancellation;
2. Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent pursuant to the terms of the Indenture; and
3. Bonds for the payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture.

“Participant” shall mean 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, 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 “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);
- C. The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral 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 Holder of the Collateral 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 Holder of the Collateral 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 Holder of the Collateral 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 Holder of the Collateral 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 or the Fiscal Agent, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate, 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 District or Fiscal Agent, as appropriate.

12. 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 A or Improvement Area B Special Tax Revenues, as applicable, identified to the Fiscal Agent by an Authorized Representative as representing a prepayment of the Improvement Area A or Improvement Area B Special Tax, as applicable.

“Principal Corporate Trust Office” means the office of the Fiscal Agent at Los Angeles, California 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” shall mean the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date whether or not such day is a Business Day.

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

“Regulations” means the regulations promulgated under the Internal Revenue Code of 1986, as amended.

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

“Reserve Requirement” means, as to the Improvement Area A Bonds an amount initially equal to \$948,539.85 and as to the Improvement Area B Bonds an amount initially equal to \$621,416.87, and in each case 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.

“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:

- A. is in fact independent and not under domination of the District or the School District;
- B. does not have any substantial interest, direct or indirect, in the District or the School District; and
- C. 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 delivered on the Closing Date and as such amount shall be stated in such Letters of Credit thereafter delivered to the Fiscal Agent. During each Fiscal Year in which such Letter of Credit is in effect, the Stated Amount of each Letter of Credit shall equal the estimated amount of Improvement Area A or Improvement Area B Special Taxes, as applicable, to be levied secured by such Letter of Credit 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 (“District”), Community Facilities District No. 2 (Torrey Highlands - Subarea IV) of the District (“CFD No. 2”) 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, LLC; Dmig, Fund 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.

“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 hereto; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“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.

“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 A or Improvement Area B Special Tax Fund.

- A. The District shall, no later than the tenth (10th) Business Day after which Improvement Area A or Improvement Area B Special Tax Revenues, as applicable, 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 for deposit in the Improvement Area A or Improvement Area B Special Tax Fund, as applicable. Improvement Area A or Improvement Area B Special Tax Revenues, as applicable, representing Prepayments shall be transferred upon receipt pursuant to the provisions of the Indenture and Improvement Area A or Improvement Area B 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 A Special Tax Fund.
- B. The Improvement Area A or Improvement Area B Special Tax Revenues, as applicable, deposited in the Improvement Area A or Improvement Area B Special Tax Fund, as applicable, shall be held in trust and deposited into the following funds and accounts and/or transferred to the District on the dates and in the amounts set forth in the following paragraphs, 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 A or Improvement Area B Special Tax Revenues received by the Fiscal Agent during such Fiscal Year an amount equal to the Administrative Expense Requirement.
 - (2) The Fiscal Agent shall deposit in the Interest Account of the Bond Service Fund, on each Interest Payment Date and date for redemption of the Bonds, an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest due or becoming due and payable on such Interest Payment

Date on all Outstanding Bonds or to be paid on the Bonds being redeemed on such date.

- (3) The Fiscal Agent shall deposit in the Principal Account of the Bond Service Fund, on each Interest Payment Date and redemption date on which the principal of the Bonds shall be payable, an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of, and premium (if any) on, the Bonds coming due and payable on such Interest Payment Date, or required to be redeemed on such date pursuant to the Indenture.
 - (4) 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 A or the Improvement Area B Special Tax Fund, as applicable, to the Rebate Fund the amount specified in such request.
 - (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 A or Improvement Area B Special Tax Fund, as applicable, to the Administrative Expense Fund the amounts specified in such request to pay those Administrative Expenses which the District reasonably expects (a) will become due and payable during such Fiscal Year or the cost of which Administrative Expenses have previously been incurred and paid by the District from funds other than the Administrative Expense Fund and (b) the cost of which Administrative Expenses will be in excess of the Administrative Expense Requirement for such Fiscal Year.
 - (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 A or Improvement Area B Special Tax Fund, as applicable, such monies shall remain on deposit in such Special Tax Fund and shall be subsequently deposited or transferred pursuant to the provisions of (1) through (b) above, provided, however, that if the District notifies the Fiscal Agent that the levy of Special Taxes on Developed Property exceeds the Annual Special Tax Requirement (as defined in the applicable Special Tax RMA), then 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 A or Improvement Area B Special Tax Revenues, as applicable, 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 A or Improvement Area B Special Tax Fund, as applicable, shall be transferred to the District and used for any lawful purpose under the Act.

Bond Service Fund.

Interest Account. All moneys in the Interest Account, including the 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 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 related to each Series of the Bonds have been paid as stated in writing by an Authorized Representative delivered to the Fiscal Agent or six months after the Delivery Date of each Series of the Bonds shall be transferred to the Improvement Area A or Improvement Area B Special Tax Fund, as applicable.

Improvement Fund

The Fiscal Agent shall, from time to time, disburse monies from the Improvement Fund to pay the Actual Costs.

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 A or Improvement Area B Special Tax Fund, as applicable.

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, the Fiscal Agent shall immediately 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 A or Improvement Area B 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 A or Improvement Area B Special Tax Fund, as applicable, an amount necessary to increase the balance therein to the Reserve Requirement. If on September 1, or the first Business Day thereafter if 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 (a) to the Improvement Fund until the earlier of (i) final payment or reimbursement of all Actual Costs or (ii) September 1, 2006 and (b) thereafter to the Interest Account of the Bond Service Fund.

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 A 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.

In no event shall amounts in the Reserve Fund be used to pay fees or expenses of the Fiscal Agent or its counsel.

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 remain on deposit therein and shall be used for the purposes provided for in the Indenture.

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 A or Improvement Area B, 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.

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 A or Improvement Area B Special Taxes, as applicable, 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 Officer (prior to any withdrawals from the Reserve Fund) draw upon such Letter of Credit; provided, however, that the amount of such draw or withdrawal (as set forth in said written direction of the Authorized Officer) shall be no greater than the delinquent Improvement Area A or Improvement Area B 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 District shall, upon receipt of Delinquency Proceeds representing the Improvement Area A or Improvement Area B Special Taxes, as applicable, the delinquency of which necessitated such draw on such Letter of Credit or transfer of funds from a Cash Deposit, (a) reimburse 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.

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, such proceeds 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.

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. No amendment may be made to any provision of the Supplement to Mitigation Agreement pertaining to the provision of a Letter of Credit 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.

Investment of Funds.

Unless otherwise specified in the Indenture, monies in the Improvement Area A or Improvement Area B 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. Subject to the restrictions set forth therein and/or any written investment instructions received by Fiscal Agent, monies in said funds and accounts may be from time to time invested by the Fiscal Agent in any manner so long as:

- (1) Monies in the Improvement Fund, Administrative Expense Fund and Rebate Fund shall be invested in obligations which will by their terms mature as close as practicable to the date the District estimates the monies represented by the particular investment will be needed for withdrawal from such Fund; and
- (2) Monies in the Improvement Area A or Improvement Area B Special Tax Fund, as applicable, the Bond Service Fund, the Redemption Fund and the Reserve Fund shall be invested only in obligations which will by their terms either mature or allow for withdrawals at par on such dates so as to ensure the payment of principal and interest on the Bonds as the same become due or shall be redeemed prior to maturity.

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 Bondowners;
- (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 the Supplemental Indentures hereto 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 A or Improvement Area A 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 A or Improvement Area B 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 A or Improvement Area B 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 \$5,000 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 \$10,000 or more, the District shall, not later than forty five (45) days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner. The District shall cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than ninety (90) days of such determination against any parcel for which a notice of delinquency was given pursuant to this section 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 this section 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. Except for the issuance of Parity Bonds pursuant to and as provided for in the Indenture, the District will not issue any other obligations payable, principal or interest, from the Improvement Area A or Improvement Area B 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 authorized in the Indenture. Nothing in the Indenture shall prevent the District from issuing and selling, pursuant to law, refunding bonds or other refunding obligations payable from and having a first lien upon 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 A or Improvement Area B Special Taxes. The District shall comply with all requirements of the Act so as to assure the timely collection of the Improvement Area A or Improvement Area B Special Taxes, as applicable. 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 A or Improvement Area B Special Tax RMA, as applicable, 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 A or Improvement Area B Special Tax, as applicable, 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 (as defined in the Improvement Area A or Improvement Area B Special Tax RMA, as applicable), 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 (as such term is defined in the Improvement Area A or Improvement Area B Special Tax RMA, as applicable) of Developed Property in each Fiscal Year will equal at least 110% of the gross debt service on all Bonds to remain Outstanding after the reduction is approved and will not reduce the Maximum Special Tax payable from Assessor's Parcels of Developed Property is located to less than 110% of Maximum Annual Debt Service, and (ii) the Board of Education, acting as the legislative body of the District, finds pursuant to the Indenture that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds. Any reduction in the Maximum Special Tax approved pursuant to the preceding sentence may be approved without the consent of the Owners of the Bonds.

The District covenants that, in the event that any initiative is adopted by the qualified electors of Improvement Area A or Improvement Area B which purports to reduce the Maximum Special Tax below the levels authorized pursuant to the Improvement Area A or Improvement Area B Special Tax RMA, as applicable, or to limit the power or authority of the District to levy Improvement Area A or Improvement Area B Special Taxes, as applicable, pursuant to such 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 A or Improvement Area B Special Tax Revenues, as applicable, 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 this section 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 Treasury 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 A or Improvement Area B 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 A or Improvement Area B 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 A or Improvement Area B 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.

Except as to moneys on deposit in the Improvement Fund, if a default in the payment of the Bonds shall occur and be continuing, all revenues and any other funds then held or thereafter received under any of the provisions of the Indenture shall be applied as follows and in the following order:

- A. To the payment of any expenses necessary in the opinion of the District to protect the interest of the owners of the Bonds and payment of reasonable charges and expenses of the Fiscal Agent (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;
- B. To the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity of redemption, and if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without discrimination or preference.

Remedies 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 conferred upon in the Indenture 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 under the Indenture 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 F

FORM OF COMMUNITY FACILITIES DISTRICT CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is executed and entered into as of October 1, 2001 by and among the Poway Unified School District on behalf of Community Facilities District No. 10 (Torrey Highlands - Subarea IV) of the Poway Unified School District (the "Community Facilities District"), David Taussig & Associates, Inc., in its capacity as Dissemination Agent (the "Dissemination Agent") and State Street Bank and Trust Company of California, N.A., a national banking association organized and existing under and by virtue of the laws of the United States (the "Bank") in its capacity as Fiscal Agent (the "Fiscal Agent") in connection with the issuance of the Community Facilities District No. 10 (Torrey Highlands - Subarea IV) of the Poway Unified School District 2001 Improvement Area A Special Tax Bonds (the "Improvement Area A Bonds") and Improvement Area B Special Tax Bonds (the "Improvement Area B Bonds" and together with the Improvement Area A Bonds, the "2001 Bonds");

WITNESSETH:

WHEREAS, pursuant to the Bond Indenture, dated as of September 1, 2001 (the "Bond Indenture"), by and between the Community Facilities District and the Fiscal Agent, the Community Facilities District has issued the Improvement Area A Bonds in the aggregate principal amount of \$9,700,000 and the Improvement Area B Bonds in the aggregate principal amount of \$6,345,000; and

WHEREAS, the 2001 Bonds are payable from and secured by special taxes levied on certain of the 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 the Disclosure Agreement. The Disclosure Agreement is being executed and delivered by the Community Facilities District for the benefit of the owners and beneficial owners of the 2001 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Bond 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 Community Facilities District No. 10 (Torrey Highlands - Subarea IV) of the Poway Unified School District.

"Disclosure Representative" shall mean the Assistant Superintendent, Business Support Services of the School District.

“Dissemination Agent” shall mean David Taussig & Associates, Inc., 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.

“Improvement Area” shall mean Improvement Area A or Improvement Area B of Community Facilities District No. 10 (Torrey Highlands - Subarea IV) of the Poway Unified School District.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at www.sec.gov/consumer/nrmsir.htm.

“Participating Underwriter” Stone & Youngberg LLC.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The Community Facilities District shall, or, shall cause the Dissemination Agent to, not later than the Annual Report Date commencing January 31, 2002, provide to each Repository, to the Fiscal Agent and to the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Community Facilities District shall provide the Annual Report to the Dissemination 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 and later than the date required above for the filing of the Annual Report if not available by that date. If the School District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). If the Dissemination Agent has not received a copy of the Annual Report on or before 15 business days prior to January 31 in any year, the Dissemination Agent shall notify the Community Facilities District of such failure to receive the 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 Repositories and to the Participating Underwriter an Annual Report by the date required in subsection (a),

the Dissemination Agent shall send a notice to the Repositories and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any;

(ii) provide any Annual Report received by it to each Repository, the Fiscal Agent and the Participating Underwriter 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 the Annual Report, file a report with the Community Facilities District, the Fiscal Agent and the Participating Underwriter certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Community Facilities District's 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 2001 Bonds and any refunding bonds:

(i) Principal amount of 2001 Bonds and any refunding bonds outstanding as of a date within 30 days preceding the date of the Annual Report;

(ii) Balance in the 2001 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) Balance in the Improvement Fund as of a date within 30 days preceding the date of the Annual Report, and of any other fund not referenced in clauses (i), (ii), (iii) or (iv) hereof;

(v) A table summarizing assessed value-to-lien notices for the property in Improvement Area A and Improvement Area B and by Rate and Method of Apportionment of Special Taxes land use categories. The assessed values in such table will be determined by reference to the value of the parcels within Improvement Area A and Improvement Area B 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 2 next preceding the Annual Report Date. The lien values in such table will include all 2001 Bonds and any refunding bonds of Improvement Area A

and Improvement Area B and all other debt secured by a tax or assessments levied on parcels within Improvement Area A and Improvement Area B.

- (vi) Information regarding the annual special taxes levied in Improvement Area A and Improvement Area B, amount collected, delinquent amounts and percent delinquent for the most recent fiscal year;
- (vii) Status of foreclosure proceedings of parcels within Improvement Area A and Improvement Area B and summary of results of foreclosure sales, if available;
- (viii) A land ownership summary listing property owners responsible for more than 5% of the Special Tax levy as shown on the assessment roll of the San Diego County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, a summary of the Special Taxes levied on the property within Improvement Area A and Improvement Area B 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 Community Facilities District delinquent in payment of Special Tax,
 - total of such delinquency and percentage of delinquency in relation to total Special Tax levy,
 - status of the actions taken by the School District and/or the Community Facilities District related to any foreclosure proceedings upon delinquent properties within Improvement Area A and Improvement Area B,
- (x) 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.
- (xi) a copy of any report for or concerning Improvement Area A and Improvement Area B as of the immediately preceding October 31 required under State law; and
- (xii) Any changes to the Rate and Method of Apportionment of Special Tax for Improvement Area A or Improvement Area B approved or submitted to the qualified electors of the Community Facilities District 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 specifically required statements, in the light of the circumstances under which they are made, not misleading

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Community Facilities District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The 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, notice of the occurrence of any of the following events with respect to the 2001 Bonds and any Additional Bonds, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) Modifications to rights of security holders;
- (viii) Contingent or unscheduled bond calls;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities; and
- (xi) Rating changes.

(b) The Dissemination Agent shall, within five business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Community Facilities District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of the Listed Events described under clauses (ii), (iii), (vi), (x) and (xi) above shall mean actual knowledge by an officer at the corporate trust office of

the Dissemination Agent. The Dissemination Agent shall have no responsibility for determining the materiality of any of the Listed Events.

(c) Whenever the Community Facilities District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Community Facilities District shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the Community Facilities District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Community Facilities District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f). The Community Facilities District shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.

(e) If in response to a request under subsection (b), the Community Facilities District determines that the Listed Event 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 (f).

(f) If the Dissemination Agent has been instructed by the Community Facilities District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to each Participating Underwriter described on Exhibit B attached hereto. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected 2001 Bonds pursuant to the Bond Indenture.

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 2001 Bonds, (ii) prior redemption of the 2001 Bonds or (iii) payment in full of all the 2001 Bonds. If such determination occurs prior to the final maturity of the 2001 Bonds, the Community Facilities District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The 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 Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be David Taussig & Associates, Inc. The Dissemination Agent may resign by providing thirty days' written notice to the 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 2001 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 2001 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 2001 Bonds in the manner provided in the Bond Indenture for amendments to the Bond 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 2001 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 Repositories in the same manner as for a Listed Event under Section 5(f).

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the 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 any Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding 2001 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent), any owner or beneficial owner of the 2001 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 Bond 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 7.02 and Section 7.05 of the Bond Indenture are hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Bond 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 2001 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 Bond 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 Bond 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 2001 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 Underwriters and the owners and beneficial owners from time to time of the 2001 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 2001 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: Community Facilities District No. 10
(Torrey Highlands - Subarea IV) of the
Poway Unified School District
13626 Twin Peaks Road
Poway, California 92064-3098
Telephone: (858) 679-2501
Telecopier: (858) 513-0967
Attention: Assistant Superintendent, Business Support Services

If to the Dissemination Agent: David Taussig & Associates, Inc.
1301 Dove Street, Suite 600
Newport Beach, California 92660
Telephone: (949) 955-1500
Telecopier: (949) 955-1590

If to the Fiscal Agent: State Street Bank and Trust Company of California, N.A.
633 West 5th Street, 12th Floor
Los Angeles, California 90071
Telephone: 213/362-7334
Telecopier: 213/362-7357

If to the Participating Underwriter: Stone & Youngberg LLC
50 California Street, 35th Floor
San Francisco, California 94111
Telephone: (415) 981-1314
Attention: Municipal Research Department

Section 14. Future Determination of Obligated Persons. In the event the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within 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 meeting the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Agreement shall be deemed to obligate the 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 Purchase Agreement shall be governed by the laws of the State of California.

Section 12. 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 13. 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 Community Facilities District No. 10
(Torrey Highlands - Subarea IV)
of the Poway Unified School District

By: _____
Authorized Officer

STATE STREET BANK AND TRUST COMPANY
OF CALIFORNIA, N.A.
as Fiscal Agent

By: _____
Authorized Officer

DAVID TAUSSIG & ASSOCIATES, INC.,
as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

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

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

Name of Bond Issue: Community Facilities District No. 10 (Torrey Highlands - Subarea IV) of the
Poway Unified School District Improvement Area A Special Tax Bonds and
Improvement Area B Special Tax Bonds

Date of Issuance: _____, 2001

NOTICE IS HEREBY GIVEN that Community Facilities District No. 10 (Torrey Highlands - Subarea IV) of the Poway Unified School District (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 _____ 1, 2001, by and between the Community Facilities District and _____, as Fiscal Agent and as Dissemination Agent. [The Community Facilities District anticipates that the Annual Report will be filed by _____.]

Dated: _____, 20__

David Taussig & Associates, as Dissemination
Agent, on behalf of the Community Facilities
District

cc: Community Facilities District No. 10 (Torrey Highlands - Subarea IV)
Stone & Youngberg LLC

EXHIBIT B

PARTICIPATING UNDERWRITER

Stone & Youngberg LLC, 15260 Ventura Boulevard, Suite 1520, Sherman Oaks, California 91403
Attention: Public Finance Department.

APPENDIX G

FORM OF DEVELOPER CONTINUING DISCLOSURE AGREEMENTS

A separate Developer Continuing Disclosure Agreement will be provided by the WPH LLCs, LEN - Greystone and Standard Pacific Corporation. DR Horton is not a Major Developer (as defined below) and will not be subject to a Continuing Disclosure Agreement.

This CONTINUING DISCLOSURE AGREEMENT (this "Disclosure Agreement") is executed and entered into as of October 1, 2001, by and between State Street Bank and Trust Company of California, N.A., a national banking association organized and existing under and by virtue of the laws of the United States (the "Bank"), in its capacity as Dissemination Agent (the "Dissemination Agent") and in its capacity as Fiscal Agent (the "Fiscal Agent"), and _____, a [_____] organized and existing under and by virtue of the laws of the State of _____ (the "Developer");

WITNESSETH:

WHEREAS, pursuant to the Bond Indenture, dated as of September 1, 2001 (the "Bond Indenture"), by and between Community Facilities District No. 10 (Torrey Highlands - Subarea IV) of the Poway Unified School District (the "Community Facilities District") and the Fiscal Agent, the Community Facilities District has issued the Community Facilities District No. 10 (Torrey Highlands - Subarea IV) of the Poway Unified District Improvement Area A Special Tax Bonds (the "Improvement Area A Bonds") in the aggregate principal amount of \$9,700,000 and the Improvement Area B Special Tax Bonds (the "Improvement Area B Bonds") in the aggregate principal amount of \$6,345,000 (the Improvement Area A Bonds and the Improvement Area B Bonds are collectively referred to as the "2001 Bonds");

WHEREAS, the 2001 Bonds are payable from and secured by special taxes levied on certain of the property within the Community Facilities District;

WHEREAS, the Developer is the owner of a substantial portion of the property within 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 2001 Bonds and in order to assist the underwriters of the 2001 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 Bond Indenture. In addition, the following capitalized terms shall have the following meanings:

"Affiliate" of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, 5% or more of the outstanding voting securities of such other Person, (b) any Person 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person; for purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

"Assumption Agreement" means an agreement between a Major Developer, or an Affiliate thereof, and the Fiscal 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 owned by such Major Developer and its Affiliates.

"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 reach the Planned Development Stage, 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) - Property Ownership and Development."

"Disclosure Representative" means the _____ of _____, 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.

"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 a 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.

"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) -Property Ownership and Development."

"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 financial institution 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.

"First Report Date" means the date in each year that is three months after the end of the Developer's fiscal year, which First Report Date, as of the date of this Disclosure Agreement, is [April 1].

"Improvement Area [A] [B]" means Improvement Area [A] [B] of the Community Facilities District.

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

"Major Developer" means with respect to the Property owned by the Developer as of October 1, 2001, any Property Owner, including the Developer, that owns any portion of such Property that has not reached the Planned Development Stage that, together with Property that has not reached the Planned Development Stage owned by Affiliates of such Property Owner, is subject to 20% or more of the Special Tax levy within the Improvement Area for the then current Fiscal Year.

"National Repository" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The Nationally Recognized Municipal Securities Information Repository for purposes of the Rule are identified in the Securities and Exchange Commission website located at <http://www.sec.gov/consumer/nrmsir.htm>.

“Official Statement” means the Official Statement, dated October 11, 2001, relating to the 2001 Bonds.

“Participating Underwriter” means any of the original underwriters of the 2001 Bonds required to comply with the Rule in connection with offering of the 2001 Bonds.

“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.

“Planned Development Stage” means, with respect to any portion of the Property, the stage of development to which the Major Developer intends to develop such Property, as described in the Official Statement, which is the stage at which finished grading has been substantially completed, major backbone infrastructure for the Property has been substantially completed, in-tract infrastructure of the portions of the Property owned by the Property Owner and any Affiliates has been completed and production units have been constructed.

“Property” means the real property within the Improvement Area that is not exempt from the Special Taxes.

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

“Report Dates” means, collectively, the First Report Dates and the Second Report Dates.

“Repository” means each National Repository and each State Repository.

“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.

“Second Report Date” means the date in each year that is ten months after the end of the Developer’s fiscal year, which Second Report Date, as of the date of this Disclosure Agreement, is [October 1].

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

“State Repository” means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 2. Provision of Semi-Annual Reports. (a) The Developer shall, or, upon receipt of the Semi-Annual Report by the Dissemination Agent, the Dissemination Agent shall, provide to each Repository a Semi-Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Report Date, commencing with the first Semi-Annual Report Date to occur in 2002. 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 audited financial statements of the Developer, if any, may be submitted separately from the balance of the Semi-Annual Report that is to be provided no later than the First Report Date, and later than the date required above for the filing of such Semi-Annual Report if not available by that date. If the 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.

(b) Not later than 15 business days prior to the date specified in subsection (a) for providing the Semi-Annual Report to Repositories, the Developer shall provide the Semi-Annual Report (in a form suitable for reporting to the Repositories) to the Dissemination Agent and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). If by such date, the Dissemination Agent has not received a copy of the Semi-Annual Report, the Dissemination Agent shall notify the Disclosure Representative and the Fiscal 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 Dissemination Agent to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it hereunder. The

Dissemination Agent may conclusively rely upon such certification of the Developer and shall have no duty or obligation to review such Semi-Annual Report.

(c) If the Dissemination Agent is unable to verify that a Semi-Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board, the appropriate State Repository, if any, the Fiscal Agent 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 name and address of each National Repository and each State Repository, if any;

(ii) provide any Semi-Annual Report received by it to each Repository, as provided herein; and

(iii) with respect to each Semi-Annual Report received by it and provided by it to each Repository, file a report with the Developer, the Fiscal Agent (if the Dissemination Agent is not the Fiscal Agent) and each Participating Underwriter certifying that the Semi-Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

(e) The Developer shall, or if received by the Dissemination Agent, the Dissemination Agent shall, provide each Semi-Annual Report to each Participating Underwriter described on Exhibit B attached hereto, to the Fiscal Agent and to the Community Facilities District at the time such Semi-Annual Report is provided to the Repositories in accordance with this Section.

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 the First Report Date, Financial Statements for 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). 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, and the audited Financial Statements shall be filed as a supplement or amendment to the Semi-Annual Report when they become available. Such Financial Statements shall be for the most recently ended fiscal year for the entity covered thereby.

(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); provided, that, if such information is required from the Developer as to another Major 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 the Community Facilities District relating to such Major Developer.

(iv) The number of building permits issued with respect to any of such Major Developer's Property during the six month period ending on the last day of the second month preceding the month in which the report date occurs as well as the number of building permits issued with respect to such Major Developer's Property included in each previous Semi-Annual Report, set forth opposite such previous reporting period.

(v) A description of any sales of portions of such Major Developer's Property during the six-month period ending on the last day of the second month preceding the month in which the Report Date occurs, including the identification of each buyer (other than individual home buyers) and the number of residential lots and commercial or other acres sold; provided, however, that sales of five or fewer commercial or other acres may be aggregated for the purpose of such description.

(vi) A description of how many residential lots and commercial or other acres of Property were owned by such Major Developer as of the last day of the second month preceding the month in which the Report Date occurs, how many residential lots and commercial or other acres of such Major Developer's Property reached the Planned Development Stage during the six-month period ending on the last day of the second month preceding the month in which the Report Date occurs and how many residential lots and commercial or other acres of such Major Developer's Property had not reached the Planned Development Stage as of the last day of the second month preceding the month in which the Report Date occurs.

(vii) a statement as to whether or not such Major Developer and all of its Affiliates paid, prior to their becoming delinquent, all Special Taxes, property taxes, assessments and special taxes levied on the Property owned by such Major Developer and such Affiliates that would have been delinquent had they not been paid by the preceding December 10 or April 10, respectively, and if such Major Developer or any of such Affiliates is delinquent in the payment of such Special Taxes, property taxes, assessments or special taxes levied on the Property, a statement identifying each entity 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 the Developer, any Major Developer and/or the Property owned by the Developer or such Major Developer contained in the Official Statement under the caption "SPECIAL RISK FACTORS - Endangered Species" and "- 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 such 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, which could have a significant impact on such Major Developer's ability to pay Special Taxes or to sell or develop all or any portion of such Major Developer's Property.

(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 specifically required statements, in the light of the circumstances under which they are made, not misleading.

Major Developers that are Affiliates of each other may file a single Semi-Annual Report covering all such entities. Any or all of the items listed above may be included by specific reference to other documents which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from

the Municipal Securities Rulemaking Board. The Developer shall clearly identify each such other document so included by reference. If all of the property owned by such Major Developer has reached the Planned Development Stage and such fact has previously been reported under this Section 3, no further report under this Section 3 shall be required.

Section 4. Reporting of Significant Events. (a) Pursuant to the provisions of this Section, the Developer shall promptly give, or cause to be given notice of the occurrence 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 the Developer as to another Major Developer, the Developer shall only be required to provide such information that it has actual knowledge of:

(i) Unless disclosed in the Official Statement or a prior Semi-Annual Report, any conveyance by such Major Developer of Property owned by such Major Developer 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 such transferee has assumed any obligations of Developer under this Disclosure Agreement pursuant to Section 5 hereof, a statement as to the assumption of such obligations by such Major Developer, including a copy of the Assumption Agreement shall be attached to the Notice.

(ii) Any failure of such Major Developer, or any Affiliate of such Major Developer, 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 that could 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 within 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 could 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 within the Community Facilities District when due.

(v) Any significant amendments to land use entitlements for such Major Developer's Property, if material to the Development Plan.

(vi) Any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development on such Major Developer's Property, if material to the Development Plan.

(vii) Any previously undisclosed legislative, administrative or judicial challenges to development on such Major Developer's Property, if material to the Development Plan.

(viii) Any changes, if material to the Development Plan, 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.

(ix) The filing of any lawsuit against a Major Developer which, in the reasonable judgment of such Major Developer, will adversely affect the completion of the development of Property owned by such Major Developer, or litigation which if decided against the Major Developer, in the reasonable judgment of the Major Developer, would materially adversely affect the financial condition of the Major Developer.

(b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall promptly notify the Dissemination Agent, the Fiscal Agent, the Participating Underwriter, and the Community Facilities District in writing. Such notice shall instruct the Dissemination Agent to

report the occurrence pursuant to subsection (c). The Developer shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.

(c) If the Dissemination Agent has been instructed by the Developer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to each Participating Underwriter described on Exhibit B attached hereto, to the Fiscal Agent and to the Community Facilities District.

Section 5. Assumption of Obligations. If a portion of the Property owned by the Developer, or any Affiliate of the Developer, is conveyed to a Person that, upon such conveyance, will be a Major Developer, all of the obligations of the Developer hereunder with respect to the Property owned by such Major Developer and its Affiliates may be assumed by such Major Developer or by an Affiliate. In order to effect such assumption, such Major Developer or Affiliate shall enter into an Assumption Agreement. A copy of the Assumption Agreement shall be provided to each Participating Underwriter described on Exhibit B attached hereto and to the Dissemination Agent, the Fiscal Agent and the Community Facilities District as set forth in Section 4(b) and (c).

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, (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 the Property owned by 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 clause (a), (b) or (c), the Developer's obligations hereunder with respect to each other Major Developer, if any, shall remain in full force and effect. All of the Developer's obligations under this Disclosure Agreement shall terminate 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 Improvement Area ___ Bonds have been legally defeased, redeemed, or paid in full. Upon the occurrence of any such termination prior to the final maturity of the Improvement Area ___ 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 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 any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days' written notice to the Developer and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). The Dissemination Agent shall have no duty to prepare the 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, 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 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 with respect to the 2001 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 Improvement Area ___ 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 2001 Bonds in the manner provided in the Bond Indenture for amendments to the Bond Indenture with the consent of owners of the Improvement Area ___ Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of owners or beneficial owners of the 2001 Bonds.

If the financial information or operating data contained within the Financial Statements required to be provided in the Semi-Annual Report 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.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing the 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 or information, in order to provide information to investors to enable them 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 Repositories 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.

Section 10. Default. In the event of a failure of the Developer or the Fiscal Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the written direction of any Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding Improvement Area ___ Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent), or any owner or beneficial owner of the Improvement Area ___ Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Developer 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 Bond 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. The Dissemination Agent and the Fiscal Agent shall have only such duties hereunder 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 claim of liability, but excluding losses, expenses and liabilities due to the Fiscal Agent's or the Dissemination Agent's negligence, willful misconduct or failure to comply with any provision of this Disclosure Agreement. 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. The 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 Community Facilities District: Community Facilities District No. 10 (Torrey Highlands - Subarea IV) of the Poway Unified School District
13626 Twin Peaks Road
Poway, California 92064-3098
Telephone: (858) 679-2501
Telecopier: (858) 513-0967
Attention: Assistant Superintendent, Business Support Services

If to the Dissemination Agent: State Street Bank and Trust Company of California, N.A.
633 West 5th Street, 12th Floor
Los Angeles, California 90071
Telephone: 213/362-7334
Telecopier: 213/362-7357

If to the Fiscal Agent: State Street Bank and Trust Company of California, N.A.
633 West 5th Street, 12th Floor
Los Angeles, California 90071
Telephone: 213/362-7334
Telecopier: 213/362-7357

If to the Participating Underwriter: Stone & Youngberg LLC
50 California Street, 35th Floor
San Francisco, California 94111
Telephone: (415) 981-1314
Attention: Municipal Research Department

Section 13. **Beneficiaries.** The Participating Underwriters and the owners and beneficial owners from time to time of the Improvement Area ___ 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 Underwriters and owners and beneficial owners from time to time of the Improvement Area ___ Bonds, and shall create no rights in any other person or entity.

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.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

_____, [_____]
By:

By:

By:

By: _____

Authorized Agent

By:

By: _____

Authorized Agent

STATE STREET BANK AND TRUST COMPANY
OF CALIFORNIA, N.A., as Fiscal Agent

By: _____
Authorized Officer

STATE STREET BANK AND TRUST COMPANY
OF CALIFORNIA, N.A., as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

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

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

Name of Bond Issue: Community Facilities District No. 10 (Torrey Highlands - Subarea IV) of the
Poway Unified School District Improvement Area A Special Tax Bonds and
Improvement Area B Special Tax Bonds

Date of Issuance: _____, 2001

NOTICE IS HEREBY GIVEN that _____ (the "Developer") has not
provided a Semi-Annual Report with respect to the above-named Bonds as required by the Continuing
Disclosure Agreement, dated as of _____ 1, 2001, by and between the Developer
and _____, as Fiscal Agent and as Dissemination Agent. [The Developer anticipates that
the Semi-Annual Report will be filed by _____.]

Dated: _____, 20__

_____, as Dissemination Agent,
on behalf of the Developer

cc: _____
Stone & Youngberg LLC

EXHIBIT B

PARTICIPATING UNDERWRITER

Stone & Youngberg LLC, 15260 Ventura Boulevard, Suite 1520, Sherman Oaks, California
91403 Attention: Public Finance Department.

APPENDIX H

FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds, Best, Best & Krieger, San Diego, California, Bond Counsel to Community Facilities District No. 10 (Torrey Highlands) of the Poway Unified School District, proposes to render their final approving opinion with respect to the Bonds in substantially the following form:

Poway Unified School District
13626 Twin Peaks Road
Poway, California 92064-3098

**Re: Poway Unified School District
Community Facilities District No. 10 (Torrey Highlands - Subarea IV)
\$9,700,000 Improvement Area A Special Tax Bonds and
\$6,345,000 Improvement Area B Special Tax Bonds
Final Opinion of Bond Counsel**

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by Community Facilities District No. 10 (Torrey Highlands) of the Poway Unified School District (the "District") of \$9,700,000 aggregate principal amount of bonds designated "Poway Unified School District Community Facilities District No. 10 (Torrey Highlands – Subarea IV) Improvement Area A Special Tax Bonds" and \$6,345,000 aggregate principal amount of bonds designated "Poway Unified School District Community Facilities District No. 10 (Torrey Highlands – Subarea IV) Improvement Area B Special Tax Bonds" (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) and Resolution No. 30-2002 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 September 24, 2001, and two Bond Indentures each executed in connection therewith dated as of September 1, 2001, by and between the District and State Street Bank and Trust Company of California, N.A., 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 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 District and the School District, the Underwriter, the Developer 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. Furthermore, we have assumed compliance with all covenants contained in the Bond Indenture, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes. Failure to comply with certain of such covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of original issuance of the Bonds.

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 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 Special Taxes, and from 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. Interest on the Bonds (including any original issue discount properly allocable to the owner thereof) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum taxes imposed on individuals and corporations; although it should be noted that with respect to corporations, such interest will be excluded as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. We express no opinion regarding other tax consequences related to the Bonds or to the accrual or receipt of the interest on the Bonds.

We express no opinion as to any matter other than as expressly set forth above.

Very truly yours,

APPENDIX I
BOOK-ENTRY SYSTEM

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Series 2001 Bonds, payment of principal of and interest on the Series 2001 Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Series 2001 Bonds, and other Series 2001 Bonds-related transactions by and between DTC, Participants and Beneficial Owners, is based on information furnished by DTC which the Community Facilities District and the School District each believes to be reliable, but the Community Facilities District and the School District take no responsibility for the completeness or accuracy thereof.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2001 Bonds. The Series 2001 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 Series 2001 Bond certificate will be issued for each maturity of the Series 2001 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2001 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2001 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2001 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, but Beneficial Owners are 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 Series 2001 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 Series 2001 Bonds, except in the event that use of the book-entry system for the Series 2001 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2001 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 Series 2001 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial

ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2001 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2001 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.

Redemption notices shall be sent to DTC. If less than all of the Series 2001 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2001 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Community Facilities 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 Series 2001 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the Series 2001 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 Community Facilities 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 Community Facilities District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) shall be the responsibility of the Community Facilities District or the Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2001 Bonds at any time by giving reasonable notice to the Community Facilities District or the Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2001 Bond certificates are required to be printed and delivered.

The Community Facilities District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2001 Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Community Facilities District and the School District believe to be reliable, but the Community Facilities District and the School District take no responsibility for the accuracy thereof.

Other Matters Relating to Book-Entry System

The Fiscal Agent will make payments of principal of and premium, if any, and interest on the Series 2001 Bonds to DTC or its nominee, Cede & Co., as Owner of the Series 2001 Bonds. The current practice of DTC is to credit the accounts of the DTC Participants on the payable date in accordance with their

respective holdings shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on the payable date. Payments by DTC Participants or Indirect Participants to beneficial owners will be in accordance with standing instructions and customary practices, such as those which are now the case for municipal securities held in bearer form or registered in "street name" for the accounts of customers, and will be the responsibility of DTC Participants and Indirect Participants and not the responsibility of DTC, the Fiscal Agent, the Underwriters or the Community Facilities District, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Community Facilities District and the Fiscal Agent, disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of DTC Participants and Indirect Participants.

The Fiscal Agent and the Community Facilities District, so long as the DTC book-entry system is used for the Series 2001 Bonds, will send any notice of redemption or other notices only to DTC or its nominee. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a beneficial owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series 2001 Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Series 2001 Bonds by the Community Facilities District will reduce the outstanding principal amount of Series 2001 Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Series 2001 Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of Series 2001 Bonds for the beneficial owners. Any such selection of Series 2001 Bonds to be redeemed will not be governed by the Bond Indenture and will not be conducted by the Community Facilities District or the Fiscal Agent.

NEITHER THE COMMUNITY FACILITIES DISTRICT NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF SERIES 2001 BONDS FOR REDEMPTION.

Beneficial Owners of the Series 2001 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2001 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2001 Bond documents. Beneficial Owners of Series 2001 Bonds may wish to ascertain that the nominee holding the Series 2001 Bonds for their benefit has agreed to obtain and transmit notice to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

The Community Facilities District and the Fiscal Agent cannot give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, redemption premium, if any, and interest on the Series 2001 Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the beneficial owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC (or a successor securities depository) may discontinue providing its services as securities depository with respect to the Series 2001 Bonds at any time by giving reasonable notice to the Community Facilities District. The Community Facilities District, in its sole discretion and without the consent of any other person, may terminate the services of DTC (or a successor securities depository) with respect to the

Series 2001 Bonds. The Community Facilities District undertakes no obligation to investigate matters that would enable the Community Facilities District to make such a determination.

In the event that the book-entry system is discontinued as described above, the requirements of the Bond Indenture will apply. The foregoing information concerning DTC and DTC's Book-Entry System has been provided by DTC, and neither the Community Facilities District nor the Fiscal Agent take any responsibility for the accuracy thereof.

THE COMMUNITY FACILITIES DISTRICT AND THE FISCAL AGENT WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT, OR ANY INDIRECT PARTICIPANT, (II) THE DELIVERY OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE BONDDOWNERS UNDER THE BOND INDENTURE, (III) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF A SERIES 2001 BOND, (IV) THE PAYMENT BY ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OF OR INTEREST ON THE SERIES 2001 BONDS, (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE BONDDOWNER OF THE SERIES 2001 BONDS, OR (VI) ANY OTHER MATTER.

THE FISCAL AGENT, AS LONG AS A BOOK-ENTRY-ONLY SYSTEM IS USED FOR THE SERIES 2001 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2001 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.