

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 2003 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.

\$3,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 10
(TORREY HIGHLANDS — SUBAREA IV)
IMPROVEMENT AREA C 2003 SPECIAL TAX BONDS

Dated: Date of Delivery

Due: September 1, as shown below

The Improvement Area C 2003 Special Tax Bonds (the "2003 Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and the Bond Indenture dated as of September 1, 2003 (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 Zions First National Bank, as fiscal agent (the "Fiscal Agent"). The 2003 Bonds are payable from proceeds of Special Taxes (as defined herein) levied on property within Improvement Area C ("Improvement Area C") of the Community Facilities District according to the Rate and Method of Apportionment of Special Tax approved by the qualified electors of Improvement Area C 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 2003 Bonds are being issued (i) to finance, either directly or indirectly, the acquisition and construction of certain school and road improvements (the "Facilities"), (ii) to fund a reserve fund for the 2003 Bonds, (iii) to pay interest on the 2003 Bonds through September 1, 2004, (iv) to pay certain administrative expenses of the Community Facilities District, and (v) to pay the costs of issuing the 2003 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2003 BONDS" herein.

Interest on the 2003 Bonds is payable on March 1, 2004, and semiannually thereafter on each March 1 and September 1. The 2003 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The 2003 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 2003 Bonds as described herein under "THE 2003 BONDS — Book-Entry and DTC."

The 2003 Bonds are subject to optional redemption, mandatory redemption from prepayment of Special Taxes and mandatory redemption as described herein.

THE 2003 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2003 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 2003 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 2003 BONDS. OTHER THAN THE SPECIAL TAXES OF IMPROVEMENT AREA C, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2003 BONDS. THE 2003 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES LEVIED IN IMPROVEMENT AREA C 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 2003 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 2003 Bonds.

The 2003 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Best Best & Krieger LLP, San Diego, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the School District and the Community Facilities District by Best Best & Krieger LLP and by McFarlin & Anderson LLP, Lake Forest, California, Disclosure Counsel. It is anticipated that the 2003 Bonds, in book-entry form, will be available for delivery to DTC in New York, New York on or about October 16, 2003.

Stone & Youngberg LLC

Dated: October 1, 2003

MATURITY SCHEDULE

\$1,130,000 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>
2005	\$ 5,000	2.00%	100%	HK4	2015	\$ 55,000	4.75%	100%	HV0
2006	10,000	2.25	100	HL2	2016	60,000	4.85	100	HW8
2007	15,000	2.55	100	HM0	2017	65,000	4.95	100	HX6
2008	15,000	2.95	100	HN8	2018	75,000	5.05	100	HY4
2009	20,000	3.35	100	HP3	2019	80,000	5.15	100	HZ1
2010	25,000	3.75	100	HQ1	2020	90,000	5.25	100	JA4
2011	30,000	4.00	100	HR9	2021	100,000	5.35	100	JB2
2012	35,000	4.30	100	HS7	2022	110,000	5.45	100	JC0
2013	40,000	4.50	100	HT5	2023	120,000	5.55	100	JD8
2014	45,000	4.65	100	HU2	2024	135,000	5.65	100	JE6

\$665,000 5.70% Term Bonds due September 1, 2028 Price 100% CUSIP* No. 738855JF3

\$1,205,000 5.75% Term Bonds due September 1, 2033 Price 100% CUSIP* No. 738855JG1

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POWAY UNIFIED SCHOOL DISTRICT

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BOND COUNSEL/DISTRICT SPECIAL COUNSEL

Best Best & Krieger LLP
San Diego, California

SCHOOL DISTRICT COUNSEL

Best Best & Krieger LLP
San Diego, California

DISCLOSURE COUNSEL

McFarlin & Anderson LLP
Lake Forest, California

APPRAISER

Stephen G. White, MAI
Fullerton, California

SPECIAL TAX CONSULTANT & ADMINISTRATOR

David Taussig & Associates, Inc.
Newport Beach, California

FISCAL AGENT

Zions First National Bank
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 2003 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 2003 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 2003 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 2003 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2003 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 2003 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 2003 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2003 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
General	1
The School District	1
The Community Facilities District	1
Purpose of the 2003 Bonds	2
Sources of Payment for the 2003 Bonds	3
Appraisal	4
Tax Exemption	4
Risk Factors Associated with Purchasing the 2003 Bonds	4
Forward Looking Statements	4
Professionals Involved in the Offering	5
Other Information	5
CONTINUING DISCLOSURE	5
ESTIMATED SOURCES AND USES OF FUNDS	7
FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2003 BONDS	7
THE 2003 BONDS	8
Authority for Issuance	8
General Provisions	8
Debt Service Schedule	9
Redemption	10
Registration, Transfer and Exchange	12
Book-Entry and DTC	12
SECURITY FOR THE 2003 BONDS	12
General	12
Special Taxes	13
Rates and Methods	13
Proceeds of Foreclosure Sales	16
Special Tax Fund	18
Bond Service Fund	18
Redemption Fund	18
Reserve Fund	19
Administrative Expense Fund	19
Improvement Fund	19
Investment of Moneys in Funds	19
Payment of Rebate Obligation	19
Letters of Credit/Cash Deposit	20
Compliance with Letter of Credit Requirements	21
Additional Bonds for Refunding Purposes Only	21
Special Taxes Are Not Within Teeter Plan	21
COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV)	22
General Information	22
Authority for Issuance	22
Environmental Review	24
Environmental Permits	24
Property Ownership and Development	25
Appraised Property Values	29
Direct and Overlapping Debt	29
Overlapping Assessment and Maintenance Districts	32
BONDOWNERS’ RISKS	33
Risks of Real Estate Secured Investments Generally	33

Concentration of Ownership	34
Failure to Develop Properties	34
Special Taxes Are Not Personal Obligations	34
The 2003 Bonds Are Limited Obligations of the Community Facilities District	34
Appraised Values	35
Land Development	35
Burden of Parity Liens, Taxes and Other Special Assessments on the Taxable Property	36
Disclosure to Future Purchasers	36
Government Approvals	37
Local, State and Federal Land Use Regulations	37
Utility Deregulation	37
State Budget	37
Endangered and Threatened Species	38
Hazardous Substances	38
Insufficiency of the Special Tax	39
Exempt Properties	39
Depletion of Reserve Fund	40
Potential Delay and Limitations in Foreclosure Proceedings	40
Bankruptcy and Foreclosure Delay	41
Payments by FDIC and Other Federal Agencies	42
Factors Affecting Parcel Values and Aggregate Value	43
No Acceleration Provisions	43
District Formation	43
Billing of Special Taxes	44
Inability to Collect Special Taxes	44
Right to Vote on Taxes Act	44
Ballot Initiatives and Legislative Measures	45
Limited Secondary Market	45
Loss of Tax Exemption	46
Limitations on Remedies	46
LEGAL MATTERS	46
Legal Opinion	46
Tax Exemption	46
Absence of Litigation	47
No General Obligation of School District or Community Facilities District	47
NO RATINGS	48
UNDERWRITING	48
PROFESSIONAL FEES	48
MISCELLANEOUS	48
APPENDIX A - General Information About the Poway Unified School District	A-1
APPENDIX B - Rates and Methods of Apportionment for Community Facilities District No. 10 (Torrey Highlands – Subarea IV) of the Poway Unified School District	B-1
APPENDIX C - Summary Appraisal Report	C-1
APPENDIX D - Summary of Certain Provisions of the Bond Indenture	D-1
APPENDIX E - Form of Community Facilities District Continuing Disclosure Agreement	E-1
APPENDIX F - Form of Developer Continuing Disclosure Agreement	F-1
APPENDIX G - Form of Opinion of Bond Counsel	G-1
APPENDIX H - Book-Entry System	H-1

Poway Unified School District

Community Facilities District No. 10 (Improvement Area C)

(San Diego County, California)

Regional Location Map



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OFFICIAL STATEMENT

\$3,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 10
(TORREY HIGHLANDS – SUBAREA IV)
IMPROVEMENT AREA C 2003 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 2003 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 C 2003 Special Tax Bonds (the “2003 Bonds”).

The 2003 Bonds are issued pursuant to the Act (as defined below) and the Bond Indenture, dated as of September 1, 2003 (the “Bond Indenture”), by and between the School District (as defined below) and Zions First National Bank, as fiscal agent (the “Fiscal Agent”). See “THE 2003 BONDS – Authority of Issuance” herein. The Community Facilities District may issue additional bonds payable on a parity with the 2003 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 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, four (4) high schools, one (1) continuation high school and one (1) adult school. The School District estimates it will have approximately 32,850 students enrolled during Fiscal Year 2003-04. 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 C authorized bonded indebtedness in the aggregate not-to-exceed amount of \$3,000,000 and approved the levy of special taxes (the “Special Taxes”) in Improvement Area C. 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). On June 3, 2003, following a public hearing and landowner elections at which the qualified electors of Improvement Area C approved an amended Rate and Method of Apportionment of Special Tax.

The cost of the School Facilities is expected to exceed the cost of the City Facilities. The School Facilities will be financed by the levy of an annual special tax and a one-time special tax on Developed Property within Improvement Area C as set forth in the Community Facilities District No. 10 Rate and Method of Apportionment of Special Tax. See "SECURITY FOR THE 2003 BONDS – Rates and Methods." The School District will use such annual special taxes and bond proceeds for the acquisition, construction, rehabilitation, improvement of the School Facilities and related administrative expenses. A portion of the Special Taxes on Developed Property within Improvement Area C as set forth in the Improvement Area C Rate and Method of Apportionment of Special Tax and bond proceeds will be used for the acquisition, construction, rehabilitation, improvement of the School Facilities and related expenses. The 2003 Bonds are not secured by or payable from the special tax levied to finance the School Facilities. The 2003 Bonds will finance City Facilities and 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 extension of Camino del Sur (formerly Camino Ruiz) south of Carmel Valley Road in the northern portion of the City of San Diego. The Community Facilities District consists of approximately 470 gross acres of partially developed property. Improvement Area C consists of approximately 39.39 gross acres being developed with approximately 107 single-family detached units and 84 attached condominium units.

The major landowner in Improvement Area C is WPH – Torrey Meadows, LLC, a Delaware limited liability corporation ("WPH – Torrey Meadows"), an entity related to Western Pacific Housing Inc., a Delaware corporation ("Western Pacific Housing") and D.R. Horton, Inc., a Delaware corporation ("D.R. Horton"). WPH – Torrey Meadows expects to develop Improvement Area C with approximately 107 single-family detached units and 84 attached condominium units. Detailed information about the location of and property ownership and land uses in the Community Facilities District is set forth in "COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV)" herein.

WPH – Torrey Meadows is sometimes referred to herein as the "Developer."

Purpose of the 2003 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 Developer, and the Consent and Amendment to Supplement to Subarea IV Torrey Highlands School Impact Mitigation Agreement, dated as of October 21, 2002, by and among the School District and various landowners, as amended by the Consent and Amendment to Supplement to Subarea IV Torrey Highlands School Impact Mitigation Agreement, dated as of October 21, 2002, by and among the School District and the owners of land or the holders of options to purchase land within the CFD, including the Developer (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 School Facilities and to provide assurances to the School District for the timely construction of Camino del Sur (formerly Camino Ruiz) (Phase 1) between Carmel Valley Road and State Route 56 providing construction and permanent access to the Westview High School, which opened in September 2002, and of Street "B" from Camino del Sur to provide both construction and permanent access to the elementary school to be constructed within the Community Facilities District. See "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2003 BONDS" and "COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV) – Property Ownership and Development" herein.

Sources of Payment for the 2003 Bonds

The 2003 Bonds are secured by and payable from a first pledge of "Net Special Tax Revenues," of Improvement Area C which is defined as proceeds of the Special Taxes levied and received by the Community Facilities District with respect to Improvement Area C, 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 Bond Indenture) not to exceed \$15,300 (escalating by 2.00% each year following Fiscal Year 2003-04) with respect to Improvement Area C. "Special Taxes" are defined in the Bond Indenture as the proceeds of the special taxes levied and received by the Community Facilities District within Improvement Area C of the Community Facilities District and the "Delinquency Proceeds" as described above.

Pursuant to the Act, the Rate and Method of Apportionment of Special Tax for the Community Facilities District and the revised Rate and Method of Apportionment of Special Tax for Improvement Area C therein (each a "Rate and Method"), the Resolution of Formation (as defined herein), the Resolution of Consideration (as defined herein) and the Bond Indenture, so long as the 2003 Bonds are outstanding, the Community Facilities District will annually ascertain the parcels on which the Special Taxes are to be levied taking into account any subdivisions of parcels during the applicable Fiscal Year. The Community Facilities District shall effect the levy of the Special Taxes in accordance with each Rate and Method and the Act each Fiscal Year so that the computation of such levy is complete and transmitted to the Auditor of the County before the final date on which the Auditor of the County will accept the transmission of the Special Taxes for the parcels within Improvement Area C for inclusion on the next real property tax roll. See "SECURITY FOR THE 2003 BONDS – Special Taxes" herein.

The Improvement Area C 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 2003 BONDS – Rates and Methods" and "BONDOWNERS' RISKS – Exempt Properties."

The 2003 Bonds are secured by a first pledge of all moneys deposited in the Reserve Fund. See "SECURITY FOR THE 2003 BONDS." A Reserve Fund will be established out of the proceeds of the sale of the 2003 Bonds in an amount equal to the Reserve Requirement. The Bond Indenture defines the Reserve Requirement as an amount, as of any date of calculation, equal to the least of (i) the then maximum annual debt service on the 2003 Bonds, (ii) 125% of the then average annual debt service on the 2003 Bonds, or (iii) 10% of the initial principal amount of the 2003 Bonds, less original issue discount, if any, plus original issue premium, if any. The ability of the Board of Education, in its capacity as legislative body of the Community Facilities District, to increase the Annual Special Taxes levied to replenish the Reserve Fund is subject to the Maximum Special Tax (as defined in the Improvement Area C Rate and Method) authorized by the qualified voters of Improvement Area C. The moneys in the Reserve Fund will only be used for payment of principal of, interest and any redemption premium on, the 2003 Bonds and at the direction of the Community Facilities District, for payment of rebate obligations related to the 2003 Bonds. See "SECURITY FOR THE 2003 BONDS – Reserve Fund."

The Community Facilities District has also covenanted in the Bond Indenture to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Special Taxes. For a more detailed description of the foreclosure covenant see "SECURITY FOR THE 2003 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 2003 BONDS. OTHER THAN SPECIAL TAXES OF THE IMPROVEMENT AREA C, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2003 BONDS. THE 2003 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES OF IMPROVEMENT AREA C AS MORE FULLY DESCRIBED HEREIN.

Appraisal

An MAI appraisal of the land and existing improvements for each development within Improvement Area C of the Community Facilities District dated August 21, 2003 (the "Appraisal"), was prepared by Stephen G. White, MAI of Fullerton, California (the "Appraiser") in connection with issuance of the 2003 Bonds. The purpose of the appraisal was to estimate the market value of the land in its as-is condition, for the projects, reflecting the physical condition and entitlements. The Appraisal reflects the Community Facilities District and Improvement Area financings. The subject property in Improvement Area C includes property proposed for development of 107 single-family detached units and 84 attached condominiums. The Appraisal is based on certain assumptions. Subject to these assumptions, the Appraiser estimated that the market value of the land within Improvement Area C (subject to the lien of the Special Taxes) as of August 15, 2003 was as follows:

<u>Tract Name</u>	<u>No. of Units</u>	<u>Market Value</u>
San Lorenza	107	\$36,460,000
Monaco	<u>84</u>	<u>20,640,000</u>
	191	\$57,100,000

The market values of the property within Improvement Area C include the value of tract map approvals, completed models and production units, production units under construction on such property, and vacant lots and are subject to substantial fees and an affordable housing mitigation cost. The \$57,100,000 aggregate market value reported in the Appraisal results in an estimated value-to-lien ratio of 19.0 to 1 with respect to Improvement Area C, calculated in with respect to all direct and overlapping tax and assessment debt as of the estimated closing date. The value-to-lien ratios of individual parcels will differ from the foregoing aggregate values. See "COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV – Appraised Property Values," "COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV – Direct and Overlapping Debt" and "BONDOWNERS' RISKS – Appraised Values" herein and APPENDIX C – "Summary Appraisal Report" appended hereto for further information on the Appraisal and for limiting conditions relating to the Appraisal.

Tax Exemption

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the 2003 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 2003 Bonds will be exempt from State personal income taxes. See "LEGAL MATTERS – Tax Exemption" herein.

Risk Factors Associated with Purchasing the 2003 Bonds

Investment in the 2003 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 2003 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 Development" therein.

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

Professionals Involved in the Offering

Zions First National Bank, Los Angeles, California, will serve as the fiscal agent for the 2003 Bonds and will perform the functions required of it under the Bond Indenture for the payment of the principal of and interest and any premium on the 2003 Bonds and all activities related to the redemption of the 2003 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, Los Angeles, California, is acting as Underwriter in connection with the issuance and delivery of the 2003 Bonds. McFarlin & Anderson LLP, 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.

Except for some Bond Counsel and Special Tax Consultant fees paid from advances made to the School District by the Developer, payment of the fees and expenses of Bond Counsel, Disclosure Counsel, Special Tax Consultant, the Underwriter and the Fiscal Agent is contingent upon the sale and delivery of the 2003 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 2003 Bonds, certain sections of the Bond Indenture, security for the 2003 Bonds, special risk factors, the Community Facilities District, Improvement Area C, the School District, the Developer's projects, the Developer and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the 2003 Bonds, the Bond Indenture, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the 2003 Bonds, the Bond Indenture, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Associate Superintendent, Business Support Services of the Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3038.

CONTINUING DISCLOSURE

The Community Facilities District. The Community Facilities District has covenanted in the Community Facilities District Continuing Disclosure Agreement, the form of which is set forth in APPENDIX E – "Form of Community Facilities District Continuing Disclosure Agreement" (the "Community Facilities District Continuing Disclosure Agreement"), for the benefit of owners and beneficial owners of the 2003 Bonds, to provide certain financial information and operating data relating to the Community Facilities District and the 2003 Bonds by not later than January 31 in each year commencing on January 31, 2004 (the "Community Facilities District Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The report for January 31, 2004, will consist of the Official Statement and the audited financial statements of the School District.

The Community Facilities District Annual Report will be filed by the Community Facilities District, or 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 Indenture, and the sole remedy under the Community Facilities District Continuing Disclosure Agreement in the event of any failure of the Community Facilities District or the Dissemination Agent to comply with the Community Facilities District Continuing Disclosure Agreement will be an action to compel performance.

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

Developer. The Developer has covenanted in its Developer Continuing Disclosure Agreement, the form of which is set forth in APPENDIX F – "Form of Developer Continuing Disclosure Agreement" (the "Developer Continuing Disclosure Agreement"), for the benefit of owners and beneficial owners of the 2003 Bonds, to provide certain financial and operating information by not later than April 1 and October 1 of each year commencing April 1, 2004 (a "Developer Semi-Annual Report") and to provide notices of the occurrence of certain enumerated material events. The Developer's obligations under its Developer Continuing Disclosure Agreement terminate upon the occurrence of certain events. See APPENDIX F – "Form of Developer Continuing Disclosure Agreement."

The Developer Semi-Annual Reports will be filed by the Developer, or the "Dissemination Agent" (as that term is defined in the Developer Continuing Disclosure Agreement) on behalf of the Developer, 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 the Developer, or by the Dissemination Agent on behalf of the 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 the Developer Semi-Annual Report or the notices of material events is set forth in the Developer Continuing Disclosure Agreement. The covenants of the Developer in its Developer Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with the Rule; provided, however, a default under a Developer Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Bond Indenture, and the sole remedy under the Developer Continuing Disclosure Agreement in the event of any failure of the Developer or the Dissemination Agent to comply with such Developer Continuing Disclosure Agreement will be an action to compel performance.

The Developer 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 2003 Bonds will be deposited into the following respective accounts and funds established by the School District under the Bond Indenture, as follows:

2003 Bonds

Sources:

Principal Amount of 2003 Bonds	\$3,000,000.00
Less: Underwriter's Discount	<u>(90,000.00)</u>
<i>Total</i>	\$2,910,000.00

Uses:

Deposit into Reserve Fund ⁽¹⁾	\$281,396.38
Deposit into Costs of Issuance Fund ⁽²⁾	160,000.00
Deposit into Improvement Fund ⁽³⁾	2,310,495.18
Deposit into Capitalized Interest Subaccount of the Bond Service Fund ⁽⁴⁾	143,108.44
Deposit into Administrative Expense Fund	<u>15,000.00</u>
<i>Total</i>	\$2,910,000.00

- (1) Equal to the Reserve Requirement with respect to the 2003 Bonds as of the date of delivery of the 2003 Bonds.
- (2) Includes, among other things, the fees and expenses of Bond Counsel, the cost of printing the preliminary and final Official Statements, fees and expenses of the Fiscal Agent, the cost of the Appraisal, the fees of the Special Tax Consultant, and reimbursement to the Developer of costs incurred in connection with the 2003 Bonds.
- (3) See "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2003 BONDS" below.
- (4) Represents capitalized interest on the 2003 Bonds through September 1, 2004.

FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2003 BONDS

Proceeds of the 2003 Bonds will be used to fund the acquisition of a portion of the City Facilities and a portion of the School Facilities. The City Facilities include the following street improvements: (a) Construction of Camino del Sur (formerly Camino Ruiz) from "A" Street to Carmel Valley Road (4 full lanes) (b) construction of "B" Street from "A" Street to Camino de Sur, (c) construction of "A" Street; and (d) Camino del Sur/SR 56 Phase I interchange improvements. School Facilities will include elementary, middle and high school facilities, central support and administrative facilities, interim housing and supplemental school facilities (i.e. multipurpose rooms, transportation and special education facilities).

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 2003 BONDS

Authority for Issuance

The 2003 Bonds will be issued pursuant to the Act and the Bond Indenture.

General Provisions

The 2003 Bonds in the aggregate amount of \$3,000,000 will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing on March 1, 2004 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page hereof. The 2003 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 2003 Bonds. Ownership interests in the 2003 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 2003 Bonds are held in book-entry form, principal of, premium, if any, and interest on the 2003 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2003 Bonds in accordance with the procedures adopted by DTC. See "THE 2003 BONDS – Book-Entry and DTC."

The 2003 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 2003 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 2003 Bonds; provided, however, that if at the time of authentication of a 2003 Bond, interest is in default, interest on that 2003 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 2003 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 2003 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 2003 Bonds are transferred to a new Owner. The principal of the 2003 Bonds and any premium on the 2003 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 2003 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 2003 Bonds (including sinking fund redemptions), assuming that there are no optional redemptions.

2003 BONDS

Year Ending September 1	Principal	Interest	Total Debt Service
2004	—	\$143,108.44	\$143,108.44
2005	\$5,000	163,552.50	168,552.50
2006	10,000	163,452.50	173,452.50
2007	15,000	163,227.50	178,227.50
2008	15,000	162,845.00	177,845.00
2009	20,000	162,402.50	182,402.50
2010	25,000	161,732.50	186,732.50
2011	30,000	160,795.00	190,795.00
2012	35,000	159,595.00	194,595.00
2013	40,000	158,090.00	198,090.00
2014	45,000	156,290.00	201,290.00
2015	55,000	154,197.50	209,197.50
2016	60,000	151,585.00	211,585.00
2017	65,000	148,675.00	213,675.00
2018	75,000	145,457.50	220,457.50
2019	80,000	141,670.00	221,670.00
2020	90,000	137,550.00	227,550.00
2021	100,000	132,825.00	232,825.00
2022	110,000	127,475.00	237,475.00
2023	120,000	121,480.00	241,480.00
2024	135,000	114,820.00	249,820.00
2025	145,000	107,192.50	252,192.50
2026	160,000	98,927.50	258,927.50
2027	175,000	89,807.50	264,807.50
2028	185,000	79,832.50	264,832.50
2029	205,000	69,287.50	274,287.50
2030	220,000	57,500.00	277,500.00
2031	240,000	44,850.00	284,850.00
2032	260,000	31,050.00	291,050.00
2033	280,000	16,100.00	296,100.00
	<u>\$3,000,000</u>	<u>\$3,725,373.44</u>	<u>\$6,725,373.44</u>

Redemption

Optional Redemption. The 2003 Bonds maturing on and after September 1, 2005 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, 2004, 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 2003 Bonds to be redeemed), together with accrued interest to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
September 1, 2004 through March 1, 2013	102%
September 1, 2013 and any Interest Payment Date thereafter	100

Whenever provision is made for the optional redemption of less than all of the 2003 Bonds, the Fiscal Agent shall select the 2003 Bonds to be redeemed, among maturities as directed by the Community Facilities District which shall specify the 2003 Bonds to be redeemed so as to maintain, as much as practicable, the same debt service profile for the Outstanding 2003 Bonds following such redemption as was in effect prior to such redemption. The Fiscal Agent shall select 2003 Bonds to be redeemed within a maturity by lot in any manner that the Fiscal Agent deems appropriate.

Redemption from Proceeds of Special Tax Prepayment. The 2003 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 and by lot within a maturity from prepayment of Special Taxes. The Community Facilities District shall deliver written instructions to the Fiscal Agent not less than 60 days prior to the redemption date directing the Fiscal Agent to utilize the Special Tax Revenues of Improvement Area C transferred to the Redemption Fund pursuant to the Bond Indenture to redeem 2003 Bonds. The Fiscal Agent shall select 2003 Bonds to be redeemed within a maturity by lot in any manner that the Fiscal Agent deems appropriate. Such extraordinary mandatory redemption of the 2003 Bonds shall be at the following redemption prices (expressed as percentages of the principal amount of the 2003 Bonds to be redeemed), together with accrued interest thereon to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
March 1, 2004 through March 1, 2013	102%
September 1, 2013 and any Interest Payment Date thereafter	100

Mandatory Sinking Payment Redemption. The 2003 Bonds maturing on September 1, 2028, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2025, at a redemption price equal to the principal amount of the 2003 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:

2028 TERM BONDS

<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2025	\$145,000
2026	160,000
2027	175,000
2028 (maturity)	185,000

The 2003 Bonds maturing on September 1, 2033, are subject to mandatory sinking redemption, in part by lot, on September 1 in each year commencing September 1, 2029, at a redemption price equal to the principal amount of the 2003 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:

2033 TERM BONDS

Sinking Fund Redemption Date	Sinking Payments
2029	\$205,000
2030	220,000
2031	240,000
2032	260,000
2033 (maturity)	280,000

The amounts in the foregoing tables shall be reduced as a result of any prior partial redemption of the 2003 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 2003 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 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 2003 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 2003 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 2003 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 2003 Bonds to be redeemed, and in the case of 2003 Bonds to be redeemed in part, the respective principal portions to be redeemed; provided, however, that whenever any call includes all 2003 Bonds of a maturity, the numbers of the 2003 Bonds of such maturity need not be stated; (d) state that such 2003 Bonds must be surrendered at the principal corporate trust office of the Fiscal Agent; (e) state that further interest on the 2003 Bonds will not accrue from and after the designated redemption date; (f) state the date of the issue of the 2003 Bonds as originally issued; (g) state the rate of interest borne by each 2003 Bond being redeemed; and (h) state that any other descriptive information needed to identify accurately the 2003 Bonds being redeemed as the Community Facilities District shall direct.

Effect of Redemption. When notice of redemption has been given substantially as provided for in the Bond Indenture, and when the amount necessary for the redemption of the 2003 Bonds called for redemption is set aside for that purpose in the Redemption Fund, the 2003 Bonds designated for redemption shall become due and payable on the date fixed for redemption thereof, and upon presentation and surrender of said 2003 Bonds at the place specified in the notice of redemption, said 2003 Bonds shall be redeemed and paid at the redemption price out of the Redemption Fund and no interest will accrue on such 2003 Bonds or portions of 2003 Bonds called for redemption from and after the redemption date specified in said notice, and the Owners of such 2003 Bonds so called for redemption after such redemption date shall look for the payment of principal and premium, if any, of such 2003 Bonds or portions of 2003 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 2003 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 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 2003 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 2003 Bond or Bonds shall be authenticated and delivered in exchange for such 2003 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 2003 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) 2003 Bonds for a period of 15 days next preceding to the date of any selection of the 2003 Bonds for redemption, or (ii) any 2003 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 2003 Bonds of authorized denominations, interest rate and maturity, subject to the terms and conditions of the Bond Indenture, including the payment of certain charges, if any, upon surrender and cancellation of a 2003 Bond.

Book-Entry and DTC

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2003 Bonds. The 2003 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 2003 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX H – “Book-Entry System.”

SECURITY FOR THE 2003 BONDS

General

The 2003 Bonds are secured by a first pledge of all of the Net Special Tax Revenues of Improvement Area C and all moneys deposited in the Bond Service Fund and in the Reserve Fund and, until disbursed as provided in the Bond Indenture, in the Special Tax Fund. Pursuant to the Act and the Bond Indenture, the Community Facilities District will annually levy the Special Taxes in Improvement Area C in an amount required for the payment of principal of, and interest on, any outstanding 2003 Bonds becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the Reserve Fund for the 2003 Bonds and an amount estimated to be sufficient to pay Improvement Area C’s Administrative Expenses during such year. The Net Special Tax Revenues of Improvement Area C and all moneys deposited into the Accounts (until disbursed as provided in the Bond Indenture) are pledged to the payment of the principal of, and interest and any premium on, the 2003 Bonds as provided in the Bond Indenture and in the Act until all of the 2003 Bonds have been paid and retired or until moneys or Federal Securities (as defined in the Bond Indenture) have been set aside irrevocably for that purpose.

Amounts in the Administrative Expense Fund, the Costs of Issuance Fund and the Improvement Fund are not pledged to the repayment of the 2003 Bonds. The School Facilities and City Facilities constructed and acquired with the proceeds of the 2003 Bonds are not in any way pledged to pay the debt service on the 2003 Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2003 Bonds are not pledged to pay the debt service on the 2003 Bonds.

Special Taxes

The Community Facilities District has covenanted in the Bond Indenture to comply with all requirements of the Act so as to assure the timely collection of Special Taxes in the Improvement Area, including without limitation, the enforcement of delinquent Special Taxes. The 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 Rate and Method, no assurance can be given that, in the event of Special Tax delinquencies in Improvement Area C, the receipt of Special Taxes in Improvement Area C will, in fact, be collected in sufficient amounts in any given year to pay debt service on the 2003 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 2003 Bonds.

Although the Special Taxes, when levied, will constitute a lien on parcels subject to taxation within Improvement Area C, it does not constitute a personal indebtedness of the owners of property within such Improvement Area. There is no assurance that the owners of real property in Improvement Area C 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 2003 BONDS. OTHER THAN THE SPECIAL TAXES OF IMPROVEMENT AREA C, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2003 BONDS. THE 2003 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES OF IMPROVEMENT AREA C AS MORE FULLY DESCRIBED HEREIN.

Rates and Methods

General. In 1997, pursuant to the request of landowners, the School District established Community Facilities District No. 2 (Torrey Highlands – Subarea IV) ("CFD No. 2") with respect to approximately 1,000 acres of land within the boundaries of the School District proposed for development of approximately 2,600 units (approximately 2,122 detached single-family units and approximately 478 multi-family attached units). In the first quarter of 2001, the Developer (or its predecessors) 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 Developer or its predecessors 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 C to finance the Facilities and other authorized facilities according to Improvement Area C's Rate and Method.

The Improvement Area C Rate and Method has two Zones, Zone 1 encompassing WPH – Torrey Meadows’ Monaco project and Zone 2 encompassing WPH – Torrey Meadows’ San Lorenza project.

The qualified electors of Improvement Area C approved the initial Rate and Method on August 27, 2001 and the revised Rate and Method on June 3, 2003. Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the Rate and Method.

Improvement Area C Rate and Method. The Improvement Area C Rate and Method provides the means by which the Board of Education may annually levy the Special Taxes within Improvement Area C of the Community Facilities District up to the Maximum Special Tax to pay for School Facilities and City Facilities. The 2003 Bonds, when issued, will fund School Facilities and City Facilities and will be secured by any Special Taxes levied pursuant to the Improvement Area C Rate and Method. The Improvement Area C Rate and Method provides that the Annual Special Tax shall be levied for a term of 34 Fiscal Years after the issuance of the 2003 Bonds, but in no event later than Fiscal Year 2045-46. A copy of the Improvement Area C Rate and Method is included in Appendix B hereto.

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

- (i) the debt service on all Bonds (i.e., the 2003 Bonds or any refunding bonds), or other indebtedness or other periodic cost on the Bonds;
- (ii) the Administrative Expenses of Improvement Area C,
- (iii) any costs associated with the release of funds from an escrow account, if any,
- (iv) any amount required to establish or replenish any reserve funds established in association with the Bonds, *less*
- (v) any amounts on deposit in any fund or account which are available to pay for items (i) through (iv) above pursuant to the Bond Indenture.

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

- (i) “Developed Property” means all Assessor’s Parcels for which Building Permits for the construction of Units were issued on or before May 1 of the prior Fiscal Year, provided that such Assessor’s Parcels were created on or before January 1 of the prior Fiscal Year and that each such Assessor’s Parcel is associated with a Lot, as determined reasonably by the Associate Superintendent.
- (ii) “Undeveloped Property” means all Assessor’s Parcels which are not Developed Property.
- (iii) “Taxable Property” means all Assessor’s Parcels which are not Exempt Property (as defined below) pursuant to law or the Improvement Area C 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) parcels for which building permits were issued on or before May 1 of the prior Fiscal Year for the construction of "Gross Floor Area" and parcel which directly service such parcels, such as parking lots, as reasonably determined by the Assistant Superintendent, and

(f) 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 4.14 acres of Acreage (as defined in the Improvement Area C Rate and Method) in Zone 1 and less than 7.94 acres of Acreage in Zone 2.

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

Maximum Special Tax. The Maximum Special Tax is defined in the Improvement Area C 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 Taxable Undeveloped Property for Fiscal Year 2003-04 is \$28,477.73 per acre in Zone 1 and \$15,773.27 per acre in Zone 2. On each July 1, the Assigned Annual Special Tax per acre shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.
- (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 Taxable Developed Property (whether detached or attached) in Fiscal Year 2003-04 ranges from \$1,251.33 to \$1,539.74 per unit in Zone 1 and ranges from \$996.84 to \$1,317.30 per Unit in Zone 2. Each July 1, the Assigned Annual Special Tax is subject to escalation of 2.00% of the amount in effect in the prior Fiscal Year. See APPENDIX B – "Rates and Methods of Apportionment for Community Facilities District No. 10 (Torrey Highlands – Subarea IV) of the Poway Unified School District – Table 1" herein for a listing of the Assigned Annual Special Tax rates for various sizes of Units.

The "Backup Annual Special Tax" is based on the number of Lots created by each Final Map within Improvement Area C, currently estimated as 107 in Zone 1 and 84 in Zone 2 by WPH – Torrey Meadows (see "COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV) – Property Ownership and Development"). The Backup Annual Special Tax for an Assessor's Parcel of Developed Property in Fiscal Year 2003-04 is estimated to be \$1,403.55 in Zone 1 and \$1,170.47 in Zone 2.

The minimum taxable acreage is 4.14 acres of Acreage for Zone 1 and 7.94 acres of Acreage in Zone 2.

Annual Special Tax Proportionately on each Assessor's parcel of Undeveloped Property, up to the Assigned Annual Special Tax applicable to each such Assessor's Parcel, to satisfy the Minimum Annual Special Tax.

Step Three: If the sum of the amounts collected in Steps One and Two is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Developed Property, up to the Maximum Special Tax applicable to each such Assessor's Parcel, to satisfy the Minimum Annual Special Tax Requirement.

Prepayment of Annual Special Taxes. The Improvement Area C 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.

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. *Although the 2003 Bonds do include funding for School Facilities, the 2003 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.

Zone 1 of Community Facilities District No. 10. The Community Facilities District No. 10 Rate and Method includes a Fiscal Year 2003-04 Zone 1 One-Time Special Tax levy on or before the date a building permit is issued for an Assessor's Parcel in the amount of (i) \$2.24 per square foot of Building Square Feet ("BSF") for Detached Units, (ii) \$2.24 per square foot of BSF for Attached Units, (iii) \$.038 per square foot of BSF for Senior Citizen Units and (iv) \$.038 per square foot of gross floor area of a commercial or industrial structure for May 1, 2003 through April 30, 2004 (escalated thereafter). All of Improvement Area C is in Zone 1 of Community Facilities District No. 10. Improvement Area C is funding School Facilities in lieu of the One-Time Special Tax levy pursuant to Community Facilities District No. 10.

Zone 2 of Community Facilities District No. 10. The Community Facilities District No. 10 Rate and Method includes a Fiscal Year 2003-04 Zone 2 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) \$2.24 per square foot of Building Square Feet ("BSF") for Detached Units, (ii) \$.00 per square foot of BSF for Attached Units, (iii) \$.038 per square foot of BSF for Senior Citizen Units and (iv) \$.038 per square foot of gross floor area of a commercial or industrial structure for May 1, 2003 through April 30, 2004 (escalated thereafter).

Each of the foregoing special taxes represents the applicable Fiscal Year 2003-04 rate and is subject to escalation by an inflator until the property is classified as Developed Property and by 2.00% of the amount in effect in the prior Fiscal Year thereafter. Developed Property in Zone 1 is subject to an Assigned Annual Special Tax of \$1,891.14 per Detached Unit and \$779.42 per Attached Unit. Developed Property in Zone 2 is subject to an Assigned Annual Special Tax of \$1,891.14 per Detached Unit and \$1,052.88 per Attached Unit. A copy of the Community Facilities District No. 10 Rate and Method is included in Appendix B hereto. Bonds for School Facilities have not been issued.

Proceeds of Foreclosure Sales

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

Under the 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 C 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 Improvement Area C's Special Taxes remain delinquent.

Aggregate Delinquencies. If the Community Facilities District determines that it has collected less than 95% of the Improvement Area C 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 C 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 2003 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 Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property within Improvement Area C in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the Bonds and to replenish the Reserve Fund. There is, however, no assurance that the Maximum Special Tax rates of Improvement Area C will be at all times sufficient to pay the amounts required to be paid on the 2003 Bonds by the Bond Indenture.

Special Tax Fund

Pursuant to the Bond Indenture, the Special Tax Revenues received by the Community Facilities District, excluding only Special Tax Revenues representing Delinquency Proceeds required to be transferred to the Letter of Credit Fund and Special Tax Revenues representing Prepayments, will be deposited in the Special Tax Fund, which will be held by the Fiscal Agent on behalf of the Community Facilities District. Special Tax Revenues representing Prepayments shall be transferred to the Interest Account of the Bond Service Fund and the Redemption Fund and utilized to pay the interest and premium, if any, on and the principal of Bonds to be redeemed. Moneys in the Special Tax Fund shall be held in trust by the Fiscal Agent for the benefit of the Community Facilities District and the owners of the 2003 Bonds. Pending disbursement, moneys in the Special Tax Fund will be subject to a lien in favor of the Bondowners of the 2003 Bonds as established under the Bond Indenture.

Disbursements. Moneys in the Special Tax Fund will be disbursed as needed to pay the obligations of the Community Facilities District in the following priority: (i) an amount up to the Administrative Expense Requirement for Improvement Area C to pay Administrative Expenses, (ii) amounts required to be deposited into the Accounts in the Bond Service Fund in order to pay debt service on the 2003 Bonds and any refunding bonds on the next Interest Payment Date, (iii) amounts required to replenish the Reserve Fund to the Reserve Requirement (as defined below), (iv) amounts required to fund the Rebate 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 the Bond Indenture), any amounts in excess of such amounts remaining in the Special Tax Fund shall remain on deposit in such Special Tax Fund and shall be subsequently deposited or transferred pursuant to the above provisions provided, however, that if the District notifies the Fiscal Agent that the levy of Special Taxes on Developed Property exceeds the Annual Special Tax Requirement (as defined in the Rate and Method) then an amount up to such excess moneys may be paid to the School District to be used to pay for the acquisition, construction, rehabilitation, improvement of School Facilities and related expenses.

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

Bond Service Fund

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

On each Interest Payment Date, the Fiscal Agent will withdraw from the Bond Service Fund and pay to the owners of the 2003 Bonds the principal, interest and any premium then due and payable on such 2003 Bonds, including any amounts due on such 2003 Bonds by reason of the sinking payments or a redemption of such 2003 Bonds.

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

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

Redemption Fund

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

Reserve Fund

In order to further secure the payment of principal of and interest on the 2003 Bonds, certain proceeds of the 2003 Bonds will be deposited into the Reserve Fund in an amount equal to the Reserve Requirement (see “ESTIMATED SOURCES AND USES OF FUNDS” herein). The Reserve Requirement is defined in the 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 2003 Bonds, (ii) 125% of the then average annual debt service on the 2003 Bonds, or (iii) 10% of the initial principal amount of the 2003 Bonds, less original issue discount, if any, plus original issue premium, if any.

If Special Taxes are prepaid and a portion of the 2003 Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the Reserve Fund (determined on the basis of the principal of such 2003 Bonds to be redeemed and the original principal of such 2003 Bonds) will be applied to the redemption of such 2003 Bonds.

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

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

Administrative Expense Fund

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

Pursuant to the 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 2003 Bonds and will not be available for the payment of debt service on the 2003 Bonds.

Improvement Fund

The Fiscal Agent will deposit proceeds of the 2003 Bonds in the separate accounts established within the Improvement Fund. Moneys in the Improvement Fund will be disbursed to pay for School Facilities and City Facilities pursuant to a requisition of the Community Facilities District.

Pursuant to the Bond Indenture, moneys in the Improvement Fund will not be construed as a trust fund held for the benefit of the owners of the 2003 Bonds and will not be available for the payment of debt service on the 2003 Bonds.

Investment of Moneys in Funds

Moneys in any fund or account created or established by the 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 the 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 D – “Summary of Certain Provisions of Bond Indenture” for a definition of “Permitted Investments.”

Payment of Rebate Obligation

The Community Facilities District is required to calculate excess investment earnings in accordance with the requirements set forth in the 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/Cash Deposit

As a condition precedent to issuance of the 2003 Bonds, the Developer shall provide a Letter of Credit in the Stated Amount therefor (having the Fiscal Agent as beneficiary) or a cash deposit in lieu thereof. Each Letter of Credit and/or cash deposit shall secure payment of Special Taxes levied against the Developer's property within Improvement Area C (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 or condominiums, as applicable, within the Project Area.

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

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

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

Draws Prior to an Interest Payment Date. Ten (10) Business Days before each Interest Payment Date, the Fiscal Agent shall determine whether amounts on deposit in the Bond Service Fund on that Interest Payment Date will be sufficient to pay principal of and interest on the 2003 Bonds that will be due and payable on such Interest Payment Date and notify the Community Facilities District of any deficiency. If amounts in the Bond Service Fund will be insufficient to pay principal of and interest on such 2003 Bonds and such insufficiency is attributable to the delinquency in the payment of Special Taxes levied on properties owned by the Developer or an Affiliate of the Developer, the Fiscal Agent shall upon the receipt of written direction of an Authorized Representative (prior to any withdrawals from the Reserve Fund permitted by the Bond Indenture) draw upon the Letter of Credit; provided, however, that the amount of such draw or withdrawal (as set forth in said written direction of the Authorized Representative) shall be no greater than the delinquent Special Taxes levied on such properties and then owed to the Community Facilities District by the Developer.

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

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

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

Fund and pending any transfer to the Bond Service Fund for the purposes described in “*Draws Prior to an Interest Payment Date*” above, such proceeds shall be invested and reinvested by the Fiscal Agent in money market funds. At no time shall the Community Facilities District direct that the proceeds of a draw on any Letter of Credit or any cash deposit held in the Letter of Credit Fund be invested by the Fiscal Agent at a yield exceeding the Yield on the 2003 Bonds. Investment earnings and profits from such investments shall be retained in the Letter of Credit Fund until such time as the Letter of Credit Fund is no longer required and at that time all interest earnings shall be paid over to the Developer.

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

Actions by the Community Facilities District. In the event a Letter of Credit Bank wrongfully refuses to honor any drawing made on its Letter of Credit, the Community Facilities District, on behalf of the owners of the 2003 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 the Developer intends to comply with the requirement to provide a Letter of Credit or cash deposit.

WPH – Torrey Meadows. WPH – Torrey Meadows has provided a cash deposit in lieu of a Letter of Credit in connection with the issuance of the 2003 Bonds.

Additional Bonds for Refunding Purposes Only

Bonds issued on a parity with the 2003 Bonds (a series of “Additional Bonds”) may be issued for refunding purposes only and subject to specific conditions including that the Community Facilities District must be in compliance with all covenants set forth in the 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 D – “Summary of Certain Provisions of Bond Indenture.”

Special Taxes Are Not Within Teeter Plan

The County has adopted a Teeter Plan as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. However, by policy, the County does not include assessments, reassessments and special taxes in its Teeter program. The Special Taxes of Improvement Area C are not included in the County’s Teeter Program.

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

General Information

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

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

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

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

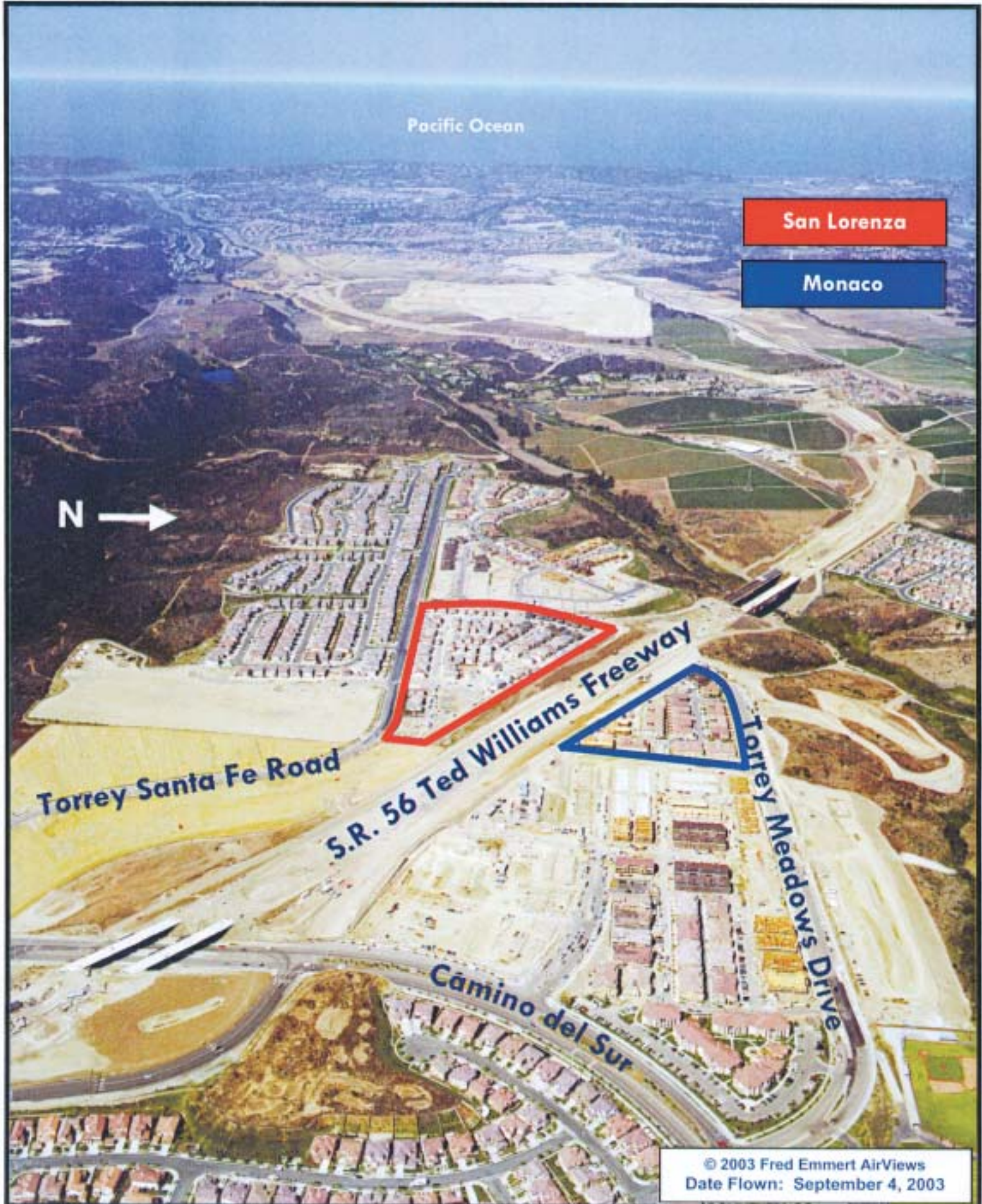
The Community Facilities District is between the cities of Del Mar to the west and Poway to the east, and also between the communities of Carmel Valley to the west and Rancho Peñasquitos to the east. Nearby to the south is the community of Mira Mesa and nearby to the northeast is Black Mountain Ranch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

Authority for Issuance

The 2003 Bonds are issued pursuant to the Act and the Bond Indenture. In addition, as required by the Act, the Board of Education of the School District has taken the following actions with respect to establishing the Community Facilities District and authorizing issuance of the 2003 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 for the Community Facilities District and a separate Rate and Method for Improvement Area C. On the same day the Board of Education adopted Resolution No. 43-2001 stating its intention to incur bonded indebtedness in an amount not to exceed \$45,000,000 with respect to the Community Facilities District and \$3,000,000 with respect to Improvement Area C. In subsequent proceedings on June 3, 2003, the proceedings relating to Improvement Area C were amended to add School Facilities. Community Facilities District No. 10 will finance School Facilities. Improvement Area C will finance School Facilities and City Facilities. See "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2003 BONDS" herein.

Poway Unified School District
Community Facilities District No. 10 – Improvement Area C
(Torrey Highlands – Subarea IV)



Pacific Ocean

San Lorenzo

Monaco

N →

Torrey Santa Fe Road

S.R. 56 Ted Williams Freeway

Torrey Meadows Drive

Camino del Sur

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Date Flown: September 4, 2003

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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, \$3,000,000 with respect to Improvement Area C and submitting the proposition to the qualified electors of the Community Facilities District.

Landowner Election and Declaration of Results: On August 27, 2001, elections were held within the Community Facilities District, including within Improvement Area C, in which the landowners eligible to vote, being the qualified electors within Improvement Area C, each approved the applicable ballot propositions authorizing the issuance of up to \$45,000,000 in bonds to finance the acquisition and construction of the School Facilities, and the landowners within Improvement Area C approved a ballot proposition authorizing the issuance of up to \$3,000,000 of bonds for Improvement Area C to finance the acquisition and construction of City Facilities. The qualified electors within the Community Facilities District and Improvement Area C also approved the levy of a special tax in accordance with the original Improvement Area C 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 and one for Improvement Area C, were recorded in the real property records of San Diego County on September 21, 2001.

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

Resolution of Intention: On April 21, 2003, the Board of Education adopted Resolution No. 72-2003 stating its intention to authorize the levy of a special tax in Improvement Area C pursuant to a revised rate and method of apportionment for Improvement Area C. Improvement Area C will finance School Facilities and City Facilities. See "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2003 BONDS" herein.

Resolution of Consideration: Immediately following a noticed public hearing on June 3, 2003, the Board of Education adopted Resolution No. 89-2003 (the "Resolution of Consideration"), which authorized the levy of a special tax within Improvement Area C pursuant to a revised Improvement Area C Rate and Method of Apportionment.

Landowner Election and Declaration of Results: On June 3, 2003, elections were held within Improvement Area C of the Community Facilities District in which the landowners eligible to vote, being the qualified electors within Improvement Area C, approved a ballot proposition authorizing Improvement Area C to finance the acquisition and construction of School Facilities and City Facilities. The qualified electors within Improvement Area C also approved the levy of a special tax in accordance with the revised Improvement Area C Rate and Method.

On June 3, 2003, the Board of Education adopted Resolution No. 90-2003 pursuant to which the Board of Education approved the canvass of the votes.

Special Tax Lien and Levy: Notices of Special Tax Lien, including one for the Community Facilities District and one for Improvement Area C, were recorded in the real property records of San Diego County on September 21, 2001. A Notice of Special Tax Lien for Improvement Area C for the revised Improvement Area C Rate and Method was recorded in the real property records of the San Diego County on September 4, 2003.

Ordinance Levying Special Taxes: On June 16, 2003, the Board of Education adopted an Ordinance No. 2003-02 amending ordinance No. 2002-01 and authorizing the levy of the Special Tax in Improvement Area C.

Resolution Authorizing Issuance of the 2003 Bonds: On September 15, 2003 the Board of Education adopted Resolution No. 12-2004 approving issuance of the 2003 Bonds.

Environmental Review

As described 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. The 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. The 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. WPH – Torrey Meadows, LLC, a Delaware limited liability company (“WPH - Torrey Meadows”) has conducted substantial reviews 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 of San Diego, 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, the 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 – Torrey Meadows. WPH – Torrey Meadows has obtained grading permits for the property within Improvement Area C and has satisfied such requirements from federal, state and local regulatory agencies relating to biological surveys, impacts to wetland and riparian habitats, if any, and other matters as are necessary to develop the property in Improvement Area C in the manner described herein.

WPH – Torrey Meadows caused a biological resources technical report to be completed for its project and the results are available for public review in the Land Development Review Division (Biological Resources Technical Report for the Shaw Property, City of San Diego; Dudek & Associates, Inc. LDR #99-0518). According to the report three sensitive plant and no sensitive animal species were observed on site. Based on the Biological Technical Report prepared by Dudek & Associates, Inc., the City of San Diego Environmental Services Department ordered a Mitigated Negative Declaration (July 18, 2002) for the project. A Section 404 Permit with the U.S. Army Corps of Engineers was not required. The site has been improved to a “finished lot” condition and units are under construction.

See “BONDOWNERS’ RISKS – Endangered and Threatened Species.” Torrey Meadows believes that the likelihood of a listing of additional species is remote at this stage of development because Torrey Meadows has completely cleared and graded all of its land within Improvement Area C 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 Developer contained in this Official Statement has been provided by representatives of the Developer and has not been independently confirmed or verified by either the Underwriter or the Community Facilities District. Such information is included because it may be relevant to an informed evaluation of the security for the 2003 Bonds. However, because ownership of the property is expected to change, no assurance can be given that the planned development will occur at all, will occur in a timely manner or will occur as presently anticipated and described below. No representation is made herein as to the accuracy or adequacy of such information, as to the experience, abilities or financial resources of the Developer, or any other landowner, or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

The Developer is not personally liable for payment of the Special Taxes or the 2003 Bonds, and the following information should not be construed to suggest that the Special Taxes or the 2003 Bonds are personal obligations or indebtedness of the Developer or any other landowners in Improvement Area C.

The Developer. The Developer owns the majority of the land within Improvement Area C of the Community Facilities District. Improvement Area C is bisected by State Route 56, located south of Street “B.” Improvement Area C encompasses a total of approximately 39.39 gross acres and not less than approximately 14.31 net taxable acres proposed for a total of 107 detached single-family units with a minimum lot size of 3,000 square feet and 84 attached single-family condominium units in 13 six-unit buildings and two 3-units buildings. Improvement Area C will not include any Affordable Housing Units.

The following table summarizes the status of property ownership and development in Improvement Area C as of September 15, 2003:

Table 1
Community Facilities District No. 10 (Torrey Highland – Subarea IV)
of the Poway Unified School District
(Improvement Area C)
Property Ownership and Development Status
as of September 15, 2003

<u>Name of Landowner/Developer</u>	<u>Development Name</u>	<u>Number of Units</u>	<u>Approx. No. of Net Acres</u>	<u>Status of Development</u>
WPH Torrey - Meadows	San Lorenza	107	Not less than 4.14 acres	Final map recorded April 22, 2003; 4 models, 32 occupied homes; 7 completed and unoccupied homes; 60 homes under construction; 8 vacant lots.
WPH Torrey - Meadows	Monaco	84	Not less than 7.94 acres	Final map recorded May 23, 2003; 3 models, 23 occupied condominiums; 1 completed and unoccupied condominium; 56 condominiums under construction.

Source: The Developer.

Information with Respect to Torrey Meadows.

WPH – Torrey Meadows

Western Pacific Housing – Torrey Meadows, LLC, a Delaware limited liability company (“WPH – Torrey Meadows” or the “Developer”) is the owner of most of the real property within Improvement Area C. In February 2002, Schuler Homes, Inc., a Delaware corporation (“Schuler Homes”), WPH – Torrey Meadows’s then parent company, merged with and into D.R. Horton, Inc., a Delaware corporation (“D.R. Horton”), a public company whose common stock is traded on the New York Stock Exchange under the symbol “DHI.” Prior to the merger with D.R. Horton, Schuler Homes was a public company whose common stock was traded on the NASDAQ National Market under the symbol “SHLR.” In April 2001, Schuler Homes merged with the owners of a group of privately-held partnerships and limited liability companies, collectively known as “Western Pacific Housing,” which was controlled by Western Pacific Housing, Inc., a California corporation (“WPH”). Western Pacific Housing continues to operate and market homes under the Western Pacific Housing name and Schuler Homes continues to operate and market homes under the Schuler Homes name following the merger with D.R. Horton.

D.R. Horton and its subsidiaries, including Western Pacific Housing, designs, constructs, markets and sells single-family residences, townhomes and condominiums primarily to entry-level and “move-up” buyers and is a geographically diverse homebuilder in the United States of America. D.R. Horton and Schuler Homes, pro forma for its combination with Western Pacific Housing, delivered approximately 29,761 homes and had approximately \$5.7 billion in revenues for the twelve months ended September 30, 2002. D.R. Horton believes that, on a combined basis, the company will be one of the largest homebuilders in Southern California and in the State of California based on the number of units constructed.

D.R. Horton and its subsidiaries also provide mortgage banking and title agency services to many of their homebuyers. Western Pacific Housing operates in the major metropolitan markets of Orange County, the Inland Empire (Riverside and San Bernardino Counties), the Sacramento Valley, San Diego County, Los Angeles/Ventura Counties and the Bay Area surrounding San Francisco and San Jose.

The following paragraphs provide information on some of the officers and key employees responsible for the development of the property within Improvement Area C:

James K. Schuler is President of Western Pacific Housing Management, Inc. (“WPH Management”) and on the Board of Directors of D.R. Horton. Prior to the merger with D.R. Horton, Mr. Schuler was Schuler

Homes/Western Pacific Housing's Co-Chairman of the Board of Directors, President and Chief Executive Officer. Mr. Schuler founded Schuler Homes and, prior to the merger with Western Pacific Housing in April 2001, was Schuler Homes' Chairman of the Board, President and Chief Executive Officer since its incorporation in January 1992. From 1988 to January 1992, Mr. Schuler served as Chairman of the Board, President and Chief Executive Officer of JPS Hawaii, Inc., the predecessor of Schuler Homes. Since 1973, he has also been President of James K. Schuler & Associates, Inc., a private single- and multi-family development company that previously constructed homes in Hawaii, California, Washington and Texas.

C. Evan Knapp is Senior Vice President of WPH Management. Prior to the merger with D.R. Horton, Mr. Knapp was the Senior Vice President of Schuler Homes/Western Pacific Housing's California Operations. Prior to the merger with Schuler Homes, Mr. Knapp was the Senior Vice President of Operations for WPH and had been employed with the company since its inception in December 1993. Prior to that, he served as WPH's Vice President – Sales and Marketing of the Orange County/Inland Empire division. He previously held positions with the Anden Group and Developers Marketing Associates.

Lance M. Waite is a Vice President of WPH Management and President of the San Diego Division of Western Pacific Housing. Prior to the merger with D.R. Horton, Mr. Waite was President of Schuler Homes/Western Pacific Housing's San Diego division. He had held the same position with WPH prior to the WPH/Schuler Homes merger. Before becoming Division President in January 1997, he served as Vice President of Operations since January 1996. Prior thereto, Mr. Waite was Operations Manager for Ryland Homes. From 1989 to 1995, he was Director of Construction and Operations Manager for Brock Homes, a subsidiary of Ryland Homes. Mr. Waite has over 14 years of experience in the homebuilding industry.

Description of Projects. WPH – Torrey Meadows's San Lorenza and Monaco projects' estimated lot sizes, unit sizes, base sales and price range are set forth below.

Project Name	Avg. Lot Size (sq. ft.)	Estimated Unit Size (sq. ft.)	Estimated Base Sales Price Range	Total Units	Owner Occupied Units as of August 15, 2003
San Lorenza	3,000	1,813 - 2,316	\$447,990 - \$496,990	107	32
Monaco	N/A	1,044 - 1,534	\$328,990 - \$381,990	84	23

Status of Permits and Approvals. Approvals and permits have been obtained for grading and public improvements and production units. Final Maps were recorded for all 107 lots for San Lorenza on April 22, 2003 and all 84 lots for Monaco on May 23, 2003. Construction is underway.

In addition, as part of its conditions of approval for the Project, WPH–Torrey Meadows, is required to provide thirty one (31) affordable housing units. WPH–Torrey Meadows has satisfied this requirement through the acquisition of excess affordable housing unit credits from D.R. Horton San Diego Holding Company. Therefore, no affordable housing units will be constructed on site within the Project.

As of August 15, 2003, mass grading of all of the developable property and construction of the local improvements within Improvement Area C was completed. The 4 model homes in San Lorenza and the 3 model units in Monaco are complete. Sales began in the first quarter of 2003. As of August 15, 2003, there were 32 homes completed and conveyed to individual homebuyers, 7 completed/unsold homes in escrow, 60 homes under construction (most of which have been reserved by individual homebuyers) and 8 vacant lots in San Lorenzo. As of August 15, 2003, there were 23 condominiums completed and conveyed to individual homebuyers, 1 completed/unsold condominium and 57 units under construction (most of which have been reserved by individual homebuyers) in Monaco.

Plan of Finance. As of September 1, 2003, WPH – Torrey Meadows expects the remaining in-tract development costs within Improvement Area C to be approximately \$500,000 and home construction costs to be approximately \$3,200,000. WPH – Torrey Meadows expects to finance these costs primarily through internal sources, including funds provided by its corporate parent, D.R. Horton. As previously mentioned, on February 21, 2002, WPH – Torrey Meadows' then parent company, Schuler Homes, and D.R. Horton, completed a merger transaction pursuant to which Schuler Homes was acquired by and merged with and into D.R. Horton.

D.R. Horton is a public company traded on the New York Stock Exchange under the symbol "DHI" and is subject to the periodic reporting requirements of the Exchange Act and, accordingly, files periodic financial and other information with the SEC on a regular basis, including but not limited to its annual report on Form 10-K and its quarterly reports on Form 10-Q. Such filings are available for inspection at the SEC's public reference rooms and can also be accessed over the Internet at the SEC's web site at <http://www/sec.gov>. Prospective investors are encouraged to review D.R. Horton's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other filings with the SEC to gain a more thorough understanding of D.R. Horton's and its business and financial condition.

According to D.R. Horton's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as filed with the SEC, D.R. Horton refinanced its unsecured revolving credit facility on January 31, 2002. The new replacement facility, which was obtained following the merger with Schuler Homes, is comprised of a \$805 million revolving credit facility and a \$125 million letter of credit facility. The new credit facility matures in January 2006 and is guaranteed by substantially all of D.R. Horton's subsidiaries other than its financial services subsidiaries. D.R. Horton also finances its homebuilding activities by issuing its senior and senior subordinate notes. The new credit facility and indentures related to D.R. Horton's senior and senior subordinated notes contain covenants which limit the amount of debt that may be incurred. As of June 30, 2003, D.R. Horton had \$2.067 million outstanding homebuilding debt and had additional homebuilding borrowing capacity of \$694.7 million.

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

Absorption. According to WPH – Torrey Meadows, the San Lorenza project has a projected absorption rate of 27 units per quarter, commencing in the first quarter of 2003 with final sales estimated to occur in the fourth quarter of 2004 and the Monaco project has a projected absorption rate of 21 units per quarter, commencing in the first quarter of 2003 with final sales estimated to occur in the fourth quarter of 2003.

History of Property Tax Payment; Loan Defaults; Bankruptcy. WPH – Torrey Meadows has made the following representations:

- neither it nor, to its 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 WPH – Torrey Meadows or an Affiliate having been accomplished) against WPH – Torrey Meadows or any Affiliate or, to such WPH – Torrey Meadows' actual knowledge, threatened, which if successful, would materially adversely affect the ability of WPH – Torrey Meadows 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.

Appraised Property Values

The purpose of the appraisal was to estimate the market value of the land in its as is condition for Improvement Area C, subject to the lien of Special Taxes of Improvement Area C for the subject property. The subject property includes property proposed for development of 107 single-family detached units and 84 attached condominium units in Improvement Area C. 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 C as of August 15, 2003, to be \$57,100,000. The market value includes the value of extensive grading and infrastructure improvements and home construction in Improvement Area C.

The Appraisal estimated the value of the property in Improvement Area C using a sales comparison approach for the value of the completed-sold units and the completed-unsold units on a mass appraisal basis. For the homes under construction, the cost approach is used, in which the value is based on an estimate of cost expended plus the estimate value of the vacant lot. The sales comparison approach is used to estimate the value for the lots, as if vacant and in a finished lot condition, based upon sales of residential land or bulk lots from the general area in comparison to the subject property. A deduction is made for the estimated remaining cost to get all of the lots to a fully finished condition. "Finished lots," means the lots have 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 all of the property within Improvement Area C). The estimate of value was based on fee simple ownership, subject only to easements of record and the lien of the Community Facilities District special taxes and of the Improvement Area C Special Taxes.

Subject to these assumptions, the Appraiser estimated that the market value of the land within Improvement Area C (subject to the lien of the Community Facilities District special taxes and Improvement Area C Special Taxes) as of August 15, 2003 was as follows:

<u>Tract Name</u>	<u>No. of Units</u>	<u>Market Value</u>
San Lorenza	107	\$36,460,000
Monaco	84	<u>20,640,000</u>
		\$57,100,000

The market values of the property within Improvement Area C include the value of tract map approvals, completed models and production units, production units under construction on such property, and vacant lots and are subject to substantial fees and an affordable housing mitigation cost.

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 \$57,100,000 market value reported in the Appraisal results in an estimated value-to-lien ratio of 19.0 to 1 in Improvement Area C calculated with respect to all direct and overlapping tax and assessment debt as of the estimated date of issuance of the 2003 Bonds. See "Direct and Overlapping Debt" below.

Direct and Overlapping Debt

Table 2 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within Improvement Area C prepared by National Tax Data, Inc. and dated August 8, 2003 (the "Debt Report"). The Debt Report is included for general information purposes only. In certain cases, the percentages of debt calculations are based on assessed values, which will change significantly as sales occur and assessed values increase to reflect housing values. The Community Facilities District believes the information is current as of its date, but makes no representation as to its completeness or accuracy. Other public agencies, such as the City of San Diego or the County, may issue additional indebtedness at any time, without the consent or approval of the School District or the Community Facilities District and the

Community Facilities District expects to issue additional debt secured by special taxes on Developed Property in the future. See “ – Overlapping Assessment and Maintenance Districts” below.

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

Table 2
Community Facilities District No. 10 (Torrey Highlands – Subarea IV)
Improvement Area C
of the Poway Unified School District
Detailed Direct and Overlapping Debt

I. Assessed Value
2002-2003 Secured Roll Assessed Value (Less Exemptions) \$15,000,000

II. Secured Property Taxes

Description on Tax Bill	Type	Total Parcels	Total Levy	% Applicable	Parcels	Levy Amount
Basic Levy	PROP13	870,125	2,125,563,017.81	0.00706%	1	\$150,000.00
Voter Approved Debt	VOTER	857,639	139,221,811.88	0.00157%	1	\$2,184.00
County of San Diego Vector Control	VECTOR	494,690	1,383,542.10	0.00022%	1	\$3.00
Metropolitan Water District of Southern California Standby Charge	STANDBY	323,760	4,114,738.08	0.01102%	1	\$453.36
San Diego County Water Authority Availability Charge	STANDBY	329,880	3,580,310.66	0.01060%	1	\$379.40
2002-2003 TOTAL PROPERTY TAX LIABILITY						\$153,019.76
TOTAL PROPERTY TAX LIABILITY AS A PERCENTAGE OF 2002-2003 ASSESSED VALUATION						1.02%

III. Land Secured Bond Indebtedness

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
Poway Unified School District CFD No. 10, Imp Area C	CFD	TBD	TBD	100.00000%	1	TBD
TOTAL OUTSTANDING LAND SECURED BOND INDEBTEDNESS (1)(2)						\$0

IV. General Obligation Bond Indebtedness

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
City of San Diego Public Safety Communication System Debt Service	GO	25,500,000	14,390,000	0.01531%	1	\$2,203.48
Metropolitan Water District of Southern California Debt Service	GO	850,000,000	475,265,000	0.00119%	1	\$5,670.10
San Diego County Water Authority Debt Service	GO	30,000,000	1,645,000	0.00736%	1	\$121.11
TOTAL OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS (2)						\$7,994.68

TOTAL OF ALL OUTSTANDING AND OVERLAPPING BONDED DEBT	\$7,994.68
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- (1) Excludes Mello-Roos Act bonds to be sold.
(2) Additional bonded indebtedness or available bond authorization may exist but are not shown because a tax was not levied for the referenced fiscal year.

Source: National Tax Data, Inc.

Tables 3 and 4 below set forth estimated Fiscal Year 2003-04 overall tax rates projected to be to an attached townhome style single-family residential unit within Improvement Area C with 1,044 and 1,813 of building square feet for Zones 1 and 2, respectively. The tables also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

**Table 3
Community Facilities District No. 10 (Torrey Highlands – Subarea IV)
of the Poway Unified School District
Improvement Area C – Zone 1
Estimated Fiscal Year 2003-04 Tax Rates**

ASSESSED VALUATION AND PROPERTY TAXES

Estimated Sales Price [1]	\$308,990
Homeowner's Exemption	(\$7,000)
Assessed Value [2]	\$301,990

	Percent of Total AV	Projected Amount
AD VALOREM PROPERTY TAXES		
General Purposes	1.00000%	\$3,019.90
Ad Valorem Tax Overrides		
City of San Diego Zoological Exhibits	0.00500%	\$15.10
City of San Diego Public Communications System	0.00211%	\$6.37
City of San Diego County Water Authority	0.00075%	\$2.26
Metropolitan Water District	0.00670%	\$20.23
Total Ad Valorem Property Taxes	1.01456%	\$3,063.87

ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES [3]

Improvement Area C of Community Facilities District No. 10 of the Poway Unified School District	\$1,226.79
Community Facilities District No. 10 of the Poway Unified School District	\$764.14
County of San Diego Mosquito/Rat Control	\$3.00
Metropolitan Water District Standby Charge	\$11.50
County Water Authority Water Availability Charge	\$10.00
Proposed Torrey Highlands Subarea 4 Maintenance Assessment District [4]	\$250.00

PROJECTED TOTAL PROPERTY TAXES **\$5,329.30**

Projected Total Effective Tax Rate (as % of Sales Price) **1.72%**

- [1] Estimated sales price for a single attached unit containing 1,044 square feet.
- [2] Assessed value reflects estimated total assessed value for the parcel net of homeowner's exemption.
- [3] All assessments assume a lot size of less than one (1) acre.
- [4] Assessment amount is an estimate provided by WPH – Torrey Meadows.

Source: David Taussig & Associates, Inc.

**Table 4
Community Facilities District No. 10 (Torrey Highlands – Subarea IV)
of the Poway Unified School District
Improvement Area C – Zone 2
Estimated Fiscal Year 2003-04 Tax Rates**

ASSESSED VALUATION AND PROPERTY TAXES

Estimated Sales Price [1]	\$415,990
Homeowner's Exemption	(\$7,000)
Assessed Value [2]	\$408,990

	Percent of Total AV	Projected Amount
AD VALOREM PROPERTY TAXES		
General Purposes	1.00000%	\$4,089.90
Ad Valorem Tax Overrides		
City of San Diego Zoological Exhibits	0.00500%	\$20.45
City of San Diego Public Communications System	0.00211%	\$8.63
City of San Diego County Water Authority	0.00075%	\$3.07
Metropolitan Water District	0.00670%	\$27.40
Total Ad Valorem Property Taxes	1.01456%	\$4,149.45

ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES [3]

Improvement Area C of Community Facilities District No. 10 of the Poway Unified School District	\$977.29
Community Facilities District No. 10 of the Poway Unified School District	\$1,854.06
County of San Diego Mosquito/Rat Control	\$3.00
Metropolitan Water District Standby Charge	\$11.50
County Water Authority Water Availability Charge	\$10.00
Proposed Torrey Highlands Subarea 4 Maintenance Assessment District [4]	\$250.00

PROJECTED TOTAL PROPERTY TAXES \$7,255.30

Projected Total Effective Tax Rate (as % of Sales Price) **1.74%**

- [1] Estimated sales price for a single attached unit containing 1,813 square feet.
 [2] Assessed value reflects estimated total assessed value for the parcel net of homeowner's exemption.
 [3] All assessments assume a lot size of less than one (1) acre.
 [4] Assessment amount is an estimate provided by WPH – Torrey Meadows.

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 year for parcels less than one (1) 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, regarding this assessment, once a year. Parcels with their own well may be exempted from this assessment.

County Water Authority Water Availability Charge. The County Water Authority imposes an annual direct assessment of \$10.00 per acre, or \$10.00 per parcel for parcels less than one (1) 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 this annual direct assessment on all property within the County at the rate of \$3.00 per parcel. Any change

to the amount of this assessment is subject to a vote by the registered voters within the County. This pay-as-you-go assessment is used for vector surveillance and control programs. The County Department of Environmental Health provides free services to residents of the County to control mosquito breeding and rodent activity.

Torrey Highlands Subarea 4 Maintenance Assessment District. The proposed Torrey Highlands Subarea 4 Maintenance Assessment District would be administered by the City of San Diego for maintenance of landscaping and slopes. This pay-as-you-go assessment would be based on actual costs incurred, and is expected to be approximately \$200 per unit, subject to escalation based on the California Consumer Price index.

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

Accordingly, the debt on the property within the Community Facilities District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the 2003 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 2003 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 2003 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 C 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 2003 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 C.

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 C, 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 August 15, 2003, WPH – Torrey Meadows is responsible for 70.3% of the Special Taxes in Improvement Area C. See “THE COMMUNITY FACILITIES DISTRICT – Property Ownership and Development.” If WPH – Torrey Meadows is unwilling or unable to pay its Special Tax when due, a potential shortfall in the Bond Service Fund could occur, which would result in the depletion of the related Reserve Fund prior to reimbursement from the resale of foreclosed property or payment of the delinquent Special Taxes and, consequently, a delay or failure in payments of the principal of or interest on the 2003 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 C. 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 C may be subject to economic considerations and unexpected delays, disruptions and chances which may affect the willingness and ability of WPH – Torrey Meadows 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 191 lots within Improvement Area C and most discretionary governmental approvals have been obtained with respect to such lots. The property within Improvement Area C is fully finished and homes are under construction. It is possible that the approvals necessary to complete development of the property within Improvement Area C will not be obtained on a timely basis. Failure to obtain any such approval could adversely affect land development operations within Improvement Area C. In addition, there is a risk that future governmental restrictions on land development within Improvement Area C 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 C 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 C 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 C would cause the property values within Improvement Area C to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within Improvement Area C to pay the Special Taxes when due.

Special Taxes Are Not Personal Obligations

The current and future owners of land within Improvement Area C 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 C. If the value of the land within Improvement Area C 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 2003 Bonds have been issued.

The 2003 Bonds Are Limited Obligations of the Community Facilities District

The Community Facilities District has no obligation to pay principal of and interest on the 2003 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 2003 Bonds.

Appraised Values

The Appraisal summarized in Appendix C hereto estimates the fee simple interest market value of the residential property within Improvement Area C. 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 C should become delinquent in the payment of Special Taxes, and be foreclosed upon, that such property could be sold for the amount of estimated market value thereof contained in the Appraisal.

Land Development

All lots are finished, with 55 units completed and conveyed to individual homebuyers, 8 units completed/unsold and all but 8 units under construction in Improvement Area C. A major risk to the Bondowners is that development by the property owners in Improvement Area C 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 C 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 C will not be adversely affected by the factors described above.

Recently there have been acts of environmental sabotage in the San Diego area allegedly by an underground movement known as the Earth Liberation Front ("ELF"). ELF has accepted responsibility for fires in the San Diego area, including a fire on August 1, 2003 that destroyed an unfinished five-story condominium complex in San Diego's Golden Triangle area and, a fire on September 19, 2003, that destroyed four homes under construction in the Avalon Point development in Improvement Area D of the Community Facilities District and a fire that destroyed another home in the Bordeaux development in San Diego County. The Developer is reviewing security for its project.

In addition, partially developed land is less valuable than developed land and provides less security for the 2003 Bonds (and therefore to the owners of the 2003 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 2003 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 C as planned will reduce the expected diversity of ownership of land within Improvement Area C, making the payment of debt service on the 2003 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 2003 Bonds depends upon the willingness and ability of the current owners of undeveloped land and any merchant builders to whom finished lots are sold to pay the Special Taxes levied on the undeveloped land when due. Furthermore, continued concentration of ownership increases the potential negative impact of a bankruptcy or other financial difficulty experienced by the existing landowners. See "Concentration of Property Ownership" above.

Burden of Parity Liens, Taxes and Other Special Assessments on the Taxable Property

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

The tables in the section entitled "COMMUNITY FACILITIES DISTRICT NO. 10 (TORREY HIGHLANDS – SUBAREA IV) – Direct and Overlapping Debt" 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 tables do not specifically identify which of the governmental obligations are secured by liens on one or more of the parcels of Taxable Property.

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Tax securing the 2003 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 2003 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 and Improvement Area C in the Office of the San Diego County Recorder on September 21, 2001, as Document Nos. 2001-0681525 and 2001-0681528, respectively, and on September 4, 2003 an Amended Notice on behalf of Improvement Area C as Document No. 2003-1081847. 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 C 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 Developer or its predecessors have secured most discretionary approvals, permits and government entitlements necessary to develop the land within Improvement Area C. Nevertheless, development within Improvement Area C 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 of San Diego and other public agencies. The failure to obtain any such approval could adversely affect construction within Improvement Area C. 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 C 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 C could cause the land values within Improvement Area C 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 C. See "Failure to Develop Properties" above.

Utility Deregulation

The State of California in 2000 and 2001 experienced a crisis in the supply and pricing of electricity and gas. The crisis resulted in blackouts in several areas of the State and further outages were predicted for the summer months in 2001 when demand increases. No blackouts occurred in the summer of 2001, 2002 or 2003. 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 cannot be predicted.

State Budget

As a result of the slowing State and United States of America economies, the State is experiencing serious budgetary shortfalls for the current and prior fiscal years. Power purchases by the State from general fund appropriations have significantly reduced the State's cash reserves. In addition, the terrorist attacks of September 11, 2001 and subsequent hostilities have resulted in increased uncertainty regarding the economic and revenue outlook for the State. The effect of the State revenue shortfalls on the local or State economy or on the demand for, or value of, the property within the Community Facilities District cannot be predicted. The State did not adopt a budget for Fiscal Year 2002-03 until September 5, 2002 and thereafter the State reported a budget shortfall of approximately \$38 billion. The State adopted a budget for Fiscal Year 2003-04 on August 2, 2003. Budget proposals result in a slight increase in budget expenditures and rely on an increase in motor vehicle license fees and borrowing to balance the budget.

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 C or reduce the value of undeveloped property. Failure to develop the vacant property in Improvement Area C 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 C 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 C 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, the Developer reports that the vacant property within the Community Facilities District proposed to be developed by such Developer is not known by the Developer to be inhabited by any plant or animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has proposed for addition to the endangered species list.

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 C 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 C 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.

The land in Improvement Area C is located within the City of San Diego and is not subject to the County's ordinance regarding a testing protocol and mitigation measures required with respect to methane vapors.

The value of the property within Improvement Area C, 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 2003 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within Improvement Area C. 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 2003 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 2003 Bonds, and certainly not a direct relationship.

The Special Tax levied in any particular tax year on a Taxable Property is based upon the revenue needs and application of the Rate and Method. Application of the 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 C. 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 2003 BONDS – Special Taxes” and “ – Rates and Methods” herein, the 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 2003 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 2003 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 2003 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 C. See “SECURITY FOR THE 2003 BONDS – Rates and Methods” herein.

Exempt Properties

Certain properties are exempt from the Special Tax in accordance with the Rate and Method (see “SECURITY FOR THE 2003 BONDS – Rates and Methods” herein). In addition, the Act provides that

properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within Improvement Area C 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

The Reserve Fund is to be maintained at an amount equal to the Reserve Requirement (see “SECURITY FOR THE 2003 BONDS – Reserve Fund” herein). Funds in the Reserve Fund may be used to pay principal of and interest on the 2003 Bonds in the event the proceeds of the levy and collection of the Special Tax against property within Improvement Area C are insufficient. If funds in the Reserve Fund for the 2003 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 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 Improvement Area C, 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 2003 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 C 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 2003 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 2003 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 2003 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 2003 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 2003 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 C is owned by WPH – Torrey Meadows, 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 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 C 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 2003 Bonds should assume that the Community Facilities District will be unable to collect Special Taxes or to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the 2003 Bonds. Based upon the secured tax roll as of January 1, 2003, the FDIC does not presently own any of the property in Improvement Area C. The School District expresses no view concerning the likelihood that the risks described above will materialize while the 2003 Bonds are outstanding.

Factors Affecting Parcel Values and Aggregate Value

Geologic, Topographic and Climatic Conditions. The value of the Taxable Property in Improvement Area C 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 C, 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 C 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 C 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 2003 Bonds do not contain a provision allowing for the acceleration of the 2003 Bonds in the event of a payment default or other default under the terms of the 2003 Bonds or the Bond Indenture. Pursuant to the 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 D – “Summary of Certain Provisions of Bond Indenture” herein). So long as the 2003 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 C pursuant to the Act, more than two-thirds of the qualified electors within Improvement Area C, consisting of the landowners within the boundaries of Improvement Area C, authorized the Community Facilities District to incur bonded indebtedness to finance the School Facilities and the City Facilities and approved the 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 C 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 2003 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 2003 Bonds, it is necessary that the Special Tax levied against land within Improvement Area C be paid in a timely manner. The Community Facilities District has covenanted in the 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 2003 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 2003 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 2003 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 XIIC 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 2003 Bonds.

It may be possible, however, for voters of Improvement Area C to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2003 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 2003 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 2003 Bonds as well as the market for the 2003 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 2003 Bonds or, if a secondary market exists, that such 2003 Bonds can be sold for any particular price. Although the School District, the Community Facilities District and the Developer has committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of credit rating for the 2003 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 2003 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2003 Bonds as a result of a acts or omission of the Community Facilities District and the School District in violation of certain provisions of the Code and the covenants of the Bond Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2003 Bonds, the School District has covenanted in the 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 2003 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2003 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 Bond Indenture. See “THE 2003 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 2003 Bonds or to preserve the tax-exempt status of the 2003 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 School Facilities and 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 School Facilities and 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 2003 Bonds will be made available to purchasers at the time of original delivery and is attached hereto as Appendix G. A copy of the legal opinion will be printed on each 2003 Bond. McFarlin & Anderson LLP, 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 2003 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 2003 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Community Facilities District has covenanted in the 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 2003 Bonds.

In the further opinion of Bond Counsel, interest on the 2003 Bonds is exempt from California personal income taxes.

To the extent the issue price of any maturity of the 2003 Bonds is less than the amount to be paid at maturity of such 2003 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2003 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 2003 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 2003 Bonds is the first price at which a substantial amount of such maturity of the 2003 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 2003 Bonds accrues daily over the term to maturity of such 2003 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 2003 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2003 Bonds. Owners of the 2003 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the 2003 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2003 Bonds in the original offering to the public at the first price at which a substantial amount of such 2003 Bonds is sold to the public.

The 2003 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 2003 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2003 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 2003 Bonds other than as expressly described above.

Absence of Litigation

No litigation is pending or threatened concerning the validity of the 2003 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 2003 Bonds or in any way contesting or affecting the validity of the 2003 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 2003 Bonds.

No General Obligation of School District or Community Facilities District

The 2003 Bonds are not general obligations of the School District or the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from proceeds of the Special Tax of Improvement Area C and proceeds of the 2003 Bonds, including amounts in the Reserve Fund, Special Tax Fund and Bond Service Fund and investment income on certain funds held pursuant to the 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 2003 Bonds shall be limited to the Special Taxes to be collected within Improvement Area C of the Community Facilities District.

NO RATINGS

The 2003 Bonds have not been rated by any securities rating agency.

UNDERWRITING

The 2003 Bonds are being purchased by Stone & Youngberg LLC at a purchase price of \$2,910,000 (which represents the aggregate principal amount of the 2003 Bonds of \$3,000,000, less an underwriter's discount of \$90,000).

The purchase agreement relating to the 2003 Bonds provides that the Underwriter will purchase all of the 2003 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 2003 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 LLP, as Disclosure Counsel, Best Best & Krieger LLP, as Bond Counsel, and Zions First National Bank, as the Fiscal Agent, are contingent upon the issuance of the 2003 Bonds. The fees of David Taussig & Associates, Inc., as Special Tax Consultant, are in part contingent upon the issuance of the 2003 Bonds. The fees of Stephen G. White, MAI, as Appraiser, are not contingent upon the issuance of the 2003 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 2003 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/ Keith L. Bradford
Keith L. Bradford, Associate Superintendent of the
Poway Unified School District on behalf of
Community Facilities District No. 10 (Torrey
Highlands – Subarea IV) of the Poway Unified
School District

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APPENDIX A

GENERAL INFORMATION ABOUT THE POWAY UNIFIED SCHOOL DISTRICT

The following information relating to the School District is included only for the purpose of supplying general information regarding the School District. Neither the faith and credit nor the taxing power of the School District has been pledged to payment of the 2003 Bonds, and the 2003 Bonds will not be payable from any of the School District's revenues or assets.

Introduction

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

General Information

The School District is a school district organized under the laws of the State of California. The School District was established in 1962. The School District provides education instruction for grades K-12 within an approximately 100 square mile area of San Diego County. The School District currently operates 21 (K-5) elementary schools, five (6-8) middle schools, four comprehensive high schools (9-12) and one continuation high school. The School District includes the City of Poway and portions of the City of San Diego in San Diego County, California. The School District's projected average daily attendance ("ADA") computed in accordance with State law for the 2003-04 academic year is approximately 31,500. As of January, 2003, the estimated population within the School District's boundaries was approximately 160,729 and as of September 5, 2003, approximately 32,850 students attended schools in the School District. 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. The pupil/teacher ratio is approximately 29:1 for grades 4-5, 27:1 for grades 6-8 and 29:1 for grades 9-12. There is a lower class size average for 9th grade English and Mathematics.

Administration and Enrollment

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

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

From fiscal year 1994-95 through fiscal year 2002-03, the School District's enrollment increased by 3,602, an average of approximately 1 percent per year. Information concerning enrollment for these years is 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>
1994-95	29,152	29,020	\$3,468.39
1995-96	30,043	29,893	3,615.36
1996-97	30,626	30,531	3,809.77
1997-98	31,339	31,214	3,912.12
1998-99 ⁽¹⁾	31,845	30,877	4,214.70
1999-00	32,536	31,515	4,274.70
2000-01	32,532	31,203	4,412.70
2001-02	32,507	31,319	4,679.70
2002-03	32,754	31,405	4,753.00

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 June 30, 2003, the School District employed approximately 1,782 certificated professionals and approximately 1,722 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	1,619	6/30/02 ⁽¹⁾
Service Employees International Union	464	6/30/04
California School Employees Association	1,177	6/30/04

⁽¹⁾ The Poway Federation of Teachers contract expired June 30, 2002 but is still in effect as of September 1, 2003.

Source: The School District.

Retirement Programs

The School District participates in the State of California Teachers Retirement System (“STRS”). This plan covers certificated employees. The School District’s contribution to STRS for Fiscal Year 1999-00 was \$7,853,513.41, in Fiscal Year 2000-01 was \$8,814,311.32, in Fiscal Year 2001-02 was \$9,265,362, in Fiscal Year 2002-03 was \$9,332,415 and Fiscal Year 2003-04 is budgeted at \$9,640,766. In order to receive

STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The School District also participates in the State of California Public Employees Retirement Systems (“PERS”). This plan covers all classified personnel who are employed 1,000 or more hours per fiscal year. The School District’s contribution to PERS since 1998 has been \$0.00. The contribution for Fiscal Year 2002-03 was \$763,088 and the contribution for Fiscal Year 2003-04 is budgeted at \$1,028,993.99.

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 \$750,000. Commercial insurance is purchased to defray claim costs exceeding the self-insured retention level.

The School District operates a Self-Insurance Program to cover general liability claim losses up to a limit of \$50,000 per claim and property losses up to \$25,000 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 authorities 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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**FIRST AMENDED
RATE AND METHOD OF APPORTIONMENT FOR
COMMUNITY FACILITIES DISTRICT NO. 10
OF THE POWAY UNIFIED SCHOOL DISTRICT
(IMPROVEMENT AREA C)**

An Annual Special Tax shall be levied on and collected in Improvement Area C ("IA C") 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 C 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 C 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 Minimum Annual Special Tax Requirement and (ii) to pay for the acquisition, construction, rehabilitation, and improvement of School Facilities.

"Assessor's Parcel" means a lot or parcel of land in IA C 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.

"Associate Superintendent" means the Associate Superintendent of Business Support Services 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 C of CFD No. 10 are pledged.

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

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

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

"City" means the City of San Diego.

"County" means the County of San Diego.

"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 Associate 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.

"Maximum Special Tax" means, the Maximum Special Tax determined in accordance with Section C that can be levied by IAC of CFD No. 10 in any Fiscal Year on any Assessor's Parcel.

"Minimum Annual Special Tax Requirement" means the amount required in any Fiscal Year to pay: (i) the debt service on the Bonds or other indebtedness or other periodic costs on the Bonds, (ii) the Administrative Expenses of IA C 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 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.

"Minimum Taxable Acreage" means, for any Zone, the applicable acreage listed in Table 4 below.

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

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

SECTION B ASSIGNMENT OF ASSESSOR'S PARCELS

For each Fiscal Year, beginning with Fiscal Year 2002-03, (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 2002-03 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 2002-03**

Zone	Building Square Feet	Assigned Annual Special Tax ¹
1	≤ 1,150	\$1,226.79 per Detached/Attached Unit
1	1,151 – 1,400	\$1,391.73 per Detached/Attached Unit
1	> 1,400	\$1,509.55 per Detached/Attached Unit
2	≤ 1,850	\$977.29 per Detached/Attached Unit
2	1,851 – 2,000	\$1,095.11 per Detached/Attached Unit
2	2,001 – 2,250	\$1,212.92 per Detached/Attached Unit
2	> 2,250	\$1,291.47 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, 2003, 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 2002-03 shall be the amount determined by reference to Table 2.

TABLE 2

**ASSIGNED ANNUAL SPECIAL TAX FOR
TAXABLE UNDEVELOPED PROPERTY FOR FISCAL YEAR 2002-03**

Zone	Assigned Annual Special Tax
Zone 1	\$27,919.34 per Acre
Zone 2	\$15,463.99 per Acre

On each July 1, commencing July 1, 2003, 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:

$$B = (Z * A) / L$$

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 Associate 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 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 2002-03 and for each subsequent Fiscal Year, the Board shall levy Annual Special Taxes as follows:

- Step One: The Board shall levy an Annual Special Tax on each Assessor's Parcel of Taxable Developed Property in an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel.
- Step Two: If the sum of the amounts collected in step one is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Undeveloped Property, up to the Assigned Annual Special Tax applicable to each such Assessor's Parcel, to satisfy the Minimum Annual Special Tax Requirement.
- Step Three: If the sum of the amounts collected in steps one and two is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Developed Property, up to the Maximum Special Tax applicable to each such Assessor's Parcel, to satisfy the Minimum 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 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, 2002 to April 30, 2003 shall be the amount determined by reference to Table 3.

TABLE 3

**GROSS PREPAYMENT AMOUNT FOR
MAY 1, 2002 TO APRIL 30, 2003**

Zone	Building Square Feet	Gross Prepayment Amount ¹
1	≤ 1,150	\$12,971.17 per Detached/Attached Unit
1	1,151 – 1,400	\$14,715.14 per Detached/Attached Unit
1	> 1,400	\$15,960.84 per Detached/Attached Unit
2	≤ 1,850	\$10,333.15 per Detached/Attached Unit
2	1,851 – 2,000	\$11,578.85 per Detached/Attached Unit
2	2,001 – 2,250	\$12,824.55 per Detached/Attached Unit
2	> 2,250	\$13,655.01 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, 2003, 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 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
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 Associate 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 Associate Superintendent.
3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the face value of all outstanding Bonds. The product is the "Bond Redemption Amount."
4. 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."
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 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 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 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 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.

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 Associate Superintendent shall indicate in the records of IA C 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 C 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 Bonds in each future Fiscal Year, as reasonably determined by the Associate 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:

$$PP = P_G * F$$

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 Associate 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 Associate Superintendent shall indicate in the records of IA C 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. Additionally, the notice shall indicate that the Assigned Annual Special Tax and the Backup Annual Special Tax for the Assessor's Parcels has been reduced by an amount equal to the percentage which was partially prepaid.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Annual Special Tax that may be levied in IA C 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 Bonds in each future Fiscal Year, as reasonably determined by the Associate 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 Bonds by IA C 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 Associate 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 Associate Superintendent, and (vii) other types of Assessor's Parcels, at the reasonable discretion of the Associate 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

MINIMUM TAXABLE ACREAGE

Zone	Minimum Taxable Acreage
Zone 1	4.14
Zone 2	7.94

**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 Associate Superintendent not later than twelve (12) months after having paid the Special Tax that is disputed. The Associate 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 Associate 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 Associate 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 C 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.

April 10, 2001

**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.

April 10, 2001

"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.

April 10, 2001

"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.

April 10, 2001

"**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 Inflation.

2. **Zone 2**

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

**SECTION E
ASSIGNED ANNUAL SPECIAL TAX**

1. **Assigned Annual Special Tax for New Developed Property**

The Assigned Annual Special Tax applicable to an Assessor's Parcel in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property shall be the amount determined by reference to Table 1 below, subject to adjustment as described below, as applicable. No Assigned Annual Special Tax shall apply to Senior Citizen Units.

TABLE 1

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

Each July 1, commencing July 1, 2002, the Assigned Annual Special Tax applicable to an Assessor's Parcel in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property shall be increased by the Inflator.

2. **Assigned Annual Special Tax for Existing Developed Property**

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

**SECTION F
METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX**

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

**SECTION G
PREPAYMENT OF ANNUAL SPECIAL TAX**

The Annual Special Tax obligation of an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be prepaid in full, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid. The Prepayment Amount for an Assessor's Parcel eligible for prepayment shall be determined as described below.

1. Prior to Issuance of Bonds

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

TABLE 2

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

On each May 1, commencing May 1, 2002, the Gross Prepayment Amount for each Unit shall be increased by the Inflater, 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
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 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."

April 10, 2001

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.

April 10, 2001

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 Area C)

DATE OF VALUE:

August 15, 2003

SUBMITTED TO:

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

DATE OF REPORT:

August 21, 2003

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 21, 2003

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

Re: Community Facilities District No. 10
(Torrey Highlands – Improvement Area C)

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 Area C of the above-referenced Community Facilities District (CFD). This Improvement Area consists of two separate tracts. The tract called San Lorenza will be 107 detached homes on $\pm 3,000$ s.f. minimum lots, of which there currently are 39 completed homes, 60 homes under construction, and 8 vacant lots. The other tract called Monaco will be 84 attached condominiums, of which 27 are completed and 57 are currently under construction.

The purpose of this appraisal is to estimate the aggregate market value of each separate tract, reflecting the as is condition of the existing homes and vacant lots. This appraisal also reflects the proposed public bond financing, as well as the tax rates of $\pm 1.6-1.75\%$, including special taxes, to the existing and future homeowners.

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 August 15, 2003:

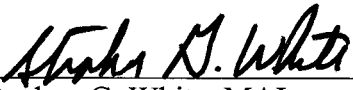
<u>Tract</u>	<u>Market Value</u>
San Lorenza	\$36,460,000
Monaco	<u>\$20,640,000</u>
	\$57,100,000

(FIFTY-SEVEN MILLION ONE HUNDRED THOUSAND DOLLARS)

MS. SANDRA G. BURGOYNE
AUGUST 21, 2003
PAGE 2

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

Sincerely,



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

SGW:sw
Ref: 03027

TABLE OF CONTENTS

PAGES


Certification.....	5
Assumptions and Limiting Conditions.....	6-7
Purpose and Use of the Appraisal, Scope of the Appraisal, Date of Value, Property Rights Appraised, Definitions.....	8
INTRODUCTION	
General Location, Overview of CFD No. 10, Description of Torrey Highlands Subarea IV.....	9-12
SAN LORENZA	
Property Data.....	13-18
Valuation.....	18-23
MONACO	
Property Data.....	24-28
Valuation.....	29-31
ADDENDA	
Tabulation of Residential Land Sales.....	32-33
Qualifications of Appraiser.....	34-36

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. Any plot plans or other illustrative material in this report are included only to help the reader visualize the property.
6. It is assumed that there are no hidden or unapparent conditions of the 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 the 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.
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. However, the appraiser is not qualified to detect such substances. The presence of such substances may affect the value of the property, but the value estimated in this

ASSUMPTIONS AND LIMITING CONDITIONS, Continuing

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

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

SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS

1. An estimate of the remaining costs to get the subject tracts to fully “finished lots” have been obtained from the property owner, and these figures have been assumed to be reasonably accurate and have been relied upon in this appraisal.

PURPOSE AND USE OF THE APPRAISAL

The purpose of this appraisal is to estimate the aggregate market value by tract of the taxable property located within Community Facilities District No. 10 (Torrey Highlands – Improvement Area C of the Poway Unified School District. This Summary Appraisal Report is to be used as required in the bond issuance.

SCOPE OF THE APPRAISAL

It is the intent of this 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 an inspection of the subject properties and their surroundings; review of various maps and documents relating to the properties and the planned developments; obtaining of pertinent property data on the subject properties; obtaining of comparable land sales from a variety of sources; and analysis of all of the data to the value conclusions.

DATE OF VALUE

The date of value for this appraisal is August 15, 2003.

PROPERTY RIGHTS APPRAISED

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

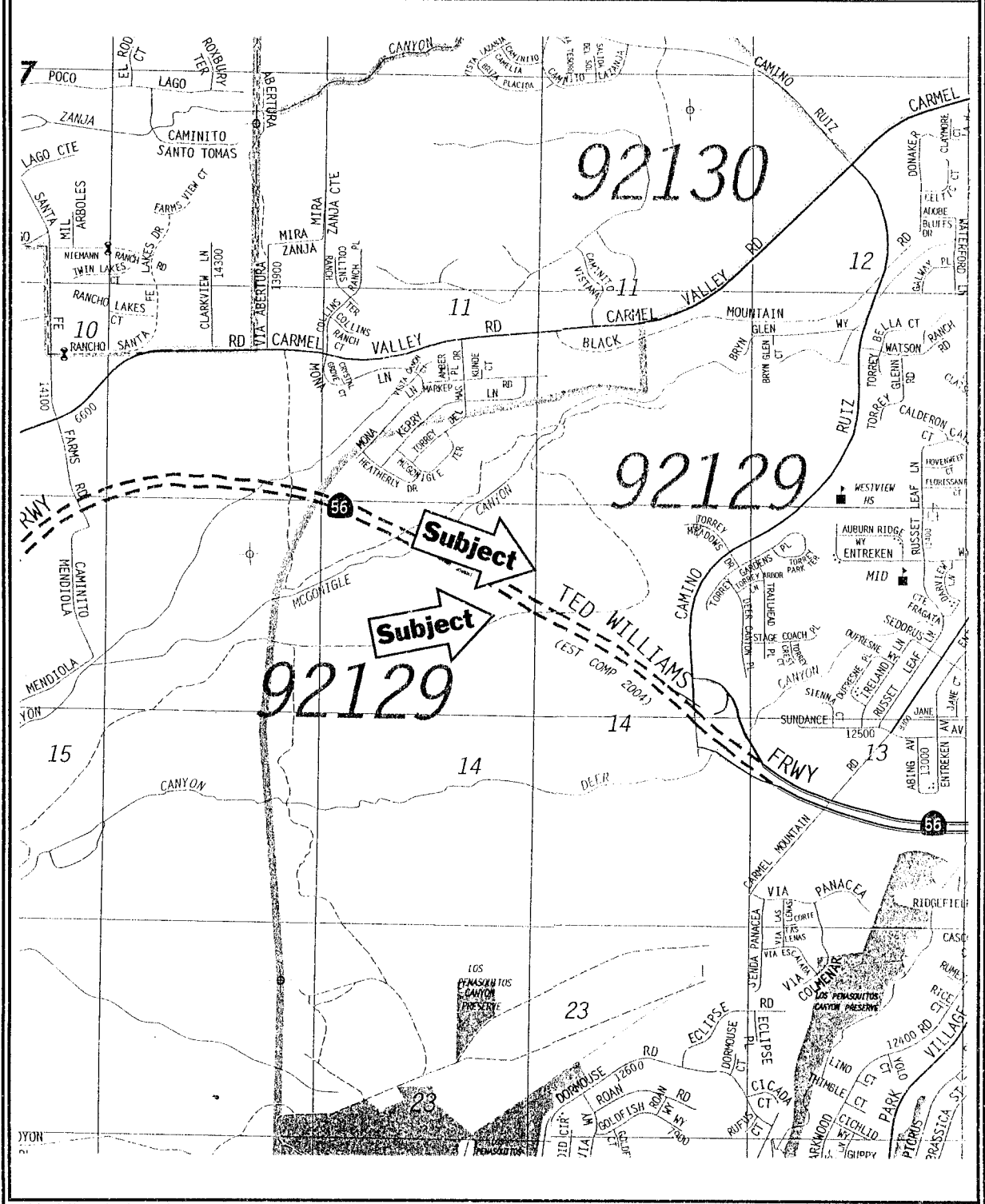
DEFINITION OF MARKET VALUE

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

LOCATION MAP



INTRODUCTION

GENERAL LOCATION

The map on the opposite page indicates the approximate locations of the two subject tracts. Both of the tracts lie west of Camino del Sur (formerly Camino Ruiz), with one of the tracts being just to the south of future S.R. 56 and the other tract being just to the north of it.

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 fairly new area that has been developing over the past several years. 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

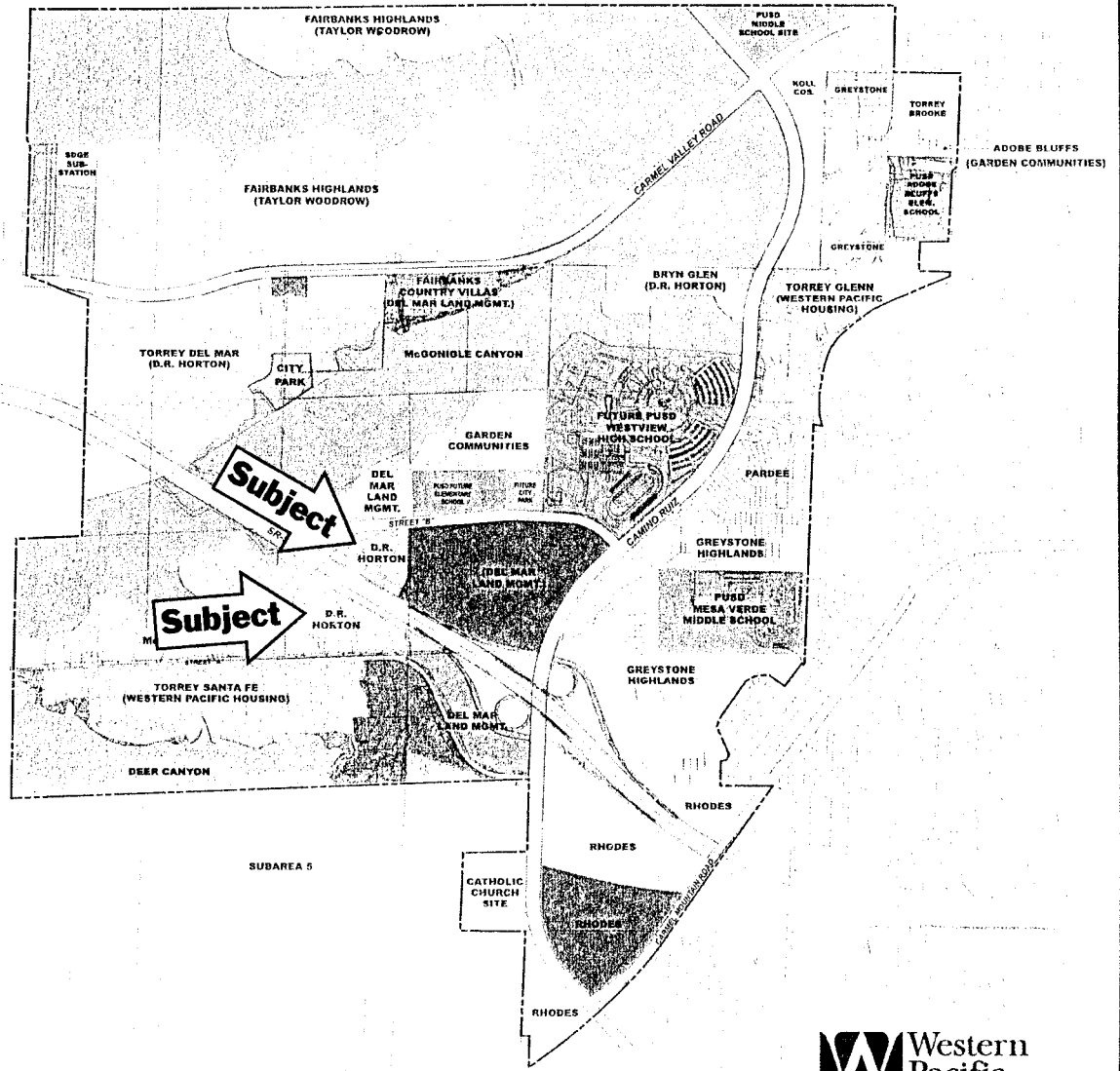
Community Facilities District No. 10 comprises a total of approximately 476 acres. This land is planned to be developed with a total of approximately 1,200 dwelling units, which range from attached units at higher densities to detached homes on minimum lot sizes of $\pm 4,000$ to 7,500 s.f. There is and will be more commercial development within this CFD, which includes 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 current financing involves the issuance of special tax bonds for Improvement Area C. Thus, only the properties included in this one Improvement Area are included in this appraisal.

Improvement Area C comprises the two separate residential development projects as previously noted. These two projects will contain a total of 191 dwelling units, of which 107 will be detached homes and 84 will be attached condominiums. Both of these projects are 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



Scale: 1" = 400' ft
Date: November 28, 2006

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, both of the subject tracts are located in the south central part of this Subarea. 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 consists of a wide range of housing, including attached units at higher densities to larger estate-type homes on ± 1 -acre lots. The estate homes are located at the north end of the Subarea, the multi-family housing is located in the central area, and the balance of the housing will be on $\pm 4,000$ to 7,500 s.f. minimum lots. Construction is completed or well underway on many of the tracts in this Subarea, from the north end to the south end. There is also much open space which runs diagonally through the center of the Subarea, and also across the north and south ends.

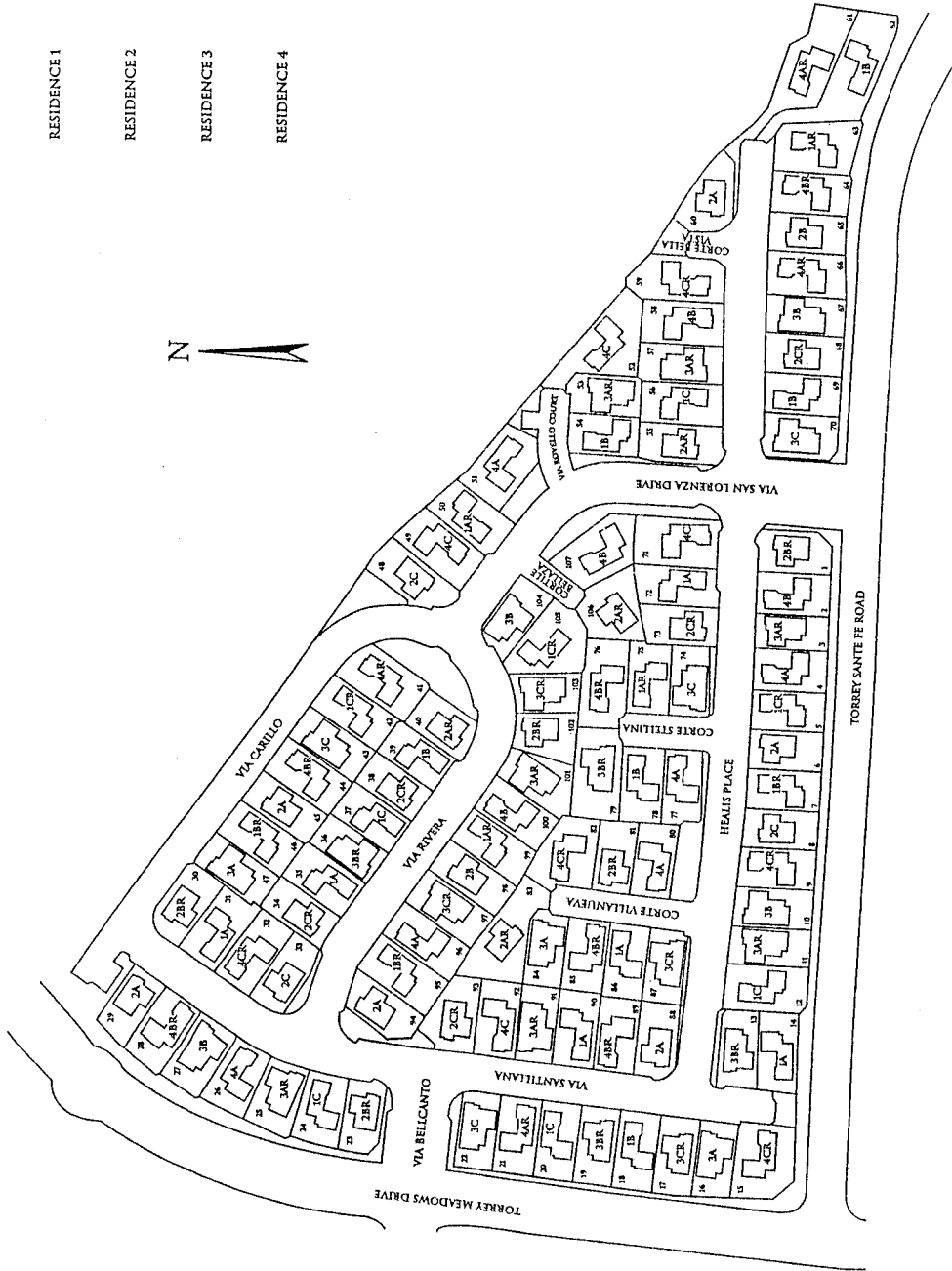
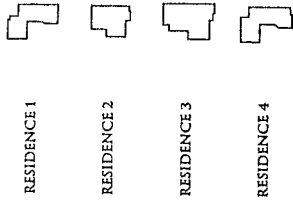
The Subarea will also include two elementary schools, two middle schools and a high school. The middle school and elementary school along the east side of the Subarea, and Westview High School in the center area are existing and in operation. The middle school site at the north end and the elementary school site in the center area are still planned for future construction.

Carmel Valley Rd. will be a major east-west arterial through this Subarea, and it currently provides access through this area, though mostly as only a two-lane road. Camino del Sur (formerly Camino Ruiz) is a major north-south arterial through this area, and it has recently been completed and opened between Carmel Valley Rd. and Torrey Santa Fe Rd., just south of S.R. 56.

S.R. 56 will run east-west through the southerly part of this Subarea. It currently is completed east from Camino del Sur, and the segment to the west is currently under construction and due to be completed in about a year. The completion S.R. 56 through this area will provide good access between the I-5 Freeway to the west and the I-15 Freeway to the east.

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

MAP OF SAN LORENZA



SAN LORENZA
SITE PLAN 2/27/03

ALL SQUARE FOOTAGE IS APPROXIMATE. NOT ALL FEATURES ARE AVAILABLE IN ALL PLANS. ENTRY, CEILING, WINDOW, AND WALL CONFIGURATIONS VARY PER PLAN. ELEVATION, AND BUILDING CONFIGURATION. ALL RENDERINGS ARE ARTISTS' ILLUSTRATIONS. SEE SALES REPRESENTATIVE FOR DETAILS. WESTERN PACIFIC HOUSING, INC. A D.R. HORTON COMPANY. (03/03)

SAN LORENZA (WESTERN PACIFIC HOUSING)

PROPERTY DATA

Location

This tract is located at the northeast corner of Torrey Meadows Dr. and Torrey Santa Fe Rd., and extending north to the S.R. 56 right-of-way.

Surroundings

To the north/northeast will be S.R. 56, which is currently under construction, and beyond that is the subject Monaco tract of townhomes and its surroundings, which is discussed next. Across Torrey Meadows Dr. to the west is the tract of homes called Avalon Point which is currently under construction. Farther west is a large area of open space which extends to the south and north of S.R. 56. Across Torrey Santa Fe Rd. to the south/southwest are two tracts of new homes called Montellano and Cabrera, both of which are nearing completion. To the south/southeast is vacant land which is planned for a 480,000 s.f. corporate headquarters/R&D development.

Record Owner/Ownership History

The 32 completed-sold homes are owned by the various homeowners, and these sales have closed from June 27 through August 15, 2003. The remaining 75 homes and vacant lots are owned by Western Pacific Housing-Torrey Meadows, LLC. They originally acquired the land for this tract in January 2002 at a price of \$15,000,000, which included the land for the subject Monaco tract.

Legal Description

The 107 lots are described as Lots 1 through 107 of Shaw Property Unit 2, in the City of San Diego, County of San Diego, State of California, according to map thereof No. 14576 recorded in the office of the County Recorder of San Diego County on April 22, 2003.

Assessor Data

Assessor Parcel No. 306-051-19 comprises the overall subject tract, and there are not yet separate assessor parcel numbers or assessed values for the subdivided lots. The tax rate area is 08-190 and the current tax rate is $\pm 1.02\%$, but the actual tax rate to the homeowners is $\pm 1.6\%$, including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 107 single-family residential lots. The minimum lot size is $\pm 3,000$ s.f., and the typical size is in the range of 3,000 s.f. to 3,500 s.f.

PROPERTY DATA, Continuing

Streets and Access

Torrey Santa Fe Rd. extends along the south side of the subject tract, and provides access westerly from the southerly terminus of Camino del Sur. It is a wide two-lane paved road which ends in a cul-de-sac several blocks to the west of the subject property. One access point comes into the subject tract from this street.

Torrey Meadows Dr. extends along the west side of the subject property, and provides access northerly from Torrey Santa Fe Rd. It will ultimately continue northerly and bridge over S.R. 56, connecting with the portion that extends east to Camino del Sur. Along the subject property it is a two-lane paved road which terminates just north of the access point into the subject tract.

Utilities

All utilities have been or will be installed in the in-tract streets of the subject tract. Water and sewer are provided by the City of San Diego, electric and gas are provided by San Diego Gas & Electric, telephone is provided by SBC, and cable is provided by Time Warner.

Zoning/General Plan/Approvals

The subject property is zoned Single-Family Residential, and is designated for Low Density as part of Torrey Highlands Subarea IV. The subject lots have approvals by the final tract map which was recorded in April 2003.

Physical Condition/Topography

All of the subject lots are in a mostly finished condition from a physical standpoint, other than final street lift, some common area landscaping, and installation of the street lights.

The overall site for the tract is fairly flat, with minimal terracing between lots or rows of lots, and with the lots approximately at grade of Torrey Santa Fe Rd. and Torrey Meadows Ln. To the north/northeast of the tract the land slopes down to the future S.R. 56.

Drainage/Flood Hazard

Onsite drainage is to the streets and to storm drain facilities which have been constructed within the tract. The subject tract is elevated well above the floodplain area which lies to the north and northwest. Per FEMA Flood Insurance Rate Map No. 060295 1334F dated 6/19/97, the subject tract is located in Zone X which is outside of the floodplain.

PROPERTY DATA, Continuing

Soil/Geologic Conditions

This appraisal has assumed that the grading and compacting has been properly completed, and that there are no abnormal soil or geologic conditions which would affect the continuing construction of the homes.

Environmental Conditions

This appraisal has assumed that all necessary environmental permits and approvals have been obtained for development of the homes, and any necessary fees have been or will be paid. 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 continued construction of the homes.

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 the valuation.

Existing and Proposed Development

The 107 lots are being developed with a tract of homes called San Lorenza. As of the August 15, 2003 date of value, there were 32 completed-sold homes (most of Phases 1, 2 and 3), 7 completed-unsold homes (including the 4 models), 60 homes under construction, and 8 vacant lots. Of the 60 homes under construction, 9 are ±90% completed, 43 range from ±40-80% completed, and 8 are just being trenched for the foundations.

The homes under construction in Phases 4 through 7 have been released for sale, and most of these homes are sold and in escrow. They are due to be completed for the sales to close in late August through late September. The final build-out of the tract is expected by the end of this year or into January 2004.

There are four floor plans which are described as follows:

Residence One: 1,813 s.f., two story, with 3 bedrooms, 2½ baths, and a 2-car garage, with optional loft in lieu of bedroom 2, and optional master bedroom retreat (adds 175 s.f.)

Residence Two: 1,933 s.f., two story, with 4 bedrooms, 2½ baths, and a 2-car garage, with optional loft in lieu of bedroom 4.

Residence Three: 2,171 s.f., two story, with 4 bedrooms, 2½ baths, and a 2-car garage.

Residence Four: 2,316 s.f., two story, with 4 bedrooms, 3½ baths, and a 2-car garage.

PROPERTY DATA, Continuing

The projected pricing as of a year ago was \$377,500 to \$447,500, or an average of ±\$414,000. However, the actual base pricing for Phase 1, as of March 2003, was \$404,990 for Residence One, \$413,990 for Residence Two, \$428,990 for Residence Three, and \$438,990 for Residence Four, or an average of ±\$422,000. The most recent base pricing for Phase 7, released in July, was \$447,990 for Residence One, \$471,990 for Residence Two, \$486,990 for Residence Three, and \$496,990 for Residence Four, or an average of ±\$476,000. Lot premiums have ranged up to \$10,000, but typically \$1,000 to \$5,000, mostly for lot size.

Highest and Best Use

The term highest and best use is defined as that use which is reasonable and probable, and supports the highest present value of the land or improvements, also described as the most profitable use which is legal, physically possible and financially feasible as of the effective date of the appraisal.

The highest and best use is concluded to be for continued build-out of the subject tract of homes. This use is financially feasible as evidenced by the strong demand for new homes in this general area.

In considering the supportability of the pricing of the subject homes, in addition to the strong sales activity in the subject tract, the most recent pricing of other new homes in the nearby area have also been considered, and shown as follows:

<u>Project</u>	<u>Min. Lot Size</u>	<u>Floor Plan</u>	<u>Base Price</u>	<u>Price/S.F.</u>
Avalon Point	5,000	2,529 s.f.	\$550,900	\$217.83
		2,758 s.f.	\$572,900	\$207.72
		2,889 s.f.	\$587,900	\$203.50
		3,141 s.f.	\$616,900	\$196.40
Montellano at Torrey Santa Fe	5,000	3,246 s.f.	\$600,790	\$185.09
		3,331 s.f.	\$575,750	\$172.85
		3,864 s.f.	\$630,090	\$163.07
Cabrera at Torrey Santa Fe	4,000	2,419 s.f.	\$496,990	\$205.45
		2,766 s.f.	\$513,490	\$185.64
		2,852 s.f.	\$522,290	\$183.13
Costa del Sol	4,000	1,616 s.f.	\$515,990	\$319.30
		1,781 s.f.	\$536,990	\$301.51
		1,984 s.f.	\$561,990	\$283.26
		2,127 s.f.	±\$585,000	±\$275.04
Subject	3,000	1,813 s.f.	\$447,990	\$247.10
		1,933 s.f.	\$471,990	\$244.17
		2,171 s.f.	\$486,990	\$224.32
		2,316 s.f.	\$496,990	\$214.59

PROPERTY DATA, Continuing

These new home tracts are similar to the subject in terms of the overall tax rates of $\pm 1.6-1.9\%$, and the general locations are fairly similar other than the location of Costa del Sol is considered to be slightly superior. It is evident that the price per s.f. increases as the home size decreases, though the smaller homes are also on relatively smaller lots which results in a lower overall price. For example, Costa del Sol has the smallest homes and the highest prices per s.f., but also reflecting the larger lots than the subject, as well as the slightly superior location. It is also noted that the pricing for Montellano and Cabrera is 4 to 5 months old, as these tracts were sold out other than the models. Thus, current pricing would likely be higher.

Overall, I have concluded that this other new home pricing generally supports the current pricing of the subject homes.

VALUATION

Method of Analysis

The Sales Comparison Approach is used to estimate the value of the completed-sold homes and the completed-unsold homes on a mass appraisal basis. The actual sale prices and the current pricing are considered, supported by pricing from other new home tracts, as previously discussed. For the homes under construction, the Cost Approach is used, in which the value is based on an estimate of costs expended plus the estimated value of the vacant lot. The Sales Comparison Approach is used to estimate the value of the lots, as if vacant and in a finished lot condition, based upon recent sales of residential land or bulk lots from the general area in comparison to the subject property. Lastly, a deduction is made for the estimated remaining costs to get all of the lots to a fully finished condition.

Analysis of Completed-Sold Homes

These 32 homes comprise most of the homes in Phases 1, 2 and 3, and the sales to the various homeowners closed from June 27, 2003 through August 15, 2003. The actual sale prices for the 15 homes in Phase 1 ranged from \$408,990 to \$477,979 or an average of $\pm \$444,200$, the actual sale prices for the 13 homes in Phase 2 ranged from \$427,773 to \$505,981 or an average of $\pm \$451,600$, and the actual sale prices for the 5 homes in Phase 3 ranged from \$423,733 to \$484,742 or an average of $\pm \$451,000$. It is noted that these prices include lot premiums and upgrades, but it is also noted that the prices were set about 4 or 5 months ago, and the base pricing has increased significantly since that time.

As previously indicated, the base pricing for Phase 1 averaged \$422,000, and the most recent base pricing which was for Phase 7 averaged \$476,000, or an increase of 13%. An increase of 13% to the average Phase 1 sale price of \$444,200 would result in a current average indication at \$502,000. Alternatively, it is noted that the average

VALUATION, Continuing

sale price of \$444,200 for Phase 1 indicates an amount of about \$22,000 over the average base price of \$422,000, which would reflect an average amount for lot premiums and upgrades. Adding this average amount of \$22,000 to the current average base price of \$476,000 results in an indication at \$498,000.

In summary, for conservative valuation purposes, I have concluded on an average value for these 32 completed-sold homes of \$480,000.

Analysis of Completed-Unsold Homes

These are the 4 completed model homes plus 3 other completed homes in Phases 1 and 3 which are in escrow but are not yet closed sales. Initially, the average value of \$480,000 as concluded for the completed-sold homes is considered. Then, there could be a discount to reflect the bulk ownership of all 7 homes by the builder, with holding and sales costs plus profit. However, since 3 of the homes are in escrow and due to close soon, and since 4 of the homes are the highly upgraded models, the discount is considered to be far more than offset by the model upgrades, which are typically fairly substantial. Thus, no discount is made and the conclusion of value is based on the average of \$480,000.

Analysis of Homes Under Construction

For the 9 homes which are $\pm 90\%$ completed, I have considered an average cost amount of 90% of $\pm \$60.00$ per s.f. total costs or \$54.00 per s.f. on the average home size of $\pm 2,060$ s.f., or an amount of \$111,000. This is added to the estimated finished lot value of \$207,000, as discussed next for the vacant lots, resulting in a total of \$318,000, as an average for these 9 homes.

For the 43 homes which are $\pm 40-80\%$ completed, the indication is $\pm 60\%$ of $\pm \$60.00$ per s.f. total costs or \$36.00 per s.f. on the average home size of $\pm 2,060$ s.f., or an amount of \$74,000. This is added to the estimated finished lot value of \$207,000, resulting in a total of \$281,000.

For the 8 homes which are just being trenched for the foundations, no additional value is allocated to the finished lot value of \$207,000.

Analysis of Finished Lot Value

A search was made for recent sales of bulk single-family lots in this general area. A detailed tabulation of the residential land sales data is in the Addenda section at the end of this report. The following discussion and analysis references the 15 sales in that tabulation.

VALUATION, Continuing

Sale No. 1 is located across Torrey Meadows Dr. to the west of the subject tract. It was a sale in July 2002 of 5,000 s.f. minimum lots, some with good views to the north and west, at a price of \$240,000 per finished lot. At or near the time of sale, the projected home pricing had been an average of \pm \$520,000, but the current pricing is \$551,000 to \$617,000, or an average of \pm \$582,000 which is 12% higher. In comparison to the subject, the location is similar, but these are much larger lots at 5,000 s.f. minimum, with much larger and higher-priced homes being built. A downward adjustment for the factor of lot size is far more than offsetting to an upward time adjustment, thus the indication at \$240,000 per finished lot supports a far upper limit for the subject.

Sale No. 2 represents the sale of the subject property to Western Pacific Housing in early 2002. It was purchased as part of a larger parcel, which included the land for the subject Monaco tract, and the allocation to these 107 lots reflected a price of \$169,000 per finished lot. The land was purchased in raw condition, without tract map approvals. Thus, considering an upward time adjustment as well as the current status of the lots with a recorded tract map and being in near finished condition, the indication at \$169,000 per finished lot is a far lower limit at current date.

Sale Nos. 3, 4 and 5 are of land for attached product, and are pertinent to the valuation of the subject Monaco tract.

Sale No. 6 was the purchase by Standard Pacific in July 2001 of the lots for the Cordero homes which have recently been built nearby to the northeast, located just east of Camino del Sur and several blocks north of S.R. 56. These are 5,005 s.f. minimum lots, 55' by 91', or much wider and larger than the subject lots of \pm 40' by \pm 75-80'. The homes which were built are also much larger and higher-priced than those being built on the subject. Overall, a downward adjustment for the much larger lots than the subject is partially offset by an upward time adjustment, and the indication at \$251,000 per finished lot supports a far upper limit for the subject.

Sale No. 7 is located in Torrey Highlands Subarea III, about a mile to the northwest of the subject. This was a sale of 4,000 s.f. minimum lots which closed in March 2001, or just over 2 years ago. At that time, the projected home pricing was an average of \pm \$430,000 to \$435,000, and the current pricing is an average of \pm \$550,000, or about 27% higher. In comparison to the subject, the location is considered to be slightly superior, and the lots are larger at 4,000 s.f. minimum. While the homes are slightly smaller than the subject, the current pricing is \pm 10-15% higher than the subject, evidencing the larger lots and slightly superior location. Overall, downward adjustments for the lot size and location are approximately offset by an upward time adjustment since this sale took place over 2 years ago. Thus, the indication at \$208,000 per finished lot supports a fairly close indication for the subject.

VALUATION, Continuing

Sale No. 8 is located within the planned community of Santaluz, which will include much rolling open space, golf course, community facilities including pool and tennis courts, etc. This was a sale of 7,000 s.f. minimum lots which had been planned for homes averaging \pm \$650,000, as of the land sale date in September 2001. The most recent home pricing ranged from about \$740,000 to \$840,000. In comparison to the subject, these are much larger lots, and the location is in a superior, high-end master-planned community. These superior factors are far more than offsetting to an upward time adjustment, thus the indication at \$275,000 per finished lot is a far upper limit for the subject.

Sale No. 9 is also located in the community of Santaluz, and was a sale of 8,120 s.f. minimum lots in August 2002, though the average lot size is closer to 10,000 s.f. In addition, there are some views and about 50% of the lots back to open space. The projected home pricing as of the date of the land sale was in the mid to high \$700,000's. The comparison to the subject is similar to Sale No. 8, thus the indication at \$294,000 per finished lot is a far upper limit for the subject.

Sale Nos. 10 through 15 are located in the newly-developing master-planned community of 4S Ranch. This community is located about 5 miles northeasterly of the subject property, in unincorporated area adjacent to the west of the Rancho Bernardo area. The older sales are located in Neighborhood One which is nearing build-out with a wide range of home products. The more recent sales are located in Neighborhood Two which is now being developed with various active tracts of homes. The location of these sales is considered to be inferior to the subject, as the subject location is closer-in to central San Diego and more coastally oriented.

Sale Nos. 10, 11 & 12 were sales in December 2001 of relatively small lots, 2,350 s.f. to 2,800 s.f. minimum size, and are being developed with relatively small and lower-priced homes. The homes on Sale Nos. 10 and 11 are much smaller and lower-priced than the subject, but the homes on Sale No. 12 are fairly similar in size and pricing to the subject, but many of the lots are larger and there are many with view premiums. Overall, considering the smaller to similar lot sizes and the inferior location, the indications from \$118,000 to \$150,000 per finished lot support far lower limits for the subject. Considering an upward time adjustment of at least 20-25% to the price of Sale No. 12 at \$150,000 per finished lot, a closer but still firm lower limit for the subject is indicated at \$180,000 to \$187,500 per finished lot.

Sale No. 13 consists of the smallest lots located in Neighborhood Two of 4S Ranch, at 4,500 s.f. minimum size. This was also the first sale of lots to close in Neighborhood Two, and the price had been set about 1½ years prior to the September 2002 closing. Thus, a significant upward time adjustment would be necessary, and this is evident by the current home pricing at \pm \$528,500 to \$557,500 in contrast to the pricing of \$430,000 to \$470,000 that was projected as of the time that the land sale closed. In comparison to the subject, the lots are larger, and the

VALUATION, Continuing

homes being built are larger, but the location is inferior, and this is evidenced by the home pricing which is only slightly higher than the subject. Considering an upward time adjustment of at least 20-25%, this sale supports a close indication to close upper limit for the subject at ±\$203,000 to \$212,000 per finished lot.

Sale No. 14 is also located in Neighborhood Two of 4S Ranch, and was a sale of 6,300 s.f. minimum lots. At time of sale, the projected home pricing was \$476,000 to \$528,000, and the current pricing ranges from \$595,990 to \$636,990, or ±23% higher. In comparison to the subject, while these lots are much larger, the inferior location is partially offsetting. A downward adjustment for the much larger lots is more than offset by upward adjustments for location and time since the date of sale about a year ago. Overall, the price of \$206,000 per finished lot supports a close indication to close lower limit for the subject.

Sale No. 15 was also a sale of 6,300 s.f. minimum lots located in Neighborhood Two of 4S Ranch. The first takedown of 38 lots closed in December 2002 and the second takedown of 37 lots is due to close by September 2003. While these lots are similar in minimum size to Sale No. 14, they were targeted for a larger and higher-priced home, and there is greater view potential and lots backing to open space. Thus, the sale price was much higher at \$227,000 per finished lot. As of the date of sale, the projected average home pricing was ±\$580,000 to \$585,000, and the current base pricing of \$625,000 to \$650,000 is ±10% higher. The comparison to the subject is similar to Sale No. 14, except that these are superior lots to Sale No. 14. Thus, the indication at \$227,000 per finished lot supports a firm upper limit for the subject.

In summary, on the basis of price per finished lot, the sales data supports far lower limits from \$118,000 to \$150,000, a closer but firm lower limit at \$180,000 to \$187,500, a close indication to close lower limit at \$206,000, a close indication at \$208,000, close indications to close upper limits at \$203,000 to \$212,000, a firm upper limit at \$227,000 and far upper limits from \$240,000 to \$294,000.

Alternatively, on the basis of a finished lot ratio (price per finished lot divided by average base home price), the data indicates the overall range from 36% to 48%. The lower indications, 36-41%, are from the sales in 4S Ranch, which is considered to be an inferior location to the subject, and the higher indications, 38-48%, are from the sales in Santaluz and Torrey Highlands, which are more similar to the subject in terms of the desirable location. I have considered a supportable ratio of 43-44% for the subject, applied to the current average base price of \$476,000, which results in the following:

$$\$476,000 \times .43-.44 = \$204,680 \text{ to } \$209,440/\text{finished lot}$$

I have concluded on a finished lot value for the subject at \$207,000.

VALUATION, Continuing

Deduction for Remaining Costs & Fees

Lastly, a deduction is made for the remaining costs and fees to get all of the lots to a fully finished condition. Information provided by Western Pacific Housing is that the total remaining costs applicable to this tract are ±\$97,500 for items of final street lift, landscaping and installation of street lights. This reflects that all appropriate fees have been paid by the builder since all building permits have been pulled. It also reflects that the CFD bond financing for all of Improvement Area C (including the subject Monaco tract) will cover ±\$2,100,000 in school and non-school facilities that will not otherwise have to be directly paid for by the builder.

Thus, the total remaining cost deduction amount is \$97,500, which has been rounded up to \$100,000.

Conclusion of Value

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

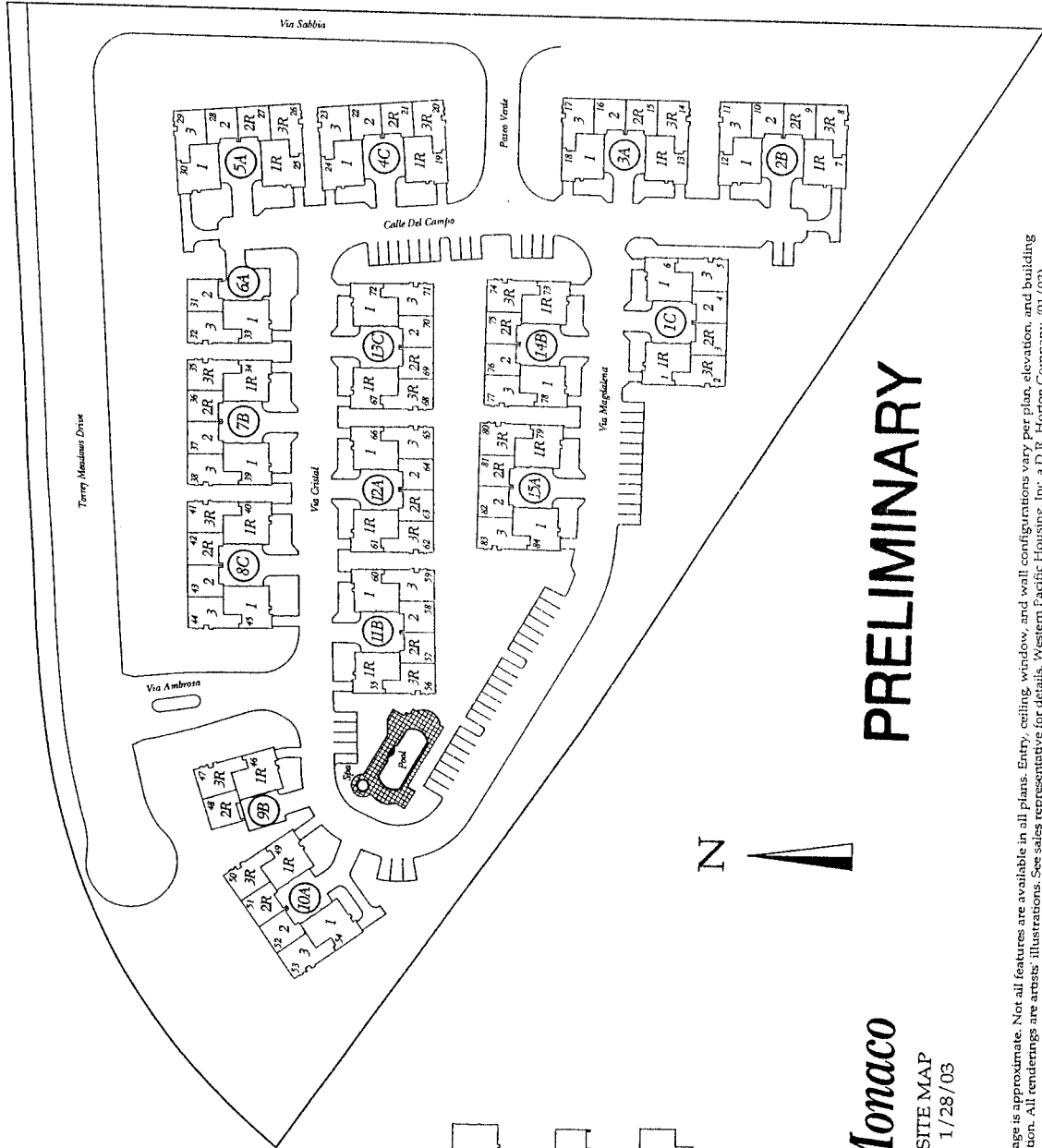
32 completed/sold homes @ \$480,000 =	\$15,360,000
7 completed/unsold homes @ \$480,000 =	\$ 3,360,000
9 homes under construction @ \$318,000 =	\$ 2,862,000
43 homes under construction @ \$281,000 =	\$12,083,000
8 homes under construction @ \$207,000 =	\$ 1,656,000
6 vacant lots @ \$207,000/lot, if finished =	<u>\$ 1,242,000</u>
	\$36,563,000
Less Remaining Costs & Fees:	<u>- 100,000</u>
Value Indication, As Is:	\$36,463,000

Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the subject San Lorenza tract, subject to the Assumptions and Limiting Conditions, and as of August 15, 2003:

\$36,460,000

(THIRTY-SIX MILLION FOUR HUNDRED SIXTY THOUSAND DOLLARS)

MAP OF MONACO



PRELIMINARY

Monaco
SITE MAP
1/28/03

All square footage is approximate. Not all features are available in all plans. Entry, ceiling, window, and wall configurations vary per plan, elevation, and building configuration. All renderings are artistic illustrations. See sales representative for details. Western Pacific Housing, Inc. a D.R. Horton Company. (01/03)

MONACO (WESTERN PACIFIC HOUSING)

PROPERTY DATA

Location

This tract is located at the southwest corner of Torrey Meadows Dr. and Via Sabbia, extending south to future S.R. 56, and $\pm\frac{1}{4}$ mile west of Camino del Sur.

Surroundings

Across Torrey Meadows Dr. to the north is undeveloped land in raw condition which is planned for two single-family residential tracts, an elementary school and a City park. Farther to the northeast is Westview High School. Farther to the north and northwest is a large area of open space within McGonigle Canyon. Adjacent to the east are two attached housing projects, Bellarado and Cortina, and farther to the east is a recently completed apartment complex. To the southeast is vacant land which is planned for a neighborhood retail center to be anchored by an Albertson's. To the south of the subject is the future S.R. 56, and south of that is the subject San Lorenza tract and surroundings as previously discussed.

Record Owner/Ownership History

The 23 completed-sold condominiums are owned by the various homeowners, and these sales have closed from June 24 through August 15, 2003. The remaining 61 condominiums (completed-unsold and under construction) are owned by Western Pacific Housing-Torrey Meadows, LLC. They originally acquired the land for this tract in January 2002 at a price of \$15,000,000, including the land for the subject San Lorenza tract.

Legal Description

The 84 units are described as Residential Unit Nos. 1 through 84 as shown and defined on the Condominium Plan of Monaco, recorded in the office of the County Recorder of San Diego County on June 9, 2003, as Document No. 2003-0679167, which is situated within Modules A and B, located within Lot 1 of Map No. 14599, in the City of San Diego, County of San Diego, State of California, filed in the office of the County Recorder of San Diego County on May 23, 2003.

Assessor Data

The overall subject tract comprises the westerly portion of Assessor Parcel No. 306-051-18, and there are not yet separate assessor parcel numbers or assessed values for the overall project or the subdivided units. The tax rate area is 08-190 and the current tax rate is $\pm 1.02\%$, but the actual tax rate to the homeowners is $\pm 1.75\%$, including the special taxes for the CFD.

PROPERTY DATA, Continuing

Land Area/No. of Dwelling Units

This tract comprises an overall site area of ± 6.95 acres and is being developed with 84 condominium units. This indicates a density of ± 12.1 dwelling units per acre.

Streets and Access

Torrey Meadows Dr. extends across most of the north side of this tract, and currently ends in a cul-de-sac near the northwest corner of the tract. It ultimately is planned to curve southwesterly and bridge across S.R. 56, connecting with Torrey Santa Fe Rd. to the south. It is currently improved as a wide 2-lane roadway, with curb and gutter along the subject.

Utilities

All utilities have been or will be installed in the in-tract streets of the subject tract. Water and sewer are provided by the City of San Diego, electric and gas are provided by San Diego Gas & Electric, telephone is provided by SBC, and cable is provided by Time Warner.

Zoning/General Plan/Approvals

The subject property is zoned for multi-family residential, and is designated for Low Density as part of Torrey Highlands Subarea IV. The subject tract has approvals by the final tract map which was recorded in May 2003 and the Condominium Plan which was recorded in June 2003.

Physical Condition/Topography

All of the subject site and building pads are in a mostly finished condition from a physical standpoint, other than final street lift, some landscaping, and installation of street lights.

The overall site for the tract is fairly flat, with no terracing between buildings, and with the building pads approximately at grade of Torrey Meadows Dr. and Via Sabbia. To the south of the tract the land slopes down toward future S.R. 56.

Drainage/Flood Hazard

Onsite drainage is to the streets and to storm drain facilities which have been constructed within the tract. The subject tract is elevated well above the floodplain area which lies to the west and northwest. Per FEMA Flood Insurance Rate Map No. 060295 1334F dated 6/19/97, the subject tract is located in Zone X which is outside of the floodplain.

PROPERTY DATA, Continuing

Soil/Geologic Conditions

This appraisal has assumed that the grading and compacting has been properly completed, and that there are no abnormal soil or geologic conditions which would affect the continuing construction of the condominiums.

Environmental Conditions

This appraisal has assumed that all necessary environmental permits and approvals have been obtained for development of the condominiums, and any necessary fees have been or will be paid. 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 continued construction of the units.

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 the valuation.

Existing and Proposed Development

The overall site is being developed with a tract of attached condominiums called Monaco. As of the August 15, 2003 date of value, there were 23 completed-sold units (in Phases 1 and 2), 4 completed-unsold units (including the 3 models), and 57 units under construction. Of the 57 units under construction, 21 are ±80-90% completed, 18 are ±60-70% completed, and 18 are ±20-30% completed.

The 33 units in Phases 3 through 5 have been released for sale, and most of these are sold and in escrow, due to close from late August through late September as construction is completed. The final build-out of the tract is expected by the end of this year or into January 2004.

The units are contained within 13 six-unit buildings and two 3-unit buildings. These are two-story buildings, with both one and two-story units. There are three floor plans which are described as follows:

Residence One: 1,044 s.f., one story, with 2 bedrooms, 2 baths, deck, and a 1-car garage; the garage and interior stairway is on the ground floor and the living area is on the second floor.

Residence Two: 1,238 s.f., two story, with 2 bedrooms, 2½ baths, a 1-car garage, and a small yard area.

Residence Three: 1,534 s.f., two story, with 3 bedrooms, 2½ baths, a 2-car garage, and a small yard area.

PROPERTY DATA, Continuing

The projected pricing as of a year ago was \$259,990 to \$314,990, or an average of \pm \$287,500. However, the base pricing for Phase 1, as of March 2003, was \$308,990 for Residence One, \$321,990 for Residence Two, and \$344,990 for Residence Three, or an average of \pm \$325,000. The most recent pricing for Phase 5, released in late July, was \$329,560 for Residence One, \$352,560 for Residence Two, and \$382,830 for Residence Three, or an average of \pm \$355,000. About 6 or 7 units in the tract have view premiums of \pm \$2,000 to \$6,000, and the typical upgrades range from \$5,000 to \$10,000.

Highest and Best Use

The highest and best use is concluded to be for continued build-out of the subject tract of condominiums. This use is financially feasible as evidenced by the strong demand for new homes in this general area.

In considering the supportability of the pricing of the subject units, in addition to the strong sales activity in the subject tract, the pricing has been considered in the three other nearby tracts of attached product. This is shown in the following table:

<u>Project</u>	<u>Floor Plan</u>	<u>Base Price</u>	<u>Price/S.F.</u>
Cortina	1,261 s.f.	\$320,490	\$254.16
	1,409 s.f.	\$345,990	\$245.56
	1,612 s.f.	\$366,490	\$227.35
Bellarado	1,731 s.f.	\$402,990	\$232.81
	1,825 s.f.	\$418,990	\$229.58
	2,176 s.f.	\$445,990	\$204.96
Sycamore Walk	1,411 s.f.	\$348,990	\$247.34
	1,828 s.f.	\$404,990	\$221.55
Subject	1,044 s.f.	\$329,560	\$315.67
	1,238 s.f.	\$352,560	\$284.78
	1,534 s.f.	\$382,830	\$249.56

It is evident that the price per s.f. increases significantly as the size decreases, particularly for the smallest sizes, and the subject has the smallest unit sizes of the attached product in this area. The data from these other three projects tends to support the pricing for the subject product, particularly for the largest floor plan, while the pricing for the smaller two floor plans appears to be relatively high. However, the subject pricing is well supported by the 23 closed sales as well as the current escrows on nearly 30 of the units currently under construction, including units in Phase 5 with the current pricing.

VALUATION

Method of Analysis

This is the same as for the previous San Lorenza subject property.

Analysis of Completed-Sold Condominiums

These 23 units comprise most of the completed units in Phases 1 and 2, and the sales to the various homeowners closed from June 24 through August 15, 2003. The actual sale prices for the 12 units in Phase 1 ranged from \$289,959 to \$360,650 or an average of \pm \$326,600, and the actual sale prices for the 11 units in Phase 2 ranged from \$314,560 to \$369,824 or an average of \pm \$339,200. It is noted that these prices include any minor lot premiums and the upgrades, but it is also noted that the prices were set about 4 or 5 months ago, and the base pricing has increased since then.

As previously indicated, the base pricing for Phase 1 averaged \$325,000, and the most recent pricing which was for Phase 5 averaged \$355,000, which indicates an increase of 9%. An increase of 9% to the average actual Phase 1 sale price of \$326,600 would result in a current average indication at \pm \$356,000, or just over the average of the current pricing, not including upgrades.

In summary, for conservative valuation purposes, I have concluded on an average value for these 23 completed-sold condominiums of \$355,000.

Analysis of Completed-Unsold Condominiums

These are the 4 completed model units plus 1 other completed unit in Phase 2 which is in escrow but are not yet closed. Similar to the discussion for the previous subject San Lorenza tract, I have concluded on the same average value as for the completed-sold units, or an average of \$355,000.

Analysis of Condominiums Under Construction

For the 21 units which are \pm 80-90% completed, I have considered an average cost amount of 85% of \pm \$55.00 per s.f. total costs or \pm \$47.00 per s.f. on the average unit size of \pm 1,270 s.f., or an amount of \$60,000. This is added to the estimated finished lot value of \$155,000, as discussed next for the vacant lots, resulting in a total of \$215,000, as an average for these 21 units.

For the 18 units which are \pm 60-70% completed, the indication is \pm 65% of \pm \$55.00 per s.f. total costs or \pm \$36.00 per s.f. on the average unit size of \pm 1,270 s.f., or an amount of \$46,000. This is added to the estimated finished lot value of \$155,000, resulting in a total of \$201,000.

VALUATION, Continuing

For the 18 units which are $\pm 20\text{-}30\%$ completed, the indication is $\pm 25\%$ of $\pm \$55.00$ per s.f. total costs or $\pm \$14.00$ per s.f. on the average unit size of $\pm 1,270$ s.f., or an amount of \$18,000. This is added to the estimated finished lot value of \$155,000, resulting in a total of \$173,000.

Analysis of Finished Lot Value

Sale No. 3, from the tabulation of the Residential Land Sales, represents the sale of the subject property to Western Pacific Housing in early 2002. It was purchased as part of a larger parcel, which included the land for the subject San Lorenza tract, and the allocation to the land for these 84 condominium units reflected a price of \$135,800 per finished lot (unit). The land was purchased in raw condition, without tract map approvals. Thus, considering upward adjustments for time as well as the raw, unentitled condition of the land at time of sale, the indication at \$135,800 per finished lot is a far lower limit for the subject.

Sale Nos. 4 and 5 are located adjacent to the east of the subject property, and were purchases of a larger parcel by Western Pacific Housing. The allocations to these sites were \$128,500 per finished lot for the Cortina tract (Sale No. 4) and \$135,000 per finished lot for the Bellarado tract (Sale No. 5). Similar to Sale No. 3, the land was purchased in raw condition without entitlements or tentative tract map approvals. The Cortina product is slightly larger than the subject and the Bellarado product is more significantly larger and higher priced. However, this is far more than offset by upward adjustments for time since the date of sale in early 2002 and for the raw, unentitled condition of the land at time of sale. Thus, the indications at \$128,500 and \$135,000 per finished lot support far lower limits for the subject.

Sale No. 2 was previously discussed as the sale of the land for the subject San Lorenza tract. Upward adjustments for time or date of sale and condition of the land being raw and unentitled at time of sale are more than offset by a downward adjustment for the lower density/detached lots for a much larger and higher priced product. Thus, the indication at \$169,000 per finished lot supports a firm upper limit for the subject.

Sale Nos. 10, 11 and 12 were previously discussed as being small-lot subdivisions located in 4S Ranch. These sales are superior due to being detached lots though at a relatively high density, but the location is inferior and significant upward time adjustments are necessary. In general, Sale No. 10 can be adjusted up for time by 20-25% to a current indication at $\pm \$145,000$ per finished lot which is a close indication for the subject, and Sale No. 12 can be adjusted up similarly to a current indication at \$184,000 per finished lot, which is a far upper limit for the subject.

In summary, on the basis of price per finished lot, the sales data supports far lower limits from \$118,000 to \$135,800, a closer indication at \$145,000, and firm to far

VALUATION, Continuing

upper limits at \$169,000 and \$184,000. Alternatively, considering a finished lot ratio of 43-44% and the current average pricing of \$355,000, the following indication results:

$$\$355,000 \times .43-.44 = \$152,650 \text{ to } \$156,200/\text{finished lot}$$

I have concluded on a finished lot value for the subject at \$155,000.

Deduction for Remaining Costs & Fees

Lastly, a deduction is made for the remaining costs and fees to get all of the lots to a fully finished condition. Information provided by Western Pacific Housing is that the total remaining costs applicable to this tract are \pm \$97,500 for items of final street lift, landscaping and installation of street lights, and \$85,000 for common area recreation facilities (pool, spa, decking, fencing, etc.). This reflects that the all appropriate fees have been paid by the builder since all building permits have been pulled. As mentioned for the San Lorenza tract, it also reflects that the CFD bond financing for all of Improvement Area C (San Lorenza and Monaco) will cover \pm \$2,100,000 in school and non-school facilities that will not otherwise have to be directly paid for by the builder.

Thus, the total remaining cost deduction amount is \$97,500 plus \$85,000, or \$182,500, which has been rounded up to \$185,000.

Conclusion of Value

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

23 completed/sold units @ \$355,000 =	\$ 8,165,000
4 completed/unsold units @ \$355,000 =	\$ 1,420,000
21 units under construction @ \$215,000 =	\$ 4,515,000
18 units under construction @ \$201,000 =	\$ 3,618,000
18 units under construction @ \$173,000 =	<u>\$ 3,114,000</u>
	\$20,832,000
Less Remaining Costs & Fees:	<u>- 185,000</u>
Value Indication, As Is:	\$20,647,000

Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the subject Monaco tract, subject to the Assumptions and Limiting Conditions, and as of August 15, 2003:

\$20,640,000

(TWENTY MILLION SIX HUNDRED FORTY THOUSAND DOLLARS)

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ADDENDA

TABULATION OF RESIDENTIAL LAND SALES

No.	Location/Project Name	Seller/Buyer	Rec. Date	No. Lots	Min. Lot Size	Product	Price/Lot Finished Lot	Fin. Lot Ratio	Remarks
1	NWC Torrey Santa Fe & Torrey Meadows, San Diego (Avalon Point)	McMillin Land Development Shea Homes	7/02	142	5,000	2,528-3,141 s.f. ±\$490,000-\$550,000	\$193,592 \$240,000	46%	Torrey Highlands Subarea IV; delivered as near finished lots; ±1.8% tax rate
2	NEC Torrey Santa Fe & Torrey Meadows, San Diego (San Lorenza)	Obradovich Western Pacific Housing	1/02	107	3,000	1,813-2,316 s.f. \$377,500-\$447,500	n/a \$169,000	41%	Subject property; was part of Sale No. 3; raw with no approvals; ±1.8% tax rate
3	S/S Torrey Meadows Dr. (future), .3 mile W/O Camino Ruiz, San Diego (Montaco)	Obradovich Western Pacific Housing	1/02	84	(attached)	1,044-1,534 s.f. \$259,990-\$314,990	n/a \$135,800	47%	Subject property; was part of Sale No. 2; raw with no approvals; ±1.8% tax rate
4	S/S Torrey Meadows Dr. (future), ±550' W/O Camino Ruiz, San Diego (Cortina)	DMIG, Fund 47 Western Pacific Housing	1/02	144	(attached)	1,254-1,612 s.f. ±\$290,000-\$320,000	\$82,397 \$128,500	42%	Torrey Highlands Subarea IV; raw land without approved Tent. Tract Map; part of Sale No. 5; ±1.8% tax rate
5	Adjacent SW of Sale No. 4, San Diego (Bellarado)	DMIG, Fund 47 Western Pacific Housing	1/02	123	(attached)	1,731-2,176 s.f. ±\$330,000-\$365,000	\$82,397 \$135,000	39%	Same as Sale No. 4
6	S'y corner Camino Ruiz & Torrey Meadows, San Diego (Cordero)	Greystone Homes Standard Pacific	7/01	78	5,005	2,800-3,400 s.f. Mid \$500,000's to Low \$600,000's	n/a \$251,000	43%	Torrey Highlands Subarea IV; were delivered as near finished lots; ±1.8% tax rate
7	SWC & SEC Black Mountain Rd. & Rancho Santa Fe Farms, San Diego (Costa del Sol)	D.R. Horton Barratt American	3/01	162	4,000	1,600-2,100 s.f. \$395,000-\$470,000	\$123,457 \$208,000	48%	Torrey Highlands Subarea III; was raw land with approved tract maps; ±1.5-1.7% tax rate
8	W/S Camino Ruiz, S/O Lanza Dr., San Diego (Garden Homes)	SRHI LLC D.R. Horton	9/01	63	7,000	3,347-4,002 s.f. ±\$600,000-\$700,000	n/a \$275,000	42%	Santaluz master-planned community; many lots back to open space; ±1.8% tax rate
9	SWS Camino Ruiz at Caminito Lanza, San Diego (Davidson at Santaluz)	Santaluz LLC Davidson Communities	8/02	71	8,120	3,802-4,672 s.f. Mid to high \$700,000's	\$246,380 \$294,000	38%	Santaluz master-planned community; many lots back to open space; ±1.9% tax rate
10	SFC Lone Quail Rd. & Deer Ridge Rd., Rancho Bernardo (Tanglewood)	4S Kelwood Gen'l Partnership William Lyon Homes	12/01	161	2,350	1,310-1,675 s.f. From low \$300,000's	±\$82,578 \$118,000	±36%	4S Ranch-Neighborhood One; sold as mass graded superpad; ±1.5% tax rate
11	NEC Lone Quail Rd. & Deer Ridge Rd., Rancho Bernardo (Summerwood)	4S Kelwood Gen'l Partnership William Lyon Homes	12/01	95	2,800	1,579-1,898 s.f. Mid to high-\$300,000's	\$105,000 \$134,000	±36%	4S Ranch-Neighborhood One; sold as mass graded superpad; ±1.5% tax rate
12	NEC 4S Ranch Pkwy & Camino San Bernardo, Rancho Bernardo (Garden Gate)	4S Kelwood Gen'l Partnership Sea Country Homes	12/01	133	2,700	1,916-2,271 s.f. ±\$360,000-\$400,000	\$113,534 \$150,000	±39%	4S Ranch-Neighborhood One; sold as mass graded superpad; ±1.5% tax rate

TABULATION OF RESIDENTIAL LAND SALES, Continuing

No.	Location/Project Name	Seller/Buyer	Rec. Date	No. Lots	Min. Lot Size	Product	Price/Lot Finished Lot	Fin. Lot Ratio	Remarks
13	NEQ 4S Ranch Pkwy & Dove Creek Rd., Rancho Bernardo (Belle Rive)	4S Kelwood Gen'l Partnership Belle Rive Dev. (Buie Comm.)	9/02	82	4,500	2,264-3,047 s.f. \$430,000-\$470,000	\$153,816 \$169,500	37%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
14	SEQ Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (Cambridge)	4S Kelwood Gen'l Partnership Fieldstone Communities	12/02	65	6,300	2,814-3,392 s.f. \$476,000-\$528,000	\$188,000 \$206,000	41%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
15	NEQ Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (Avery Lane)	4S Kelwood Gen'l Partnership Pulte Home Corp.	12/02 Escrow	38 37 75	6,300	3,390-3,843 s.f. \$565,000-\$600,000	\$210,000 \$227,000	39%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate

Note: Home pricing is the estimate as of the date of the land sale or the actual first phase pricing

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

PROFESSIONAL EXPERIENCE

Real Estate Appraiser since 1976.

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

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

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

PROFESSIONAL ORGANIZATIONS

Member, Appraisal Institute; MAI designation obtained 1985

Affiliate Member, Pacific West Association of Realtors

LICENSES

Licensed by the State of California as a Certified General Real Estate Appraiser; OREA ID No. AG013311; valid through September 22, 2002.

EDUCATION

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

Appraisal Institute Courses:

Basic Appraisal Principles, Methods and Techniques

Capitalization Theory and Techniques

Urban Properties

Litigation Valuation

Standards of Professional Appraisal Practice

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

COURT/TESTIMONY EXPERIENCE

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

TYPES OF PROPERTY APPRAISED

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

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

QUALIFICATIONS, Page 2

Industrial: vacant lots and acreage; warehouses, manufacturing buildings, R&D buildings, industrial parks, mini-warehouses.

Special Purpose: mobilehome parks, churches, automobile agencies, medical buildings, convalescent hospitals, easements, leased fee and leasehold interests.

CLIENT LIST

Corporations:

Aera Energy
British Pacific Properties
BSI Consultants
Crown Central Petroleum
Eastman Kodak Company
Firestone Building Materials
Foodmaker Realty Corp.
Greyhound Lines
Holiday Rambler Corp.
International Baking Co.
Johnson Controls
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.
Long, David M.

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

QUALIFICATIONS, Page 3

Financial Institutions:

Barclays Bank
Chino Valley Bank
Continental Bank
First Interstate Mortgage
Security Pacific Bank
Washington Square Capital

San Clemente Savings & Loan
United Calif. Savings Bank
National Credit Union Admin.
First Wisconsin Bank
Ahmanson Trust Company
Sunwest Bank

Cities:

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

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

Counties:

County of Orange

County of Riverside

Other Governmental:

Agua Mansa Industrial Growth Association
El Toro Water District
Federal Deposit Insurance Corporation (FDIC)
Kern County Employees Retirement Association

Metropolitan Water District
Orange County Water District
Trabuco Canyon Water District
U.S. Postal Service

School Districts:

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

Moreno Valley Unified School Dist.
Newhall School Dist.
Newport-Mesa Unified School Dist.
Placentia-Yorba Linda Unified Dist.
Poway Unified School Dist.
Rialto Unified School Dist.
Saddleback Unified School Dist.
Santa Ana Unified School Dist.
So. Org. Cnty Comm. College Dist.
Temple City School Dist.

Churches/Church Organizations:

Calvary Church, Santa Ana
Central Baptist Church, Pomona
Christian & Missionary Alliance Church, Santa Ana
Christian Church Foundation
Congregational Church, Fullerton

First Church of the Nazarene
Lutheran Church, Missouri Synod
Presbytery of Los Rancho
St. Mark's Lutheran Church, Hac. Hts.
Vineyard Christian Fellowship

Other:

Biola University
Cedars-Sinai Medical Center

Garden Grove Boys' Club
The Sheepfold

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

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

Definitions

“Act” means the “Mello-Roos Community Facilities Act of 1982”, as amended, being Chapter 2.5, Part 1, Division 2, Title 5 of the Government Code of the State of California.

“Actual Cost” 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 C Special Taxes and preparing the annual Improvement Area C Special Tax collection schedules (whether by the School District or a designee thereof or both); the costs of collecting the Improvement Area C Special Taxes (whether by the County, the School District or otherwise); the costs of remitting the Improvement Area C Special Taxes to the Fiscal Agent; the costs of the Fiscal Agent (including its legal counsel) in the discharge of the duties of the Fiscal Agent required under 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 C Special Tax disclosure statements and responding to public inquiries regarding the Improvement Area C Special Taxes; the costs of the School District, District or any designee thereof related to an appeal of the Improvement Area C Special Tax; and the costs of any credit enhancement obtained by the School District or the District. Administrative Expenses shall also include Delinquency Collection Expenses.

“Administrative Expense Requirement” means an annual amount equal to \$15,300 which amount shall escalate by 2% in each Bond Year commencing in the Bond Year beginning on September 2, 2004.

“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 August 21, 2003.

“Appraiser” means Stephen G. White, MAI.

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

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

“Authorized Representative” of the District means the Superintendent, Deputy Superintendent or Associate 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 Bonds based upon a Bond Year during the current or any future Bond Year.

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

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

“Bonds” means the \$3,000,000 Poway Unified School District Community Facilities District 10 (Torrey Highlands - Subarea IV) Improvement Area C 2003 Special Tax Bonds issued pursuant to the 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, 2004.

“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 all of the costs of formation of the District allocable to Improvement Area C and the costs of issuing the Bonds, including but not limited to, all printing and document preparation

expenses in connection with the Indenture and any Supplemental Indenture, the Bonds, and any and all other agreements, instruments, certificates or other documents issued in connection therewith; any computer and other expenses incurred in connection with the Bonds; the initial fees and expenses of the Fiscal Agent (including without limitation, acceptance fees and first annual fees payable in advance); the fees and expenses of the appraiser, market absorption consultant, bond counsel, disclosure counsel, special tax consultant and other fees and expenses incurred in connection with the issuance of the Bonds, to the extent such fees and expenses are approved by the District.

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

“Delinquency Proceeds” means the net amounts collected from the redemption of delinquent Improvement Area C Special Taxes including the penalties and interest thereon and from the sale of property sold as a result of the foreclosure of the lien of the Improvement Area C Special Tax resulting from the delinquency in the payment of Improvement Area C Special Taxes due and payable on such property and net of County of San Diego, foreclosure counsel and other fees and expenses incurred by or on behalf of the District or the School District in undertaking such foreclosure proceedings.

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

“Depository” shall mean DTC and its successors and assigns or if (a) the then Depository resigns from its functions as 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 Zions First National Bank and any successor thereto.

“Fiscal Year” means the 12 month period beginning July 1 of each year and terminating on June 30 of the following year, or any other annual accounting period hereinafter selected and designated by the District as its fiscal year in accordance with applicable law.

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

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

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

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

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

“Improvement Area C Special Tax RMA” means the rate and method of apportionment of the Improvement Area C Special Tax originally approved at the special election held in Improvement Area C of the District on August 27, 2001, and subsequently modified by the approval of the qualified electors of Improvement Area C at the special election held in Improvement Area C of the District on June 3, 2003, and as may be modified from time to time in accordance with the Act.

“Improvement Area C Special Tax Revenues” means (a) the proceeds of the Improvement Area C 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, 2004.

“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 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.

“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 C Special Tax Revenues 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 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 at least "A-1" by S&P and "Prime-1" by Moody's.
7. Money market funds rated "AAm-1" by Moody's or "AAm-G" by S&P, or better.
8. State Obligations, which means:
 - A. Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally

guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

- B. Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated "A-1+" by S&P and "Prime-1" by Moody's.
 - C. Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated "AA" or better by S&P and "Aa" or better by Moody's.
9. Pre-refunded municipal obligations rated "AAA" by S & P and "Aaa" by Moody's meeting the following requirements:
- A. the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;
 - B. the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;
 - C. the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");
 - D. the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;
 - E. no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and
 - F. the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

10. Repurchase agreements:

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

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

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

- 11. Investment agreements with a domestic or foreign bank or corporation the long-term debt or financial strength of which, it or its guarantor is rated at least "AA-" by S&P and "Aa3" by Moody's; provided that, by the terms of the investment agreement:
 - A. the invested funds are available for withdrawal without penalty or premium, upon not more than seven days' prior notice; the District and the Fiscal Agent hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
 - B. the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof; or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks pari passu with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;
 - C. the District and the Fiscal Agent receives the opinion of domestic counsel that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable);
 - D. the investment agreement shall provide that if during its term
 - (1) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (a) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the

provider's books) to the District, the Fiscal Agent or a Custodian acceptable to the District free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach) as evidenced in writing by S&P and Moody's, or (b) transfer and assign the investment agreement to a then qualifying counterparty with ratings specified above; and

(2) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, within 10 days of the date of such withdrawal, suspension or reduction of the provider's rating, repay the principal of and accrued but unpaid interest on the investment;

E. the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Custodian has a perfected first priority security interest in the name of the Fiscal Agent in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Custodian is in possession);

F. the investment agreement must provide that if during its term

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Fiscal Agent on behalf of the District, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Fiscal Agent on behalf of the District, 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 C Special Tax Revenues identified to the Fiscal Agent by an Authorized Representative as representing a prepayment of the Improvement Area C Special Tax.

"Principal Corporate Trust Office" means the office of the Fiscal Agent at 633 W. 5th Street, 12th Floor, Los Angeles, CA 90071 or such other offices as may be specified to the District by the Fiscal Agent in writing.

"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 an amount initially equal to \$281,396.38 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, for 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:

1. is in fact independent and not under domination of the District or the School District;
 2. does not have any substantial interest, direct or indirect, in the District or the School District;
- and
3. is not an officer or employee of the District or the School District, but who may be regularly retained by the School District or other community facilities districts formed by the School District to administer the levy of special taxes within such community facilities districts.

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

“State” means the State of California.

“Stated Amount” means the amount available to be drawn under any Letter of Credit or Cash Deposit 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 C Special Taxes 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 hereunder.

“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 C Special Tax Fund.

- (a) The District shall, no later than the tenth (10th) Business Day after which Improvement Area C Special Tax Revenues have been received by the District and in any event not later than February 15th and August 15th of each year, transfer such Special Tax Revenues to the Fiscal Agent for deposit in the Improvement Area C Special Tax Fund. Improvement Area C Special Tax Revenues representing Prepayments shall be transferred upon receipt pursuant to the provisions of the Indenture and Improvement Area C Special Tax Revenues 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 C Special Tax Fund.
- (b) The Improvement Area C Special Tax Revenues deposited in the Improvement Area C Special Tax Fund 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, to:
 - (1) The Fiscal Agent shall each Fiscal Year transfer to the Administrative Expense Fund from the first Improvement Area C 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 C 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 C Special Tax Fund to the Administrative Expense Fund the amounts specified in such request to pay those Administrative Expenses which the District reasonably expects 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.
 - (7) On or after September 2 of each year after making the deposits and transfers required under (1) through (6) above, upon receipt of written instructions from an Authorized Representative, the Fiscal Agent shall transfer from the Improvement Area C Special Tax Fund to the Rebate Fund the amount specified in such request.
 - (8) If, on or after September 2 of each year, after making the deposits and transfers required under (1) through (7) above, monies remain in the Improvement Area C Special Tax Fund, such monies shall remain on deposit in the Improvement Area C Special Tax Fund and shall be subsequently deposited or transferred pursuant to the provisions of 1. through 7. 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 Improvement Area C 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 (as defined in the Improvement Area C Special Tax RMA).
- (c) The Fiscal Agent shall, upon receipt of Improvement Area C Special Tax Revenues representing Prepayments together with written instructions of the District executed by an Authorized Representative, immediately transfer such Prepayments pursuant to such written instructions into the Interest Account of the Bond Service Fund and the

Redemption Fund 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 C Special Tax Fund shall be transferred to the District and used for any lawful purpose under the Act.

Bond Service Fund.

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

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 C Special Tax Fund.

Notwithstanding anything herein 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 C Special Tax Fund 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 C Special Tax Fund 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, inclusive of interest earnings and exclusive of excess created by optional redemption, 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 C 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 and the Bond Service 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 and the Bond Service 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 this paragraph.

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 C 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 Fund; Transfers from the Letter of Credit Fund.

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

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

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

Fiscal Agent shall deposit the proceeds of such draw into the Letter of Credit Fund and pending any transfer to the Bond Service Fund for the purposes described above, 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 until such time as the Letter of Credit Fund is no longer required and at that time all interest earnings shall be paid over to the Property Owner.

Letter of Credit Requirements. Except as otherwise provided in the Indenture, the provisions of the Supplement to Mitigation Agreement shall establish and govern all requirements related to any Letter of Credit provided thereunder or under the Indenture including but not limited to applicability of the requirement to provide a Letter of Credit, determination of the Stated Amount thereof, renewal, substitution, reduction and termination thereof. 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, and any interest earnings thereon, 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 C Special Tax Fund 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 herein to the contrary, in the absence of written investment instructions, the Fiscal Agent shall invest solely in investments identified in paragraph 7 of the definition of Permitted Investments.

Obligations purchased as investments of monies in any fund or account shall be deemed at all times to be a part of such fund or account. Except as provided otherwise in the Indenture, any income realized on or losses resulting from investments in any fund or account shall be credited or charged to such fund or account.

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

Subject to the restrictions set forth in the Indenture and/or any written investment instructions received by Fiscal Agent pursuant to the Indenture, moneys in all funds and accounts, except for the Reserve Fund, shall be invested in Authorized Investments maturing, or with respect to which payments of principal and interest are scheduled or otherwise payable, not later than the date on which it is estimated that such moneys will be required by the Fiscal Agent for the purposes specified in the Indenture. With respect to amounts in the Reserve Fund, if such investments may be redeemed without penalty or premium on the business day prior to each Interest Payment Date, 100% of the amount on deposit in the Reserve Fund may be invested in such redeemable investments of any maturity on or prior to the final maturity of the Bonds. Authorized Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Fiscal Agent may deliver such Authorized Investments for repurchase under such agreement.

The Fiscal Agent shall sell or present for redemption any obligations so purchased whenever it may be necessary to do so in order to provide monies to meet any payment or transfer for such funds and accounts or from such funds and accounts. The Fiscal Agent shall not be liable for any loss from any investments made or sold by it in accordance with the provisions of the Indenture.

Amendments or Supplements.

The Legislative Body may, by adoption of a resolution from time to time, and at any time but without notice to or consent of any of the Bondholders, approve a Supplemental Indenture hereto for any of the following purposes:

- (a) to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, 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 herein 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 C or Improvement Area C Special Tax Revenues 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 herein 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 C Special Tax Revenues.

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 C Special Tax 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 C Special Taxes which have, or purport to have, any lien upon such Special Taxes superior to or on a parity with the lien of the Bonds herein authorized. 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 C Special Taxes. The District shall comply with all requirements of the Act so as to assure the timely collection of the Improvement Area C Special Taxes. Prior to July 1 of each year, the District shall ascertain the parcels on which such Special Taxes are to be levied in the following Fiscal Year, taking into account any subdivisions of parcels during the current Fiscal Year. The District shall effect the levy of such Special Tax in accordance with the Improvement Area C Special Tax RMA and the Act each Fiscal Year so that the computation of such levy is complete and transmitted to the Auditor of the County of San Diego before the final date on which the Auditor of the County of San Diego will accept the transmission of the Improvement Area C Special Tax for the parcels within the District for inclusion on the next real property tax roll. Upon completion of the computation of the amount of such Special Tax levy, the District shall prepare or cause to be prepared, and shall transmit or cause to be transmitted to tax bills to such property owners not later than the date on which the Auditor/Tax Collector of the County of San Diego annually mails the property tax bills.

To the maximum extent that the law permits it to do so, the District covenants, that it shall not initiate proceedings to reduce the Maximum Special Tax (as defined in the Improvement Area C Special Tax RMA), 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 C Special Tax RMA) of Developed Property in each Fiscal Year will equal at least 110% of the gross debt service on all Bonds to remain Outstanding after the reduction is approved and will not reduce the Maximum Special Tax payable from Assessor's Parcels of Developed Property is located to less than 110% of Maximum Annual Debt Service, and (ii) the Board of Education, acting as the legislative body of the District, finds pursuant to the Indenture that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds. Any reduction in the Maximum Special Tax approved pursuant to the preceding sentence may be approved without the consent of the Owners of the Bonds.

The District covenants that, in the event that any initiative is adopted by the qualified electors of Improvement Area C which purports to reduce the Maximum Special Tax below the levels authorized

pursuant to the Improvement Area C Special Tax RMA or to limit the power or authority of the District to levy Improvement Area C Special Taxes 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 C Special Tax Revenues and other funds provided for by the Indenture.

Tax Covenants. The District will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the District or take or omit to take any action that would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code, or obligations which are “federally guaranteed” within the meaning of Section 149(b) of the Code. The District will not allow five percent (5%) or more of the proceeds of the Bonds to be used in the trade or business of any non-governmental units and will not loan five percent (5%) or more of the proceeds of the Bonds to any non-governmental units.

The District covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code. The District will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the District, or take or omit to take any action, that would cause the Bonds to be “arbitrage bonds” within the meaning of the Code. To that end, the District will comply with all requirements of the Code to the extent applicable to the Bonds. In the event that at any time the District is of the opinion that for purposes of 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 C Special Taxes 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 C Special Tax Revenues 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 C Special Tax Revenues and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under the Indenture shall thereupon cease, terminate and become void and discharged and satisfied. In the event of the defeasance of all Outstanding Bonds, 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 herein provided, out of the Net Special Tax Revenue pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in the Indenture. The principal of the Bonds shall not be subject to acceleration.

A waiver of any default or breach of duty or contract by any Owner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission by any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Act or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the District and the Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

No remedy herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

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APPENDIX E

FORM OF COMMUNITY FACILITIES DISTRICT CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and entered into as of September 1, 2003 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”), Zions First National Bank, a national banking association organized and existing under and by virtue of the laws of the United States of America (the “Bank”) in its capacity as Fiscal Agent (the “Fiscal Agent”) and David Taussig & Associates, Inc., in its capacity as Dissemination Agent (the “Dissemination Agent”) in connection with the issuance of the Community Facilities District No. 10 (Torrey Highlands – Subarea IV) of the Poway Unified School District Improvement Area C 2003 Special Tax Bonds (the “2003 Bonds”);

WITNESSETH:

WHEREAS, pursuant to the Bond Indenture, dated as of September 1, 2003 (the “Bond Indenture”), by and between the Community Facilities District and the Fiscal Agent, the Community Facilities District has issued the 2003 Bonds in the aggregate principal amount of \$3,000,000; and

WHEREAS, the 2003 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 2003 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 Associate 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 C 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 sec.gov/info/municipal/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, 2004, 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, provided that the report for January 31, 2004, will consist of the Official Statement and the audited financial statements of the School District:

(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 2003 Bonds and any refunding bonds:

(i) Principal amount of 2003 Bonds and any refunding bonds outstanding as of a date within 30 days proceeding the date of the Annual Report;

(ii) Balance in the 2003 Bond Service Fund as of a date within 30 days proceeding the date of the Annual Report;

(iii) Balance in the Reserve Fund and statement of Reserve Requirement as of a date within 30 days proceeding 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 ratios for the property in Improvement Area C 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 C 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 2003 Bonds and any refunding bonds of Improvement Area C and all other debt secured by a tax or assessments levied on parcels within Improvement Area C.

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

- (vii) Status of foreclosure proceedings of parcels within Improvement Area C 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 C 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 No. 10 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 C,
- (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 C 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 C 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 2003 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 the Participating Underwriter described on Exhibit B attached hereto. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected 2003 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 2003 Bonds, (ii) prior redemption of the 2003 Bonds or (iii) payment in full of all the 2003 Bonds. If such determination occurs prior to the final maturity of the 2003 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 2003 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 2003 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 2003 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 2003 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 the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding 2003 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent) or any owner or beneficial owner of the 2003 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 2003 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 2003 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 2003 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 2003 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: Associate Superintendent, Business Support Services
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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
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If to the
Fiscal Agent: Zions First National Bank
550 South Hope Street, Suite 2650
Los Angeles, California 90071
Telephone: 213/593-3152
Telecopier: 213/593-3160

If to the
Participating
Underwriter: Stone & Youngberg LLC
One Ferry Building
San Francisco, California 94111
Telephone: (415) 445-2300
Telecopier: (415) 445-2395
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 17. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 18. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

POWAY UNIFIED SCHOOL DISTRICT,
on behalf of Community Facilities District No. 10
(Torrey Highlands – Subarea IV)
of the Poway Unified School District

By: _____
Authorized Officer

ZIONS FIRST NATIONAL BANK, 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 C 2003 Special Tax Bonds

Date of Issuance: October 16, 2003

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 September 1, 2003, by and among the Community Facilities District, Zions First National Bank, as Fiscal Agent and David Taussig & Associates, 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

By: _____
Authorized Officer

cc: Community Facilities District No. 10 (Torrey Highlands – Subarea IV)
Stone & Youngberg LLC
Zions First National Bank

EXHIBIT B

PARTICIPATING UNDERWRITER

Stone & Youngberg LLC, One Ferry Building, San Francisco, California 94111, Telephone (415) 445-2300, Attention: Municipal Research Department.

APPENDIX F

FORM OF DEVELOPER CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”) is executed and entered into as of September 1, 2003, by and between Zions First National Bank, a national banking association organized and existing under and by virtue of the laws of the United States (the “Bank”), in its capacity as Fiscal Agent (the “Fiscal Agent”) and in its capacity as Dissemination Agent (the “Dissemination Agent”) and WPH - Torrey Meadows, LLC, a Delaware limited liability company, organized and existing under and by virtue of the laws of the State of Delaware (the “Developer”);

WITNESSETH:

WHEREAS, pursuant to the Bond Indenture, dated as of September 1, 2003 (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 C 2003 Special Tax Bonds (the “2003 Bonds”) in the aggregate principal amount of \$3,000,000.

WHEREAS, the 2003 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 Improvement Area C of the Community Facilities District; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the Developer and the Bank for the benefit of the owners and beneficial owners of the 2003 Bonds and in order to assist the Participating Underwriter of the 2003 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 the 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 January 1.

“Improvement Area C” means Improvement Area C 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, 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 sec.gov/info/municipal/nrmsir.htm.

“Official Statement” means the Official Statement, dated October 1, 2003, relating to the 2003 Bonds.

“Participating Underwriter” means the original underwriter of the 2003 Bonds required to comply with the Rule in connection with offering of the 2003 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 nine months after the end of the Developer’s fiscal year, which Second Report Date, as of the date of this Disclosure Agreement, is July 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 second Semi-Annual Report Date to occur in 2004. 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 the 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 the 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, if available, 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 Property owned by 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 the 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 the 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 C 2003 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 C 2003 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 2003 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 C 2003 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 2003 Bonds in the manner provided in the Bond Indenture for amendments to the Bond Indenture with the consent of owners of the Improvement Area C 2003 Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of owners or beneficial owners of the 2003 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 the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding Improvement Area C 2003 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent), or any owner or beneficial owner of the Improvement Area C 2003 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, and their respective officers', directors', employees', and agents' 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: Zions First National Bank
550 South Hope Street, Suite 2650
Los Angeles, California 90071
Telephone: (213) 593-3152
Telecopier: (213) 593-3160

If to the Fiscal Agent: Zions First National Bank
550 South Hope Street, Suite 2650
Los Angeles, California 90071
Telephone: (213) 593-3150
Telecopier: (213) 593-3160

If to the Participating Underwriter: Stone & Youngberg LLC
One Ferry Building
San Francisco, California 94111
Telephone: (415) 445-2300
Telecopier: (415) 445-2395
Attention: Municipal Research Department

If to the Developer: Western Pacific Housing - Torrey Meadows, LLC
5790 Fleet Street, Suite 210
Carlsbad, California 92008
Telephone: (760) 929-1600
Telecopier: (760) 421-7842
Attention: Garry Burris

Section 13. Beneficiaries. The Participating Underwriter and the owners and beneficial owners from time to time of the Improvement Area C 2003 Bonds shall be third party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Developer, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the Improvement Area C 2003 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.

WESTERN PACIFIC HOUSING – TORREY
MEADOWS, LLC, a Delaware limited liability company

By: LAMCO Housing, Inc., a California corporation

Its: Managing Member

By: _____
Name:
Title:

ZIONS FIRST NATIONAL BANK,
as Fiscal Agent

By: _____
Authorized Officer

ZIONS FIRST NATIONAL BANK,
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 C 2003 Special Tax Bonds

Date of Issuance: September 1, 2003

NOTICE IS HEREBY GIVEN that Western Pacific Housing – Torrey Meadows, LLC (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 September 1, 2003, by and among the Developer and
Zions First National Bank, as Fiscal Agent. [The Developer anticipates that the Semi-Annual Report will
be filed by _____.]

Dated: _____, 20__

ZIONS FIRST NATIONAL BANK, as
Dissemination Agent, on behalf of the Developer

By: _____
Authorized Officer

cc: Poway Unified School District
Stone & Youngberg LLC
Western Pacific Housing – Torrey Meadows, LLC

EXHIBIT B

PARTICIPATING UNDERWRITER

Stone & Youngberg LLC, One Ferry Building, San Francisco, California 94111, Telephone (415) 445-2300, Attention: Municipal Research Department.

APPENDIX G

FORM OF OPINION OF BOND COUNSEL

Board of Education
Poway Unified School District
13626 Twin Peaks Road
Poway, Ca. 92064-3098

BOND OPINION

**POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 10
(TORREY HIGHLANDS - SUBAREA IV)
IMPROVEMENT AREA C
2003 SPECIAL TAX BONDS**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Community Facilities District No. 10 (Torrey Highlands - Subarea IV) of the Poway Unified School District (the "District"), of \$3,000,000 aggregate principal amount of the Poway Unified School District Community Facilities District No. 10 (Torrey Highlands - Subarea IV) Improvement Area C 2003 Special Tax Bonds (the "Bonds"). The Bonds are issued pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Act"), a resolution adopted by the Board of Education on September 15, 2003 (the "Resolution"), and a Bond Indenture, dated as of September 1, 2003 (the "Bond Indenture"), between the District and Zions First National Bank, as fiscal agent (the "Fiscal Agent").

We have examined the Act, the Resolution, the Bond Indenture and certified copies of the proceedings taken for the issuance and sale of the Bonds. As to questions of fact which are material to our opinion, we have relied upon the representations of the District and the Poway Unified School District without having undertaken to verify the accuracy of any such representations by independent investigation.

Based upon such examination, we are of the opinion, as of the date hereof, that the proceedings referred to above have been taken in accordance with the laws and the Constitution of the State of California, and that the Bonds, having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchaser thereof, and the Bond Indenture having been duly authorized and executed by the proper official, constitute the legally valid and binding obligations of the District enforceable in accordance with their terms subject to the qualifications specified below. Except where funds are otherwise available, as may be permitted by law, the Bonds are payable, as to both principal and interest, solely from

certain special taxes to be levied and collected within Improvement Area C of the District and other funds available therefor held under the Bond Indenture.

The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the issuance and delivery of the Bonds for the interest on the Bonds to be and remain exempt from federal income taxation. Noncompliance with such requirements could cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of issuance of the Bonds. Pursuant to the Bond Indenture, the District has covenanted to comply with the requirements of the Code and applicable regulations promulgated thereunder.

We are of the opinion that, under existing statutes, regulations, rulings and court decisions, and assuming compliance by the District with the aforementioned covenants, the interest on the Bonds is excluded from gross income for purposes of federal income taxation and is exempt from personal income taxation imposed by the State of California.

We are further of the opinion that interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. However, interest on the Bonds received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations.

Although interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The opinions expressed herein may be affected by actions which may be taken (or not taken) or events which may occur (or not occur) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur or are not taken or do not occur.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Bond Indenture may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

Best Best & Krieger LLP

APPENDIX H

BOOK-ENTRY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2003 Bonds, payment of principal of and interest on the 2003 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2003 Bonds, confirmation and transfer of beneficial ownership interests in the 2003 Bonds and other 2003 Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2003 Bonds is based solely on information furnished by DTC to the School District which the School District believes to be reliable, but the School District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2003 Bonds. The 2003 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 2003 Bond will be issued for each maturity of the 2003 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC’s participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2003 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2003 Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the

transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2003 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2003 Bonds, except in the event that use of the book-entry system for the 2003 Bonds is discontinued.

To facilitate subsequent transfers, all 2003 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of 2003 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2003 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2003 Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2003 Bonds may wish to take certain steps to augment the transmissions to them of notices of significant events with respect to the 2003 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2003 Bonds documents. For example, Beneficial Owners of 2003 Bonds may wish to ascertain that the nominee holding the 2003 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Fiscal Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2003 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the School District as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2003 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payment on the 2003 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the School District or the Fiscal Agent, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor the nominee), the Fiscal Agent or the School District, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the 2003 Bonds at any time by giving reasonable notice to the School District and the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, 2003 Bond certificates are required to be printed and delivered as described in the Bond Indenture.

The School District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2003 Bond certificates will be printed and delivered as described in the Bond Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the School District believes to be reliable, but the School District takes no responsibility for the accuracy thereof.

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the 2003 Bonds, or (b) the School District determines that DTC shall no longer act and delivers a written certificate to the Fiscal Agent to that effect, then the School District will discontinue the Book-Entry System with DTC for the 2003 Bonds. If the School District determines to replace DTC with another qualified securities depository, the School District will prepare or direct the preparation of a new single separate, fully registered 2003 Bond for each maturity of the 2003 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Bond Indenture. If the School District fails to identify another qualified securities depository to replace the incumbent securities depository for the 2003 Bonds, then the 2003 Bonds shall no longer be restricted to being registered in the 2003 Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the 2003 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2003 Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the 2003 Bonds will be payable upon surrender thereof at the trust office of the Fiscal Agent identified in the Bond Indenture, and (iii) the 2003 Bonds will be transferable and exchangeable as provided in the Bond Indenture.

The School District and the Fiscal Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the 2003 Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the 2003 Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Bond Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the 2003 Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the 2003 Bonds or the Bond Indenture. The School District and the Fiscal Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of or interest on the 2003 Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The School District and the Fiscal Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the 2003 Bonds or any error or delay relating thereto.

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