

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 2004 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.

\$9,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 11
(STONEBRIDGE ESTATES)
ZONE 1 2004 SPECIAL TAX BONDS

\$11,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 11
(STONEBRIDGE ESTATES)
IMPROVEMENT AREA A
2004 SPECIAL TAX BONDS

Dated: Date of Delivery

Due: September 1, as shown below

The Zone 1 2004 Special Tax Bonds (the "Zone 1 Bonds") and the Improvement Area A 2004 Special Tax Bonds (the "Improvement Area A Bonds," and together with the Zone 1 Bonds, the "2004 Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and two Bond Indentures, each dated as of March 1, 2004 (each a "Bond Indenture" and together the "Bond Indentures"), by and between Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District (the "Community Facilities District") and Zions First National Bank, as fiscal agent (the "Fiscal Agent"). The Zone 1 Bonds and Improvement Area A Bonds are payable from proceeds of Special Taxes (as defined herein) levied on property within Zone 1 and Improvement Area A, respectively, of the Community Facilities District according to the Rate and Method of Apportionment of Special Tax approved by the qualified electors of the Community Facilities District and Improvement Area A 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 2004 Bonds are being issued (i) to finance, either directly or indirectly, the acquisition and construction of certain public improvements of the School District (the "School Facilities") and certain public improvements of the City of San Diego (the "City Facilities"), (ii) to fund separate reserve funds for the Zone 1 Bonds and the Improvement Area A Bonds, (iii) to pay interest on the 2004 Bonds through October 1, 2005, (iv) to pay certain administrative expenses of the Community Facilities District, and (v) to pay the costs of issuing the 2004 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "SCHOOL FACILITIES AND CITY FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2004 BONDS" herein.

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

The 2004 Bonds are subject to optional redemption, mandatory redemption from prepayment of Special Taxes and mandatory redemption as described herein.

THE 2004 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2004 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 2004 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 2004 BONDS. OTHER THAN THE ZONE 1 SPECIAL TAXES AND THE IMPROVEMENT AREA A SPECIAL TAXES, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2004 BONDS. THE 2004 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE ZONE 1 SPECIAL TAXES AND THE IMPROVEMENT AREA A SPECIAL TAXES 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 2004 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 2004 Bonds.

The 2004 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 2004 Bonds, in book-entry form, will be available for delivery to DTC in New York, New York on or about April 1, 2004.

Stone & Youngberg LLC

Dated: March 18, 2004

MATURITY SCHEDULE

ZONE 1

\$2,400,000 2004 SERIAL BONDS

Base CUSIP® No. 738855*

Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP® No.	Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP® No.
2006	\$ 25,000	2.50%	2.25%	JH9	2015	\$145,000	4.60%	4.60%	JS5
2007	35,000	3.00	2.60	JJ5	2016	165,000	4.75	4.75	JT3
2008	45,000	3.00	3.00	JK2	2017	185,000	4.90	4.90	JU0
2009	55,000	3.40	3.40	JL0	2018	205,000	5.00	5.00	JV8
2010	70,000	3.625	3.65	JM8	2019	225,000	5.10	5.10	JW6
2011	85,000	3.90	3.90	JN6	2020	250,000	5.20	5.20	JX4
2012	95,000	4.00	4.05	JP1	2021	275,000	5.25	5.25	JY2
2013	110,000	4.30	4.30	JQ9	2022	305,000	5.30	5.30	JZ9
2014	125,000	4.40	4.45	JR7					

\$2,525,000 5.375% Term Zone 1 Bonds due September 1, 2028 Yield 5.40% CUSIP® No. 738855KC8

\$4,075,000 5.375% Term Zone 1 Bonds due September 1, 2034 Yield 5.45% CUSIP® No. 738855KD6

MATURITY SCHEDULE

IMPROVEMENT AREA A

\$2,930,000 2004 SERIAL BONDS

Base CUSIP® No. 738855*

Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP® No.	Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP® No.
2006	\$ 30,000	2.50%	2.25%	KE4	2015	\$175,000	4.60%	4.60%	KP9
2007	40,000	3.00	2.60	KF1	2016	200,000	4.75	4.75	KQ7
2008	55,000	3.00	3.00	KG9	2017	225,000	4.90	4.90	KR5
2009	70,000	3.40	3.40	KH7	2018	250,000	5.00	5.00	KS3
2010	85,000	3.625	3.65	KJ3	2019	275,000	5.10	5.10	KT1
2011	100,000	3.90	3.90	KK0	2020	305,000	5.20	5.20	KU8
2012	120,000	4.00	4.05	KL8	2021	340,000	5.25	5.25	KV6
2013	135,000	4.30	4.30	KM6	2022	370,000	5.30	5.30	KW4
2014	155,000	4.40	4.45	KN4					

\$3,085,000 5.375% Term Improvement Area A Bonds due September 1, 2028 Yield 5.40% CUSIP® No. 738855KZ7

\$4,985,000 5.375% Term Improvement Area A Bonds due September 1, 2034 Yield 5.45% CUSIP® No. 738855LA1

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POWAY UNIFIED SCHOOL DISTRICT

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FISCAL AGENT

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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 2004 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 2004 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 2004 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 2004 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2004 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 2004 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 2004 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2004 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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Poway Unified School District
Community Facilities District No. 11 (StoneBridge Estates)
Zone 1 – 2004 Special Tax Bonds
Improvement Area A – 2004 Special Tax Bonds
(San Diego County, California)

Regional Location Map



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**Poway Unified School District
Community Facilities District No. 11
(StoneBridge Estates)
Improvement Area A/Zone 1**



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OFFICIAL STATEMENT
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 11
(STONEBRIDGE ESTATES)
\$9,000,000 ZONE 1 2004 SPECIAL TAX BONDS AND
\$11,000,000 IMPROVEMENT AREA A 2004 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 2004 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. 11 (StoneBridge Estates) Zone 1 2004 Special Tax Bonds (the “Zone 1 Bonds”) and Improvement Area A 2004 Special Tax Bonds (the “Improvement Area A Bonds,” and together with the Zone 1 Bonds, the “2004 Bonds”).

The 2004 Bonds are issued pursuant to the Act (as defined below) and two Bond Indentures, each dated as of March 1, 2004 (each a “Bond Indenture” and together, the “Bond Indentures”), each by and between the School District (as defined below) and Zions First National Bank, as fiscal agent (the “Fiscal Agent”). See “THE 2004 BONDS – Authority of Issuance” herein. The Community Facilities District may issue additional bonds payable on a parity with either Series of the 2004 Bonds for refunding purpose only.

The School District

The Poway Unified School District (the “School District”) is located north of the City of San Diego (the “City”). The School District was originally formed in 1962. The School District currently covers approximately 99.1 square miles in the central portion of the County of San Diego (the “County”) and includes the City of Poway and portions of the City of San Diego and the County, including the communities of Black Mountain Ranch, Carmel Mountain Ranch, Rancho Bernardo, Rancho Peñasquitos, Sabre Springs, Santaluz, Santa Fe Valley, Torrey Highlands and 4S Ranch. The School District currently operates twenty-one (21) elementary schools, five (5) middle schools, 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 was formed and established by the School District on January 20, 2004, 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 the Community Facilities District authorized the Community Facilities District to incur bonded indebtedness and approved the levy of special taxes. Upon its formation, the Community Facilities District contained four zones, which encompass separate parcels and are separately subject to the levy of Special Taxes to finance the acquisition or construction of school facilities (the “School Facilities”). The Community Facilities District is issuing the Zone 1 Bonds at this time, which are secured by special taxes levied only on the Zone 1 property. No cross-collateralization exists between the zones.

In addition, on January 20, 2004, pursuant to the Act, following a public hearing and landowner elections, the electors of Improvement Area A, Improvement Area B and Improvement Area C authorized the Community Facilities District to incur bonded indebtedness and approved the levy of a separate special tax within each Improvement Area to finance and acquisition of public improvements to be owned, operated

and maintained by the City, or to which the City may contribute revenue (collectively, the “City Facilities”) and the acquisition or construction of school facilities.

Zone 1 and Improvement Area A encompass the same land and are coterminous, and the Community Facilities District will levy a separate special tax per Zone 1 and Improvement Area A. No cross-collateralization exists between Zone 1 and Improvement Area A. No cross-collateralization exists between Improvement Area A, Improvement Area B and Improvement Area C.

The Community Facilities District is authorized to issue \$60 million aggregate principal amount of bonds, including bonds with respect to Zones 1 through 4. In addition, the Community Facilities District is authorized to issue \$13.5 million aggregate principal amount of bonds with respect to Improvement Area A, \$10,900,000 aggregate principal amount of bonds with respect to Improvement Area B and \$17,400,000 aggregate principal amount of bonds with respect to Improvement Area C. The Improvement Area A Bonds are being issued at this time and are separate from any bonds issued or authorized to be issued with respect to Improvement Area B or Improvement Area C.

The cost of the School Facilities financed with Special Taxes together with proceeds of Community Facilities District bonds and Improvement Area bonds is expected to exceed the cost of the City Facilities financed with Special Taxes and proceeds of Improvement Area bonds. See “SECURITY FOR THE 2004 BONDS – Rate and Method – Community Facilities District No. 11 Rate and Method.” The School District will use such special taxes and bond proceeds for the acquisition, construction, rehabilitation, improvement of the School Facilities and City Facilities, as applicable, and related administrative expenses. A portion of the Special Taxes on Developed Property within Improvement Area A as set forth in the Improvement Area A Rate and Method of Apportionment of Special Tax will be used for the acquisition, construction, rehabilitation and improvement of the School Facilities and related expenses.

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 contiguous, and generally is located south of Beeler Canyon Road and east of Pomerado Road in the southern most portion of the School District and in the City. The Community Facilities District, which encompasses all of the property in the Rancho Encantada Precise Planned Community, consists of approximately 2,658 gross acres. StoneBridge Estates is the current name of the entire project proposed to be developed in the Community Facilities District, which is comprised of two sub-project areas, known as Montecito and Sycamore Estates. The Montecito sub-project area encompasses approximately 278 gross acres in Zone 1 / Improvement Area A and the Sycamore Estates sub-project area encompasses approximately 2,132 gross acres in Zone 2 / Improvement Area B and Zone 3 / Improvement Area C. The Community Facilities District also includes approximately 248 acres of open space owned by the City which is located within Zone 4. The residential portion of the StoneBridge Estates project is proposed to be developed by various merchant builder entities related to the respective members of Sycamore Estates, LLC, a Delaware limited liability company, the master developer of the property in the Community Facilities District. The StoneBridge Estates development is proposed to include 7 neighborhoods aggregating approximately 828 market rate single family residences, 106 affordable residential multi-family units, a school site, and two park sites (including acreage originally planned for institutional use). The remaining area, which is in Zone 4, is proposed to be preserved as open space and to become the “Mission Trails Regional Park North.” The property in Zone 1 / Improvement Area A is planned to be developed with three of the seven proposed single family neighborhoods totaling 277 detached single family lots. The affordable residential multi-family units are proposed to be included in Zone 2 / Improvement Area B.

As of January 1, 2004, the major landowners in Zone 1 / Improvement Area A are McMillin Montecito 109, LLC, a Delaware limited liability company (“McMillin”) (109 residential lots), Brookfield 6 LLC, a Delaware limited liability company (121 residential lots), and Brookfield 8 LLC, a Delaware limited liability company (47 residential lots). Sycamore Estates, LLC, a limited liability company formed by

Brookfield Sycamore LLC and The McMillin Companies, LLC owns the property in Zones 2 and 3/ Improvement Areas B and C, which is expected to be developed as later phases of StoneBridge Estates. (A separate related entity, Sycamore Estates II, LLC owned a portion of the property within the Community Facilities District and was subsequently merged with and into Sycamore Estates, LLC. For convenience of reference, the term "Sycamore Estates, LLC" refers to the applicable entity.) 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. 11 (STONEBRIDGE ESTATES)" herein.

McMillin Montecito 109, LLC, Brookfield 6 LLC and Brookfield 8 LLC are sometimes collectively referred to herein individually as a "Developer" and collectively as the "Developers."

Purpose of the 2004 Bonds

The Community Facilities District was formed pursuant to a School Impact Mitigation and Public Facilities Funding Agreement dated as of November 17, 2003, by and among the School District, Sycamore Estates, LLC, Sycamore Estates II, LLC, McMillin Montecito 109, LLC, Brookfield 6 LLC and Brookfield 8 LLC (the "Impact Mitigation Agreement") and a Joint Community Facilities Agreement ("JCFA"), by and among the School District, acting on behalf of itself and the proposed Community Facilities District, the City, Sycamore Estates, LLC and Sycamore Estates II, LLC. (As previously mentioned, Sycamore Estates II, LLC was subsequently merged with and into Sycamore Estates, LLC.) The Impact Mitigation Agreement 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 to provide for the issuance of bonds of the Improvement Areas to fund City Facilities. See "SCHOOL FACILITIES AND CITY FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2004 BONDS" and "COMMUNITY FACILITIES DISTRICT NO. 11 (STONEBRIDGE ESTATES) – Property Ownership and Development" herein.

The Zone 1 Bonds are being issued to finance the acquisition and construction of certain School Facilities to be owned and operated by the School District. The Improvement Area A Bonds are being issued to finance the acquisition and construction of certain City Facilities, including road, signals, water, sewer, park and other public improvements.

Proceeds of each series of 2004 Bonds will also be used to fund a reserve fund for that series of Bonds, to fund capitalized interest on that series of Bonds for 18 months, to pay certain administrative expenses of the Community Facilities District, and to pay the costs of issuing that series of Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "SCHOOL FACILITIES AND CITY FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2004 BONDS."

Sources of Payment for the 2004 Bonds

The Zone 1 Bonds and the Improvement Area A Bonds are secured by and payable from a first pledge of "Net Special Tax Revenues" of Zone 1 and Improvement Area A which is defined as proceeds of the Special Taxes levied and received by the Community Facilities District with respect to Zone 1 and Improvement Area A, 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 the Administrative Expense Requirement (as defined in the applicable Bond Indenture) not to exceed \$20,000, with respect to the Zone 1 Bonds and \$20,000 with respect to the Improvement Area A Bonds, and subject in each case to escalation by 2% each year. "Special Taxes" are defined in each Bond Indenture as the proceeds of the special taxes levied and received by the Community Facilities District within the Community Facilities District and the "Delinquency Proceeds" as described above.

The Zone 1 Bonds and the Improvement Area A Bonds are separately secured under their respective Bond Indenture, and the Special Taxes securing one series of Bonds are not available for or pledged to the payment of debt service on or the replenishment of the reserve fund established for the other series of Bonds.

Pursuant to the Act, the applicable Rate and Method of Apportionment of Special Tax for the Community Facilities District and the Improvement Area (each a "Rate and Method"), the Resolutions of Formation (as defined herein) and the applicable Bond Indenture, so long as each Series of Bonds are outstanding, the Community Facilities District will annually ascertain the parcels on which the Special Taxes are to be levied taking into account any subdivisions of parcels during the applicable Fiscal Year. The Community Facilities District shall effect the levy of the Special Taxes in accordance with the applicable Rate and Method and the Act each Fiscal Year so that the computation of such levy is complete and transmitted to the Auditor of the County before the final date on which the Auditor of the County will accept the transmission of the Special Taxes for the parcels within Zone 1 and Improvement Area A for inclusion on the next real property tax roll. See "SECURITY FOR THE 2004 BONDS – Special Taxes" herein.

Each Rate and Method exempts from the Special Tax all property owned by the State, the federal government and local governments, as well as certain other properties, subject to certain limitations. See "SECURITY FOR THE 2004 BONDS – Rates and Methods" and "BONDOWNERS' RISKS – Exempt Properties."

The Zone 1 Bonds and the Improvement Area A Bonds are secured by a first pledge of all moneys deposited in the applicable Reserve Fund. See "SECURITY FOR THE 2004 BONDS." A separate Reserve Fund will be established out of the proceeds of the sale of the Zone 1 Bonds and the Improvement Area A Bonds, respectively, in an amount equal to the applicable Reserve Requirement. Each Bond Indenture defines each Reserve Requirement as an amount, as of any date of calculation, equal to the least of (i) the then maximum annual debt service on the Zone 1 Bonds or Improvement Area A Bonds, as applicable, (ii) 125% of the then average annual debt service on the Zone 1 Bonds or Improvement Area A Bonds, as applicable, or (iii) 10% of the initial principal amount of the Zone 1 Bonds or Improvement Area A Bonds, as applicable, less original issue discount, if any, plus original issue premium, if any. The ability of the Board of Education, in its capacity as legislative body of the Community Facilities District, to increase the annual Special Taxes levied to replenish each Reserve Fund is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of Zone 1 and Improvement Area A, as applicable. The moneys in the Zone 1 Reserve Fund will only be used for payment of principal of, interest and any redemption premium on, the Zone 1 Bonds, and at the direction of the Community Facilities District, for payment of rebate obligations related to the Zone 1 Bonds. The moneys in the Improvement Area A Reserve Fund will only be used for payment of principal of, interest and any redemption premium on, the Improvement Area A Bonds and, at the direction of the Community Facilities District, for payment of rebate obligations related to the Improvement Area A Bonds. See "SECURITY FOR THE 2004 BONDS – Reserve Funds."

The Community Facilities District has also covenanted in the Bond Indentures to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Special Taxes. For a more detailed description of the foreclosure covenant see "SECURITY FOR THE 2004 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 2004 BONDS. OTHER THAN THE SPECIAL TAXES OF ZONE 1 OR IMPROVEMENT AREA A, AS APPLICABLE, NO TAXES ARE PLEDGED TO THE PAYMENT OF ZONE 1 BONDS AND THE IMPROVEMENT AREA A BONDS. THE ZONE 1 BONDS AND THE IMPROVEMENT AREA A 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 ZONE 1 AND IMPROVEMENT AREA A, AS APPLICABLE, AS MORE FULLY DESCRIBED HEREIN.

Appraisal

An MAI appraisal of the land and existing improvements for each development within Zone 1 / Improvement Area A of the Community Facilities District dated February 11, 2004 (the "Appraisal"), was prepared by Stephen G. White, MAI of Fullerton, California (the "Appraiser") in connection with issuance

of the 2004 Bonds. The purpose of the appraisal was to estimate the aggregate market value of each separate tract, reflecting the as-is condition of the vacant lots and any completed homes or homes under construction. The Appraisal reflects the Zone 1 and Improvement Area A financings. The subject property in Zone 1 / Improvement Area A includes property proposed for development with 277 detached single-family residential units. The Appraisal is based on certain assumptions set forth in Appendix C hereto.

Based on the investigation and analyses described in the Appraisal, and subject to all of the premises, assumptions and limiting conditions set forth therein, the Appraiser estimated the market value of the taxable property in Zone 1 / Improvement Area A as of February 1, 2004, to be \$88,000,000. The market value includes the value of extensive grading and infrastructure improvements in Zone 1 / Improvement Area A. Subject to these assumptions, the Appraiser estimated that the market value of the land within the Zone 1 / Improvement Area A (subject to the lien of the Special Taxes) as of February 1, 2004, was as follows:

Zone 1 / Improvement Area A

McMillin Montecito 109, LLC	Mill Creek	\$36,000,000
Brookfield 6 LLC	Astoria	37,200,000
Brookfield 8 LLC	Calabria	<u>14,800,000</u>
Total		\$88,000,000

The market values of the property within Zone 1 / Improvement Area A include the value of tract map approvals and the near finished conditions of such property. The \$88,000,000 aggregate market value reported in the Appraisal results in estimated value-to-lien ratio of 4.40 to 1 with respect to Zone 1 / Improvement Area A, calculated in each case with respect to all direct and overlapping tax and assessment debt as of the estimated closing date. The value-to-lien ratios of individual parcels will differ from the foregoing aggregate values. See "COMMUNITY FACILITIES DISTRICT NO. 11 (STONEBRIDGE ESTATES – Appraised Property Values," "COMMUNITY FACILITIES DISTRICT NO. 11 (STONEBRIDGE ESTATES – 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 2004 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 2004 Bonds will be exempt from State personal income taxes. See "LEGAL MATTERS – Tax Exemption" herein.

Risk Factors Associated with Purchasing the 2004 Bonds

Investment in the 2004 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 2004 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. 11 (STONEBRIDGE ESTATES)" and " – Property Ownership and the Developments" therein.

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

Professionals Involved in the Offering

Zions First National Bank, Los Angeles, California, will serve as the fiscal agent for the 2004 Bonds and will perform the functions required of it under the Bond Indentures for the payment of the principal of and interest and any premium on the 2004 Bonds and all activities related to the redemption of the 2004 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 2004 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 Developers, 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 2004 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 2004 Bonds, certain sections of the Bond Indentures, security for the 2004 Bonds, special risk factors, the Community Facilities District, the Zones, the Improvement Areas, the School District, the Developers' projects, the Developers and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the 2004 Bonds, the Bond Indentures, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the 2004 Bonds, the Bond Indentures, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the 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 2004 Bonds, to provide certain financial information and operating data relating to the Community Facilities District, Zone 1, Improvement Area A and the 2004 Bonds by not later than January 31 in each year commencing on January 31, 2005 (the "Community Facilities District Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material.

The Community Facilities District Annual Report will be filed by the Community Facilities District, or David Taussig & Associates, Inc., as Dissemination Agent on behalf of the Community Facilities District, with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate

State repository, if any (collectively, the “Repositories”), with a copy to the Fiscal Agent and the Underwriter. Any notice of a material event will be filed by the Community Facilities District, or the Dissemination Agent on behalf of the Community Facilities District, with the Municipal Securities Rulemaking Board and the appropriate State repository, if any, with a copy to the Fiscal Agent and the Underwriter. The specific nature of the information to be contained in the Community Facilities District Annual Report or any notice of a material event is set forth in the Community Facilities District Continuing Disclosure Agreement. The covenants of the Community Facilities District in the Community Facilities District Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”); provided, however, a default under the Community Facilities District Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Bond Indentures, and the sole remedy under the Community Facilities District Continuing Disclosure Agreement in the event of any failure of the Community Facilities District or the Dissemination Agent to comply with the Community Facilities District Continuing Disclosure Agreement will be an action to compel performance.

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

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

The Developer Semi-Annual Reports will be filed by each Developer, or the “Dissemination Agent” (as that term is defined in the Developer Continuing Disclosure Agreements) on behalf of the applicable Developer, with the Repositories, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. Any notice of a material event will be filed by each Developer, or by the Dissemination Agent on behalf of the applicable Developer, with the Municipal Securities Rulemaking Board and the appropriate State repository, if any, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. The specific nature of the information to be contained in each Developer Semi-Annual Report or the notices of material events is set forth in the applicable Developer Continuing Disclosure Agreement. The covenants of each Developer in its Developer Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with the Rule; provided, however, a default under a Developer Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Bond Indentures, and the sole remedy under each Developer Continuing Disclosure Agreement in the event of any failure of the applicable Developer or the Dissemination Agent to comply with such Developer Continuing Disclosure Agreement will be an action to compel performance.

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

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the 2004 Bonds will be deposited into the following respective accounts and funds established by the School District under the Bond Indentures, as follows:

Zone 1 Bonds

Sources

Principal Amount of Zone 1 Bonds	\$9,000,000.00
Less: Underwriter's Discount	(157,500.00)
Less: Original Issue Discount	<u>(54,392.85)</u>
<i>Total Zone 1 Sources</i>	\$8,788,107.15

Uses

Deposit into Zone 1 Reserve Fund ⁽¹⁾	\$811,648.49
Deposit into Zone 1 Costs of Issuance Fund ⁽²⁾	135,500.00
Deposit into Zone 1 School Facilities Fund ⁽³⁾	7,098,317.40
Deposit into Capitalized Interest Subaccount of the Zone 1 Bond Service Fund ⁽⁴⁾	702,641.26
Deposit into Administrative Expense Fund	<u>40,000.00</u>
<i>Total Zone 1 Uses</i>	\$8,788,107.15

Improvement Area A Bonds

Sources

Principal Amount of Improvement Area A Bonds	\$11,000,000.00
Less: Underwriter's Discount	(192,500.00)
Less: Original Issue Discount	<u>(66,587.50)</u>
<i>Total Improvement Area A Sources</i>	\$10,740,912.50

Uses

Deposit into Improvement Area A Reserve Fund ⁽¹⁾	\$992,160.84
Deposit into Improvement Area A Costs of Issuance Fund ⁽²⁾	145,000.00
Deposit into Improvement Area A Infrastructure Improvement Fund ⁽³⁾	8,704,898.53
Deposit into Capitalized Interest Subaccount of the Improvement Area A Bond Service Fund ⁽⁴⁾	858,853.13
Deposit into Administrative Expense Fund	<u>40,000.00</u>
<i>Total Improvement Area A Uses</i>	\$10,740,912.50

⁽¹⁾ Equal to the Reserve Requirement with respect to the Zone 1 Bonds and with respect to the Improvement Area A Bonds as of the date of delivery of the 2004 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 School District and the Developers of costs incurred in connection with the 2004 Bonds.

⁽³⁾ See "SCHOOL FACILITIES AND CITY FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2004 BONDS" below.

⁽⁴⁾ Represents capitalized interest on the Zone 1 Bonds and on the Improvement Area A Bonds through October 1, 2005.

SCHOOL FACILITIES AND CITY FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2004 BONDS

Proceeds of Special Taxes levied in Zone 1 pursuant to the Community Facilities District No. 11 Rate and Method (the "Community Facilities District No. 11 Rate and Method") and the proceeds of the Zone 1 Bonds issued payable from Special Taxes levied in Zone 1 pursuant to the Community Facilities District No. 11 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.

Proceeds of the Improvement Area A Bonds will be used to fund the acquisition of City Facilities, including street, water, and other public improvements. City Facilities include but are not limited to: (i) StoneBridge Parkway Phase 1 (Montecito) from Pomerado Road to westerly limits of StoneBridge Estates (Vesting Tentative Map limits)); (ii) secondary fire access road - Phase 1 (Beeler Canyon Road from Project Boundary to Phase I Boundary), (iii) Pomerado Road/StoneBridge Parkway intersection improvements, (iv) Spring Canyon Road from Elderwood Lane to Scripps Ranch Boulevard, and (v) I-15 interchange and mainline improvements from Miramar Way to Scripps Poway Parkway.

THE 2004 BONDS

Authority for Issuance

The 2004 Bonds will be issued pursuant to the Act and the Bond Indentures.

General Provisions

The Zone 1 2004 Special Tax Bonds in the aggregate amount of \$9,000,000 and the Improvement Area A 2004 Special Tax Bonds in the aggregate amount of \$11,000,000 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 September 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 2004 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 2004 Bonds. Ownership interests in the 2004 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 2004 Bonds are held in book-entry form, principal of, premium, if any, and interest on the 2004 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2004 Bonds in accordance with the procedures adopted by DTC. See "THE 2004 BONDS – Book-Entry and DTC."

The 2004 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 2004 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 2004 Bonds; provided, however, that if at the time of authentication of a 2004 Bond, interest is in default, interest on that 2004 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 2004 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 a single Series of 2004 Bonds by wire transfer in immediately available funds (i) to the DTC (so long as the 2004 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 2004 Bonds are transferred to a new Owner. The principal of the 2004 Bonds and any premium on the 2004 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 2004 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 2004 Bonds (including sinking fund redemptions), assuming that there are no optional redemptions.

ZONE 1 BONDS

Year Ending (September 1)	Principal	Interest	Total Debt Service
2004	-	\$195,178.13	\$195,178.13
2005	-	468,427.50	468,427.50
2006	\$25,000	468,427.50	493,427.50
2007	35,000	467,802.50	502,802.50
2008	45,000	466,752.50	511,752.50
2009	55,000	465,402.50	520,402.50
2010	70,000	463,532.50	533,532.50
2011	85,000	460,995.00	545,995.00
2012	95,000	457,680.00	552,680.00
2013	110,000	453,880.00	563,880.00
2014	125,000	449,150.00	574,150.00
2015	145,000	443,650.00	588,650.00
2016	165,000	436,980.00	601,980.00
2017	185,000	429,142.50	614,142.50
2018	205,000	420,077.50	625,077.50
2019	225,000	409,827.50	634,827.50
2020	250,000	398,352.50	648,352.50
2021	275,000	385,352.50	660,352.50
2022	305,000	370,915.00	675,915.00
2023	335,000	354,750.00	689,750.00
2024	365,000	336,743.76	701,743.76
2025	400,000	317,125.00	717,125.00
2026	435,000	295,625.00	730,625.00
2027	475,000	272,243.76	747,243.76
2028	515,000	246,712.50	761,712.50
2029	555,000	219,031.26	774,031.26
2030	600,000	189,200.00	789,200.00
2031	650,000	156,950.00	806,950.00
2032	700,000	122,012.50	822,012.50
2033	755,000	84,387.50	839,387.50
2034	<u>815,000</u>	<u>43,806.26</u>	<u>858,806.26</u>
	\$9,000,000	\$10,750,113.17	\$19,750,113.17

IMPROVEMENT AREA A BONDS

Year Ending September 1	Principal	Interest	Total Debt Service
2004	-	\$238,570.31	\$238,570.31
2005	-	572,568.76	572,568.76
2006	\$30,000	572,568.76	602,568.76
2007	40,000	571,818.76	611,818.76
2008	55,000	570,618.76	625,618.76
2009	70,000	568,968.76	638,968.76
2010	85,000	566,588.76	651,588.76
2011	100,000	563,507.50	663,507.50
2012	120,000	559,607.50	679,607.50
2013	135,000	554,807.50	689,807.50
2014	155,000	549,002.50	704,002.50
2015	175,000	542,182.50	717,182.50
2016	200,000	534,132.50	734,132.50
2017	225,000	524,632.50	749,632.50
2018	250,000	513,607.50	763,607.50
2019	275,000	501,107.50	776,107.50
2020	305,000	487,082.50	792,082.50
2021	340,000	471,222.50	811,222.50
2022	370,000	453,372.50	823,372.50
2023	410,000	433,762.50	843,762.50
2024	445,000	411,725.00	856,725.00
2025	490,000	387,806.26	877,806.26
2026	530,000	361,468.76	891,468.76
2027	580,000	332,981.26	912,981.26
2028	630,000	301,806.26	931,806.26
2029	680,000	267,943.76	947,943.76
2030	735,000	231,393.76	966,393.76
2031	795,000	191,887.50	986,887.50
2032	855,000	149,156.26	1,004,156.26
2033	925,000	103,200.00	1,028,200.00
2034	<u>995,000</u>	<u>53,481.26</u>	<u>1,048,481.26</u>
	\$11,000,000	\$13,142,580.45	\$24,142,580.45

Redemption

Optional Redemption. The 2004 Bonds maturing on and after September 1, 2012 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, 2011, 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 2004 Bonds to be redeemed), together with accrued interest to the date of redemption:

Redemption Date	Redemption Price
September 1, 2011 and March 1, 2012	102%
September 1, 2012 and March 1, 2013	101
September 1, 2013 and any Interest Payment Date thereafter	100

Whenever provision is made for the optional redemption of less than all of the 2004 Bonds, the Fiscal Agent shall select the 2004 Bonds to be redeemed, among maturities as directed by the Community Facilities District which shall specify the 2004 Bonds to be redeemed so as to maintain, as much as practicable, the same debt service profile for the Outstanding 2004 Bonds following such redemption as was in effect prior to such redemption. The Fiscal Agent shall select 2004 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 2004 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 transferred to the Redemption Fund pursuant to the Bond Indenture to redeem the 2004 Bonds, as applicable. The Fiscal Agent shall select 2004 Bonds to be redeemed within a maturity, pro rata among maturities as directed in writing by the Community Facilities District. Such extraordinary mandatory redemption of the 2004 Bonds shall be at the following redemption prices (expressed as percentages of the principal amount of the 2004 Bonds to be redeemed), together with accrued interest thereon to the date of redemption:

Redemption Date	Redemption Price
September 1, 2004 through March 1, 2012	102%
September 1, 2012 and March 1, 2013	101
September 1, 2013 and any Interest Payment Date thereafter	100

Mandatory Sinking Payment Redemption. The Zone 1 2004 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, 2023, at a redemption price equal to the principal amount of the 2004 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:

ZONE 1 BONDS

<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2023	\$335,000
2024	365,000
2025	400,000
2026	435,000
2027	475,000
2028 (maturity)	515,000

The Zone 1 2004 Bonds maturing on September 1, 2034, 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 2004 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:

ZONE 1 BONDS

<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2029	\$555,000
2030	600,000
2031	650,000
2032	700,000
2033	755,000
2034 (maturity)	815,000

The Improvement Area A 2004 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, 2023, at a redemption price equal to the principal amount of the 2004 Bonds to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption, without premium, in the aggregate principal amount and in the years shown on the following redemption schedule:

IMPROVEMENT AREA A BONDS

<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2023	\$410,000
2024	445,000
2025	490,000
2026	530,000
2027	580,000
2028 (maturity)	630,000

The Improvement Area A 2004 Bonds maturing on September 1, 2034, 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 2004 Bonds to be redeemed, plus accrued and unpaid interest thereon to the date fixed for redemption, without premium, in the aggregate principal amount and in the years shown on the following redemption schedule:

IMPROVEMENT AREA A BONDS

Sinking Fund Redemption Date	Sinking Payments
2029	\$680,000
2030	735,000
2031	795,000
2032	855,000
2033	925,000
2034 (maturity)	995,000

The amounts in the foregoing tables shall be reduced as a result of any prior partial redemption of the applicable Series of the 2004 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 an optional, extraordinary mandatory or mandatory sinking fund redemption, the Community Facilities District may elect to purchase such 2004 Bonds at public or private sale 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 the Bonds were to be redeemed in accordance with the applicable Bond Indenture.

Notice of Redemption. The Fiscal Agent shall mail, at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first class mail, postage prepaid, to the respective registered Owners of the 2004 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 2004 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 2004 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 2004 Bonds to be redeemed, and in the case of 2004 Bonds to be redeemed in part, the respective principal portions to be redeemed; provided, however, that whenever any call includes all 2004 Bonds of a maturity, the numbers of the 2004 Bonds of such maturity need not be stated; (d) state that such 2004 Bonds must be surrendered at the principal corporate trust office of the Fiscal Agent; (e) state that further interest on the 2004 Bonds will not accrue from and after the designated redemption date; (f) state the date of the issue of the 2004 Bonds as originally issued; (g) state the rate of interest borne by each 2004 Bond being redeemed; and (h) state that any other descriptive information needed to identify accurately the 2004 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 applicable Bond Indenture, and when the amount necessary for the redemption of the 2004 Bonds called for redemption is set aside for that purpose in the applicable Redemption Fund, the 2004 Bonds designated for redemption shall become due and payable on the date fixed for redemption thereof, and upon presentation and surrender of said 2004 Bonds at the place specified in the notice of redemption, said 2004 Bonds shall be redeemed and paid at the redemption price out of the applicable Redemption Fund and no interest will accrue on such 2004 Bonds or portions of 2004 Bonds called for redemption from and after the redemption date specified in said notice, and the Owners of such 2004 Bonds so called for redemption after such redemption date shall look for the payment of principal and premium, if any, of such 2004 Bonds or portions of 2004 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 2004 Bonds, and upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said register, the Bonds as hereinbefore provided. The Community Facilities District and the Fiscal Agent will treat the owner of any Bond whose name appears on the Bond Register as the holder and absolute Owner of such Bond for all purposes under the applicable Bond Indenture, and the Community Facilities District and the Fiscal Agent shall not be affected by any notice to the contrary.

Transfers of Bonds. The transfer of any 2004 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 2004 Bond or Bonds shall be authenticated and delivered in exchange for such 2004 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 2004 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) 2004 Bonds for a period of 15 days next preceding to the date of any selection of the 2004 Bonds for redemption, or (ii) any 2004 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 2004 Bonds of authorized denominations, interest rate and maturity, subject to the terms and conditions of the applicable Bond Indenture, including the payment of certain charges, if any, upon surrender and cancellation of a 2004 Bond.

Book-Entry and DTC

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2004 Bonds. The 2004 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 2004 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 2004 BONDS

General

The 2004 Bonds issued with respect to the Zone 1 Bonds and the Improvement Area A Bonds are secured by a first pledge of all of the Net Special Tax Revenues of Zone 1 and Improvement Area A, as applicable, and all moneys deposited in the applicable Bond Service Fund and in the applicable Reserve Fund and, until disbursed as provided in the applicable Bond Indenture, in the applicable Special Tax Fund. Pursuant to the Act and the Bond Indentures, the Community Facilities District will annually levy the Special Taxes in Zone 1 and in Improvement Area A in an amount required for the payment of principal of, and interest on, any outstanding 2004 Bonds, as applicable, becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the applicable Reserve Fund with respect to Zone 1 Bonds and Improvement Area A Bonds and an amount estimated to be sufficient to pay the Administrative Expenses during such year. The Net Special Tax Revenues of Zone 1 and Improvement Area A and all moneys deposited into the applicable Accounts (until disbursed as provided in the applicable Bond Indenture) are pledged to the payment of the principal of, and interest and any premium on, the Zone 1 Bonds and Improvement Area A Bonds, as applicable, as provided in the applicable Bond Indenture and in the Act until all of the Zone 1 Bonds and Improvement Area A Bonds have been paid and retired or until moneys or Federal Securities (as defined in each Bond Indenture) have been set aside irrevocably for that purpose.

Amounts in the Administrative Expense Funds, the Costs of Issuance Funds, the Rebate Funds, the School Facilities Fund and the Infrastructure Improvement Fund are not pledged to the repayment of the 2004

Bonds. The School Facilities and City Facilities constructed and acquired with the proceeds of the 2004 Bonds are not in any way pledged to pay the debt service on the 2004 Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2004 Bonds are not pledged to pay the debt service on the 2004 Bonds.

Special Taxes

The Community Facilities District has covenanted in each Bond Indenture to comply with all requirements of the Act so as to assure the timely collection of Special Taxes in Zone 1 and Improvement Area A, including without limitation, the enforcement of delinquent Special Taxes. Each Rate and Method provides that the Special Taxes are payable and will be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that the Community Facilities District may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

Because the Special Tax levy is limited to the maximum Special Tax rates set forth in the applicable Rate and Method, no assurance can be given that, in the event of Special Tax delinquencies in Zone 1 or Improvement Area A, the receipt of Special Taxes in Zone 1 or Improvement Area A will, in fact, be collected in sufficient amounts in any given year to pay debt service on the 2004 Bonds applicable to Zone 1 or Improvement Area A. The Special Taxes levied in Zone 1 are not available to pay principal of or interest on the Improvement Area A Bonds and the Special Taxes levied in Improvement Area A are not available to pay principal of or interest on the Zone 1 Bonds.

Although the Special Taxes, when levied, will constitute a lien on parcels subject to taxation within Zone 1 / Improvement Area A, it does not constitute a personal indebtedness of the owners of property within Zone 1 / Improvement Area A. There is no assurance that the owners of real property in Zone 1 / Improvement Area A 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 ZONE 1 BONDS OR THE IMPROVEMENT AREA A BONDS. OTHER THAN THE SPECIAL TAXES OF ZONE 1 AND IMPROVEMENT AREA A, AS APPLICABLE, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE ZONE 1 BONDS OR THE IMPROVEMENT AREA A BONDS. THE ZONE 1 BONDS AND THE IMPROVEMENT AREA A 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 ZONE 1 AND IMPROVEMENT AREA A AS MORE FULLY DESCRIBED HEREIN.

Rates and Methods

General. In 2003, the Developers and other applicants requested that the School District institute proceedings pursuant to the Act to (a) create a new Community Facilities District, (b) designate improvement areas within such Community Facilities District, (c) authorize the Community Facilities District to issue bonded indebtedness and to levy special taxes to fund the School Facilities and the City Facilities.

The Developers or their 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 each Zone of the Community Facilities District to finance School Facilities according to the Community Facilities District Rate and Method, a copy of which is set forth in APPENDIX B – "Rates and Methods of Apportionment for Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District."

In addition, pursuant to such proceedings, a Special Tax may be levied and collected within Improvement Area A to finance City Facilities, School Facilities and other authorized facilities according to the proceedings establishing the Community Facilities District.

The Community Facilities District Rate and Method has four Zones, Zone 1, Zone 2, Zone 3 and Zone 4. Zone 4 is required to be dedicated to the City or the City's designee, as open space and is not expected to be developed or subject to the levy of Special Taxes. The boundaries of Zone 1, Zone 2 and Zone 3 are co-terminus with the boundaries of Improvement Area A, Improvement Area B and Improvement Area C, respectively.

The qualified electors of the Community Facilities District and of each Improvement Area approved each Rate and Method on January 20, 2004. Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the Rate and Method.

Community Facilities District Rate and Method - Zone The Community Facilities District Rate and Method provides the means by which the Board of Education may annually levy the Special Taxes within Zone 1, Zone 2, Zone 3 and Zone 4 of the Community Facilities District up to the applicable Maximum Special Tax to pay for School Facilities. The Zone 1 Bonds, when issued, will fund School Facilities and will be secured by any Special Taxes levied pursuant to the Community Facilities District Rate and Method in Zone 1 only, and will not be payable from Special Taxes levied in Zone 2, Zone 3 or Zone 4. The Community Facilities District Rate and Method provides that the Annual Special Tax shall be levied for a term of 30 Fiscal Years after the issuance of the 2004 Bonds, but in no event later than Fiscal Year 2050-51. A copy of the Community Facilities District Rate and Method is included in Appendix B hereto.

Annual Zone 1 Special Tax Requirement. Annually, at the time of levying the Special Tax for Zone 1, the Board of Education will determine the amount of money to be collected from Taxable Property in Zone 1 (the "Annual Special Tax Requirement"), which will be the amount required in any Fiscal Year to pay the following:

- (i) Annual debt service on all outstanding Zone 1 Bonds;
- (ii) Administrative Expenses of the Community Facilities District applicable to property within Zone 1;
- (iii) Any costs associated with the release of funds from an escrow account established in association with Zone 1 Bonds; and
- (iv) Any amount required to establish or replenish any reserve funds established in association with the Zone 1 Bonds; *less*
- (v) Any amounts on deposit in any funds or accounts which are available to pay for items (i) through (iv) above pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

Developed and Undeveloped Property; Exempt Property. The Zone 1 Rate and Method declares that for each Fiscal Year, all Assessor's Parcels within Zone 1 shall be classified as Taxable Property or Exempt Property and all Taxable Property shall be classified as Developed Property or Undeveloped Property and shall be subject to Special Taxes in accordance with the Zone 1 Rate and Method.

- (i) "Developed Property" means all Assessor's Parcels of Taxable Property for which a Building Permit was issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels are associated with a Final Subdivision Map recorded on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as determined reasonably by the Board.
- (ii) "Undeveloped Property" means all Assessor's Parcels of Taxable Property which are not classified as Developed Property.
- (iii) "Taxable Property" means all Assessor's Parcels which are not Exempt Property (as defined below) pursuant to law or the Zone 1 Rate and Method.
- (iv) "Exempt Property" is defined to include the following:

- (a) Assessor's parcels owned by the State, federal or other local governments;
- (b) 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;
- (c) Assessor's parcels used exclusively by a homeowner's association;
- (d) 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; and
- (e) 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 to less than 56.23 Net Taxable Acres in Zone 1 (as defined in the Zone 1 Rate and Method).

Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 56.23 Net Taxable Acres in Zone 1 will continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

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

(i) Undeveloped Property: The amount determined by the application of the Assigned Annual Special Tax for Zone 1. The Assigned Annual Special Tax for Undeveloped Property for Fiscal Year 2004-05 is \$9,947.69 per acre of Acreage. On each July 1, commencing July 1, 2005, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property 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 for Zone 1 or (ii) the application of the Backup Annual Special Tax for a given Final Subdivision Map.

The Assigned Annual Special Tax for Developed Property (whether detached or attached) in Fiscal Year 2004-05 is \$2,019.35 per Unit. Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax for Developed Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year. See Zone 1 in APPENDIX B – "Rates and Methods of Apportionment for Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District – Table 1" herein.

The "Backup Annual Special Tax" is based on the number of lots created by each Final Subdivision Map within Zone 1. There are currently three separate Final Subdivision Maps within Zone 1 (see "COMMUNITY FACILITIES DISTRICT NO. 11 (STONEBRIDGE ESTATES) – Property Ownership and Development"). The Backup Annual Special Tax for an Assessor's Parcel of Developed Property in Fiscal Year 2004-05 is estimated to be between \$1,825.23 and \$3,462.76.

The minimum taxable acreage is 56.23 acres of Acreage for Zone 1.

Method of Apportionment. The Zone 1 Rate and Method provides that commencing Fiscal Year 2004-05 and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Taxes to be collected in Zone 1 of the Community Facilities District in such Fiscal Year. The Annual Special Tax shall be levied as follows:

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

Step Two: If the sum of the amounts levied on Assessor's Parcels in Step One is less than the Zone 1 Annual Special Tax Requirement, then the Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Zone 1 Annual Special Tax Requirement.

Step Three: If the sum of the amounts levied on Assessor's Parcels in Steps One and Two is less than the Zone 1 Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Zone 1 Annual Special Tax Requirement.

Prepayment of Annual Special Taxes. The Zone 1 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 or in part, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel. An owner of an Assessor's Parcel intending to prepay the annual Special Tax obligation shall provide the Community Facilities District with written notice of intent to prepay. Within 30 days of receipt of such written notice, the Board shall reasonably determine the Prepayment Amount of such Assessor's Parcel and shall notify such owner of such Prepayment Amount. See APPENDIX B – "Rates and Methods of Apportionment for Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District – Section G" herein.

Improvement Area A Rate and Method. The Improvement Area A Rate and Method is substantially the same as described above for the Zone 1 Rate and Method, except that the purpose of the Zone 1 Special Tax is primarily to finance City Facilities as well as School Facilities and except that the amounts of the Maximum Special Tax are as follows:

(i) Undeveloped Property: The Maximum Special Tax for any Assessor's Parcel classified as Undeveloped Property in any Fiscal Year shall be the Assigned Annual Special Tax. The Assigned Annual Special Tax for Undeveloped Property for Fiscal Year 2004-05 shall be \$11,945.89 per acre of Acreage. Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

(ii) Developed Property: The *greater* of (i) the Assigned Annual Special Tax or (ii) the Backup Annual Special Tax for a given Final Subdivision Map.

The Assigned Annual Special Tax for each Assessor's Parcel of Developed Property in Fiscal Year 2004-05 ranges from \$1,877.07 to \$3,303.67 per Unit in Improvement Area A. Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax applicable to an Assessor's parcel of Developed Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year. See Improvement Area A in APPENDIX B – "Rates and Methods of Apportionment for Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District – Table 1" herein for a listing of the Assigned Annual Special Tax rates for various sizes of Units.

Each Assessor's Parcel of Developed Property shall be subject to a Backup Annual Special Tax. The Backup Annual Special Tax for an Assessor's Parcel of Developed Property in Fiscal Year 2004-05 is estimated to be between \$2,191.86 and \$3,462.76 (see "COMMUNITY FACILITIES DISTRICT NO. 11 (STONEBRIDGE ESTATES) – Property Ownership and Development").

The Net Taxable Acreage is 56.23 acres of Acreage in Improvement Area A.

The method of apportionment of the Improvement Area A Special Tax and the provisions relating to prepayment of annual Improvement Area A Special Taxes are substantially the same as described above for the Zone 1 *Method of Apportionment*. See also the Improvement Area A Rate and Method in APPENDIX B - "Rates and Methods of Apportionment for Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District – Section G" herein.

Prepayment of Annual Special Taxes. The Improvement Area A Annual Special Tax obligation for an Assessor's Parcel of Developed Property or for an Assessor's Parcel of Undeveloped Property for which a Building Permit has been issued may be prepaid in full or in part, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel. An owner of an Assessor's Parcel intending to prepay the annual Special Tax obligation shall provide the Community Facilities District with written notice of intent to prepay. Within 30 days of receipt of such written notice, the Board shall reasonably determine the Prepayment Amount of such Assessor's Parcel and shall notify such owner of such Prepayment Amount. See APPENDIX B – "Rates and Methods of Apportionment for Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District – Section G" herein.

Proceeds of Foreclosure Sales

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

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

Individual Delinquencies. If the Community Facilities District determines that (i) any single parcel subject to the Special Tax in Zone 1 or Improvement Area A, as applicable, is delinquent in the payment of Zone 1 and Improvement Area A Special Taxes, as applicable, in the aggregate amount of \$5,000 or more or (ii) any single parcel or parcels under common ownership subject to the Zone 1 or Improvement Area A Special Taxes is delinquent in the payment of Zone 1 and Improvement Area A's Special Taxes in the aggregate of \$10,000 or more, the Community Facilities District shall, not later than 45 days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner. The Community Facilities District shall cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than 90 days of such determination against any parcel for which a notice of delinquency was given and for which the Zone 1 or Improvement Area's Special Taxes remain delinquent.

Aggregate Delinquencies. If the Community Facilities District determines that it has collected less than 95% of the Zone 1 or Improvement Area A Special Taxes, as applicable, 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 Zone 1 or Improvement Area A Special Taxes remain delinquent.

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

No assurances can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. See "BONDOWNERS' RISKS – Potential Delay and Limitations in Foreclosure Proceedings." If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the Community Facilities District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 120 days from the date of service of the Notice of Levy and 20 days from the subsequent notice of sale in which to redeem the property to be sold. If a judgment debtor fails to so redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made. The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation

will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price unless a lesser minimum bid price is authorized by the Owners of 75% of the principal amount of the applicable 2004 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 Funds are depleted and delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Bondowners pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of foreclosure sale proceeds, if any. However, within the limits of the applicable Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property within Zone 1 or Improvement Area A, as applicable, in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the applicable 2004 Bonds and to replenish the applicable Reserve Fund. There is, however, no assurance that the maximum Special Tax rates of Zone 1 or Improvement Area A, as applicable, will be at all times sufficient to pay the amounts required to be paid on the applicable 2004 Bonds by the applicable Bond Indenture.

Special Tax Funds

Pursuant to each Bond Indenture, the Special Tax Revenues of Zone 1 and of Improvement Area A received by the Community Facilities District, excluding in the case of Improvement Area A Bonds only Special Tax Revenues representing Delinquency Proceeds required to be transferred to the Letter of Credit Fund established with respect to the Improvement Area A Bonds (there is no Letter of Credit Fund with respect to the Zone 1 Bonds) and Special Tax Revenues representing Prepayments, will be deposited in the applicable Special Tax Fund, which will be held by the Fiscal Agent on behalf of the Community Facilities District. Special Tax Revenues representing Prepayments shall be transferred to the Interest Account of the applicable Bond Service Fund and the applicable Redemption Fund and utilized to pay the interest and premium, if any, on and the principal of the applicable 2004 Bonds to be redeemed. Moneys in each Special Tax Fund shall be held in trust by the Fiscal Agent for the benefit of the Community Facilities District and the owners of the applicable 2004 Bonds. Pending disbursement, moneys in each Special Tax Fund will be subject to a lien in favor of the Bondowners of the applicable 2004 Bonds as established under each Bond Indenture.

Disbursements. Moneys in each Special Tax Fund will be disbursed as needed to pay the obligations of the Community Facilities District in the following priority: (i) an amount up to the Administrative Expense Requirement for Zone 1 and for Improvement Area A to pay Administrative Expenses allocable to the applicable Series of the 2004 Bonds, (ii) amounts required to be deposited into the applicable Accounts in the applicable Bond Service Fund in order to pay debt service on the applicable 2004 Bonds and any refunding bonds on the next Interest Payment Date, (iii) amounts required to replenish the applicable Reserve Fund to the applicable Reserve Requirement (as defined below), (iv) amounts required to fund the applicable Rebate Fund and (v) additional amounts required to pay Administrative Expenses allocable to the applicable Series of the 2004 Bonds. At any time following the deposit of Special Taxes in an amount sufficient to make payment of all of the foregoing deposits for the current Bond Year (as that term is defined in each Bond Indenture), any amounts in excess of such amounts remaining in the applicable Special Tax Fund shall remain on deposit in such Special Tax Fund and shall be subsequently deposited or transferred pursuant to the above provisions provided, however, that if the School District notifies the Fiscal Agent that the levy of Special Taxes on Developed Property exceeds the Annual Special Tax Requirement (as defined in the applicable Rate and Method) then an amount up to such excess moneys may be paid to the School District to be used to pay for the acquisition, construction, rehabilitation, improvement of School Facilities and related expenses.

Investment. Moneys in each Special Tax Fund will be invested and deposited by the Community Facilities District as described in "Investment of Moneys in Funds" below. Interest earnings and profits

resulting from such investment and deposit will be retained in the Special Tax Fund to be used for the purposes thereof.

Bond Service Funds

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

On each Interest Payment Date, the Fiscal Agent will withdraw from each Bond Service Fund and pay to the owners of the applicable 2004 Bonds the principal, interest and any premium then due and payable on such 2004 Bonds, including any amounts due on such 2004 Bonds by reason of the sinking payments or a redemption of such 2004 Bonds.

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

The Community Facilities District has covenanted in each Bond Indenture to increase the levy of the Special Taxes of Zone 1 or Improvement Area A, as applicable, in the next Fiscal Year (subject to the maximum amount authorized by the applicable Rate and Method) in accordance with the procedures set forth in the Act for the purpose of curing Bond Service Fund deficiencies.

Redemption Funds

Moneys in each Redemption Fund shall be set aside and used solely for the purpose of redeeming 2004 Bonds in accordance with the applicable Bond Indenture.

Reserve Funds

In order to further secure the payment of principal of and interest on the Zone 1 Bonds and the Improvement Area A Bonds, certain proceeds of the Zone 1 Bonds and the Improvement Area A Bonds will be deposited into the applicable Reserve Fund in an amount equal to the applicable Reserve Requirement (see "ESTIMATED SOURCES AND USES OF FUNDS" herein). Reserve Requirement is defined in each Bond Indenture to mean, as of any date of calculation, an amount equal to the least of (i) the then maximum annual debt service on the Zone 1 Bonds or Improvement Area A Bonds, as applicable, (ii) 125% of the then average annual debt service on the Zone 1 Bonds or Improvement Area A Bonds, as applicable, or (iii) 10% of the initial principal amount of the Zone 1 Bonds or Improvement Area A Bonds, as applicable, less original issue discount, if any, plus original issue premium, if any.

If Special Taxes are prepaid and a portion of Zone 1 or Improvement Area A's 2004 Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the applicable Reserve Fund (determined on the basis of the principal of such 2004 Bonds to be redeemed and the original principal of such 2004 Bonds) will be applied to the redemption of such 2004 Bonds.

Moneys in each 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 Indentures" for a description of the timing, purpose and manner of disbursements from each Reserve Fund.

Administrative Expense Funds

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

Pursuant to each Bond Indenture, moneys in an Administrative Expense Fund will not be construed as a trust fund held for the benefit of the Owners of the applicable 2004 Bonds and will not be available for the payment of debt service on the 2004 Bonds.

School Facilities Fund and Infrastructure Improvement Fund

The Fiscal Agent will deposit proceeds of the 2004 Bonds in the School Facilities Fund in the case of the Zone 1 Bonds and the Infrastructure Improvement Fund in the case of the Improvement Area A Bonds. Moneys in either such Fund will be disbursed to pay for School Facilities and City Facilities, as applicable, pursuant to a requisition of the Community Facilities District.

Pursuant to each Bond Indenture, moneys in either such Fund will not be construed as a trust fund held for the benefit of the Owners of the applicable 2004 Bonds and will not be available for the payment of debt service on the 2004 Bonds.

Investment of Moneys in Funds

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

Payment of Rebate Obligation

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

Letters of Credit/Cash Deposit for Improvement Area A Bonds

There is no Letter of Credit with respect to the Zone 1 Bonds.

As a condition precedent to issuance of the Improvement Area A Bonds, each Developer shall provide a Letter of Credit in the applicable 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 A (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 or cash deposit relates.

Each Letter of Credit, or a Substitute Letter of Credit issued with respect thereto, shall be in effect in each Fiscal Year that individual homeowners own fewer than 60% of the lots within the applicable Project Area provided that no Letter of Credit shall be required if the Stated Amount would be less than \$10,000.

In the event fewer than 60% of the lots within a Project Area are owned by individual homeowners as of such June 1, then the Community Facilities District shall cause the applicable Developer to provide to the Fiscal Agent, no later than the following July 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 31 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 July 15 of each year (assuming the Letter of Credit is required

to be in effect during the next succeeding Fiscal Year), the Fiscal Agent shall, upon the written direction of an Authorized Officer, immediately, with no further authorization or instruction, draw upon the applicable Letter of Credit in the full Stated Amount. The Fiscal Agent shall deposit the proceeds of such draw into the applicable account of 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 Improvement Area A Bond Service Fund on that Interest Payment Date will be sufficient to pay principal of and interest on the Improvement Area A 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 Improvement Area A Bond Service Fund will be insufficient to pay principal of and interest on the Improvement Area A Bonds and such insufficiency is attributable to the delinquency in the payment of Special Taxes levied on properties owned by a Developer that provided a Letter of Credit or cash deposit pursuant to the Mitigation Agreement or an Affiliate of such Developer, the Fiscal Agent shall upon the receipt of written direction of an Authorized Officer (prior to any withdrawals from the Reserve Fund for the Improvement Area A Bonds permitted by the Bond Indenture relating to the Improvement Area A Bonds) draw upon the applicable Letter of Credit; provided, however, that the amount of such draw or withdrawal (as set forth in said written direction of the Authorized Officer) shall be no greater than the delinquent Improvement Area A Special Taxes levied on such properties and then owed to the Community Facilities District by the applicable Developer.

The Fiscal Agent shall deposit the proceeds of any such draw upon a Letter of Credit into the applicable account of 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 such Letter of Credit or an equivalent amount from any cash deposit from the applicable account of the Letter of Credit Fund to the Improvement Area A Bond Service Fund.

In the event of a draw on a Letter of Credit or transfer of funds from a cash deposit, the Community Facilities District, shall, upon receipt of Delinquency Proceeds representing the Improvement Area A Special Taxes the delinquency of which necessitated such draw on such Letter of Credit or transfer of funds from a cash deposit, (a) reimburse the applicable Letter of Credit provider from such Delinquency Proceeds in an amount not to exceed such draw on such Letter of Credit or (b) replenish the cash deposit from such Delinquency Proceeds in an amount not to exceed such transfer.

Draws Prior to Termination of the Letter of Credit. If a Letter of Credit is not renewed, or a Substitute Letter of Credit or cash deposit is not provided, within fifteen (15) days prior to the stated expiration date of such Letter of Credit and the requirements for the release or termination of such Letter of Credit have not then been met, the Fiscal Agent shall draw on the full amount of such Letter of Credit without instruction from the Community Facilities District. In the event the Fiscal Agent draws upon a Letter of Credit as described above, the Fiscal Agent shall deposit the proceeds of such draw into the applicable account of the Letter of Credit Fund and pending any transfer to the Improvement Area A 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 held in the Letter of Credit Fund be invested by the Fiscal Agent at a yield exceeding the Yield on the Improvement Area A Bonds. Investment earnings and profits from such investments shall be retained in the applicable account of the Letter of Credit Fund.

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

Actions by the Community Facilities District. In the event a Letter of Credit Bank wrongfully refuses to honor any drawing made on its Letter of Credit, the Community Facilities District, on behalf of the owners of the Improvement Area A Bonds, shall immediately bring an action and pursue any remedy available at law

or in equity for the purpose of compelling such Letter of Credit Bank to honor such drawing and to enforce the provisions of such Letter of Credit.

Compliance with Letter of Credit Requirements

The following describes how each Developer intends to comply with the requirement to provide a Letter of Credit or cash deposit for the Improvement Area A Bonds.

McMillin Montecito 109, LLC, Brookfield 6 LLC and Brookfield 8 LLC have each obtained a Letter of Credit from Bank of America, National Association (“Bank of America”) in connection with the issuance of Improvement Area A Bonds. Bank of America is a national banking association organized under the laws of the United States of America, and is a subsidiary of Bank of America Corporation Inc. (“Bank of America Corp.”). Bank of America Corp. is listed on the New York Stock Exchange under the trading symbol “BAC.” Information about Bank of America and Bank of America Corp. is contained in reports filed with the Securities and Exchange Commission and the Federal Deposit Insurance Corporation.

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

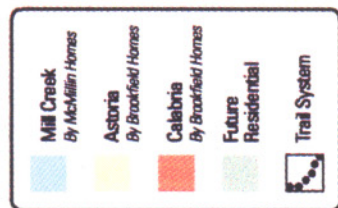
Additional Bonds for Refunding Purposes Only

Bonds issued on a parity with the Zone 1 Bonds or on a parity with the Improvement Area A Bonds (each a Series of “Additional Bonds”) may be issued for refunding purposes only and subject to specific conditions including that the Community Facilities District must be in compliance with all covenants set forth in the applicable Bond Indenture and any Supplement then in effect and a certificate of the Community Facilities District to that effect will be filed with the Fiscal Agent. See APPENDIX D – “Summary of Certain Provisions of Bond Indentures.”

Special Taxes Are Not Within Teeter Plan

The County has adopted a Teeter Plan as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. However, by policy, the County does not include assessments, reassessments and special taxes in its Teeter program. The Special Taxes of Zone 1 and of Improvement Area A are not included in the County’s Teeter Program.

STONEBRIDGE Estates



Trails System

Connections to:

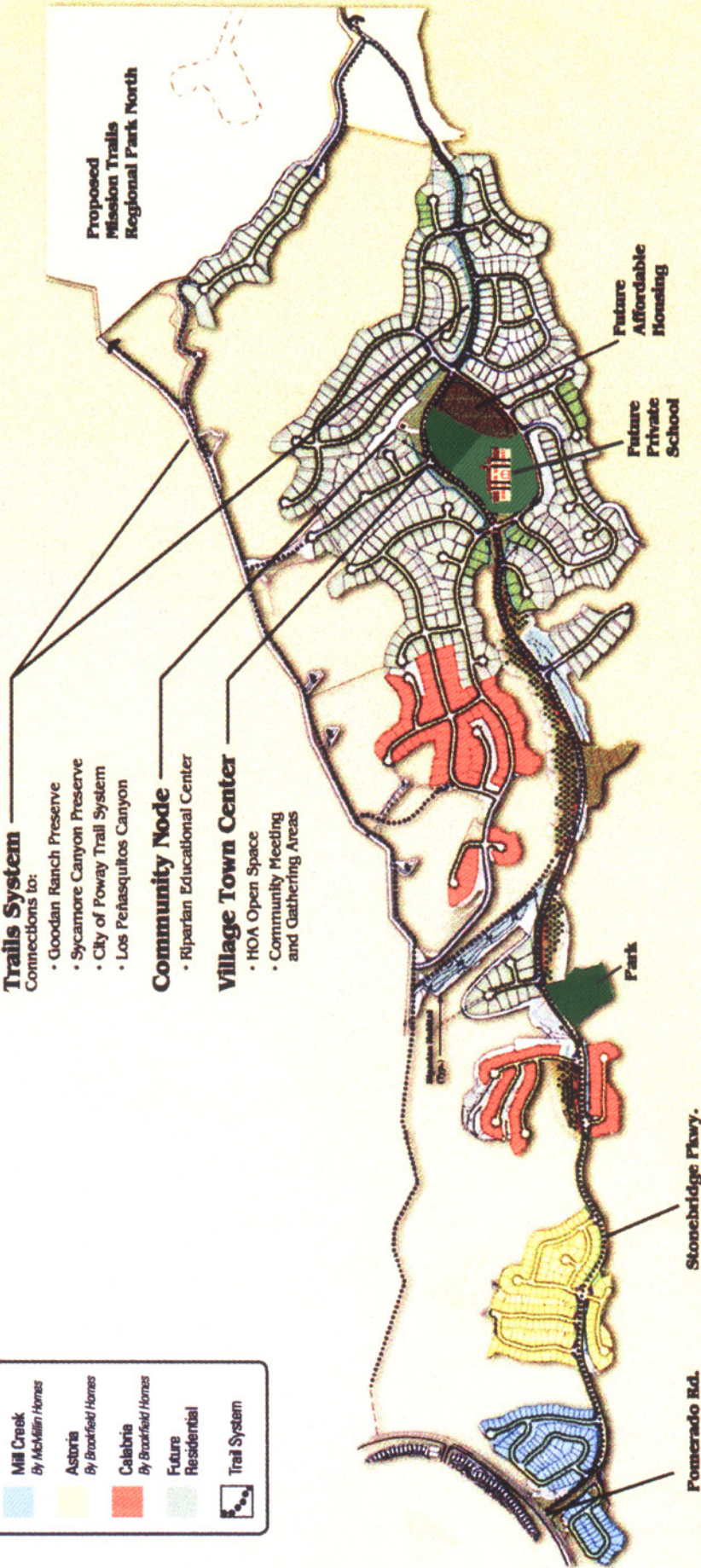
- Goodan Ranch Preserve
- Sycamore Canyon Preserve
- City of Poway Trail System
- Los Peñasquitos Canyon

Community Node

- Riparian Educational Center

Village Town Center

- HOA Open Space
- Community Meeting and Gathering Areas



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COMMUNITY FACILITIES DISTRICT NO. 11 (STONEBRIDGE ESTATES)

General Information

The Community Facilities District, which consists of approximately 2,658 acres, is located in the City of San Diego (the "City") approximately 15 miles north of downtown San Diego and approximately 10 miles inland from the Pacific Ocean and the coastal community of La Jolla. StoneBridge Estates is the current name of the entire project proposed to be developed in the Community Facilities District which is comprised of two sub-project areas known as Montecito and Sycamore Estates. The Montecito sub-project area, which encompasses Zone 1 / Improvement Area A, is east of Pomerado Road, north of Marine Corps Air Station Miramar, south of the City of Poway and adjacent to and west of the Sycamore Estates sub-project area. The Sycamore Estates sub-project area, which encompasses Zone 2 / Improvement Area B and Zone 3 / Improvement Area C, lies within the former General Dynamics Sycamore Canyon property and is bounded by the City (Scripps Miramar Ranch North) to the west, the City of Poway to the north an unincorporated area of the County of San Diego to the east and northeast, and the Marine Corps Air Station Miramar to the south.

Sycamore Estates, LLC acquired the Montecito sub-project area property from eight separate landowners pursuant to an Option Agreement entered into between Institutional Housing Partners ("IHP") and eight landowners. Since the 1960's, the Sycamore Estates' portion of the StoneBridge Estates property was used by General Dynamics and defense companies for defense related manufacturing and testing services. Sycamore Estates, LLC acquired the property from General Dynamics on December 18, 2001. General Dynamics and Lockheed Martin retained a lease to the property until the lease expired in March 2003.

The StoneBridge Estates property is in the Rancho Encantada Precise Plan. The Precise Plan, Planned Residential Development Permits, Vesting Tentative Maps, and other permits were approved by the Planning Commission in July 2001 and by the City Council in August 2001. Mass grading operations for StoneBridge Estates commenced subsequent to expiration of the lease and were completed in November 2003.

As of January 1, 2004, the major landowners in Zone 1 / Improvement Area A (the Montecito sub-project area) are McMillin Montecito 109, LLC, a Delaware limited liability company ("McMillin") (109 residential lots), Brookfield 6 LLC, a Delaware limited liability company (121 residential lots), and Brookfield 8 LLC, a Delaware limited liability company (47 residential lots). Sycamore Estates LLC, a Delaware limited liability company owns property in Improvement Areas B and C (the Sycamore Estates sub-project area), with the right of first refusal to its members - McMillin Companies, LLC as to Neighborhoods 4 (118 residential lots), 5 (81 residential lots) and 6 (109 residential lots) and Brookfield Sycamore LLC as to Neighborhoods 3B (92 residential lots) and 7 (151 residential lots).

StoneBridge Estates is a master-planned community. It is proposed to include an approximately 6 acre park, including lighted multi-purpose fields for soccer and little league, a parking lot, a turf area, restrooms/storage/concessions, a playground with equipment, picnic areas and path lighting. A second park approximately four acres in size is proposed to include a multi purpose field, and playground and picnic areas. In addition to the two neighborhood parks, there are proposed to be approximately 11 miles of hiking trails. Approximately 80 percent of the community will remain as open space and is designated as the proposed "Mission Trails Regional Park North." The regional park is planned in the eastern portion of the Community Facilities District (Zone 4) and will connect with the existing Goodan Ranch and Sycamore Canyon County Open Space 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 and potentially Cox (cable), and SBC (telephone).

Authority for Issuance

The 2004 Bonds are issued pursuant to the Act and the Bond Indentures. In addition, as required by the Act, the Board of Education of the School District has taken the following actions with respect to establishing the Community Facilities District and authorizing issuance of the 2004 Bonds:

Resolutions of Intention: On November 17, 2003, the Board of Education adopted Resolution No. 24-2004 stating its intention to establish the Community Facilities District and to authorize the levy of special taxes therein pursuant to a separate Rate and Method for the Community Facilities District and a separate Rate and Method for each Improvement Area. On the same day the Board of Education adopted Resolution No. 25-2004 stating its intention to incur bonded indebtedness in an amount not to exceed \$60,000,000 with respect to the Community Facilities District and \$13,500,000 with respect to Improvement Area A. Community Facilities District No. 11 will finance School Facilities. Improvement Area A will finance City Facilities and School Facilities. See "SCHOOL FACILITIES AND CITY FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2004 BONDS" herein.

Resolution of Formation: Immediately following a noticed public hearing on January 20, 2004, the Board of Education adopted Resolution No. 34-2004 (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 separate special tax within the Community Facilities District including each Zone therein and each Improvement Area pursuant to each Rate and Method of Apportionment.

Resolution of Necessity: On January 20, 2004, the Board of Education adopted Resolution No. 35-2004 declaring the necessity to incur bonded indebtedness in an amount not to exceed \$60,000,000 with respect to the Community Facilities District, and \$13,500,000 with respect to Improvement Area A and submitting the proposition to the qualified electors of the Community Facilities District.

Landowner Election and Declaration of Results: On January 20, 2004, elections were held within the Community Facilities District, including within Zone 1 and Improvement Area A, in which the landowners eligible to vote, being the qualified electors within the Community Facilities District and each Improvement Area, each approved the applicable ballot propositions authorizing the issuance of up to \$60,000,000 of bonds for the Community Facilities District to finance the acquisition and construction of School Facilities and the landowners within Improvement Area A approved a ballot proposition authorizing the issuance of up to \$13,500,000 of bonds for Improvement Area A to finance the acquisition and construction of City Facilities. The qualified electors within the Community Facilities District and each Improvement Area also approved the levy of a special tax in accordance with the applicable Rate and Method and the establishment of an appropriations limit for the Community Facilities District.

On January 20, 2004, the Board of Education adopted Resolution No. 36-2004 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 A, were recorded in the real property records of San Diego County on February 3, 2004.

Ordinance Levying Special Taxes: On February 9, 2004, the Board of Education adopted an Ordinance No. 2004-02 levying the Special Tax within the Community Facilities District.

Resolutions Authorizing Issuance of the 2004 Bonds: On March 8, 2004, the Board of Education adopted Resolution No. 48-2004 approving issuance of the Zone 1 Bonds and Resolution No. 49-2004 approving issuance of the Improvement Area A Bonds.

Environmental Review

In August 2001, the City Council adopted amendments to the City of San Diego Progress Guide and General Plan and approved a vesting tentative map, planned residential development permits, and resource protection ordinance permits to rezone lands and adopt the Rancho Encantada Precise Plan for approximately 2,658 acres of the Beeler Canyon Future Urbanizing Area. The approvals provided separate vesting tentative

maps, planned residential development permits and resource protection ordinance permits for the development of the Montecito sub-project area (Zone 1 / Improvement Area A) and Sycamore Estates sub-project area (Zones 2 and 3/ Improvement Areas B and C). The final EIR for the Rancho Encantada Precise Plan, dated June 2001, was certified by the City Council on August 7, 2001 as being in compliance with the California Environmental Quality Act ("CEQA").

The statutory period within which a court action or proceeding could be filed challenging the City's CEQA compliance with respect to its approvals has expired. However, it is possible that future discretionary approvals necessary to complete the development of the property in the Community Facilities District will be subject to CEQA. Challenges to such discretionary approvals could slow the rate of development in the Community Facilities District. The Community Facilities District believes that no action with respect to environmental compliance is necessary in connection with the formation of the Community Facilities District.

Pursuant to CEQA, in addition to the City's certification of the EIR, additional environmental analysis is required to be conducted for the City's review to determine whether the analysis contained in the EIR with respect to the property in the Community Facilities District has adequately addressed the environmental impact of each subsequent discretionary approval related thereto. Each Developer reports that the reviews by the City conducted to date have resulted in findings of no significant impact not previously discussed in the EIR. Each Developer generally expects that, as further entitlement approvals (e.g., any necessary tentative subdivision map and zoning modifications, area plans, subdivision maps and site development permits) are pursued, the EIR will be determined by the City to have adequately addressed the environmental impacts of each such subsequent entitlement and that there would be no significant impact not previously discussed in the EIR. However, no assurance can be given as to these matters, and if new significant impacts are found, it could have an adverse effect on the development of the property within the Community Facilities District. Sycamore Estates, LLC or its predecessors have conducted substantial reviews as discussed below in "Environmental Permits."

Environmental Permits

In 2001, the City Council approved the Rancho Encantada Precise Plan which includes all of the property within the Community Facilities District. The City's Multiple Species Conservation Program Subarea Plan approved in March 1997 identifies a portion of the Rancho Encantada Precise Plan area as being within the City's Multiple Habitat Planning Area. The Mitigation Monitoring and Reporting Program (MMRP) for the Rancho Encantada project includes a list of mitigation measure identified in the environmental impact report for the Montecito sub-project area and for the Sycamore Estates sub-project area. In addition, a Sycamore Estates Habitat Management Plan was prepared for Sycamore Estates, LLC by Helix Environmental Planning, Inc, La Mesa, California for the Sycamore Estates sub-project area. Pursuant to the MMRP and the Sycamore Estates Habitat Management Plan, the City has the authority to issue "take" permits at the local level pursuant to the federal and State endangered species acts for the plant and animal species described in the MSCP and Sycamore Estates Habitat Management Plan. The property owners are required to comply with the MMRP and the Sycamore Estates Habitat Management Plan to minimize impacts on sensitive habitat and sensitive species. The current development entitlements for the development project within the Community Facilities District have been designed in accordance with the MMRP and the Sycamore Estates Habitat Management Plan. As a result, with respect to the species covered by the MMRP and the Sycamore Estates Habitat Management Plan, so long as the development project maintains its current development entitlement footprints, each Developer will not need to seek any additional permits under either the federal or the State endangered species acts. However, future listing by federal or State authorities of additional plant or animal species as threatened or endangered could impact the planned development within the Community Facilities District.

Sycamore Estates, LLC, which sold property within Zone 1 / Improvement Area A to McMillin Montecito 109, LLC, Brookfield 6 LLC and Brookfield 8 LLC has obtained grading permits for the property within Zone 1 / Improvement Area A 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 Zone 1 / Improvement Area A in the manner described herein.

See “BONDOWNERS’ RISKS – Endangered and Threatened Species”. Each Developer believes that the likelihood of a listing of additional species is remote at this stage of development because all of its land within Zone 1 / Improvement Area A of the Community Facilities District has been completely cleared and graded. 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.

Other Matters. There are several utility easements, including a 200 foot wide San Diego Gas & Electric Company easement traversing the property in the Community Facilities District. The San Diego Gas & Electric Company easement traverses from the northwest portion of Zone 1 / Improvement Area A to the southwest portion of Zone 2 / Improvement Area B. The easement is generally north of the residential lots within Zone 1 / Improvement Area A. The easement encompasses approximately 44.4 acres and accommodates one circuit of 138 kV and one circuit of 230 kV overhead transmission lines and four steel lattice towers. The easement was taken into account in development plan for the Community Facilities District.

Property Ownership and Development

The information about the Developers contained in this Official Statement has been provided by representatives of the Developers and has not been independently confirmed or verified by either the Underwriter or the Community Facilities District. Such information is included because it may be relevant to an informed evaluation of the security for the 2004 Bonds. However, because ownership of the property is expected to change, no assurance can be given that the planned development will occur at all, will occur in a timely manner or will occur as presently anticipated and described below. No representation is made herein as to the accuracy or adequacy of such information, as to the experience, abilities or financial resources of the Developers, or any other landowner, or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

The Developers are not personally liable for payment of the Special Taxes or the 2004 Bonds, and the following information should not be construed to suggest that the Special Taxes or the 2004 Bonds are personal obligations or indebtedness of the Developers or any other landowners in Zone 1 / Improvement Area A.

The Developers. The Developers are composed of separate entities which together own the majority of the land within Zone 1 / Improvement Area A of the Community Facilities District. Zone 1 / Improvement Area A is located in the western portion of the Community Facilities District. Zone 1 / Improvement Area A encompasses a total of approximately 278 gross acres and approximately 62.49 net taxable acres proposed for a total of 277 detached single family units with a minimum lot size of 5,000 square feet.

Table 1
Community Facilities District No. 11 (StoneBridge Estates)
of the Poway Unified School District
Property Ownership and Development Status
(As of February 1, 2004 Appraisal Date)

Name of Landowner/ Developer	Neighborhood	Development Name	Number of Units	Appr. No. of Net Taxable Acres	Status of Development
McMillin Montecito 109, LLC	1	Mill Creek at StoneBridge Estates	109 SFD 5,000 sq. ft. avg. lot size	20.00	Final map recorded July 12, 2003; 3 models and 15 production homes under construction.
Brookfield 6 LLC	2	Astoria at StoneBridge Estates	121 SFD 6,000 sq. ft. avg. lot size	28.87	Final map recorded July 22, 2003; mass grading completed.
Brookfield 8 LLC	3	Calabria at StoneBridge Estates	47 SFD 8,000 sq. ft. avg. lot size	<u>13.62</u>	Final map recorded October 30, 2003; mass grading completed.
Total			277 SFD	62.49	

Information with Respect to Each Developer.

McMillin Montecito 109, LLC

McMillin Montecito 109, LLC, a Delaware limited liability company, owns 109 residential lots in Neighborhood 1 (known as Mill Creek) of StoneBridge Estates. The two members of McMillin Montecito 109, LLC are McMillin Companies, LLC ("McMillin Companies") and Merced Partners LP, a Delaware limited partnership. The Manager of McMillin Montecito 109, LLC is McMillin Management Services, L.P., the general partner of which is Corky McMillin Construction Services, Inc., a California corporation. The construction of the residential units in Neighborhood 1 is being completed by Corky McMillin Construction Services, Inc. McMillin Montecito 109, LLC expects to develop the 109 residential lots as single family detached homes. McMillin Companies is a privately held entity beneficially owned entirely by the McMillin family headed by Macey L. "Corky" McMillin. Corky McMillin started the McMillin organization in 1960 as a real estate development and construction company. Today, the Corky McMillin Companies operate in five area including land development, home building, commercial, realty and mortgage. The home building segment has included the construction of town houses, condominiums, detached homes and also develop master planned communities. The Corky McMillin Companies is San Diego's largest and oldest privately owned locally based developer of mixed-use projects. Corky McMillin is the present Chairman of The Corky McMillin Companies. For Fiscal Year 2003, total home closings exceeded 1,245 units. The Corky McMillin Companies' Internet home address is located at mcmillin.com. *This Internet address is included for reference only and the information on this Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

The other member of McMillin Montecito 109, LLC, Merced Partners LP, is an independent investment fund managed by EBF and Associates. EBF and Associates is an investment management firm based in Minnesota.

The Corky McMillin Companies are currently involved or have recently (within the past two years) been involved in the following residential development projects:

Neighborhood	Location	Units	Average Lot Size (Square Feet)	First Move-Ins	Close of Last Unit (Expected)	Price Range
<i>Calavera Hills</i>						
K	Carlsbad	102	4,000	12/03	12/05	From the Mid \$300,000s
X	Carlsbad	115	4,000	05/04	10/06	From the Mid \$300,000s
<i>Central Valley</i>						
Ashton Park	Hanford	160	8,100	10/02	02/06	From the \$130,000s
Bonterra	Tulare	86	8,100	10/01	06/04	From the Mid \$170,000s
Cameron Creek	Visalia	126	8,100	04/02	01/04*	From the \$130,000s
Foxwood	Tulare	169	8,100	04/02	06/04	From the \$180,000s
Tierra Del Sol	Tulare	163	8,100	04/02	07/05	From the Low \$130,000s
<i>Imperial Valley</i>						
El Dorado Estates	Calexico	90	6,000	07/02	12/03*	From the Mid \$100,000s
Las Brisas North	Calexico	226	6,000	07/02	12/05	From the Low \$100,000s
Las Brisas South	Calexico	73	6,000	06/02	09/03	From the Low \$100,000s
Parkside Estates West	Brawley	227	6,000	01/02	12/05	From the Low \$100,000s
Reflections	El Centro	91	6,000	07/02	12/03*	From the Mid \$100,000s
<i>Liberty Station</i>						
Admiralty Row	Point Loma	80	3,600	07/03	11/04	From the Mid \$700,000s
Anchor Cove	Point Loma	140	N/A (Condo)	07/03	03/05	From the High \$300,000s
Beacon Point	Point Loma	129	2,900	05/03	04/05	From the Low \$600,000s
<i>McMillin Lomas Verdes</i>						
Auburn Lane	Chula Vista	92	5,000	10/03	10/05	Low to Mid \$400,000s
Jasmine	Chula Vista	126	4,000	12/03	05/06	Low to High \$300,000s
Mandalay	Chula Vista	101	6,000	10/03	12/05	Mid to High \$400,000s
Sienna	Chula Vista	163	5,000	12/03	10/06	From the Mid \$400,000s
<i>Morgan Hill</i>						
Artesa	Temecula	116	5,000	12/03	07/05	From the High \$200,000s
Cristal	Temecula	116	5,500	12/03	11/05	From the High \$200,000s
<i>Rolling Hills Ranch</i>						
Chambord	Chula Vista	114	7,200	07/03	07/05	From the High \$400,000s
Fairhaven	Chula Vista	121	6,000	07/03	08/05	From the Low \$400,000s
<i>StoneBridge Estates</i>						
Mill Creek	Scripps Ranch	109	5,000	11/03	06/06	From the Low \$500,000s
<i>Temeku Hills</i>						
Brookhaven	Temecula	140	4,250	10/00	12/02*	From the Mid \$200,000s
Castle Pines	Temecula	85	6,950	06/02	12/03*	From the Mid \$300,000s
Cypress Point	Temecula	121	6,700	05/01	01/03*	From the Low \$300,000s
Legends	Temecula	186	5,800	02/00	02/03*	From the Mid \$200,000s
Northwind	Temecula	196	6,950	08/99	10/02*	From the High \$200,000s
<i>Vista Pacifica</i>						
Somerset	Chula Vista	144	6,600	10/01	03/03*	From the High \$300,000s
Suncrest	Chula Vista	127	5,500	10/01	04/03*	From the Mid \$300,000s
Tradewinds	Chula Vista	116	5,900	10/02	08/04	From the Low \$300,000s
Westview	Chula Vista	98	6,200	04/02	07/03*	From the Mid \$300,000s

*Actual.

Description of Project. McMillin Montecito 109, LLC's Mill Creek at StoneBridge Estates project estimated lot sizes, unit sizes, base sales and price range are set forth below.

Project Name	Minimum Lot	Estimated Unit Size (sq. ft.)	Estimated Base Sales Price Range	Total Lots to be Sold
	Size (sq. ft.)			
Neighborhood 1 - Mill Creek at StoneBridge Estates	5,000	2,947 - 3,563	\$765,990 - \$822,990	109

Status of Permits and Approvals. The vesting tentative map for unit 1 (VTM 99-0295) was approved August 7, 2001 encompassing all 277 residential lots within Zone 1 / Improvement Area A. The final map for the 109 residential lots in Neighborhood 1 recorded July 12, 2003. Sycamore Estates, LLC completed mass grading in November, 2003. Construction of regional infrastructure improvements, including roads, sewer and drainage commenced in March 2003 and is estimated to be completed in August 2004. McMillin Montecito 109, LLC currently has three model homes completed and 15 production units under construction. First sales contracts were entered into in January 2004 and first closings are expected to occur by the end of the second quarter of 2004. Approvals and permits have been obtained for grading, public improvements, the models and the first 15 production units. McMillin Montecito 109, LLC purchased the property from Sycamore Estates, LLC in its "as is" condition as raw lots, fully entitled. Corky McMillin Construction Services, Inc. completed the improvement of the lots to a "blue-top" condition and is in the process of completing all offsite improvements required to service Neighborhood 1.

The development of the property in Zone 1 / Improvement Area A is not conditioned upon the construction of any affordable housing units, however, in order to complete the development within Zone 2 / Improvement Area B and Zone 3 / Improvement Area C, Sycamore Estates, LLC is required to meet certain milestones with respect to the construction of at least 106 affordable housing units within a specified time period. The 106 affordable housing units are due to be constructed in Zone 2/ Improvement Area B and the terms of the affordable housing agreement are currently being negotiated.

Development and Financing Plans. Total in-tract costs to construct the "blue-top" lots (graded with lots terraced and streets cut in but utilities only to the property line) in Neighborhood 1 into finished lots (streets paved, curb and gutter in and utilities to each individual lot) are estimated to be \$3,347,747, of which approximately \$1,710,490 in grading and engineering costs have been spent as of January 31, 2004. In-tract public improvements, consisting of street, curb, gutter, sewer, water and storm drain improvements and dry utilities to each individual lot are estimated to be complete in the first quarter of 2004.

As of February 1, 2004, 15 building permits for production units have been issued and the homes are approximately 20 to 30 percent complete. There are three completed model homes. McMillin Montecito 109, LLC expects to begin conveying the homes by the end of the second quarter of 2004, and reach full build-out of Neighborhood 1 by the fourth quarter of 2005.

Plan of Finance. McMillin Montecito 109, LLC financed the purchase of the 109 residential lots from Sycamore Estates, LLC with a combination of cash and an acquisition and development loan from Bank of America in an original amount of \$17,103,000. As of December 31, 2003, the outstanding balance was \$8,154,000. McMillin Montecito 109, LLC expects the total land acquisition and construction costs to be financed through the construction loan and the proceeds of home sales within Zone 1.

There is no assurance that amounts necessary to finance the remaining site development and construction costs within Neighborhood 1 will be available from any source, when needed. McMillin Montecito 109, LLC is under no legal obligation of any kind to borrow or expend funds for the development of the property within Neighborhood 1. Any contribution of capital by members of McMillin Montecito 109, LLC or any other McMillin entity, or any borrowings by McMillin Montecito 109, LLC, whether to fund costs of development within Neighborhood 1 or to pay special taxes, is entirely voluntary.

Absorption. According to McMillin Montecito 109, LLC the Mill Creek project has a projected absorption rate of five units per quarter, commencing in the first quarter of 2004 with final sales contracts estimated to be signed in the second quarter of 2006. Completion of the homes is estimated to occur in the third quarter of 2006.

History of Property Tax Payment; Loan Defaults; Bankruptcy. McMillin Montecito 109, LLC has made the following representations:

- neither it nor, to its actual knowledge, any of its current Affiliates (as defined in the Developer Continuing Disclosure Agreement) has ever been delinquent in the payment of any *ad valorem* property taxes, special assessments or special taxes in any material amount,
- neither it nor any of its Affiliates is currently in default on any loans, lines of credit or other obligation related to its development in the Community Facilities District or any of its other projects which default would in any way materially and adversely affect its ability to develop its development in the Community Facilities District as described in the Official Statement or to pay the Special Taxes for which it is responsible,
- neither it nor any of its Affiliates has any proceeding pending or threatened in which it may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations,
- no action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to McMillin Montecito 109, LLC or an Affiliate having been accomplished) against McMillin Montecito 109, LLC or any Affiliate or, to McMillin Montecito 109, LLC's actual knowledge, threatened, which if successful, would materially adversely affect the ability of McMillin Montecito 109, LLC 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.

Brookfield 6 LLC; Brookfield 8 LLC

Brookfield 6 LLC, a Delaware limited liability company and Brookfield 8 LLC, a Delaware limited liability company ("Brookfield 6 LLC" and "Brookfield 8 LLC") are the owners of all the real property within Neighborhoods 2 and 3, respectively. Brookfield 6 LLC and Brookfield 8 LLC are wholly owned by Brookfield San Diego Holdings LLC, a Delaware limited liability company ("Brookfield San Diego Holdings"). Brookfield San Diego Holdings is a 90% subsidiary of Brookfield Homes Holdings Inc, a California corporation ("Brookfield Homes Holdings"). Brookfield Homes Holdings is a wholly owned subsidiary of Brookfield Homes Corporation, a Delaware corporation ("Brookfield Homes Corporation").

Brookfield Homes Corporation, through its subsidiaries, operates in four local market areas: San Francisco Bay Area, Orange County/Los Angeles, San Diego/Riverside in California, and Northern Virginia. The company has been building homes and developing land in these markets since the mid-1990's. The company is publicly traded and headquartered in Del Mar, California. Brookfield Homes Corporation is listed on the NYSE under the ticker symbol "BHS". Financial information about Brookfield Homes Corporation is included in documents filed with the SEC, particularly its Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q. Brookfield Homes' Internet home address is located at brookfieldhomes.com. *This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

Description of Project. Brookfield 6 LLC and Brookfield 8 LLC projects' estimated lot sizes, unit sizes, base sales and price range are set forth below.

Project Name	Avg. Lot Size	Estimated Unit Size (sq. ft.)	Estimated Base Sales Price Range	Lots to be Sold
Neighborhood 2 – Astoria at StoneBridge	6,000 sq. ft.	3,110 - 3,750	\$850,000 – \$900,000	121
Neighborhood 3 – Calabria at StoneBridge*	8,000 sq. ft.	3,780 - 5,050	\$900,000 – \$950,000	47*

- Calabria at StoneBridge is expected to include an additional 92 residential lots in Neighborhood 3B which is included in Zone 2 / Improvement Area B of the Community Facilities District.

Status of Permits and Approvals. The vesting tentative map for unit 1 (VTM 99-0295) was approved on August 7, 2001 encompassing all 277 residential lots within Zone 1 / Improvement Area A. The final map for the 121 residential lots in Neighborhood 2 recorded July 22, 2003. The final map for the 47 residential lots in Neighborhood 3 recorded October 30, 2003. Sycamore Estates, LLC completed mass grading in November 2003. Construction of regional infrastructure improvements, including roads, sewer and drainage commenced in March 2003 and is estimated to be completed in August 2004. Brookfield 6 LLC currently has three model homes under construction for Neighborhood 2, Astoria at StoneBridge, due to be completed in June 2004 with the grand opening at that time. Construction of the production homes is due to start in June 2004 and paving of all in-tract streets is also due to be completed in June 2004. Construction of the models for Neighborhood 3, Calabria at StoneBridge, are scheduled to commence in April 2004, with the completion and grand opening scheduled in October 2004. The grading of the lots is due to be completed in March 2004, the street paving is due to be completed in April 2004 and construction of the production homes is due to start in October 2004. First sales contracts are expected to be entered into in the second quarter of 2004 for Neighborhood 2 and in the third quarter of 2004 for Neighborhood 3. Approvals and permits have been obtained for grading and public improvements and the three model homes being constructed in Neighborhood 2. Brookfield 6 LLC and Brookfield 8 LLC purchased the property from Sycamore Estates, LLC in its "as is" condition as raw lots, fully entitled. Corky McMillin Construction Services completed the improvement of the lots to a "blue-top" condition and is in the process of completing all offsite improvements required to serve Neighborhoods 2 and 3. The offsite improvements are expected to be complete by the end of the third quarter of 2004.

Development and Financing Plans. Total in-tract costs to construct the "blue-top" lots (graded with lots terraced and streets cut in but utilities only to the property line) in Neighborhoods 2 and 3 into finished lots (streets paved, curb and gutter in and utilities to each individual lot) are estimated to be \$26.8 million, of which approximately \$13.1 million has been spent as of January 1, 2004. In-tract public improvements, consisting of street, curb, gutter, sewer, water and storm drain improvements and dry utilities, to each individual lot are estimated to be completed in the fourth quarter of 2004.

As of February 1, 2004, three building permits for the models in Neighborhood 2 have been issued. Construction of four model homes for Neighborhood 3 is estimated to begin in the second quarter of 2004. Brookfield 6 LLC expects to begin conveying the homes in Neighborhood 2 in the third quarter of 2004 and reach full build-out of Neighborhood 2 by the first quarter of 2006. Brookfield 8 LLC expects to begin conveying the homes in Neighborhood 3 in the second quarter of 2005, and reach full build-out of Neighborhood 3 concurrent with the build-out of an additional 92 lots in Neighborhood 3B (Zone 2 / Improvement Area B) by the first quarter of 2007. Brookfield 8 LLC expects to acquire approximately 92 additional lots in Neighborhood 3B to continue the product in Calabria at StoneBridge, for a total of 139 residential units within Calabria at StoneBridge. The additional units are within Zone 2 / Improvement Area B, and will not be subject to Special Tax for payment of the 2004 Bonds.

Plan of Finance. Brookfield 6 LLC financed the purchase of the 121 residential lots from Sycamore Estates, LLC with cash and an acquisition and development loan from Bank of America in an original amount of \$20,205,000. As of December 31, 2003, the outstanding balance was \$15,780,770. Brookfield 6 LLC expects the total land acquisition and construction costs to be financed through the construction loan, equity contributions and the proceeds of home sales within Neighborhood 2.

Brookfield 8 LLC financed the purchase of the 47 residential lots in Neighborhood 3 from Sycamore Estates, LLC with cash and an acquisition and development loan from Bank of America in an original amount of \$8,717,000. As of December 31, 2003, the outstanding balance was \$6,882,479. Brookfield 8 LLC expects the total land acquisition and construction costs to be financed through the construction loan, equity contributions and the proceeds of home sales within Neighborhood 3.

As of February 1, 2004, Brookfield 6 LLC and Brookfield 8 LLC expect the remaining in-tract development costs within Neighborhoods 2, 3 and 3B to be approximately \$12.4 million and home construction costs for the 121 Astoria at StoneBridge units and 139 Calabria at StoneBridge units (inclusive of the 92 proposed units to be constructed in Neighborhood 3B Zone 2 / Improvement Area B) to be approximately \$78 million. Brookfield 6 LLC and Brookfield 8 LLC expect to finance these costs primarily through the Bank of America loans, cash and home sales proceeds.

There is no assurance that amounts necessary to finance the remaining site development and construction costs within Neighborhood 2 or 3 will be available from any source, when needed. Brookfield

6 LLC and Brookfield 8 LLC are under no legal obligation of any kind to borrow or expend funds for the development of their property within Neighborhoods 2 and 3. Any contribution of capital by members of Brookfield 6 LLC, Brookfield 8 LLC or any other Brookfield entity, or any borrowings by Brookfield 6 LLC or Brookfield 8 LLC, whether to fund costs of development within Neighborhoods 2 or 3 or to pay special taxes, is entirely voluntary.

Absorption. According to Brookfield 6 LLC and Brookfield 8 LLC Neighborhood 2 has a projected absorption rate of 15 units per quarter, commencing in the first quarter of 2004 with final sales contracts estimated to be signed occur in the fourth quarter of 2005 and Neighborhood 3 has a projected absorption rate of 15 units per quarter, commencing in the fourth quarter of 2004 with final sales contracts estimated to be signed in the first quarter of 2007. Completion of the homes is estimated to occur in the first quarter of 2006 for Neighborhood 2 and in the first quarter of 2007 for Neighborhood 3.

History of Property Tax Payment; Loan Defaults; Bankruptcy. Brookfield 6 LLC and Brookfield 8 LLC have made the following representations:

- neither they nor any of their 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 they nor, to their actual knowledge, any of their Affiliates is currently in default on any loans, lines of credit or other obligation related to their respective development in the Community Facilities District or any of their other projects which default would in any way materially and adversely affect their ability to develop their development in the Community Facilities District as described in the Official Statement or to pay the Special Taxes for which either is responsible,
- neither they nor any of their Affiliates has any proceeding pending or threatened in which they may be adjudicated as bankrupt, or discharged from any or all of their 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 Brookfield 6 LLC or Brookfield 8 LLC or an Affiliate having been accomplished) against Brookfield 6 LLC or Brookfield 8 LLC or any Affiliate or, to Brookfield 6 LLC and Brookfield 8 LLC's actual knowledge, threatened, which if successful, would materially adversely affect the ability of Brookfield 6 LLC or Brookfield 8 LLC to complete the development and sale of their respective property currently owned within the Community Facilities District or to pay Community Facilities District special taxes or *ad valorem* tax obligations when due on their property within the Community Facilities District.

Appraised Property Values

The purpose of the appraisal was to estimate the aggregate market value of each separate tract, reflecting the as-is condition of the vacant lots and any completed homes or homes under construction. The Appraisal reflects the Zone 1 and Improvement Area A financings. The subject property in Zone 1 / Improvement Area A includes property proposed for development with 277 detached single-family residential units. The Appraisal is based on certain assumptions set forth in Appendix C hereto.

Based on the investigation and analyses described in the Appraisal, and subject to all of the premises, assumptions and limiting conditions set forth therein, the Appraiser estimated the market value of the taxable property in Zone 1 / Improvement Area A as of February 1, 2004, to be \$88,000,000. The market value includes the value of extensive grading and infrastructure improvements in Zone 1 / Improvement Area A.

The Appraisal estimated the value of the property in Zone 1 / Improvement Area A as "finished lots," that is, the lots have had fine grading, all in-tract streets and utilities have been completed and fees have been paid or credited (sewer, water, road, library, park, etc.) up to the stage of pulling building permits (which, as described in "Property Ownership" above, is not yet the condition of the property within the Improvement Areas), less the remaining cost to the Developers to achieve finished lots (based on the status of the development process as of February 1, 2004). 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 A Special Taxes.

The Appraiser used a sales comparison approach, in which listings and sales of similar bulk residential properties in the general area are analyzed in order to derive an indication of the most probable sales price of the property being appraised. The estimate of value for the property in Zone 1 / Improvement Area A was achieved using the sales price of comparable bulk residential lots in the area that were listed or had sold within the prior two years.

Subject to these assumptions, the Appraiser estimated that the market value of the land within Zone 1 / Improvement Area A (subject to the lien of the Community Facilities District Special Taxes and the Improvement Area Special Taxes) as of February 1, 2004, was as follows:

Zone 1 / Improvement Area A

McMillin Montecito 109, LLC	Mill Creek	\$36,000,000
Brookfield 6 LLC	Astoria	37,200,000
Brookfield 8 LLC	Calabria	<u>14,800,000</u>
Total		\$88,000,000

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

The market values of the property within Zone 1 / Improvement Area A include the value of tract map approvals and the near finished conditions of such property. The \$88,000,000 aggregate market value reported in the Appraisal results in estimated value-to-lien ratio of 4.40 to 1 with respect to Zone 1 / Improvement Area A, calculated in each case with respect to all direct and overlapping tax and assessment debt, excluding general obligation bonds, as of the estimated closing date. The value-to-lien ratios of individual parcels will differ from the foregoing aggregate values. See "Direct and Overlapping Debt" below.

Estimated Value-to-Lien Allocation

As of February 1, 2004, the Developers own in the aggregate 277 final lots in Zone 1 / Improvement Area A and are responsible for all of the Special Taxes. As a result, in determining the investment quality of the 2004 Bonds, Bondowners should assume that a portion of the Special Taxes in Zone 1 / Improvement Area A will be paid by the Developers until such time as the parcels are transferred to individual owners. To date, the Developers have been current in the payment of the County *ad valorem* property taxes.

Table 2 shows an estimate of the Special Tax and the allocation of the appraised values based on the status of the property as completed homes, homes under construction and vacant lots.

Table 2
Community Facilities District No. 11 (StoneBridge Estates)
of the Poway Unified School District
Zone 1 / Improvement Area A
Value- to-Lien Analysis by Status of Development
(As of February 1, 2004; Appraisal Date of Value)

Stage of Development[1]	Number of Lots [1]	Total Appraised Value[1]	Zone 1 Bonds[2]	Imp. Area A Bonds[2]	Total Lien[3]	Value-to-Lien Ratio[4]
Homes Completed-Unsold	3	\$2,229,677.42	\$97,472.92	\$119,133.57	\$216,606.50	10.29:1
Homes Uncompleted-Under Construction	18	\$6,397,140.44	\$584,837.55	\$714,801.44	\$1,299,638.99	4.92:1
Vacant Lots	<u>256</u>	<u>\$79,373,182.14</u>	<u>\$8,317,689.53</u>	<u>\$10,166,064.98</u>	<u>\$18,483,754.51</u>	4.29:1
Total	277	\$88,000,000.00	\$9,000,000.00	\$11,000,000.00	\$20,000,000.00	4.40:1

[1] Source: Appraisal dated February 11, 2004.

[2] Includes 2004 Bonds to be issued by the Community Facilities District; debt has been allocated equally to each lot, actual allocation of debt will vary depending on size of Unit.

[3] Lien based on land secured bonded indebtedness, including the 2004 Bonds but excluding general obligation bonded indebtedness.

[4] Average value-to-lien per lot; actual value-to-lien may vary by Lot.

Table 3 shows the estimated amount of the Special Tax for which each Developer will be responsible and the percentage of the estimated total amount of the Special Tax for Fiscal Year 2004-05, if Special Taxes were to be levied based on current ownership. Interest on the 2004 Bonds is capitalized for 18 months so the first year of Special Tax levy will be Fiscal Year 2005-06, except for levies on Developed Property in Fiscal Year 2004-05 (i.e., those lots for which a building permit was issued on or before May 1, 2004).

Table 3
Community Facilities District No. 11 (StoneBridge Estates)
of the Poway Unified School District
Zone 1 / Improvement Area A
Value-to-Lien Analysis by Developer

<u>Zone 1 / Improvement Area A</u>													
Developer	Lots	Appraised Value[1]	Estimated Zone 1 FY 2004-05 Special Tax	% of Total Special Tax	Zone 1 Bond Allocation	Estimated Improvement Area A Fiscal Year 2004-05 Special Tax	% of Total Special Tax	Improvement Area A Bond Allocation	Total Bond Allocation	Value-to-Lien			
McMillin Montecito LLC	109	\$36,000,000.00	\$220,109.15	39.35%	\$3,541,516.25	\$243,775.75	36.29%	\$3,992,054.95	\$7,533,571.19	4.78:1			
Brookfield 6 LLC	121	\$37,200,000.00	\$244,341.35	43.68%	\$3,931,407.94	\$296,759.74	44.18%	\$4,859,717.13	\$8,791,125.07	4.23:1			
Brookfield 8 LLC	47	\$14,800,000.00	\$94,909.45	16.97%	\$1,527,075.81	\$131,182.03	19.53%	\$2,148,227.92	\$3,675,303.73	4.03:1			
Total	277	\$88,000,000.00	\$559,359.95	100.00%	\$9,000,000.00	\$671,717.52	100.00%	\$11,000,000.00	\$20,000,000.00	4.40:1			

Source: David Taussig & Associates, Inc.

Direct and Overlapping Debt

Table 4 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within Zone 1 / Improvement Area A prepared by National Tax Data, Inc. and dated February 19, 2004 (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 or the County, may issue additional indebtedness at any time, without the consent or approval of the School District or the Community Facilities District and the Community Facilities District expects to issue additional debt secured by special taxes on Developed Property in the future. See " – Overlapping Assessment and Maintenance Districts" below.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Zone 1 / Improvement Area A in whole or in part. Such long term obligations generally are not payable from property taxes, assessment or special taxes on land in Zone 1 / Improvement Area A. In many cases long term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency. Additional indebtedness could be authorized by the School District, the County, the City or other public agencies at any time.

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

Table 4
Community Facilities District No. 11 (StoneBridge Estates)
of the Poway Unified School District

STATE OF CALIFORNIA

COUNTY OF SAN DIEGO

POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 11
ZONE 1 / IMPROVEMENT AREA A
SPECIAL TAX BONDS

Detailed Direct and Overlapping Debt

I. Assessed Value
2003-2004 Secured Roll Assessed Value **\$28,053,000**

II. Secured Property Taxes

Description on Tax Bill	Type	Total Parcels	Total Levy	% Applicable	Parcels(1)	Levy Amount
Basic Levy	PROP13	882,062	\$2,336,426,231.38	0.01201%	6	\$280,530.00
Voter Approved Debt	VOTER	871,011	168,395,212.72	0.00226%	6	\$3,806.70
City of San Diego Landscape Maintenance (Scripps Miramar)	LLD	6,304	720,069.40	0.03349%	2	\$241.16
County of San Diego Mosquito/Rat Abatement	VECTOR	498,309	1,393,537.80	0.00129%	6	\$18.00
Metropolitan Water District of Southern California Standby Charge	STANDBY	325,366	4,120,602.90	0.05877%	6	\$2,421.64
San Diego County Water Authority Availability Charge	STANDBY	332,160	3,593,338.38	0.05855%	6	\$2,104.00
2003-2004 TOTAL PROPERTY TAX LIABILITY						\$289,121.50

TOTAL PROPERTY TAX LIABILITY AS A PERCENTAGE OF 2003-2004 ASSESSED VALUATION **1.03%**

III. Land Secured Bond Indebtedness

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels (1)	Amount
Poway Unified School District CFD No. 11, Imp Area A	CFD	9,000,000	9,000,000	100.00000%	6	9,000,000
Poway Unified School District CFD No. 11, Zone 1	CFD	11,000,000	11,000,000	100.00000%	6	11,000,000

TOTAL LAND SECURED BOND INDEBTEDNESS (1) **\$20,000,000**
TOTAL OUTSTANDING LAND SECURED BOND INDEBTEDNESS (1) **\$20,000,000**

IV. General Obligation Bond Indebtedness

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels(1)	Amount
City of San Diego Public Safety Communication System Debt Service	GO	25,500,000	14,390,000	0.02635%	6	\$3,792
Metropolitan Water District of Southern California Debt Service	GO	850,000,000	475,265,000	0.00219%	6	\$10,403
San Diego County Water Authority Debt Service	GO	30,000,000	0	0.01377%	6	\$0

TOTAL GENERAL OBLIGATION BOND INDEBTEDNESS (2) **\$14,195**
TOTAL OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS (2) **\$14,195**

TOTAL OF ALL OUTSTANDING AND OVERLAPPING BONDED DEBT	\$20,014,195
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(1) Parcels based on January 1, 2003 County Assessor information. Final maps were recorded during 2003.

(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.

Table 5 below sets forth estimated Fiscal Year 2004-05 overall tax rates projected to be applicable to a detached single family residential unit within Zone 1 / Improvement Area A with 2,947 of building square feet. Table 5 also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

Table 5
Community Facilities District No. 11 (StoneBridge Estates)
of the Poway Unified School District
Zone 1 / Improvement Area A
Estimated Fiscal Year 2004-05 Tax Rates

<u>ASSESSED VALUATION AND PROPERTY TAXES</u>		<u>Percent</u>	<u>Projected Amount</u>
Estimated Sale Price [1]	\$620,990.00		
Homeowner's Exemption	<u>(\$7,000.00)</u>		
Assessed Value [2]	\$613,990.00		
AD VALOREM PROPERTY TAXES			
General Purposes		1.00000%	\$6,139.90
<i>Ad Valorem</i> Tax Overrides			
City of San Diego Zoological Exhibits		0.00500%	\$30.70
City of San Diego Public Safety Communication System		0.00180%	\$11.05
City of San Diego County Water Authority		0.00610%	\$37.45
Metropolitan Water District-Remainder of SDCWA		0.00067%	\$4.11
Total <i>Ad Valorem</i> Property Taxes		1.01357%	\$6,223.22
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES [3]			
Poway Unified School District CFD No. 11 - Zone 1 [4]			\$2,019.35
Poway Unified School District CFD No. 11 - Improvement Area A [4]			\$2,076.13
County Mosquito/Rat Control			\$3.00
County Water Authority Standby Charge			\$10.00
Metropolitan Water District Standby Charge			\$11.50
Scripps-Miramar Maintenance Assessment District, Zone 2			\$120.58
PROJECTED TOTAL PROPERTY TAXES			\$10,463.78
Projected Total Effective Tax Rate (as % of Assessed Value)			1.70%

[1] Estimated sales price for a single detached unit containing 2,947 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 of Acreage.

[4] The rates used here are for Fiscal Year 2004-05. Rates for Fiscal Year 2003-04 are not available.

Source: David Taussig & Associates, Inc.

Overlapping Assessment and Maintenance Districts

Zone 1 / Improvement Area A

Metropolitan Water District Standby Charge. The Metropolitan Water District imposes an annual charge at the rate of \$11.50 per acre, or \$11.50 per parcel for parcels one (1) acre or less. This pay-as-you-go charge is used for capital improvements of the water 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 charge.

County Water Authority Water Availability Charge. The County Water Authority imposes an annual charge of \$10.00 per acre, or \$10.00 per parcel for parcels less than one (1) acre. This pay-as-you-go charge is used to fund capital improvements to the water distribution system and will continue to be levied for an indefinite period.

County Mosquito/Rat Control. The 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.

Scripps-Miramar Ranch Maintenance Assessment District, Zone 2. The City formed the Scripps-Miramar Maintenance Assessment District ("SMRMAD") to levy an annual assessment for the maintenance of dedicated open space areas, landscape medians and hardscape medians within the boundaries of the SMRMAD. The authorized annual assessment for Fiscal Year 2003-04 was \$120.58 per Equivalent Benefit Unit ("EBU"). The table below shows the EBUs assigned to residential property within Zone 2 of the SMRMAD.

Land Use/Zoning	EBU
Detached Single Family	1.0
Attached Condominium	0.7
Multi-Family & Apartment	0.7
Duplex	0.7

The annual assessment per EBU increases annually by the change in the San Diego Consumer Price Index for Urban Consumers.

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

Accordingly, the debt on the property within the Community Facilities District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the 2004 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 2004 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 2004 Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in Zone 1 / Improvement Area A 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 2004 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in Zone 1 / Improvement Area A.

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 Zone 1 / Improvement Area A, 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 February 1, 2004, McMillin Montecito 109, LLC, Brookfield 6 LLC and Brookfield 8 LLC are responsible for 100% percent of the Special Taxes in Zone 1 / Improvement Area A. See "THE COMMUNITY FACILITIES DISTRICT – Property Ownership and Development." If the Developers are unwilling or unable to pay their 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 2004 Bonds.

No property owner is obligated in any manner to continue to own or develop any of the land it presently owns within Zone 1 / Improvement Area A. 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 Zone 1 / Improvement Area A may be subject to economic considerations and unexpected delays, disruptions and chances which may affect the willingness and ability of the Developers or any property owner to pay the Special Taxes when due.

Land development is also subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. Final maps have been recorded for all 277 lots within Zone 1 / Improvement Area A and most discretionary governmental approvals have been obtained with respect to such lots. The property within Zone 1 / Improvement Area A is substantially finished and ready for construction of homes. Zone 1 / Improvement Area A is partially developed with public infrastructure improvements and construction, some of which are substantially complete; however, additional approvals are necessary to complete the development. It is possible that the approvals necessary to complete development of the property within

Zone 1 / Improvement Area A will not be obtained on a timely basis. Failure to obtain any such approval could adversely affect land development operations within Zone 1 / Improvement Area A. In addition, there is a risk that future governmental restrictions on land development within Zone 1 / Improvement Area A 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 Zone 1 / Improvement Area A 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 Zone 1 / Improvement Area A to pay the Special Taxes when due. See "COMMUNITY FACILITIES DISTRICT NO. 11 (STONEBRIDGE ESTATES) – Appraised Property Values."

Bondowners should assume that any event that significantly impacts the ability to develop land in Zone 1 / Improvement Area A would cause the property values within Zone 1 / Improvement Area A to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within Zone 1 / Improvement Area A to pay the Special Taxes when due.

Special Taxes Are Not Personal Obligations

The current and future owners of land within Zone 1 / Improvement Area A are not personally liable for the payment of the Special Taxes. Rather, the Special Tax is an obligation only of the land within Zone 1 / Improvement Area A. If the value of the land within Zone 1 / Improvement Area A 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 2004 Bonds have been issued.

The 2004 Bonds Are Limited Obligations of the Community Facilities District

The Community Facilities District has no obligation to pay principal of and interest on the 2004 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 2004 Bonds.

Appraised Values

The Appraisal summarized in Appendix C hereto estimates the fee simple interest market value of the residential property within Zone 1 / Improvement Area A. 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 Zone 1 / Improvement Area A should become delinquent in the payment of Special Taxes, and be foreclosed upon, that such property could be sold for the amount of estimated market value thereof contained in the Appraisal.

Land Development

All lots are substantially finished and ready for home construction in Zone 1, with minimal land development remaining, although home construction remains. A major risk to the Bondowners is that development by the property owners in Zone 1 / Improvement Area A may be subject to unexpected delays, disruptions and changes which may affect the willingness and ability of the property owners to pay Special Taxes when due. For example, proposed development within Improvement Area A 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 Zone 1 or Improvement Area A will not be adversely affected by the factors described above.

In addition, partially developed land is less valuable than developed land and provides less security for the 2004 Bonds (and therefore to the owners of the 2004 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 2004 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 Zone 1 / Improvement Area A as planned will reduce the expected diversity of ownership of land within Zone 1 / Improvement Area A, making the payment of debt service on the 2004 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 2004 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. 11 (STONEBRIDGE ESTATES) – 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 2004 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 2004 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 A in the Office of the San Diego County Recorder on February 3, 2004, as Document Nos. 2004-0086625 and 2004-0086626, respectively. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a parcel of land or a home in Zone 1 / Improvement Area A or the lending of money thereon. The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Government Approvals

The Developers or their predecessors have secured most discretionary approvals, permits and government entitlements necessary to develop the land within Zone 1 / Improvement Area A. Nevertheless, development within Zone 1 / Improvement Area A is contingent upon the construction of a number of major public improvements as well as the necessary local in-tract improvements. The installation of the necessary improvements and infrastructure is subject to the receipt of construction or building permits from the City and other public agencies. The failure to obtain any such approval could adversely affect construction within Zone 1 / Improvement Area A. 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 Zone 1 / Improvement Area A 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 Zone 1 / Improvement Area A could cause the land values within Zone 1 / Improvement Area A 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 Zone 1 / Improvement Area A. See "Failure to Develop Properties" above.

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 fiscal year. Power purchases by the State from general fund appropriations have significantly reduced the State's cash reserves. In addition, the terrorist attacks of September 11, 2001 and subsequent hostilities have resulted in increased uncertainty regarding the economic and revenue outlook for the State. The effect of the State revenue shortfalls on the local or State economy or on the demand for, or value of, the property within the Community Facilities District cannot be predicted.

Endangered and Threatened Species

It is illegal to harm or disturb any plants or animals in their habitat that have been listed as endangered species by the United States Fish & Wildlife Service under the Federal Endangered Species Act or by the California Fish & Game Commission under the California Endangered Species Act without a permit. Thus, the presence of an endangered plant or animal could delay development of vacant property in Zone 1 / Improvement Area A or reduce the value of undeveloped property. Failure to develop the vacant property in Zone 1 / Improvement Area A 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 Zone 1 / Improvement Area A to pay the Special Taxes when due.

At present, other than the species covered by the Mitigation Monitoring and Reporting Program (MMRP) for the Rancho Encantada project and the Sycamore Estates sub-project area, the vacant property within Zone 1 / Improvement Area A 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 MMRP. Furthermore, each Developer reports that the vacant property within the Community Facilities District proposed to be developed by such Developer is not known by the applicable Developer to be inhabited by any plant or animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has proposed for addition to the endangered species list.

Hazardous Substances

While governmental taxes, assessments, and charges are a common claim against the value of a Taxable Property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Tax is a claim with regard to hazardous substances. In general, the owners and operators of parcels within Zone 1 / Improvement Area A 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 Zone 1 / Improvement Area A 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.

McMillin Land Development, on behalf of the owner of the land in Zone 1 / Improvement Area A retained GEOCON, Inc. To review environmental aspects of the project. The report concluded there was no evidence of polluted soils or other adverse site conditions in or on the land. In addition, P&D Environmental Services, San Diego, California ("P&D") conducted an environmental site assessment of approximately 2,420 acres of StoneBridge Estates that is proposed to be given to the City for public park land. Review of historical information sources did not indicate that the project had been subjected to past activities that would represent a potential environmental threat or impact to the property. With respect to the proposed park land, the P&D report concluded there was a low potential that old ordnance may be found from military training camps that

used the area from approximately 1942 to 1955. However, evidence of high explosive use in the project area was not found. The assessment noted the presence of five pad-mounted high voltage electrical transformers on the proposed park site, but found no evidence of leakage of transformer fluid or soil staining in the vicinity of the transformers during the site visit. The assessment noted that hazardous materials were used in the on site operations, and that there were a couple underground storage tanks for diesel fuel and above ground storage tanks for compressed or liquefied gasses. Some sites found on the Standard Environmental Record sources appears on one or more of the lists reviewed. While the presence of these properties in the vicinity of the property may constitute an environmental risk to the property, evidence was not found during the course of the review which indicate the site had been adversely impacted by the properties nor that they represent an imminent threat to the property.

In March, 2002, the County established new permitting guidelines relating to the testing protocol and mitigation measures (e.g. passive venting and vapor barriers) required with respect to methane vapors. Zone 1 / Improvement Area A is in the City of San Diego and is not subject to the County's new guidelines. The Developers have not conducted testing for methane gas.

The value of the property within Zone 1 / Improvement Area A, as set forth in the appraised values set forth in the Appraisal hereto does 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 2004 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within Zone 1 and Improvement Area A. 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 2004 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 2004 Bonds, and certainly not a direct relationship.

The Special Tax levied in any particular tax year on a Taxable Property is based upon the revenue needs and application of each Rate and Method. Application of each Rate and Method will, in turn, be dependent upon certain development factors with respect to each Taxable Property by comparison with similar development factors with respect to the other Taxable Property within Zone 1 / Improvement Area A. 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 2004 BONDS – Special Taxes” and “– Rate and Method” herein, each Bond Indenture provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in “SECURITY FOR THE 2004 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 2004 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 2004 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 Zone 1 / Improvement Area A. See “SECURITY FOR THE 2004 BONDS – Rate and Method” herein.

Exempt Properties

Certain properties are exempt from the Special Tax in accordance with the Rate and Method (see “SECURITY FOR THE 2004 BONDS – Rate and Method” herein). In addition, the Act provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within Zone 1 / Improvement Area A 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 Funds

Each Reserve Fund is to be maintained at an amount equal to the applicable Reserve Requirement (see “SECURITY FOR THE 2004 BONDS – Reserve Fund” herein). Funds in a Reserve Fund may be used to pay principal of and interest on the applicable 2004 Bonds in the event the proceeds of the levy and collection of the Special Tax against property within Zone 1 / Improvement Area A are insufficient. If funds in a Reserve Fund for the applicable 2004 Bonds are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the Bondowners pursuant to the applicable Bond Indenture. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within Zone 1 or Improvement Area A, as applicable, at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Funds 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 2004 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 Zone 1 / Improvement Area A 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 2004 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 2004 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 2004 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 2004 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 2004 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 Zone 1 / Improvement Area A is owned by the Developers, or any other property owner, and such owner is the subject of bankruptcy proceedings, the payment of the Special Tax and the ability of the School District to foreclose the lien of a delinquent unpaid Special Tax could be extremely curtailed by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure.

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

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

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

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

Payments by FDIC and Other Federal Agencies

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

Specifically, with respect to the FDIC, on June 4, 1991, the FDIC issued a Statement of Policy Regarding the Payment of State and Local Property Taxes (the "1991 Policy Statement"). The 1991 Policy Statement was revised and superseded by new Policy Statement effective January 9, 1997 (the "Policy Statement"). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is

appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

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

The FDIC has filed claims against the County of Orange with respect to Mello-Roos community facilities district special taxes in the United States Bankruptcy Court and in Federal District Court in which the FDIC has taken a position similar to the position outlined in the Policy Statement. While all of such claims have not been resolved, the Bankruptcy Court has issued a tentative ruling in favor of the FDIC on certain of such claims. The County of Orange has appealed such ruling and the FDIC has cross-appealed. The decision of the United States Court of Appeals for the 9th Circuit (the "9th Circuit Court") was filed on August 28, 2001. In its decision, the Court stated that the FDIC as a federal agency is exempt from the Mello-Roos Special Tax. The FDIC has also filed suit (the "post-bankruptcy" suit) regarding special taxes imposed after 1994. However, such action has been stayed pending resolution of the 9th Circuit Court appeal by the FDIC regarding the bankruptcy case. The post-bankruptcy suit has recently been consolidated with the cases filed by the FDIC against other California counties and is pending in the United States District Court in Los Angeles. The FDIC has filed a motion to lift the bankruptcy stay.

The School District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency on a parcel within Zone 1 / Improvement Area A 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 2004 Bonds should assume that the Community Facilities District will be unable to collect Special Taxes or to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the applicable Reserve Fund and perhaps, ultimately, a default in payment on the 2004 Bonds. Based upon the secured tax roll as of January 1, 2002, the FDIC does not presently own any of the property in Zone 1 / Improvement Area A. The School District expresses no view concerning the likelihood that the risks described above will materialize while the 2004 Bonds are outstanding.

Factors Affecting Parcel Values and Aggregate Value

Geologic, Topographic and Climatic Conditions . The value of the Taxable Property in Zone 1 / Improvement Area A 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. Zone 1 / Improvement Area A, 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 Zone 1 / Improvement Area A 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 Zone 1 / Improvement Area A 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 2004 Bonds do not contain a provision allowing for the acceleration of the 2004 Bonds in the event of a payment default or other default under the terms of the 2004 Bonds or the Bond Indentures. Pursuant to each Bond Indenture, a bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies (see APPENDIX D – “Summary of Certain Provisions of Bond Indentures” herein). So long as the 2004 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 Zone 1 and in Improvement Area A pursuant to the Act, more than two-thirds of the qualified electors within Zone 1 / Improvement Area A, consisting of the landowners within the boundaries of Zone 1 / Improvement Area A, authorized the Community Facilities District to incur bonded indebtedness to finance the School Facilities and City Facilities, as applicable, and approved each applicable Rate and Method. The Supreme Court of the State of California has not yet decided whether landowner elections (as opposed to resident elections) satisfy requirements of Section 4 of Article XIII A, nor has the Supreme Court decided whether the special taxes of a community facilities district constitute a “special tax” for purposes of Article XIII A.

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

Billing of Special Taxes

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

Under provisions of the Act, the Special Taxes are billed to the properties within Zone 1 / Improvement Area A 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 2004 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 2004 Bonds, it is necessary that the Special Tax levied against land within Zone 1 / Improvement Area A be paid in a timely manner. The Community Facilities District has covenanted in each Bond Indenture under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the 2004 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 2004 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 2004 BONDS – Proceeds of Foreclosure Sales."

Right to Vote on Taxes Act

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

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2004 Bonds.

It may be possible, however, for voters or Zone 1 or Improvement Area A to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2004 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 2004 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 2004 Bonds as well as the market for the 2004 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 2004 Bonds or, if a secondary market exists, that such 2004 Bonds can be sold for any particular price. Although the School District, the Community Facilities District and the Developers have committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of credit rating for the 2004 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 2004 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2004 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 each Bond Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2004 Bonds, the School District has covenanted in each Bond Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2004 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2004 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the applicable Bond Indenture. See "THE 2004 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 2004 Bonds or to preserve the tax-exempt status of the 2004 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 2004 Bonds will be made available to purchasers at the time of original delivery and is attached hereto as Appendix G, subject to the matters discussed under "Proposed Regulations: Potential Change in Form of Bond Counsel Opinion" below. A copy of the legal opinion will be printed on each 2004 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 2004 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 2004 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Community Facilities District has covenanted in each Bond Indenture to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2004 Bonds.

In the further opinion of Bond Counsel, interest on the 2004 Bonds is exempt from California personal income taxes.

To the extent the issue price of any maturity of the 2004 Bonds is less than the amount to be paid at maturity of such 2004 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2004 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 2004 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 2004 Bonds is the first price at which a substantial amount of such maturity of the 2004 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 2004 Bonds accrues daily over the term to maturity of such 2004 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 2004 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2004 Bonds. Owners of the 2004 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the 2004 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2004 Bonds in the original offering to the public at the first price at which a substantial amount of such 2004 Bonds is sold to the public.

The 2004 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 2004 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2004 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 2004 Bonds other than as expressly described above.

Proposed Regulations; Possible Change in Form of Bond Counsel Opinion

The U.S. Department of the Treasury has proposed modifications to its regulations contained in publication "Circular 230," which set forth rules governing the practice of attorneys and other tax advisors before the Internal Revenue Service. The proposed modified regulations (the "Proposed Regulations") impose certain mandatory requirements which must be met in connection with opinions relating to "tax shelters." The Proposed Regulations revise the definition of tax shelter by eliminating an exclusion from the definition of tax shelter for "municipal bonds." Because of this proposed change, the Proposed Regulations may be applicable to opinions delivered in connection with tax-exempt obligations. In their current form, the Proposed Regulations will apply to opinions delivered on or after the date the final regulations are published in the Federal Register. It is possible that the final regulations could be published prior to the delivery of the opinion relating to the Bonds.

If the Proposed Regulations are promulgated as final regulations in their present form and are applicable to Bond Counsel's opinion relating to the Bonds, Bond Counsel's opinion will still address the exclusion of interest on the Bonds from federal gross income as described above; however, certain additional matters will be discussed in the opinion in order to comply with the requirements of the final regulations under Circular 230, as described below.

First, the revised opinion may disclose federal tax issues, if any such issues exist, for which the IRS may have a reasonable basis for a successful challenge and the resolution of which could have a significant adverse impact regarding the exclusion of interest on the Bonds from income for federal tax purposes. Second, the revised opinion may provide that the opinion set forth therein with respect to federal tax matters may not be sufficient for a Bondholder to use for the purpose of avoiding penalties relating to a substantial understatement of income tax under section 6662(d) of the Code and may further provide that Bondholders should seek advice based on their individual circumstances with respect to any material federal tax issue relating to the Bonds from their own tax advisors. Last, such revised opinion may note that Bond Counsel's fee will be paid by the Community Facilities District and, though Bond Counsel is engaged from time to time to serve as counsel for underwriters and market participants, including the underwriter of the Bonds, there is no referral agreement or other arrangement between Bond Counsel (or any of its attorneys) and any other person with respect to the promoting, marketing, recommending and sale of the Bonds. There can be no assurance that the market value of the Bonds will not be adversely affected if the opinion of Bond Counsel delivered at the time of issuance of the Bonds includes a discussion of the additional matters described in the preceding paragraph. In the event the final regulations contained in Circular 230 are applicable to the Bonds, Bond Counsel expects that its opinion will be delivered to conform to the requirements of such final regulations.

There can be no assurance that final regulations will be promulgated with provisions that are similar to those included in the proposed regulations. Bond Counsel expects that its opinion will be delivered to conform with the requirements of the final regulations if applicable to the 2004 Bonds. There can be no assurance that the market value of the 2004 Bonds will not be adversely affected if the opinion of Bond Counsel delivered at the time of issuance of the 2004 Bonds is substantially different from the form of opinions attached as Appendix G hereto.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2004 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2004 Bonds might be affected as a result of such an audit of the 2004 Bonds (or by an audit of similar bonds).

Absence of Litigation

No litigation is pending or threatened concerning the validity of the 2004 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 2004 Bonds or in any way contesting or affecting the validity of the 2004 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 2004 Bonds.

No General Obligation of School District or Community Facilities District

The 2004 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 Zone 1 or Improvement Area A, as applicable, and proceeds of the Zone 1 Bonds or Improvement Area A Bonds, respectively, including amounts in the applicable Reserve Fund, Special Tax Fund and Bond Service Fund and investment income on funds held pursuant to the applicable Bond Indenture (other than as necessary to be rebated to the United States of America pursuant to Section 148(f) of the Code and any applicable regulations promulgated pursuant thereto). Any tax levied for the payment of the Zone 1 Bonds or the Improvement Area A Bonds shall be limited to the Special Taxes to be collected within Zone 1 or Improvement Area A, as applicable.

NO RATINGS

The 2004 Bonds have not been rated by any securities rating agency.

UNDERWRITING

The Zone 1 Bonds are being purchased by Stone & Youngberg LLC at a purchase price of \$8,788,107.15 (which represents the aggregate principal amount of the Zone 1 Bonds of \$9,000,000.00, less original issue discount of \$54,392.85 and less underwriter's discount of \$157,500.00). The Improvement Area A Bonds are being purchased by Stone & Youngberg LLC at a purchase price of \$10,740,912.50 (which represents the aggregate principal amount of the Improvement Area A Bonds of \$11,000,000.00, less original issue discount of \$66,587.50 and less underwriter's discount of \$192,500.00).

The purchase agreement relating to the 2004 Bonds provides that the Underwriter will purchase all of the 2004 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 2004 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 Developers, 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 2004 Bonds. The fees of David Taussig & Associates, Inc.,

as Special Tax Consultant, are in part contingent upon the issuance of the 2004 Bonds. The fees of Stephen G. White, MAI, as Appraiser, are not contingent upon the issuance of the 2004 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 2004 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. 11
(STONEBRIDGE ESTATES) 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. 11 (StoneBridge
Estates) of the Poway Unified School District

APPENDIX A

GENERAL INFORMATION ABOUT THE POWAY UNIFIED SCHOOL DISTRICT

The following information relating to the School District is included only for the purpose of supplying general information regarding the School District. Neither the faith and credit nor the taxing power of the School District has been pledged to payment of the 2004 Bonds, and the 2004 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 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 31,663. As of January, 2004, the estimated population within the School District's boundaries was approximately 165,419 and as of February 20, 2004, approximately 32,899 students attend schools in the School District.

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, two Area Superintendents for Learning Support Services, an Associate Superintendent of Business Support Services and an Assistant Superintendent of Personnel Support Services.

From fiscal year 1994-95 through fiscal year 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**

	Fiscal Year	Enrollment	District Average Daily Attendance	District Base Revenue Limit
<i>Historical</i>	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
	2003-04	33,031	31,663	4,623.54

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 1, 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**

Labor Organization	Approximate Number of Employees In Organization	Contract Expiration Date
Poway Federation of Teachers (PFT), Local 2357	1,795	6/30/04
Service Employees International Union	447	6/30/05
California Schools Employees Association	1,146	6/30/04

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 \$7,848,980.07, in Fiscal Year 2000-01 was \$8,829,537.57, in Fiscal Year 2001-02 was \$9,283,309.60, in Fiscal Year 2002-03 was \$9,640,570.55 and in Fiscal Year 2003-04 is budgeted at 9,428,246.00. 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 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 as 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. 11 (STONEBRIDGE ESTATES) OF THE POWAY UNIFIED SCHOOL DISTRICT

RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 11 OF THE POWAY UNIFIED SCHOOL DISTRICT

A Special Tax shall be levied on and collected in Community Facilities District (“CFD”) No. 11 of the Poway Unified School District (“School District”) 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. 11, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

SECTION A DEFINITIONS

The terms hereinafter set forth have the following meanings:

“**Acreage**” means the land area of an Assessor’s Parcel as shown on an Assessor’s Parcel Map, or if the land area is not shown on an Assessor’s Parcel Map, the land area shown on the applicable Final Subdivision Map, other final map, parcel map, condominium plan, or other recorded parcel map at the County.

“**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. 11.

“**Annual Special Tax**” means the Special Tax levied 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. 11 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 Assessor of the County for purposes of identification.

“**Assigned Annual Special Tax**” means the Special Tax of that name as set forth in Section D.

“**Assigned Unit**” means any of up to 106 Units assigned this classification in writing to the Associate Superintendent at the Developer’s election at the time the applicable Building Permit is issued provided that each such Unit is an Attached Unit. Under no circumstance may the Developer assign more than 106 Units this classification.

“Associate Superintendent” means the Associate Superintendent of Business Support Services of the School District or his/her designee.

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

“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.

“Building Permit” means a permit for the construction of one or more Units, issued by the City, or other public agency in the event the City no longer issues said permits for the construction of Units within CFD No. 11. For purposes of this definition, “Building Permits” shall not include permits for construction or installation of commercial/industrial structures, parking structures, retaining walls, and utility improvements not intended for human habitation.

“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 that is not an Assigned Unit or an Attached Unit.

“Developed Property” means all Assessor’s Parcels of Taxable Property for which a Building Permit was issued on or before May 1 of the prior Fiscal Year, provided that such Assessor’s Parcels are associated with a Final Subdivision Map recorded on or before January 1 of the prior Fiscal Year and that each such Assessor’s Parcel is associated with a Lot, as determined reasonably by the Board.

“Developer” means any “Owner” defined as such in the certain School Impact Mitigation and Public Facilities Funding Agreement by and among the School District, Sycamore Estates, LLC, a Delaware limited liability company, Sycamore Estates II, LLC, a Delaware limited liability company, McMillin Montecito 109, LLC, a Delaware limited liability company, Brookfield 6 LLC, a Delaware limited liability company, and Brookfield 8 LLC, a Delaware limited liability company.

“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 individual Lots, recorded in the Office of the Recorder of the County.

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

“Gross Prepayment Amount” means any amount determined by reference to Tables 6, 7, 8 and 9 and adjusted as set forth in Section G.

“Indenture” means the bond indenture, master trust agreement, fiscal agent agreement, or similar document regardless of title, pursuant to which Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds are issued and which establishes the terms and conditions for the payment of applicable bonds as modified, amended and/or supplemented from time to time in accordance with its terms.

“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, which can be levied by CFD No. 11 on any Assessor’s Parcel in any Fiscal Year.

“Net Taxable Acres” means the total Acreage of all Taxable Property expected to exist in a given Zone after all Final Subdivision Maps are recorded.

“Partial Prepayment Amount” means the amount required to prepay a portion of the Annual Special Tax obligation of 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, as determined pursuant to Sections G.

“Prepayment Ratio” means with respect to an Assessor’s Parcel, for each series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds, the ratio of (i) the Annual Special Tax revenue or portion thereof applicable to the Assessor’s Parcel at the time each such series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds were issued and which were used in providing the minimum debt service coverage required to issue such series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds, as reasonably determined by the Board, to (ii) the sum of all Annual Special Tax revenue used in providing the minimum debt service coverage required to issue such series of applicable Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds, as reasonably determined by the Board.

“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.

“Regularly Retired Principal” means the principal amount of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds that have been paid as scheduled pursuant to the Indenture under which they were reserved, whether by virtue of maturing principal or regularly scheduled mandatory sinking fund redemptions.

“Residential Property” means all Assessor’s Parcels of Developed Property for which a Building Permit was issued for the construction of a Unit.

“Special Tax” means any of the special taxes authorized to be levied in CFD No. 11 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 classified as Developed Property.

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

“Zone” means the areas identified as a Zone and illustrated in Section M.

“Zone 1” means all property located within the area identified as Zone 1 in Section N, subject to interpretation by the Board.

“Zone 1 Annual Special Tax Requirement” means the amount required in any Fiscal Year to pay (i) annual debt service on all outstanding Zone 1 Bonds, (ii) Administrative Expenses of CFD No. 11 applicable to property within Zone 1, (iii) any costs associated with the release of funds from an escrow account established in association with Zone 1 Bonds, (iv) any amount required to establish or replenish any reserve funds established in association with the Zone 1 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.

“Zone 1 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 within Zone 1 of CFD No. 11 are pledged.

“Zone 2” means all property located within the area identified as Zone 2 in Section M, subject to interpretation by the Board.

“Zone 2 Annual Special Tax Requirement” means the amount required in any Fiscal Year to pay (i) annual debt service on all outstanding Zone 2 Bonds, (ii) Administrative Expenses of CFD No. 11 applicable to property within Zone 2, (iii) any costs associated with the release of funds from an escrow account established in association with Zone 2 Bonds, (iv) any amount required to establish or replenish any reserve funds established in association with the Zone 2 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.

“Zone 2 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 within Zone 2 of CFD No. 11 are pledged.

“Zone 3” means all property located within the area identified as Zone 3 in Section M, subject to interpretation by the Board.

“Zone 3 Annual Special Tax Requirement” means the amount required in any Fiscal Year to pay (i) annual debt service on all outstanding Zone 3 Bonds, (ii) Administrative Expenses of CFD No. 11 applicable to property within Zone 3, (iii) any costs associated with the release of funds from an escrow account established in association with Zone 3 Bonds, (iv) any amount required to establish or replenish any reserve funds established in association with the Zone 3 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.

“Zone 3 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 within Zone 3 of CFD No. 11 are pledged.

“Zone 4” means all property located within the area identified as Zone 4 in Section M, subject to interpretation by the Board.

“Zone 4 Annual Special Tax Requirement” means the amount required in any Fiscal Year to pay (i) annual debt service on all outstanding Zone 4 Bonds, (ii) Administrative Expenses of CFD No. 11 applicable to property within Zone 4, (iii) any costs associated with the release of funds from an escrow account established in association with Zone 4 Bonds, (iv) any amount required to establish or replenish any reserve

funds established in association with the Zone 4 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.

“Zone 4 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 within Zone 4 of CFD No. 11 are pledged.

SECTION B ASSIGNMENT OF ASSESSOR’S PARCELS

For each Fiscal Year, beginning with Fiscal Year 2004-05, each Assessor’ Parcel in CFD No. 11 shall be assigned to a Zone. Each Assessor’s Parcel in a Zone shall be classified as Taxable Property or Exempt Property taking into consideration minimum Net Taxable Acreage as set forth in Section J. Each Assessor’s Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property and each Assessor’s Parcel of Developed Property shall be classified according to Unit type.

SECTION C MAXIMUM SPECIAL TAX

1. Developed Property

The Maximum Special Tax for each Assessor’s Parcel classified as Developed Property within a particular Zone in any Fiscal Year shall be the greater of (i) the Assigned Annual Special Tax for such Zone or (ii) the Backup Annual Special Tax for a given Final Subdivision Map.

2. Undeveloped Property

The Maximum Special Tax for any Assessor’s Parcel classified as Undeveloped Property within a particular Zone in any Fiscal Year shall be the Assigned Annual Special Tax for such Zone.

SECTION D ASSIGNED ANNUAL SPECIAL TAXES

1. Developed Property

The Assigned Annual Special Tax for each Assessor’s Parcel of Developed Property in Fiscal Year 2004-05 shall be the amount determined by reference to Tables 1, 2, 3, or 4 according to the Zone in which the Assessor’s Parcel is located and the Unit type.

TABLE 1
ASSIGNED ANNUAL SPECIAL TAX
FOR DEVELOPED PROPERTY WITHIN ZONE 1
FISCAL YEAR 2004-05

Unit Type	Assigned Annual Special Tax
Attached Unit / Detached Unit	\$2,019.35
Assigned Unit	\$0.00

TABLE 2

**ASSIGNED ANNUAL SPECIAL TAX
FOR DEVELOPED PROPERTY WITHIN ZONE 2
FISCAL YEAR 2004-05**

Unit Type	Assigned Annual Special Tax
Attached Unit / Detached Unit	\$2,128.74
Assigned Unit	\$0.00

TABLE 3

**ASSIGNED ANNUAL SPECIAL TAX
FOR DEVELOPED PROPERTY WITHIN ZONE 3
FISCAL YEAR 2004-05**

Unit Type	Assigned Annual Special Tax
Attached Unit / Detached Unit	\$2,113.19
Assigned Unit	\$0.00

TABLE 4

**ASSIGNED ANNUAL SPECIAL TAX
FOR DEVELOPED PROPERTY WITHIN ZONE 4
FISCAL YEAR 2004-05**

Unit Type	Assigned Annual Special Tax
Attached Unit / Detached Unit	\$2,019.35
Assigned Unit	\$0.00

Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Developed Property in each Zone shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

2. Undeveloped Property

The Assigned Annual Special Tax per acre of Acreage for an Assessor's Parcel of Undeveloped Property within a particular Zone for Fiscal Year 2004-05 shall be determined by reference to Table 5.

TABLE 5

**ASSIGNED ANNUAL SPECIAL TAX
FOR UNDEVELOPED PROPERTY
FISCAL YEAR 2004-05**

Zone	Assigned Annual Special Tax
1	\$9,947.69 per acre
2	\$4,829.16 per acre
3	\$4,713.79 per acre
4	\$9,947.69 per acre

Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property in each Zone shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

**SECTION E
BACKUP ANNUAL SPECIAL TAX**

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

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

The terms above have the following meanings:

B	=	Backup Annual Special Tax per Lot for the applicable Fiscal Year
Z	=	Assigned Annual Special Tax per Acre of Undeveloped Property for the applicable Zone for the applicable Fiscal Year
A	=	Acreage of Developed Property expected to exist in the applicable Final Subdivision Map at build-out, 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 that is changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Annual Special Taxes anticipated to apply to the changed or modified Final Subdivision Map area prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Taxable Property which is ultimately expected to exist in such changed or modified Final Subdivision Map area, as reasonably determined by the Board.
3. The result of paragraph 2 above shall be divided by 43,560. The result is the Backup Annual Special Tax per square foot of Acreage which shall be applicable

to Assessor's Parcels of Developed Property in such changed or modified Final Subdivision Map area for all remaining Fiscal Years in which the Special Tax may be levied.

SECTION F

METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX

Zone 1

Commencing Fiscal Year 2004-05, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in Zone 1 of CFD No. 11 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

- First:** The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.
- Second:** If the sum of the amounts levied on Assessor's Parcels in the first step is less than the Zone 1 Annual Special Tax Requirement, then an Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Zone 1 Annual Special Tax Requirement.
- Third:** If the sum of the amounts levied on Assessor's Parcels in the first and second steps is less than the Zone 1 Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Zone 1 Annual Special Tax Requirement.

Zone 2

Commencing Fiscal Year 2004-05, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in Zone 2 of CFD No. 11 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

- First:** The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.
- Second:** If the sum of the amounts levied on Assessor's Parcels in the first step is less than the Zone 2 Annual Special Tax Requirement, then an Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Zone 2 Annual Special Tax Requirement.
- Third:** If the sum of the amounts levied on Assessor's Parcels in the first and second steps is less than the Zone 2 Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Zone 2 Annual Special Tax Requirement.

Zone 3

Commencing Fiscal Year 2004-05, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in Zone 3 of CFD No. 11 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

- First:** The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.
- Second:** If the sum of the amounts levied on Assessor's Parcels in the first step is less than the Zone 3 Annual Special Tax Requirement, then an Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Zone 3 Annual Special Tax Requirement.
- Third:** If the sum of the amounts levied on Assessor's Parcels in the first and second steps is less than the Zone 3 Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Zone 3 Annual Special Tax Requirement.

Zone 4

Commencing Fiscal Year 2004-05, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in Zone 4 of CFD No. 11 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

- First:** The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.
- Second:** If the sum of the amounts levied on Assessor's Parcels in the first step is less than the Zone 4 Annual Special Tax Requirement, then an Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Zone 4 Annual Special Tax Requirement.
- Third:** If the sum of the amounts levied on Assessor's Parcels in the first and second steps is less than the Zone 4 Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Zone 4 Annual Special Tax Requirement.

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. An owner of an Assessor's Parcel intending to prepay the Annual Special Tax obligation shall provide CFD No. 11 with written notice of intent to prepay. Within 30 days of receipt of such written notice, the Board shall reasonably determine the Prepayment Amount of such Assessor's Parcel and shall notify such owner of such Prepayment Amount.

1. Bond Proceeds Allocation

Prior to the calculation of any Tax Prepayment Amount, a calculation shall be performed to determine the amount of Zone 1 Bond, Zone 2 Bond, Zone 3 Bond or Zone 4 Bond proceeds that are allocable to the Assessor's Parcel for which the Annual Special obligation is to be prepaid, if any. For purposes of this, calculation Zone 1 Bond, Zone 2 Bond, Zone 3 Bond or Zone 4 Bond proceeds shall equal the par amount of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds. For each series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds proceeds of such series shall be allocated to each Assessor's Parcel in an amount equal to the Zone 1 Bond, Zone 2 Bond, Zone 3 Bond or Zone 4 Bond proceeds times the Prepayment Ratio applicable to such Assessor's

Parcel for such series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds. For each series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds, an amount of Regularly Retired Principal shall also be allocated to each Assessor's Parcel to be calculated pursuant to Section G.3E. If, after such allocations, the amount of (i) Zone 1 Bond, Zone 2 Bond, Zone 3 Bond or Zone 4 Bond proceeds allocated to the Assessor's Parcel for which the Annual Special Tax obligation is to be prepaid less the amount of Regularly Retired Principal allocated to such Assessor's Parcel is less than (ii) the sum of all the Gross Prepayment Amounts applicable to such Assessor's Parcel pursuant to Section G.2., then the Prepayment Amount for such Assessor's Parcel shall be calculated pursuant to Tables 6,7,8 or 9 of Section G.2. Otherwise, the Prepayment Amount shall be calculated pursuant to Section G.3.

2. Prepayment Amount for Assessor's Parcel with Allocation of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds Less than Applicable Gross Prepayment Amounts

The Prepayment Amount for each Assessor's Parcel for which the Prepayment Amount is to be calculated pursuant to this Section G.2. shall be calculated by (i) counting all the Units of each Unit type applicable to such Assessor's Parcel, (ii) multiplying the sum of the Units for each Unit type for such Assessor's Parcel by the applicable Gross Prepayment Amount per Unit for the Zone in which such Assessor's Parcel is located as set forth in Table 6,7, 8 or 9, and (iii) adding all the products derived from the immediately preceding step. This sum is the Prepayment Amount for the Assessor's Parcel calculated pursuant to Section G.2. The Gross Prepayment Amounts shall be determined by reference to Tables 6, 7, 8 or 9.

TABLE 6

**PREPAYMENT AMOUNT FOR FISCAL YEAR 2004-05
FOR PROPERTY WITHIN ZONE 1**

Unit Type	Gross Prepayment Amount
Attached Unit/Detached Unit	\$19,484.84 per Unit
Assigned Unit	\$0.00 per Unit

TABLE 7

**PREPAYMENT AMOUNT FOR FISCAL YEAR 2004-05
FOR PROPERTY WITHIN ZONE 2**

Unit Type	Gross Prepayment Amount
Attached Unit/Detached Unit	\$21,106.97 per Unit
Assigned Unit	\$0.00 per Unit

TABLE 8

**PREPAYMENT AMOUNT FOR FISCAL YEAR 2004-05
FOR PROPERTY WITHIN ZONE 3**

Unit Type	Gross Prepayment Amount
Attached Unit/Detached Unit	\$21,133.13 per Unit
Assigned Unit	\$0.00 per Unit

TABLE 9

**PREPAYMENT AMOUNT FOR FISCAL YEAR 2004-05
FOR PROPERTY WITHIN ZONE 4**

Unit Type	Gross Prepayment Amount
Attached Unit/Detached Unit	\$19,484.84 per Unit
Assigned Unit	\$0.00 per Unit

3. Prepayment Amount for Assessor's Parcel with Allocation of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds Equal to or Greater than Applicable Gross Prepayment Amounts

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

Zone 1 Bond, Zone 2 Bond, Zone 3 Bond or Zone 4 Bond proceeds allocated to
Assessor's Parcel pursuant to Section G.1
plus A. Redemption Premium
plus B. Defeasance
plus C. Prepayment Fees and Expenses
less D. Reserve Fund Credit
less E. Regularly Retired Principal
less F. Partial Prepayment Credit
equals Prepayment Amount

Detailed explanations of items A through F follows:

A. Redemption Premium

The Redemption Premium is calculated by multiplying (i) the principal amount of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds to be redeemed with the proceeds of the Prepayment Amount by (ii) the applicable redemption premium, if any, on the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds to be redeemed.

B. Defeasance

The Defeasance is the amount needed to pay interest on the portion of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds to be redeemed with the

proceeds of the Prepayment Amount until the earliest call date of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds to be redeemed, net of interest earnings to be derived from the reinvestment of the Prepayment Amount until the redemption date of the portion of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds to be redeemed with the Prepayment Amount. Such amount of interest earnings will be the amount reasonably estimated by the Board.

C. Prepayment Fees and Expenses

The Prepayment Fees and Expenses are the costs of the computation of the Prepayment Amount and an allocable portion of the costs of redeeming Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds and recording any notices to evidence the prepayment and the redemption, as calculated reasonably by the Board.

D. Reserve Fund Credit

The Reserve Fund credit, if any, shall be calculated as the sum of (i) the reduction in the applicable reserve fund requirement resulting from the redemption of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds with the Prepayment Amount, plus (ii) the reduction in the applicable reserve fund requirement attributable to the allocable portion of regularly scheduled retirement of principal that has occurred, as well as any other allocable portion of principal retired not related to Prepayment Amounts or Partial Prepayment Amounts. The allocable portion of regularly scheduled retirement of principal that has occurred means the total regularly scheduled retirement of principal that has occurred with respect to each series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds times the applicable Prepayment Ratio for each such series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds. The allocable portion of principal retired not related to Prepayment Amounts or Partial Prepayment Amounts means the total principal retired not related to Prepayment Amounts or Partial Prepayment Amounts with respect to each series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds times the applicable Prepayment Ratio for each such series of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds.

E. Regularly Retired Principal

The Regularly Retired Principal of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds times the applicable Prepayment Ratio for each such series of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds, or Zone 4 Bonds.

F. Partial Prepayment Credit

Partial prepayments of the Annual Special Tax obligation occurring prior to the issuance of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds will be credited in full. Partial prepayments of the Annual Special Tax obligation occurring subsequent to the issuance of Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds will be credited in an amount equal to the greatest amount of principal of the Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds that could have been redeemed with the Partial Prepayment Amount(s), taking into account Redemption Premium, Defeasance, Prepayment Fees and Expenses and Reserve Fund Credit, if any, but exclusive of restrictions limiting early redemption on the basis of dollar increments, i.e., the full amount of the Partial Prepayment

Amount(s) will be taken into account in the calculation. The sum of all applicable partial prepayment credits is the Partial Prepayment Credit.

With respect to an Annual Special Tax obligation that has been prepaid, the Board shall reasonably indicate in the records of CFD No. 11 that there has been a prepayment of the Annual Special Tax and shall reasonably cause a suitable notice to be recorded in compliance with the Act within 30 days of receipt of such prepayment of Annual Special Taxes, to indicate reasonably the prepayment of Annual Special Taxes 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 shall be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property within the Zone in which such Assessor's Parcel is located both prior to and after the proposed prepayment, net of an allocable portion of Administrative Expenses, is at least 1.1 times the annual debt service in each Fiscal Year on all outstanding Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds and such prepayment will not impair the security of all outstanding Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds, as reasonably determined by the Board. Such determination shall include identifying all Assessor's Parcels that are expected to become Exempt Property.

SECTION H

PARTIAL PREPAYMENT OF ANNUAL SPECIAL TAXES

Prior to the issuance of the first Building Permit for the construction of a production Unit on a Lot within a Final Subdivision Map, the owner of no less than all of the property within such Final Subdivision Map may elect to prepay any portion of the applicable Annual Special Tax obligation for all of the Assessor's Parcels within such Final Subdivision Map. The owner of any Assessor's Parcel who desires such partial prepayment shall notify the Board of (i) such owner's intent to partially prepay the Annual Special Tax obligation and (ii) the percentage of the Annual Special Tax obligation to be prepaid. 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 obligation 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:

$$PP = P_G \times F$$

These terms have the following meanings:

PP = the Partial Prepayment Amount

P_G = the Prepayment Amount calculated according to Section G

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

With respect to any Assessor's Parcel's Annual Special Tax obligation that is partially prepaid, the Board shall indicate in the records of CFD No. 11 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 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 and 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 CFD No. 11, net of an allocable portion of Administrative Expenses, is at least 1.1

times the regularly scheduled annual interest and principal payments on all currently outstanding Zone 1 Bonds, Zone 2 Bonds, Zone 3 Bonds or Zone 4 Bonds.

SECTION I TERMINATION OF SPECIAL TAX

Annual Special Taxes of CFD No. 11 shall be levied within Zone 1, Zone 2 and Zone 3 for a period of thirty (30) Fiscal Years after the last series of Bonds have been issued for the applicable Zone. Annual Special Taxes of CFD No. 11 shall be levied within Zone 4 for a period of thirty (30) Fiscal Years after the issuance of the last Building Permit for a Lot within Zone 4. Annual Special Taxes shall not be levied in any Zone after Fiscal Year 2050-51.

SECTION J EXEMPTIONS

Zones 1, 2 and 3

The Associate Superintendent shall classify as Exempt Property: (i) Assessor's Parcels owned by or irrevocably offered to 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, and (v) 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 to less than 56.23 Net Taxable Acres in Zone 1, 92.57 Net Taxable Acres in Zone 2, and 152.87 Net Taxable Acres in Zone 3. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 56.23 Net Taxable Acres in Zone 1, 92.57 Net Taxable Acres in Zone 2, and 152.87 Net Taxable Acres in Zone 3 will continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

Zone 4

The Associate Superintendent shall classify as Exempt Property: (i) Assessor's Parcels owned by or irrevocably offered to 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, (v) 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, and (iv) Assessor's Parcel for which a Final Subdivision Map has not been recorded.

SECTION K APPEALS

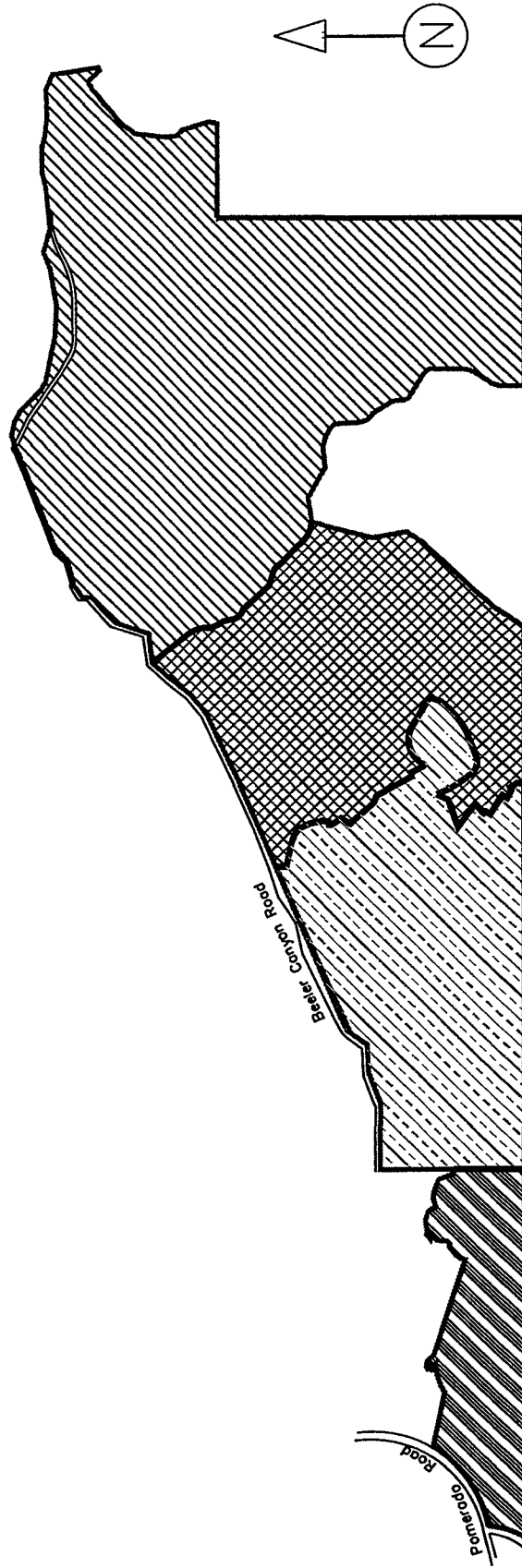
Any owner of an Assessor's Parcel claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the Associate Superintendent not later than one (1) Calendar Year after having paid the first installment of the Special Tax that is being disputed. The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

SECTION L
MANNER OF COLLECTION

The 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. 11 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

SECTION M
MAP OF ZONES

POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 11
MAP OF ZONES



LEGEND

Boundaries of Community Facilities District No. 11			
Zone Boundaries			
Zone 1	Zone 2	Zone 3	Zone 4

Reference is hereby made to the Assessor maps of the County of San Diego for an exact description of the lines and dimensions of each lot and parcel.

PREPARED BY
DAVID TAUSSIG & ASSOCIATES, INC.

**RATE AND METHOD OF APPORTIONMENT FOR
IMPROVEMENT AREA A OF
COMMUNITY FACILITIES DISTRICT NO. 11
OF THE POWAY UNIFIED SCHOOL DISTRICT**

A Special Tax shall be levied on and collected in Improvement Area ("IA") A of Community Facilities District ("CFD") No. 11 of the Poway Unified School District ("School District") each Fiscal Year in an amount determined through the application of the rate and method of apportionment described below. All of the real property in IA A of CFD No. 11, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

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

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

"Administrative Expenses" means any ordinary and necessary expenses of the School District to carry out its duties as the legislative body of IA A of CFD No. 11.

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

"Annual Special Tax Requirement" means the amount required in any Fiscal Year to pay: (i) annual debt service on all outstanding Bonds, (ii) Administrative Expenses of IA A of CFD No. 11, (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.

"Assessor's Parcel" means a Lot or parcel of land in IA A of CFD No. 11 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 Assessor of the County for purposes of identification.

"Assigned Annual Special Tax" means the Special Tax of that name as set forth in Section D.

"Assigned Unit" means any Unit classified as a Assigned Unit in accordance with the Rate and Method of Apportionment for CFD No. 11 of the School District.

“Associate Superintendent” means the Associate Superintendent of Business Support Services of the School District or his/her designee.

“Backup Annual Special Tax” means the Special Tax of that name described in Section E.

“Board” means the Board of Education of the School District or its designee.

“Bonds” means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, to the repayment of which Special Taxes of IA A of CFD No. 11 are pledged.

“Building Permit” means a permit for the construction of one or more Units, issued by the City, or other public agency in the event the City no longer issues said permits for the construction of Units within IA A of CFD No. 11. For purposes of this definition, “Building Permits” shall not include permits for construction or installation of commercial/industrial structures, parking structures, retaining walls, and utility improvements not intended for human habitation.

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

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

“City” means the City of San Diego.

“County” means the County of San Diego.

“Developed Property” means all Assessor’s Parcels of Taxable Property for which a Building Permit was issued on or before May 1 of the prior Fiscal Year, provided that such Assessor’s Parcels are associated with a Final Subdivision Map recorded on or before January 1 of the prior Fiscal Year and that each such Assessor’s Parcel is associated with a Lot, as determined reasonably by the Board.

“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 individual Lots, recorded in the Office of the Recorder of the County.

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

“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, which can be levied by IA A of CFD No. 11 on any Assessor’s Parcel in any Fiscal Year.

“Net Taxable Acres” means the total Acreage of all Taxable Property expected to exist in IA A of CFD No. 11 after all Final Subdivision Maps are recorded.

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

“Special Tax” means any of the special taxes authorized to be levied in IA A of CFD No. 11 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 classified as Developed Property.

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

SECTION B ASSIGNMENT OF ASSESSOR’S PARCELS

For each Fiscal Year, beginning with Fiscal Year 2004-05, each Assessor’s Parcel shall be classified as Taxable Property or Exempt Property taking into consideration the minimum Net Taxable Acres as set forth in Section J. Each Assessor’s Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property and each Assessor’s Parcel of Developed Property shall be classified according to its Building Square Footage.

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 greater of (i) the Assigned Annual Special Tax or (ii) the Backup Annual Special Tax for a given Final Subdivision Map.

2. Undeveloped Property

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

SECTION D ASSIGNED ANNUAL SPECIAL TAXES

1. Developed Property

The Assigned Annual Special Tax for each Assessor’s Parcel of Developed Property in Fiscal Year 2004-05 shall be the amount determined by reference to Table 1 according to the Building Square Footage of the Unit.

TABLE 1

**ASSIGNED ANNUAL SPECIAL TAX
FOR DEVELOPED PROPERTY
FISCAL YEAR 2004-05**

Building Square Footage	Assigned Annual Special Tax
≤ 2,650	\$1,877.07
2,651 – 3,000	\$2,076.13
3,001 – 3,250	\$2,182.30
3,251 – 3,500	\$2,401.26
3,501 – 3,750	\$2,726.46
3,751 – 4,000	\$2,898.98
4,001 – 4,250	\$3,031.69
4,251 – 4,500	\$3,164.39
4,501 – 4,750	\$3,234.03
> 4,750	\$3,303.67
* Assigned Units are Exempt Property	

Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Developed Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

2. Undeveloped Property

The Assigned Annual Special Tax for an Assessor's Parcel of Undeveloped Property for Fiscal Year 2004-05 shall be \$11,945.89 per acre of Acreage.

Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property shall be increased by 2.00% of the amount in effect in the prior Fiscal Year.

**SECTION E
BACKUP ANNUAL SPECIAL TAX**

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

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

The terms above have the following meanings:

B	=	Backup Annual Special Tax per Lot for the applicable Fiscal Year
Z	=	Assigned Annual Special Tax per Acre of Undeveloped Property for the applicable Fiscal Year
A	=	Acreage of Developed Property expected to exist in the applicable Final Subdivision Map at build-out, 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 that is changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Annual Special Taxes anticipated to apply to the changed or modified Final Subdivision Map area prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Taxable Property which is ultimately expected to exist in such changed or modified Final Subdivision Map area, as reasonably determined by the Associate Superintendent.
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 2004-05, and for each subsequent Fiscal Year, the Associate Superintendent shall determine the Annual Special Tax to be collected in IA A of CFD No. 11 in such Fiscal Year. The Annual Special Tax shall be levied as follows:

- First:** The Annual Special Tax shall be levied on each Assessor's Parcel of Developed Property at the Assigned Annual Special Tax applicable to such Assessor's Parcel.
- Second:** If the sum of the amounts levied on Assessor's Parcels in the first step is less than the Annual Special Tax Requirement, then the Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to the Assigned Annual Special Tax applicable to such Assessor's Parcel to satisfy the Annual Special Tax Requirement.
- Third:** If the sum of the amounts levied on Assessor's Parcels in the first and second steps is less than the Annual Special Tax Requirement, then the Annual Special Tax on each Assessor's Parcel of Developed Property shall be increased Proportionately from the Assigned Annual Special Tax up to the Maximum Annual Special Tax to satisfy the Annual Special Tax Requirement.

SECTION G PREPAYMENT OF ANNUAL SPECIAL TAX

The Annual Special Tax obligation of an Assessor's Parcel, may be prepaid in full at the times and under the conditions set forth in this Section G.1, 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.

1. Prepayment Times and Conditions

a. Undeveloped Property

Prior to the issuance of a Building Permit for the construction of a production Unit on a Lot within a Final Subdivision Map, the owner of no less than all the Taxable Property within such Final Subdivision Map may elect in writing to the Associate Superintendent to prepay the Annual Special Tax obligations for all the Assessor's Parcels within such Final Subdivision Map area in full, as calculated in Section G.2. below. The prepayment of the Annual Special Tax obligation for each such Assessor's Parcel shall be collected prior to the issuance of the Building Permit with respect to such Assessor's Parcel.

b. Developed Property

In any Fiscal Year following the first Fiscal Year in which such Assessor's Parcel was classified as Developed Property, the owner of such an Assessor's Parcel may prepay the Annual Special Tax obligation for such Assessor's Parcel, as calculated in Section G.2. below.

2. Prepayment Amount

The Prepayment Amount for an Assessor's Parcel eligible for prepayment shall be determined as described below.

a. Prior to Issuance of Bonds

The Prepayment Amount for each applicable Assessor's Parcel prior to the issuance of Bonds shall be determined by reference to Table 2.

TABLE 2

PREPAYMENT AMOUNT FOR FISCAL YEAR 2004-05

Building Square Feet	Gross Prepayment Amount
≤ 2,650	\$18,385.52
2,651 – 3,000	\$20,335.27
3,001 – 3,250	\$21,375.13
3,251 – 3,500	\$23,519.86
3,501 – 3,750	\$26,705.10
3,751 – 4,000	\$28,394.89
4,001 – 4,250	\$29,694.72
4,251 – 4,500	\$30,994.56
4,501 – 4,750	\$31,676.64
> 4,750	\$32,358.74

Each July 1, commencing July 1, 2005, the Gross Prepayment Amount applicable to an Assessor's Parcel shall be increased by 2.00% of the amount in effect the prior Fiscal Year.

b. 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 Assessor's Parcels of Developed Property, compute the sum of the Assigned Annual Special Taxes and the Backup Annual Special Taxes applicable to the Assessor's Parcel. For Assessor's Parcels of Undeveloped Property, compute the sum of the Assigned Annual Special Taxes and the Backup Annual Special Taxes applicable to the Assessor's Parcel as though it was already designated as Developed Property, based upon the Building Permit issued or to be issued for that Assessor's Parcel.
2. For each Assessor's Parcel of Developed Property or Undeveloped Property to be prepaid, (a) divide the sum of the Assigned Annual Special Taxes computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Assigned Annual Special Taxes applicable to all Assessor's Parcels of Developed

Property at build out, as reasonably determined by the Board, and (b) divide the sum of Backup Annual Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Backup Annual Special Taxes applicable to all Assessor's Parcels of Developed Property at build out, as reasonably determined by the Board.

3. The amount determined pursuant to Section G.2.a. 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 which is allocable to the applicable Assessor's Parcel, as determined by the Board. The result is the "Outstanding Gross Prepayment Amount." In no event shall any Annual Special Taxes determined to have been used to make a regularly scheduled principal payment on the Bonds be adjusted for any increase in any cost index or other basis subsequent to the date of the applicable principal payment.
4. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the face value of all outstanding Bonds. If the product is greater than the Outstanding Gross Prepayment Amount, then the product shall be the "Bond Redemption Amount." If the product is less than the Outstanding Gross Prepayment Amount, then the Outstanding Gross Prepayment Amount shall be the "Bond Redemption Amount."
5. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the outstanding Bonds to be redeemed with the proceeds of the Bond Redemption Amount. This product is the "Redemption Premium."
6. Compute the amount needed to pay interest on the Bond Redemption Amount, the Redemption Premium, and the Reserve Fund Credit (see step 10) to be redeemed with the proceeds of the Prepayment Amount until the earliest call date for the outstanding Bonds.
7. Estimate the amount of interest earnings to be derived from the reinvestment of the Bond Redemption Amount plus the Redemption Premium until the earliest call date for the outstanding Bonds.
8. Subtract the amount computed pursuant to paragraph 7 from the amount computed pursuant to paragraph 6. This difference is the "Defeasance."
9. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."
10. Calculate the "Reserve Fund Credit" as the lesser of: (a) the expected reduction in the applicable reserve requirement, 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 requirement in effect after the redemption of outstanding Bonds as a result of the prepayment from the balance in the applicable reserve fund 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 Board shall indicate in the records of IA A of CFD No. 11 that there has been a prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act to indicate the prepayment of the Annual Special Tax obligation and the release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Annual Special Taxes shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Bonds in each future Fiscal Year and such prepayment will not impair the security of all currently outstanding Bonds, as reasonably determined by the Board. Such determination shall include identifying all Assessor's Parcels that are expected to become Exempt Property.

SECTION H

PARTIAL PREPAYMENT OF ANNUAL SPECIAL TAXES

The Annual Special Tax obligation of an Assessor's Parcel, as calculated in Section H.2. below, may be partially prepaid at the times and under the conditions set forth in this section, 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 partially prepaid.

1. Partial Prepayment Times and Conditions

Prior to the issuance of the first Building Permit for the construction of a production Unit on a Lot within a Final Subdivision Map, the owner of no less than all the Taxable Property within such Final Subdivision Map may elect in writing to the Board to prepay a portion of the Annual Special Tax obligations for all the Assessor's Parcels within such Final Subdivision Map, as calculated in Section H.2. below. The partial prepayment of each Annual Special Tax obligation shall be collected prior to the issuance of the first Building Permit with respect to each Assessor's Parcel.

2. Partial Prepayment Amount

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

$$PP = P_G \times F$$

The terms above 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

3. Partial Prepayment Procedures and Limitations

With respect to any Assessor's Parcel that is partially prepaid, the Board shall indicate in the records of IA A of CFD No. 11 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 to indicate the partial prepayment of the 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 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 Taxes that may be levied on Taxable Property after such partial prepayment, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Bonds in each future Fiscal Year.

SECTION I TERMINATION OF SPECIAL TAX

Annual Special Taxes of IA A of CFD No. 11 shall be levied for a period of thirty (30) Fiscal Years after the last series of Bonds have been issued, provided that Annual Special Taxes shall not be levied after Fiscal Year 2050-51.

SECTION J EXEMPTIONS

The Associate Superintendent shall classify as Exempt Property: (i) Assessor's Parcels owned by or irrevocably offered to 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 for which Building Permits were issued on or before May 1 of the prior Fiscal Year for the construction of Assigned Units, (iv) Assessor's Parcels used exclusively by a homeowners' association, (v) 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, and (v) 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 to less than 56.23 Net Taxable Acres. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 56.23 Net Taxable Acres will continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

SECTION K APPEALS

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

SECTION L MANNER OF COLLECTION

The Annual Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that IA A of CFD No. 11 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

APPENDIX C
SUMMARY APPRAISAL REPORT

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SUMMARY APPRAISAL REPORT

COVERING

Poway Unified School District
Community Facilities District No. 11 (StoneBridge Estates)
Zone 1/Improvement Area A

DATE OF VALUE:

February 1, 2004

SUBMITTED TO:

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

DATE OF REPORT:

February 11, 2004

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

February 11, 2004

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

Re: Community Facilities District No. 11
(StoneBridge Estates) Zone 1/Imp. Area A

Dear Ms. Burgoyne:

In accordance with your request and the District's authorization, I have completed a Complete Appraisal of the taxable properties within Zone 1/Improvement Area A of the above-referenced Community Facilities District (CFD). This Zone/Improvement Area consists of a total of 277 single-family residential lots within three separate tracts. The tract called Mill Creek consists of 109 lots on which there are 3 completed model homes and 15 homes under construction, the tract called Astoria consists of 121 lots on which the 3 model homes are under construction, and the tract called Calabria consists of 47 lots with no construction yet underway. The vacant lots in all three tracts range from blue-top condition to near finished condition.

The purpose of this appraisal is to estimate the aggregate market value of each separate tract, reflecting the as is condition of the vacant lots and any completed homes or homes under construction. This appraisal also reflects the proposed public bond financing, as well as a property tax rate of $\pm 1.7\%$, including special taxes, to the 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 February 1, 2004:

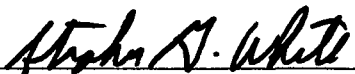
<u>Tract</u>	<u>Market Value</u>
Mill Creek	\$36,000,000
Astoria	\$37,200,000
Calabria	<u>\$14,800,000</u>
	\$88,000,000

(EIGHTY-EIGHT MILLION DOLLARS)

MS. SANDRA G. BURGOYNE
FEBRUARY 11, 2004
PAGE 2

The following is the balance of this 42-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: 03054

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ADDENDA

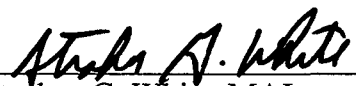
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CERTIFICATION

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

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

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



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

ASSUMPTIONS AND LIMITING CONDITIONS

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

1. No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. All engineering studies, if applicable, are assumed to be correct. 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.
2. The valuation has assumed that the CFD bond-financed facilities will include ±\$6,358,247 to finance school facilities (Zone 1) and ±\$8,042,243 to finance non-school facilities (Improvement Area A), or a total of ±\$14,400,490.

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. 11 (StoneBridge Estates) Zone 1/Improvement Area A 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 and new-home pricing 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 February 1, 2004.

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.

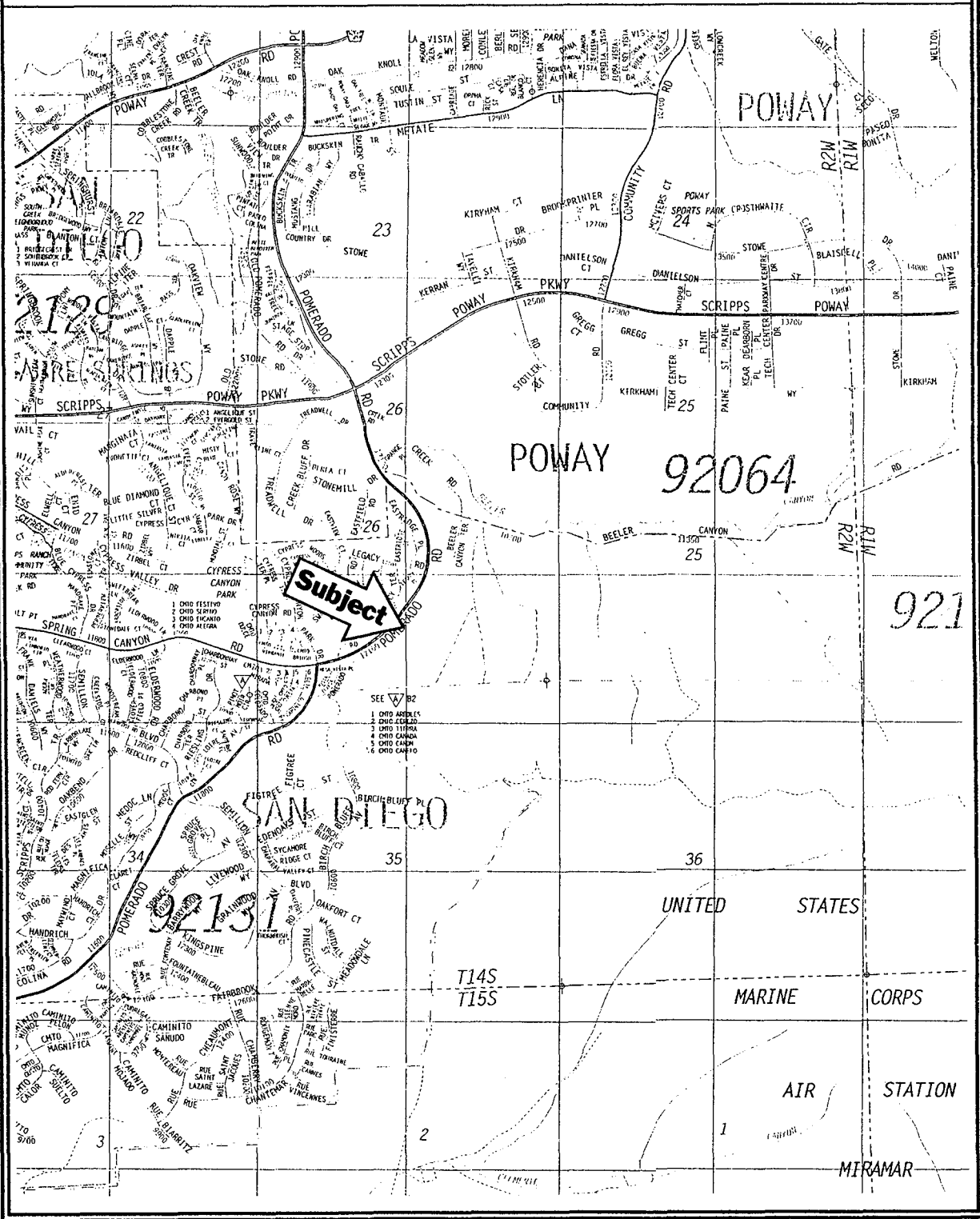
DEFINITION OF BLUE-TOP LOT

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

OWNERSHIP/SALES HISTORY

The current owner of the 109 lots in the Mill Creek tract is McMillin Montecito 109 LLC, the current owner of the 121 lots in the Astoria tract is Brookfield 6 LLC, and the current owner of the 47 lots in the Calabria tract is Brookfield 8 LLC. These lots were deeded to each entity in August 2002 by Sycamore Estates II LLC, which was a partnership of the McMillin Companies and Brookfield Homes. Sycamore Estates II LLC had acquired the property in December 2001.

LOCATION MAP



INTRODUCTION

GENERAL LOCATION

The map on the opposite page indicates the approximate locations of the three subject tracts. These tracts lie along Stonebridge Parkway, extending for $\pm .75$ mile easterly from Pomerado Rd., in the City of San Diego.

This location is in the far northeast part of the City of San Diego, about $3\frac{1}{2}$ miles east of the I-15 Freeway. Within $\frac{1}{4}$ mile to the north is the south end of the City of Poway, and nearly adjacent to the south is the U.S. Marine Corps Air Station Miramar. Just over 3 miles to the northeast is unincorporated County area, and just over 4 miles to the southeast is the City of Santee. The general area within San Diego to the west of the subject tracts is known as Scripps Ranch, and farther west are the communities of Scripps Miramar Ranch and Miramar Ranch North.

The subject tracts are located in the newly-developing master-planned community called StoneBridge Estates (formerly known as Rancho Encantada), which is discussed in greater detail on following pages. The subject tracts comprise the westerly 3 tracts or neighborhoods of a total of 7 neighborhoods that will comprise the overall community. This community will ultimately extend for over 2 miles easterly of Pomerado Rd. and southerly of Beeler Canyon Rd.

DESCRIPTION OF SURROUNDINGS

To the north of the subject property the land slopes down into Beeler Canyon. This canyon area is a sparsely developed rural residential area with various scattered homes on large lots, but is a mostly undeveloped area as well as a wildlife corridor that extends east and then northeast. Farther north the land slopes up to a higher mesa area, on which is the 700-acre South Poway Business Park, about $\frac{1}{2}$ mile to the north and northeast of the subject.

To the northwest, beyond Pomerado Rd., is a developed single-family residential area, part of which is the Scripps Ranch area within San Diego and part of which is within the City of Poway. The homes nearest to the subject along Pomerado Rd. were built in the early to mid-1990's, and typically range in size from $\pm 1,800$ s.f. to 3,000 s.f., with lot sizes of $\pm 4,000$ s.f. minimum. Recent sale prices indicate the range of about \$515,000 to \$650,000.

Farther west and northerly of Pomerado Rd./Spring Canyon Rd. is a tract of detached homes on $\pm 2,500$ s.f. to 3,000 s.f. lots. These homes were built in the mid-1990's, typically ranging in size from $\pm 1,200$ s.f. to 1,600 s.f., and recent sales indicate the prices from \$365,000 to \$485,000.

Adjacent to the southwest of the subject, at the southeast quadrant where Pomerado Rd. angles to the south/southwest, is a small tract of new homes on small lots. Most

DESCRIPTION OF SURROUNDINGS, Continuing

of the sales by the builder closed in September through November 2003, and indicated the price range from \$488,000 to \$580,000. Farther to the southwest is a tract of homes on $\pm 3,000$ s.f. minimum lots that was built in the mid-1990's. The homes range in size from about 1,600 s.f. to 1,900 s.f., and the most recent sales indicate the price range of \$475,000 to \$540,000.

To the south of the subject property is the northwest tip of the U.S. Marine Corps Air Station Miramar. This base extends for many miles to the south and east. The land adjacent to the subject property is mostly undeveloped and hilly, with some nearby communications facilities.

To the east of the subject property is the raw land for the future phase of StoneBridge Estates. This extends for over a mile to the east and northeast, and currently is undeveloped and hilly land.

It is also noted that the overhead S.D.G.&E. electric transmission lines run northwest to southeast through this community. These lines are nearby to the north of the subject Mill Creek tract, adjacent at the north side of the subject Astoria tract, and between the north and south portions of the subject Calabria tract, and crossing over Stonebridge Pkwy. farther to the east.

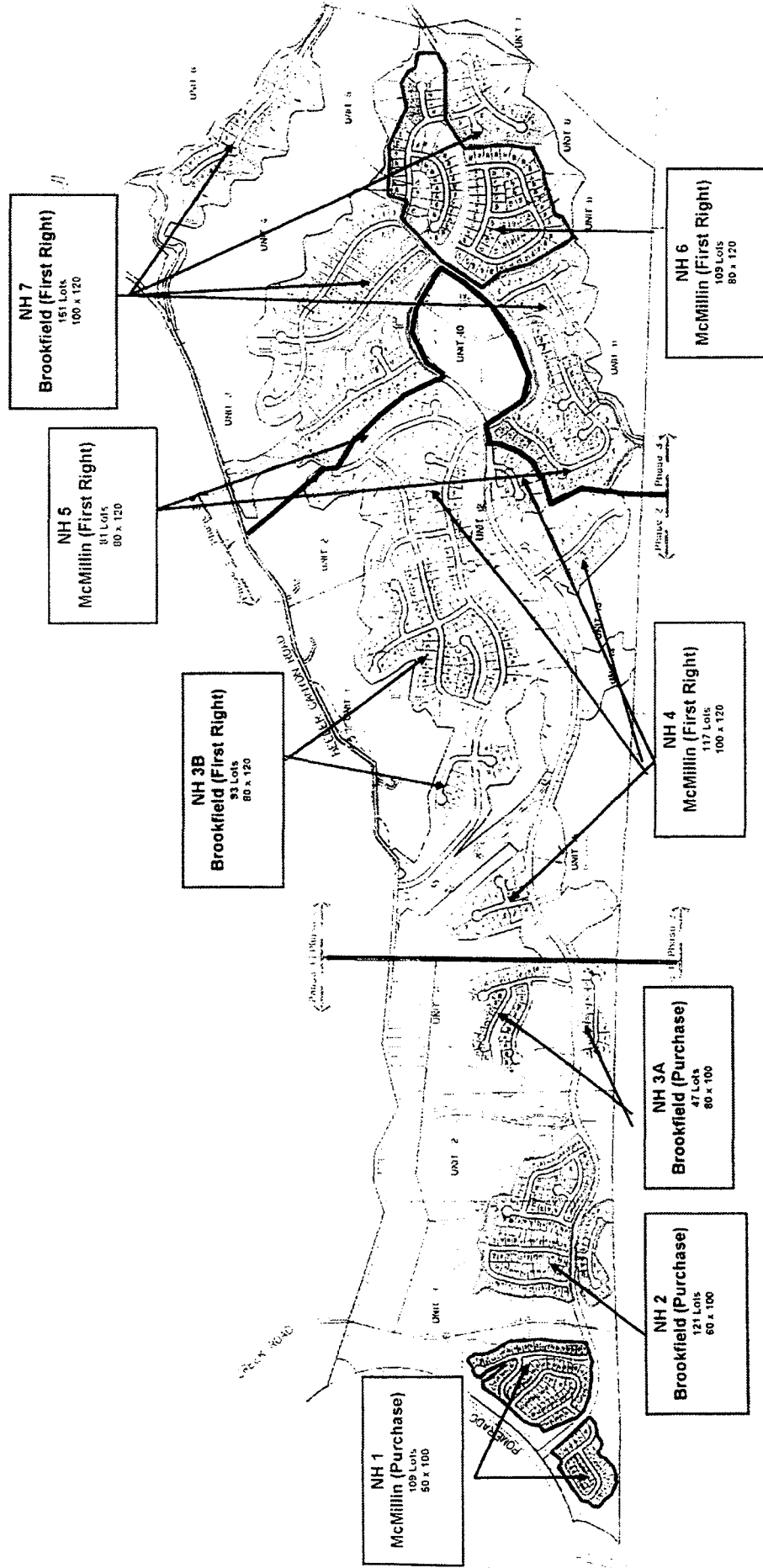
In summary, the subject property is located at the edge of a fairly new residential area at this northeast edge of San Diego, with much surrounding undeveloped land that includes the Beeler Canyon area and the Marine Corps base. There is also the nearby business park in Poway, but this is relatively distant from the subject property.

OVERVIEW OF CFD NO. 11

Community Facilities District No. 11 comprises the entire planned community of StoneBridge Estates (formerly Rancho Encantada), which is a total of approximately 2,658 gross acres. This land is planned to be developed with a total of 828 single family homes and 106 affordable apartment units, which reflects that over 81% of the land will remain as natural open space.

The CFD is divided into Zones 1 through 3 and coterminous Improvement Areas A through C. The current financing involves the issuance of special tax bonds for Zone 1 and Improvement Area A. Thus, only the properties included in this coterminous Zone and Improvement Area are included in this appraisal.

Map of Neighborhoods



DESCRIPTION OF STONEBRIDGE ESTATES

Overview

StoneBridge Estates is a master planned community that contains a total of $\pm 2,658$ acres. Approximately 510 acres is planned to be developed with 828 single family homes within seven different neighborhoods and a 106-unit apartment complex for affordable housing, plus a school site and two park sites. The balance or 81% of the gross acreage will remain as open space, including 1,800 acres that will become Mission Trails Regional Park North.

The residential development will be fairly spread out with much open space of canyon and hill areas between and/or around the various neighborhoods. The main collector street into and through the community will be meandering and tree-lined, with set-back sidewalks, split-rail fences and stone pilasters, and lush landscaping. In addition, the in-tract streets will be curving and meandering, with many single-loaded streets and cul-de-sacs. There will also be 11 miles of multi-use trails traversing the site, connecting to a countywide system. These factors will create a rural setting and a country feel, though still within $3\frac{1}{2}$ miles of the I-15 Freeway.

The homes in the community will range from just under 3,000 s.f. to near 6,000 s.f., and the lots will range from $\pm 5,000$ s.f. minimum to about .75 acre in size. The smaller homes on smaller lots will be in the first phase of the community, and the largest homes on the largest lots will be in later phases. The home pricing was projected to be from the \$600,000's to over \$1,000,000.

The first phase of the community will comprise 277 homes in three separate neighborhoods that are located at the west end of the community, nearest Pomerado Rd. Construction is underway on the first two neighborhoods, and will soon be underway on the third neighborhood. Grading is now underway on the second phase of the community, and construction will likely be underway by the latter part of this year. (Note: this appraisal is of only the first phase that comprises the 277 lots.)

Streets and Access

Access to StoneBridge Estates is by Stonebridge Parkway that extends easterly from Pomerado Rd. Pomerado Rd. is a two-lane roadway along the westerly side of the subject community and to the south, becoming a four-lane roadway farther to the north, nearer Scripps Poway Parkway. The intersection of Pomerado Rd. and Stonebridge Parkway is signalized.

Stonebridge Parkway is a four-lane divided roadway that ultimately will extend easterly through most of the overall community. It is currently paved to near the mid-point of the Astoria neighborhood, and then becomes a graded roadway. The three tracts or neighborhoods that are the subject of this appraisal have access off of this street.

DESCRIPTION OF STONEBRIDGE ESTATES, Continuing

Utilities

The utilities for the community are provided as follows:

Water & Sewer:	City of San Diego
Gas & Electric:	San Diego Gas & Electric
Telephone:	SBC
Cable:	Time Warner and Cox

Zoning/Approvals

The overall community is covered by the Rancho Encantada Precise Plan, and it together with Planned Residential Development Permits and Vesting Tentative Tract Maps were approved by the City in August 2001. The final tract maps for the subject Mill Creek and Astoria neighborhoods were recorded in July 2003 and the final tract map for the subject Calabria neighborhood was recorded in October 2003.

Drainage/Flood Hazard

Drainage is and will be within master-planned facilities that have been or will be constructed throughout the community.

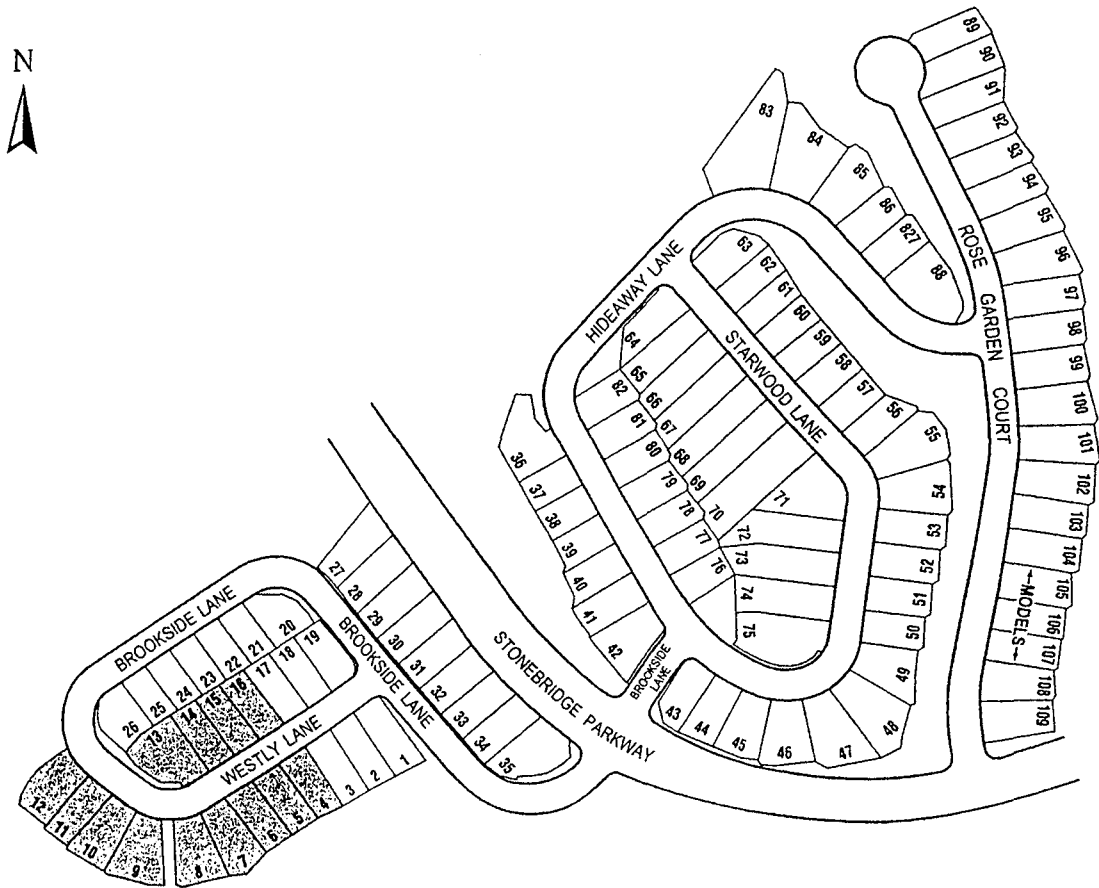
Per FEMA Flood Map Panel No. 06073 C 1359, dated June 19, 1997, the subject property is located in Zone X, an area determined to be outside of the 500-year floodplain.

Soil/Geologic/Environmental Conditions

Soils and environmental studies were completed by GEOCON, Inc. and P&D Environmental Services, and essentially these studies concluded that there was no evidence of polluted soils or other adverse conditions in or on the land.

This appraisal has assumed that, for the subject 277 lots, all necessary grading and compacting has been or will be properly completed by the master developer and builders; that there are no abnormal soil or geologic conditions that would affect the development of the lots as planned; that all necessary environmental permits and approvals have been obtained for single family residential development as planned; and that there are no other environmental conditions, including endangered species or habitat, watercourses or wetlands that would have a negative effect on the planned development. Furthermore, it has been assumed that all required mitigation measures have taken place, or are reflected in the costs to complete the lots from as is condition to finished lots.

MAP OF MILL CREEK



MILL CREEK (MCMILLIN HOMES)

PROPERTY DATA

Location

This tract is located on both sides of Stonebridge Pkwy. at Brookside Ln., extending easterly from Pomerado Rd.

Legal Description

The lots are described as Lots 1 through 109 of Montecito–Unit 1, in the City of San Diego, County of San Diego, per map No. 14621 recorded in the office of the County Recorder of San Diego County on July 12, 2003.

Assessor Data

The lots comprise Assessor Parcel Nos. 320-250-01 through 35, 320-251-01 through 41, and 320-252-01 through 33. The assessed values for each lot are not yet available. The current tax rate is $\pm 1.01\%$, but the actual tax rate to the homeowners is estimated to be $\pm 1.7\%$, including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 109 single-family residential lots. The lots are $\pm 5,000$ s.f. minimum pad size, but the overall size ranges from about 5,100 s.f. to over 11,000 s.f., including side and/or rear slope areas.

Streets and Access

Stonebridge Pkwy. provides the access to this tract at Brookside Ln., which extends to the north and south, and also at Rose Garden Ct. which extends to the north. The in-tract streets are Brookside Ln., Westly Ln., Hideaway Ln., Starwood Ln. and Rose Garden Ct. All of these in-tracts are paved, with curb and gutter on both sides.

Physical Condition/Topography

All of the subject lots are in a mostly finished condition from a physical standpoint, other than minor items to complete such as final street lift, common area/slope landscaping, etc.

This tract is below grade of Pomerado Rd., with downslopes from the street to the lots. The south part of the tract, south of Stonebridge Pkwy., is fairly flat, with minimal terracing between the lots and no view potential. The land also slopes up to the south and east from these lots. The north part of the tract terraces down from Stonebridge Pkwy. to the west, north and east. There is terracing between most of

PROPERTY DATA, Continuing

the lots and between the rows of lots on each street, which provides for some minor territorial views to some of the higher lots. The lots along the northeast side of Rose Garden Ct. back to a canyon area, and the lots toward the northerly end of the street have territorial and city lights views.

Title Report

A title report has not been reviewed on this tract. 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 109 lots are being developed with a tract of homes called Mill Creek. As of the February 1, 2004 date of value, there were 3 completed model homes, 15 homes (phase 1) under construction, and 91 vacant lots. The homes under construction are currently in the framing stage, estimated to be ± 20 -30% completed, and due to be finished in April or May. The vacant lots are in a near finished condition, as previously noted.

There are three primary floor plans, all with various options, which are basically described as follows:

Plan One (Yarlington): 2,947 to 3,330 s.f., two story, with 4 to 7 bedrooms, $2\frac{1}{2}$ to 5 baths, den, and a 3-car tandem garage.

Plan Two (Stockbridge): 3,226 to 3,399 s.f., two story, with 4 to 6 bedrooms, $2\frac{1}{2}$ to 5 baths, den, and a 3-car garage.

Plan Three (Kingston): 3,390 to 3,563 s.f., two story, with 4 to 6 bedrooms, $2\frac{1}{2}$ to 6 baths, den, loft, and a 3-car garage.

The base pricing for the 15 homes in Phase 1 ranged from \$765,990 to \$822,990, or an average of $\pm \$797,600$. The actual release pricing/sale prices, including lot premiums (from $-\$27,000$ to $\$33,000$) and options, ranged from $\$749,746$ to $\$872,300$, or an average of $\pm \$804,000$. As of the February 1, 2004 date of value, 13 of the 15 homes in Phase 1 were sold. The base pricing for the 13 homes in Phase 2A/2B is $\$795,990$ to $\$857,990$, or an average of $\pm \$831,000$. The actual release pricing, including lot premiums, ranges from $\$803,990$ to $\$911,990$, or an average of $\pm \$859,000$. This pricing was effective on February 1, and the homes were to be released for sale on February 7.

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

PROPERTY DATA, Continuing

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 both vacant/buildable residential lots as well as new homes in this general area that has resulted in significantly increasing prices in recent years.

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 from other tracts of new homes in the general area has also been considered. The information from these tracts is 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 at Torrey Highlands (Shea Homes)	5,000	2,529 s.f.	\$612,900	\$242.35
		2,758 s.f.	\$641,900	\$232.74
		2,889 s.f.	\$657,900	\$227.73
		3,141 s.f.	\$686,900	\$218.69
Mirasol (Pardee Homes)	10,000	3,140 s.f.	\$803,000	\$255.73
		3,972 s.f.	\$853,000	\$214.75
		4,542 s.f.	\$900,000	\$198.15
Bordeaux (Pardee Homes)	4,000	2,556 s.f.	\$716,900	\$280.48
		2,629 s.f.	\$732,900	\$278.78
		2,724 s.f.	\$746,900	\$274.19
Vista Santa Barbara (Pardee Homes)	6,000	3,396 s.f.	\$839,900	\$247.32
		3,750 s.f.	\$889,900	\$237.31
		3,904 s.f.	\$919,900	\$235.63
Palomino at 4S Ranch (K. Hovnanian)	7,350	4,152 s.f.	\$754,990	\$181.84
		4,381 s.f.	\$754,990	\$172.33
		4,595 s.f.	\$777,990	\$169.31
Terreno at 4S Ranch (Standard Pacific Homes)	8,125	3,175 s.f.	\$765,900	\$241.23
		3,802 s.f.	\$794,900	\$209.07
		3,918 s.f.	\$875,900	\$223.56
		3,990 s.f.	\$820,900	\$205.74
Cambridge at 4S Ranch (Fieldstone Communities)	6,300	2,814 s.f.	\$652,990	\$232.05
		3,157 s.f.	\$670,990	\$212.54
		3,392 s.f.	\$685,990	\$202.24
Subject	5,000	2,947 s.f.	\$795,990	\$270.10
		3,226 s.f.	\$820,990	\$254.49
		3,390 s.f.	\$845,990	\$249.55

PROPERTY DATA, Continuing

Avalon Point is located in the Torrey Highlands area, which is about 8 miles westerly of the subject. The minimum lot size is similar, but the homes are smaller and of inferior quality to the subject, and the general location and surroundings are inferior to the subject. Mirasol is located just to the west of the Santaluz area, which is about a mile northerly of Avalon Point. The lots are much larger and the homes are larger than the subject, but the location is fairly similar. Bordeaux and Vista Santa Barbara are located several miles farther to the west. The location is similar to slightly superior to the subject due to the closer ocean proximity. These two tracts range from smaller homes on smaller lots to larger homes on larger lots than the subject.

Palomino, Terreno and Cambridge are located in the 4S Ranch community which is about 7 miles to the northwest of the subject. These tracts consist of the largest homes on the largest lots in the second phase of that community. It is noted that the pricing for Palomino and Cambridge is about 3 to 5 months old, with pricing for the next phase of Palomino due out next month, and Cambridge now being sold out. The location and the general community are considered to be slightly inferior to the subject, and this is evidenced by the lower pricing relative to the home sizes, or on a per s.f. basis.

Overall, considering that the subject lot sizes are typically much larger than the minimum size, and considering the desirable location of the subject tract, I have concluded that this other new home pricing generally supports the current pricing of the subject homes. This is also supported by the sales activity which has occurred thus far in the subject tract.

VALUATION

Method of Analysis

The Sales Comparison Approach is used to estimate the value of 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 vacant lots, as if in a fully 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.

VALUATION, Continuing

Analysis of Completed-Unsold Homes

These are the 3 completed model homes. As previously indicated, the pricing for the homes in Phase 1 were \$749,746 to \$872,300, or an average of \pm \$804,000, and 13 of the 15 homes were sold as of the February 1, 2004 date of value. These prices reflect both the positive and negative lot premiums. In addition, the pricing for the 13 homes in Phase 2A/2B, including lot premiums but not options, ranges from \$803,990 to \$911,990, or an average of \pm \$859,000.

For these 3 model homes, there could be a discount to reflect the bulk ownership by the builder, with holding and sales costs plus profit. However, such a discount would be more than offset by an upward adjustment for the model upgrades. Furthermore, the models back to the canyon/open space, and would have a positive lot premium.

In summary, for conservative valuation purposes, I have concluded on an average value for these 3 completed-unsold homes of \$800,000.

Analysis of Homes Under Construction

For the 15 homes which are \pm 20-30% completed, I have considered an average cost amount of 25% of \pm \$70.00 per s.f. total costs or \$17.50 per s.f. on the average home size of \pm 3,190 s.f., or an amount of \$56,000. This is added to the estimated finished lot value of \$335,000, as discussed next for the vacant lots, resulting in a total of \$391,000, as an average for these 15 homes.

Analysis of Finished Lot Value

A search was made for recent sales of bulk single-family lots in the 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 16 sales in that tabulation.

Sale No. 1 is located in Torrey Highlands Subarea IV, along the south side of the future S.R. 56 and nearby to the west of Camino del Sur, about 8 miles westerly of the subject. 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, as previously indicated, the current base pricing is \$613,000 to \$687,000, or \pm 25% higher. In comparison to the subject, the minimum lot size and view potential are similar, but the location and surroundings are slightly inferior. Furthermore, the lots are being developed with smaller and much lower-priced homes than on the subject lots. Considering an upward time adjustment of at least 25% since the sale date in

VALUATION, Continuing

July 2002, the adjusted indication of \$300,000 per finished lot supports a close but firm lower limit for the subject.

Sale No. 2 is located within the planned community of Santaluz, located north of Carmel Valley Rd. and near Camino Ruiz. Santaluz 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 in finished condition, with many of the lots backing to open space. As of the sale date in September 2001, the projected home pricing was an average of \pm \$650,000, and the most recent home pricing as of March 2003 ranged from \pm \$740,000 to \$840,000, or about 22% higher. In comparison to the subject, these are much larger lots, and the location is in a slightly superior, high-end master-planned community. Thus, considering an upward time adjustment of at least 30% since the sale date in September 2001, the adjusted indication at \$357,500 per finished lot supports a firm upper limit for the subject.

Sale No. 3 is also located in the community of Santaluz, nearby to the north of Sale No. 2. It was a sale of 8,120 s.f. minimum lots in August 2002 at a price of \$294,000 per finished lot, 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, and the current pricing is \$956,900 to \$1,049,900, or about 29% higher. The comparison to the subject is similar to Sale No. 2, with these being substantially larger lots than the subject. Thus, considering an upward time adjustment of at least 25% since the sale date in August 2002, the adjusted indication at \$367,500 per finished lot supports a far upper limit for the subject.

Sale No. 4 is located just to the west of the Santaluz community, nearby to the northwest of Sale No. 3. This was a sale of raw land with an approved tentative tract map for 10,000 s.f. minimum lots, and an average size of 13,000 s.f. The sale closed in May 2002 at a price of \pm \$350,000 per finished lot. At that time, the builder projected home pricing from the mid \$700,000's to the mid \$800,000's. However, the most recent pricing ranges from the low \$900,000's to over \$1,100,000, or an increase of at least 25%. In comparison to the subject, the lots are much larger and the location is slightly superior, as evidenced by the much larger and higher-priced homes than on the subject lots. Thus, considering an upward time adjustment of at least 25% since the sale date in May 2002, the adjusted indication at \$437,500 per finished lot supports a far upper limit for the subject.

Sale Nos. 5 through 11 are located in the newly-developing master-planned community of 4S Ranch. This community is located about 7 miles northwesterly of the subject property, in unincorporated area adjacent to the west of the Rancho Bernardo area. The older sales are located in Neighborhood Two which is nearing build-out with a wide range of home products, and the more recent sales are located in Neighborhood Three which is now being graded for delivery of lots to builders.

VALUATION, Continuing

The 4S Ranch community is considered to be inferior to the subject location and community, as evidenced by the somewhat lower home pricing in the tracts of 4S Ranch.

Sale Nos. 5 and 6 were sales of 6,300 s.f. minimum lots in which the first takedowns of lots closed in late 2002, and the second takedowns closed in April and August 2003, respectively. The prices reflected \$219,000 and \$227,000 per finished lot, with slightly larger and higher-priced homes being built on Sale No. 7, with the higher price per lot. In both cases, the current or most recent pricing for the homes is from the mid \$600,000's to \$700,000, or close to 20% or more higher than the projected pricing as of the land sale. In comparison to the subject, the lot sizes are larger but the location is inferior, as evidenced by the much lower home pricing than on the subject homes. Thus, after an upward time adjustment of at least 20%, the adjusted indications at \pm \$265,000 to \$270,000 per finished lot supports a firm lower limit for the subject.

Sale No. 7 was a sale of 8,125 s.f. minimum lots at a price reflecting \$244,000 per finished lot. The sale was negotiated in late 2002, and the three takedowns closed in May, August and December of 2003. As of the land sale, the buyer had projected home pricing of \$565,000 to \$610,000, but the most recent actual base pricing is \$745,000 to \$788,000, which indicates an increase of \pm 30%. In comparison to the subject, the lots are much larger at 8,125 s.f. minimum, but the location is inferior, as evidenced by the lower-priced homes than the subject. Considering an upward time adjustment of at least 20%, the adjusted indication at \$293,000 per finished lot supports a closer but firm lower limit for the subject.

Sale No. 8 is a pending sale of 5,000 s.f. minimum lots that are located in Neighborhood Three, which is the next area to be developed in 4S Ranch. The lots are currently being graded, and are due to be delivered to the builder in a near finished condition in late March 2004 when the sale will close. The buyer, Fieldstone Communities, reportedly plans to build a similar product as the Cambridge tract of homes in Neighborhood Two, which has current pricing in the mid to high \$600,000's. However, that product is on 6,300 s.f. minimum lots. In comparison to the subject, these lots are similar in size, but the location is inferior, resulting in a far lower limit for the subject at \$225,000 per finished lot.

Sale Nos. 9 and 10 are pending sales of 6,000 s.f. minimum lots, also located in Neighborhood Three. These sales are also due to close in late March 2004 when the lots are completed to a near finished condition, both at prices reflecting \$240,000 to \$250,000, say \$245,000 per finished lot. The builders project home pricing that ranges from the mid to high \$600,000's, which is far below the current subject pricing. Thus, considering the larger lot sizes of these sales, but the inferior location, the indications at \pm \$245,000 per finished lot support far lower limits for the subject.

VALUATION, Continuing

Sale No. 11 is located at the far south end of Neighborhood Two of 4S Ranch, and is the last sale of lots in that area. These are also among the largest lots in that area at 7,250 s.f. minimum. This sale is currently in escrow at a price reflecting \$277,000 per finished lot, and the sale is due to close in April 2004, with the lots in a near finished condition. The buyer, K. Hovnanian, plans to build a similar product as their Palomino tract of homes, which are on similar lot sizes, and with current pricing from the mid to high \$700,000's. In comparison to the subject, these are much larger lots, though again the inferior location results in projected home pricing that is lower than the subject home pricing. Thus, the indication at \$277,000 per finished lot is a closer but still firm lower limit for the subject.

Sale Nos. 12 through 16 are located in the master-planned community of San Elijo Hills, which is in the south part of the City of San Marcos, about 15 miles northwesterly of the subject. This is a newly-developing master-planned community that has a wide range of new housing product, plus there will be a town center/commercial center, schools, 19-acre community park, and much surrounding open space. This is also a coastal-oriented community, with distant ocean views from many of the sites, as well as canyon and city lights views. It has thus far been a very successful community in terms of the rapid rate of home sales, the significant price increases, and the strong demand for the buildable land. In general, the location of this community is inferior to the subject in terms of the proximity to major employment centers, but this is at least partially offset by the coastal proximity and good views, including distant ocean views.

Sale No. 12 was a sale of 4,000 s.f. minimum lots that was negotiated in January 2003 and closed in May 2003 at a price reflecting \$257,300 per finished lot. The projected home pricing as of August 2003 was the range of \$500,000 to \$530,000 and the current pricing is ±\$545,000 to \$608,000 or an increase of about 12%. In comparison to the subject, these are smaller lots that are being developed with much smaller and lower-priced homes. Thus, considering an upward time adjustment of at least 15-20%, the adjusted indication of ±\$302,000 per finished lot supports a firm lower limit for the subject.

Sale No. 13 was a sale of 5,000 s.f. minimum lots (50' by 100') that was negotiated in December 2002 and closed in September 2003 at a price reflecting \$266,500 per finished lot. The current projected pricing is from the low \$600,000's, but the proforma pricing as of the land sale negotiation is not known. This sale has some view potential, but generally inferior to the other sales in San Elijo Hills. In comparison to the subject, these are similar minimum lot sizes, though the average of 6,000 s.f. is slightly smaller than the subject average. In addition, the homes are smaller and much lower-priced than the subject, but the view potential is superior. Considering an upward time adjustment of at least 15-20% since the sale was negotiated, the adjusted indication of ±\$313,000 per finished lot supports a close indication to close lower limit for the subject.

VALUATION, Continuing

Sale No. 14 was a sale of 5,100 s.f. minimum lots (60' by 85') that was negotiated in October 2003 and closed in December 2003. These were delivered as blue-top lots, and the sale price reflected \$327,000 per finished lot. This is a view-oriented site with distant ocean and city lights views. The buyer plans to build homes of 2,600 s.f. to 3,000 s.f., with projected base pricing of \$560,000 to \$600,000, and lot premiums ranging from \$50,000 to \$200,000. In comparison to the subject, the minimum lot sizes are fairly similar, the general location is fairly similar, and minimal upward time adjustment is necessary. However, the view potential is far superior to the subject. Overall, the indication at \$327,000 per finished lot supports a fairly close indication for the subject.

Sale No. 15 was a sale of 5,500 s.f. minimum lots (55' by 100') that negotiated in August 2003 and closed in mid January 2004. These were delivered as blue-top lots, and the sale price reflected \$341,000 per finished lot. This is also a view-oriented site with distant ocean and city lights views. The buyer plans to build homes of 3,000 s.f. to 3,600 s.f., with projected base pricing of \$620,000 to \$670,000, and lot premiums of \$50,000 to \$200,000. The comparison to the subject is similar to Sale No. 15, except that these are slightly larger lots. Considering the larger lot size and far superior views to the subject, the indication at \$341,000 per finished lot supports a close but firm upper limit for the subject.

Sale No. 16 was a sale of 5,800 s.f. minimum lots, with an average size of $\pm 7,000$ s.f. The sale was negotiated in the Fall of 2002 and closed in April 2003, reflecting a price of \$260,000 per finished lot. The buyer had planned homes of $\pm 2,900$ s.f. to 3,300 s.f., with approximate pricing of \$645,000 to \$685,000. The most recent base pricing ranges from $\pm \$675,000$ to \$725,000. There are some views, but far inferior to Sale Nos. 14 and 15. In comparison to the subject, these are larger lots but with only slightly superior views, and are being developed with smaller and lower-priced homes. Considering an upward time adjustment of at least 20-25% since the sale was negotiated well over a year ago, the adjusted indication of $\pm \$320,000$ supports a fairly close indication for the subject.

In summary, on the basis of price per finished lot, the sales data supports far lower limits from \$225,000 to \$245,000, closer but firm lower limits at \$265,000 to \$302,000, a close indication to close lower limit at \$313,000, close indications at \$320,000 and \$327,000, a close but firm upper limit at \$341,000, and firm to far upper limits from \$357,500 to \$437,500.

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 56%. The indications at the high end of the range are from sales in San Elijo Hills, and reflect substantial view premiums over and above the base pricing, far greater than the subject potential. Indications at the lower end of the range are mostly from sales in 4S Ranch, which is considered to be an inferior location to the subject.

VALUATION, Continuing

Excepting the three highest indications of 50% to 56% from San Elijo Hills, the range is 36% to 46%, and I have concluded that the lower mid-portion of that range is most supportable for the subject. Thus, based on a finished lot ratio of 40-41%, and the most recent average base pricing of ±\$831,000, the following indication results:

$$\$831,000 \times .40-.41 = \$332,400 \text{ to } \$340,710/\text{finished lot}$$

Based on the foregoing, I have concluded on a finished lot value for the subject at \$335,000.

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, and the information on these costs was provided by The Corky McMillin Companies. First, there is an allocation of costs that are applicable to all three of the subject tracts to bring the lots to a blue-top condition, including all of the common infrastructure items such as construction of Stonebridge Pkwy. Then, there are the remaining builder in-tract costs to physically bring the lots from blue-top to finished condition. Lastly, there are the fees yet to be paid (water, sewer, etc.) on lots for which building permits have not yet been pulled. The remaining builder in-tract costs are fairly minimal since the lots are nearly in a physically finished condition. However, I have used an amount of \$1,000 per lot to reflect the minor items of final street lift, etc.

These remaining total costs are as follows:

Allocation of overall project costs to Mill Creek:	\$1,844,000
Builder in-tract costs:	\$ 109,000
Fees: 91 lots @ ±\$7,932/lot =	<u>\$ 721,812</u>
	\$2,674,812
Rounded	\$2,675,000

It is noted that these remaining costs do not include school fees or FBA (Facilities Benefit Assessment) fees, since certain school facilities and non-school facilities will be CFD bond-financed.

Conclusion of Value

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

VALUATION, Continuing

3 completed/unsold homes @ \$800,000 =	\$ 2,400,000
15 homes under construction @ \$391,000 =	\$ 5,865,000
91 vacant lots @ \$335,000/lot, if finished =	<u>\$30,485,000</u>
	\$38,750,000
Less Remaining Costs & Fees:	<u>- 2,675,000</u>
Value Indication, As Is:	\$36,075,000

Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the Mill Creek tract, subject to the Assumptions and Limiting Conditions, and as of February 1, 2004:

\$36,000,000

(THIRTY-SIX MILLION DOLLARS)

MAP OF ASTORIA



ASTORIA (BROOKFIELD HOMES)

PROPERTY DATA

Location

This tract is located on both sides of Stonebridge Pkwy. at Wild Meadow Pl., just to the east of the subject Mill Creek tract.

Legal Description

The lots are described as Lots 110 through 230 of Montecito–Unit 2, in the City of San Diego, County of San Diego, per map No. 14634 recorded in the office of the County Recorder of San Diego County on July 22, 2003.

Assessor Data

The lots comprise Assessor Parcel Nos. 320-260-01 through 41, 320-261-01 through 36, 320-262-01 through 20, and 320-263-01 through 24. The assessed values for each lot are not yet available. The current tax rate is $\pm 1.01\%$, but the actual tax rate to the homeowners is estimated to be $\pm 1.7\%$, including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 121 single-family residential lots. The lots are $\pm 6,000$ s.f. minimum pad size, or $\pm 60'$ by $100'$. Many of the lots are larger in size, but part of the larger lot sizes includes greater side and/or rear slope areas.

Streets and Access

Stonebridge Pkwy. provides the access to this tract at Wild Meadow Pl., which extends to the north and south, and also at Fortino Pt., Merritage Ct. and Downing Ln. which extend to the north. The in-tract streets are Fortino Pt., Wild Meadow Pl., Deer Canyon Ct., Merritage Ct., Bella Rosa Rd., Silver Oak Ln. and Downing Ln. Fortino Pt., Wild Meadow Pl. and Deer Canyon Ct. are of these in-tracts are paved, with curb and gutter on both sides. The other in-tract streets are graded dirt roadways with curb and gutter, but are not yet paved. Stonebridge Pkwy. is also paved only as far as Wild Meadow Pl., and is a graded dirt roadway beyond to the east.

Physical Condition/Topography

The lots along Fortino Pt., Wild Meadow Pl. and Deer Canyon Ct. are in a mostly finished condition from a physical standpoint, other than minor items to complete such as final street lift, common area/slope landscaping, etc. The balance of the lots are graded, but with the in-tract streets and utilities needing to be completed.

PROPERTY DATA, Continuing

The lots at the south end of the tract are above grade of Stonebridge Pkwy. and generally terrace up to the east. The lots to the north of Stonebridge Pkwy. generally terrace up to the east and terrace down to the north. The lots around the perimeter of the tract back to open space that slopes down into canyon areas, and some of these lots have territorial or minor city lights views. In addition, most of the lots along the west sides of Wild Meadow Pl. and Merritage Ct. are well above grade of the lots adjacent to the west, providing for some view potential.

Title Report

A title report has not been reviewed on this tract. 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 121 lots are being developed with a tract of homes called Astoria. As of the February 1, 2004 date of value, only the 3 model homes were under construction, ranging from foundation work on one home to first floor framing on the other two homes. The remaining 118 lots were vacant, and ranging from near finished condition on 62 of the lots to partially finished condition on 56 of the lots.

There are three primary floor plans, with sizes as follows:

Plan One: 3,110 s.f.

Plan Two: 3,564 s.f.

Plan Three: 3,750 s.f.

The approximate anticipated pricing is the mid \$800,000's.

The models are due to be completed in June 2004 with the grand opening at that time. Construction of the production homes is due to start in June 2004 and paving of all in-tract streets is also due to be completed in June 2004.

Highest and Best Use

This is concluded to be the same as for the subject Mill Creek tract, or continued build-out of the tract of homes as planned. Considering the size of the homes and lots, the projected home pricing at an average of \pm \$240 to \$245 per s.f. is concluded to be supportable and even slightly on the conservative side, based on the other new home pricing as previously discussed, and particularly the Mill Creek pricing.

VALUATION

Method of Analysis

This is the same as for the previous subject Mill Creek tract.

Analysis of Homes Under Construction

For the 3 model homes which are in the early stage of construction, I have concluded on a nominal average cost allocation of \$10,000 to each of these homes. This is added to the estimated finished lot value of \$345,000, resulting in a total of \$355,000 for these 3 homes.

Analysis of Finished Lot Value

The analysis is fairly similar to the previous discussion for the subject Mill Creek property. However, these are larger lots at 6,000 s.f. minimum, and the planned homes are slightly larger and higher-priced. Thus, the sales data would support firm lower limits at ±\$327,000 to \$341,000 per finished lot, but firm upper limits at \$357,500 per finished lot and above.

Alternatively, considering a finished lot ratio of 40-41% and projected average base pricing of ±\$850,000, the following indication results:

$$\$850,000 \times .40-.41 = \$340,000 \text{ to } \$348,500/\text{finished lot}$$

I have concluded on a finished lot value for the subject at \$345,000.

Deduction for Remaining Costs & Fees

This discussion is similar to that for the subject Mill Creek tract, and the remaining total costs and fees are noted as follows:

Allocation of overall project costs to Astoria:	\$2,184,000
Builder in-tract costs:	\$1,419,000
Fees: 118 lots @ ±\$7,932/lot =	\$ 935,976
	\$4,538,976
Rounded	\$4,540,000

It is noted again that these remaining costs do not include school fees or FBA fees, since certain school facilities and non-school facilities will be CFD bond-financed.

Conclusion of Value

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

VALUATION, Continuing

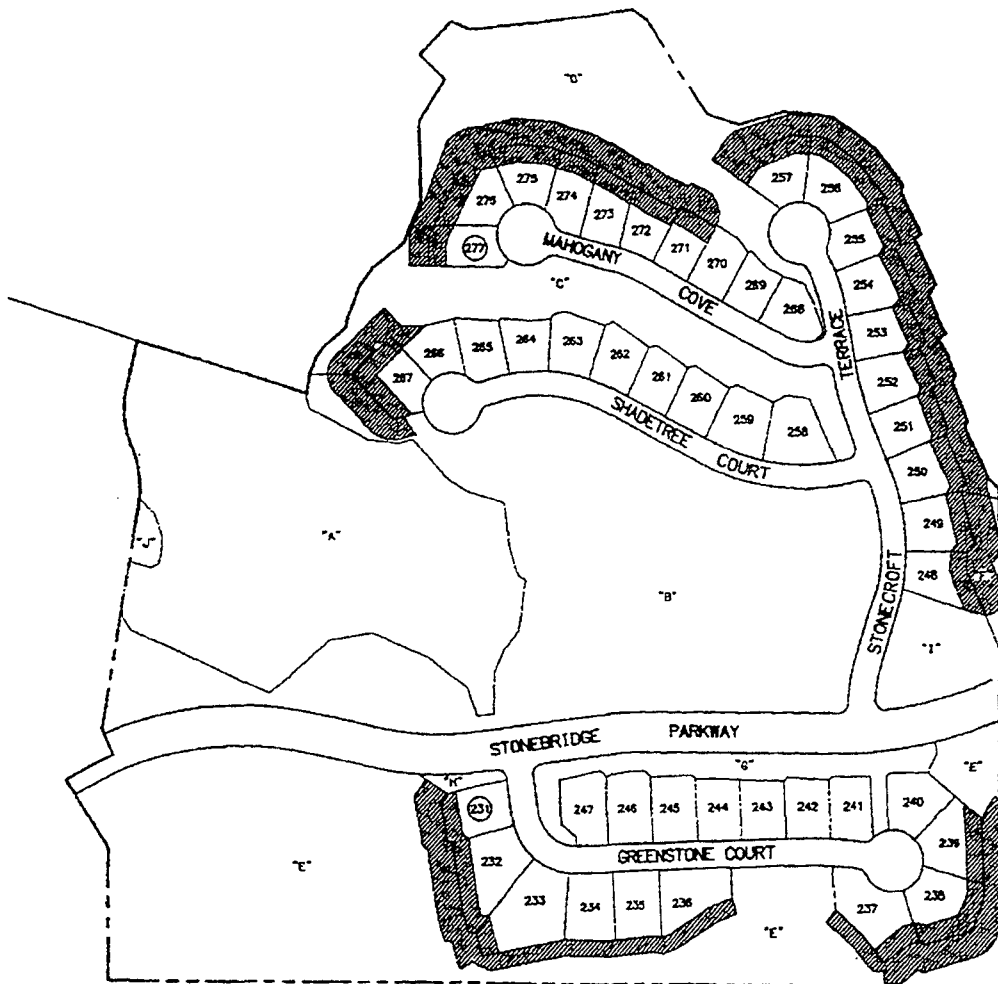
3 homes under construction @ \$355,000 =	\$ 1,065,000
118 vacant lots @ \$345,000, if finished =	<u>\$40,710,000</u>
	\$41,775,000
Less Remaining Costs & Fees:	<u>- 4,540,000</u>
Value Indication, As Is:	\$37,235,000

Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the Astoria tract, subject to the Assumptions and Limiting Conditions, and as of February 1, 2004:

\$37,200,000

(THIRTY-SEVEN MILLION TWO HUNDRED THOUSAND DOLLARS)

MAP OF CALABRIA



CALABRIA (BROOKFIELD HOMES)

PROPERTY DATA

Location

This tract is located on both sides of Stonebridge Pkwy. at Greenstone Ct. and Stonecraft Terrace, nearby to the east of the subject Astoria tract.

Legal Description

The lots are described as Lots 231 through 277 of Montecito–Unit 3, in the City of San Diego, County of San Diego, per map No. 14707 recorded in the office of the County Recorder of San Diego County on October 30, 2003.

Assessor Data

The lots comprise Assessor Parcel Nos. 320-270-01 through 17, and 320-271-01 through 30. The assessed values for each lot are not yet available. The current tax rate is $\pm 1.01\%$, but the actual tax rate to the homeowners is estimated to be $\pm 1.7\%$, including the special taxes for the CFD.

No. of Lots/Lot Sizes

This tract comprises a total of 47 single-family residential lots. The lots are $\pm 8,000$ to 8,800 s.f. minimum pad size, or $\pm 80'$ by 100'-110' depth. Many of the lots are larger in size, but also including side and/or rear slope areas.

Streets and Access

Stonebridge Pkwy. provides the access to this tract at Greenstone Ct. which extends to the south, and at Stonecroft Terrace which extends to the north. The in-tract streets are Greenstone Ct., Stonecroft Terrace, Shadetree Ct. and Mahogany Cove. As of the February 1, 2004 date of value, Stonebridge Pkwy. and the in-tract streets are graded dirt roadways, but with no curb, gutter or paving.

Physical Condition/Topography

All of the lots are in a graded blue-top condition, with the underground water and sewer lines nearly completed in the streets.

The lots at the north end of the tract terrace down to the north. Thus, the lots which are single-loaded along the north side of Shadetree Ct. are terraced above the lots on Mahogany Cove, and have some territorial views. The lots which are single-loaded along the north side of Mahogany Cove and the east side of Stonecroft Terrace back

PROPERTY DATA, Continuing

to open space which slopes down into the canyon areas, providing territorial views to most of these lots.

The lots at the south end of the tract are above grade of Stonebridge Pkwy., and terrace slightly up to the east. The lots at the west and east ends of this area back to open space with territorial views, and the lots along the south side of Greenstone Ct. back to a slope which goes up to the south.

Title Report

A title report has not been reviewed on this tract. 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 47 lots are planned to be developed with a tract of homes called Calabria. As of the February 1, 2004 date of value, no homes were yet under construction. All of the lots are vacant, and as previously indicated, they are in a graded blue-top condition with the underground utilities being installed in the streets.

There will be four primary floor plans, with sizes as follows:

Plan One: 3,780 s.f.

Plan Two: 4,340 s.f.

Plan Three: 4,684 s.f.

Plan Four: 5,050 s.f.

The approximate anticipated pricing is the mid \$900,000's.

Construction of the models is due to start in April 2004, with the completion and grand opening in October 2004. The grading of the lots is due to be completed in March 2004, the street paving is due to be completed in April, and construction of the production homes is due to start in October 2004.

Highest and Best Use

This is concluded to be the same as for the subject Mill Creek and Astoria tracts, or build-out of the tract of homes as planned. Considering the size of the homes and lots, the projected home pricing at an average of ±\$210 to \$215 per s.f. is concluded to be supportable, based on the other new home pricing as previously discussed.

VALUATION

Method of Analysis

This is the same as for the previous subject Mill Creek and Astoria tracts.

Analysis of Finished Lot Value

The analysis is fairly similar to the previous discussions for the subject Mill Creek and Astoria tracts. However, these are again larger lots at 8,800 s.f. minimum, and the planned homes are larger and higher-priced. Thus, the sales data would support a far lower limit at $\pm \$340,000$ per finished lot, closer indications at \$357,500 and \$367,500 per finished lot, and a far upper limit at \$437,500 per finished lot.

Alternatively, considering a finished lot ratio of 39-40% (slightly lower due to the higher risk of the much higher-priced homes), and projected average base pricing of $\pm \$950,000$, the following indication results:

$$\$950,000 \times .39-.40 = \$370,500 \text{ to } \$380,000/\text{finished lot}$$

I have concluded on a finished lot value for the subject at \$370,000.

Deduction for Remaining Costs & Fees

This discussion is similar to that for the subject Mill Creek and Astoria tracts, and the remaining total costs and fees are noted as follows:

Allocation of overall project costs to Calabria:	\$ 957,000
Builder in-tract costs:	\$1,200,000
Fees: 47 lots @ $\pm \$7,932/\text{lot} =$	<u>\$ 372,804</u>
	\$2,529,804
Rounded	\$2,530,000

It is noted again that these remaining costs do not include school fees or FBA fees, since certain school facilities and non-school facilities will be CFD bond-financed.

Conclusion of Value

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

47 vacant lots @ \$370,000, if finished =	\$17,390,000
Less Remaining Costs & Fees:	<u>- 2,530,000</u>
Value Indication, As Is:	\$14,860,000

VALUATION, Continuing

Thus, as the result of this analysis, I have arrived at the following conclusion of market value for the as is condition of the Astoria tract, subject to the Assumptions and Limiting Conditions, and as of February 1, 2004:

\$14,800,000

(FOURTEEN MILLION EIGHT HUNDRED 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	W/S Camino Ruiz, S/O Lazanja Dr., San Diego (Garden Homes)	SRHI LLC D.R. Horton	9/01	63	7,000	3,347-4,002 s.f. ±\$600,000-\$700,000	n/a \$275,000	42%	Santaluz master-planned community; delivered as finished lots; many lots back to open space; ±1.8% tax rate
3	SWS Camino Ruiz at Caminito Lazanja, 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
4	W/O Camino De La Luna, ±1,500' S/O Camino De La Rosa, San Diego (Mirasol)	Hillside Ventures, et al Pardee Homes	5/02	52	10,000	±3,100-4,400 s.f. Mid \$700,000's to Mid \$800,000's	\$215,385 ±\$350,000	44%	Torrey Highlands Subarea I; raw land with approved tentative tract map
5	NWQ Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (Canyon Ridge)	4S Kelwood Gen'l Partnership Centex Homes	10/02 4/03	32 43 75	6,300	3,172-3,750 s.f. \$511,900-\$559,900	\$202,902 \$219,000	41%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
6	NEQ Dove Canyon Rd. & Dove Creek Rd., Rancho Bernardo (Avery Lane)	4S Kelwood Gen'l Partnership Pulte Home Corp.	12/02 8/03	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
7	NEQ Dove Canyon Rd. & Bernardo Center Dr., Rancho Bernardo (Terreno)	4S Kelwood Gen'l Partnership Standard Pacific	5/03 8/03 12/03	39 33 33 105	8,125	3,175-3,990 s.f. \$565,000-\$610,000	\$223,000 \$244,000	41%	4S Ranch-Neighborhood Two; sold as near finished lots; ±1.9% tax rate
8	N/O Rancho Bernardo Rd., W/O 4S Ranch Pkwy, Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Fieldstone Communities	Escrow	127	5,000	±2,800-3,400 s.f. n/a	n/a \$225,000	n/a	4S Ranch-Neighborhood Three; to be delivered as near finished lots; ±1.9% tax rate
9	N/O Rancho Bernardo Rd., W/O 4S Ranch Pkwy, Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Standard Pacific	Escrow	65	6,000	±3,200-3,700 s.f. From mid-\$600,000's	n/a ±\$245,000	±36%	4S Ranch-Neighborhood Three; to be delivered as near finished lots; ±1.9% tax rate
10	N/O Rancho Bernardo Rd., W/O 4S Ranch Pkwy, Rancho Bernardo (n/a)	4S Kelwood Gen'l Partnership Davidson Communities	Escrow	66	6,000	±3,500-4,000 s.f. ±\$680,000-\$700,000	n/a ±\$245,000	±36%	4S Ranch-Neighborhood Three; to be delivered as near finished lots; ±1.9% tax rate
11	SE/S Carmel Valley Rd., SW/O Dove Canyon Rd., Rancho Bernardo (Palomino)	4S Kelwood Gen'l Partnership K. Hovnanian	Escrow	24	7,250	4,152-4,595 s.f. ±\$750,000-\$780,000	n/a \$277,000	36%	4S Ranch-Neighborhood Two; to be delivered as near finished lots; ±1.9% tax rate
12	SEC San Elijo Rd. & Queshaven Rd., San Marcos (Waterford)	San Elijo Hills Devel. Co. Ryland Homes	5/03	74	4,000	2,128-2,675 s.f. \$500,000-\$530,000	\$227,500 \$257,300	50%	San Elijo Hills community; delivered as blue-top lots; 1.75% tax rate; good views

TABULATION OF RESIDENTIAL LAND SALES, Continuing

<u>No.</u>	<u>Location/Project Name</u>	<u>Seller/Buyer</u>	<u>Rec. Date</u>	<u>No. Lots</u>	<u>Min. Lot Size</u>	<u>Product</u>	<u>Price/Lot Finished Lot</u>	<u>Fin. Lot Ratio</u>	<u>Remarks</u>
13	SWC San Elijo Rd. & Questhaven Rd., San Marcos (Crest View)	San Elijo Hills Devel. Co. Beazer Homes	9/03	77	5,000	2,485-2,850 s.f. From low \$600,000's	n/a \$266,500	40%	San Elijo Hills community; delivered as blue-top lots; 1.75% tax rate
14	S/S San Elijo Rd., E/O Sale No. 14, San Marcos (n/a)	San Elijo Hills Devel. Co. Pulte Home Corp.	12/03	105	5,100	2,600-3,000 s.f. \$560,000-\$600,000	\$297,000 \$327,000	56%	San Elijo Hills community; delivered as blue-top lots; 1.75% tax rate; good views
15	S/S San Elijo Rd., E/O Sale No. 16, San Marcos (n/a)	San Elijo Hills Devel. Co. Pulte Home Corp.	1/04	94	5,500	3,000-3,600 s.f. \$620,000-\$670,000	\$305,957 \$341,000	53%	San Elijo Hills community; delivered as blue-top lots; 1.75% tax rate; good views
16	W/S Questhaven Rd., S/O Sale No. 15, San Marcos (Saverne)	San Elijo Hills Devel. Co. Standard Pacific	4/03	93	5,800	2,900-3,300 s.f. \$645,000-\$685,000	n/a \$260,000	39%	San Elijo Hills community; delivered as blue-top lots; 1.75% tax rate; minor views

Note: Home pricing is the estimate as of the date of the land sale or earliest available

**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, 2004.

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
Lennar Homes

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, 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:

Ahmanson Trust Company
Barclays Bank
Chino Valley Bank
Continental Bank
First Interstate Mortgage
First Bank & Trust

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

Cities:

Anaheim
Baldwin Park
Buena Park
Cypress
Duarte

La Habra
Laguna Beach
Mission Viejo
Orange
Perris

Placentia
Riverside
Santa Ana
Santa Fe Spgs
Seal Beach
Stanton
Temecula
Tustin
Yorba Linda

Counties:

Orange

Riverside

Other Governmental:

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

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

School Districts:

Alvord Unified
Anaheim City
Anaheim Union High
Banning Unified
Capistrano Unified
Castaic Union
Cypress
Del Mar Union
Etiwanda
Fullerton

Fullerton College
Garden Grove Unified
Irvine Unified
Lake Elsinore Unified
Moreno Valley Unified
Newhall
Newport-Mesa Unified
North Orange County
Community College
O.C. Dept. of Education

Placentia-Yorba Linda Unif.
Poway Unified
Rialto Unified
Romoland
Saddleback Unified
Santa Ana Unified
Saugus Union
South O.C. Comm. College
Temple City
William S. Hart Union High

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

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 11 (STONEBRIDGE ESTATES) ZONE 1 2004 SPECIAL TAX BONDS

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

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

Definitions

As used in the Indenture, the following terms shall have the following meanings:

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

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

“Administrative Expenses” means the expenses directly related to the administration of the District, including, but not limited to, the following: the costs of computing the Zone 1 Special Taxes and preparing the annual Zone 1 Special Tax collection schedules (whether by the School District or a designee thereof or both); the costs of collecting the Zone 1 Special Taxes (whether by the County, the School District or otherwise); the costs of remitting the Zone 1 Special Taxes to the Fiscal Agent; the costs of the Fiscal Agent (including its legal counsel) in the discharge of the duties of the Fiscal Agent required under the Indenture; the costs of the School District, the District or any designee thereof of complying with the arbitrage rebate requirements; the costs of the School District, the District, or any designee thereof of complying with School District, District or obligated person disclosure requirements associated with applicable federal or state securities laws and of the Act; the costs associated with preparing Zone 1 Special Tax disclosure statements and responding to public inquiries regarding the Zone 1 Special Taxes; the costs of the School District, District or any designee thereof related to an appeal of the Zone 1 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 \$20,000 which amount shall escalate by 2% in each Bond Year commencing in the Bond Year beginning on September 2, 2005.

“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 February 11, 2004.

“Appraiser” means Stephen G. White, MAI.

“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 Superintendent, Deputy Superintendent or Associate Superintendent, Business Support Services and authorized to act on behalf of the District under or with respect to the Indenture and all other agreements related to the Indenture.

“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.

“Board of Education” means the governing board of the School District.

“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 Poway Unified School District Community Facilities District No. 11 (StoneBridge Estates) Zone 1 2004 Special Tax Bonds issued pursuant to the Indenture.

“Bond Service Fund” means the fund created and established pursuant to the Indenture.

“Bond Year” means each twelve-month period extending from September 2 in one calendar year to September 1 of the succeeding calendar year, except in the case of the initial Bond Year which shall be the period from the Delivery Date to September 1, 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.

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

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

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

“Costs of Issuance” means, as to the Bonds, all of the costs of issuing the Bonds, including but not limited to, all printing and document preparation expenses in connection with the Indenture and any Supplemental Indenture, the Bonds, and any and all other agreements, instruments, certificates or other documents issued in connection therewith; any computer and other expenses incurred in connection with the Bonds; the initial fees and expenses of the Fiscal Agent (including without limitation, legal fees, acceptance fees and first annual fees payable in advance); the fees and expenses of the appraiser, market absorption consultant, bond counsel, disclosure counsel, special tax consultant and other fees and

expenses incurred in connection with the issuance of the Bonds, to the extent such fees and expenses are approved by the District.

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

“Delinquency Collection Expenses” means those fees and expenses of the District incurred by or on behalf of the District in or related to the collection of delinquent Zone 1 Special Taxes.

“Delinquency Proceeds” means the net amounts collected from the redemption of delinquent Zone 1 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 Zone 1 Special Tax resulting from the delinquency in the payment of Zone 1 Special Taxes due and payable on such property and net of County of San Diego, foreclosure counsel and other fees and expenses incurred by or on behalf of the District or the School District in undertaking such foreclosure proceedings.

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

“Depository” means DTC and its successors and assigns or if (a) the then Depository resigns from its functions as securities depository of the Bonds, or (b) the District discontinues use of the Depository pursuant to the Indenture, any other securities depository which agrees to follow procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Associate Superintendent, Business Support Services of the District.

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

“District” means Poway Unified School District Community Facilities District No. 11 (StoneBridge Estates).

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

“Fiscal Agent” means Zions First National Bank, and any successor thereto.

“Fiscal Year” means the 12 month period beginning July 1 of each calendar year and terminating on June 30 of the following calendar 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.

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

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

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

“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.

“Mitigation Agreement” means the School Impact Mitigation and Public Facilities Funding Agreement between the School District and Sycamore Estates, LLC, a Delaware limited liability company, Sycamore II Estates, LLC, a Delaware limited liability company, McMillin Montecito 109, LLC, a Delaware limited liability company, Brookfield 6, LLC, a Delaware limited liability company and Brookfield 8, LLC, a Delaware limited liability company (each an “Owner,” collectively the “CFD No. 11 Owners), as it may be amended, superseded or supplemented by the parties thereto.

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

“Net Zone 1 Special Tax Revenues” means Zone 1 Special Tax Revenues minus amounts applied to pay the Administrative Expense Requirement.

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

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

1. Bonds theretofore canceled or surrendered for cancellation in accordance with the Indenture;
2. Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent pursuant to the terms 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” means a member of or participant in the Depository.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (the Fiscal Agent shall be entitled to rely upon any written investment direction from an Authorized Representative of the District as a certification to the Fiscal Agent that such investment constitutes a Permitted Investment):

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

- F. Financing Corporation (FICO)
 - (1) Debt obligations
- G. Resolution Funding Corporation (REFCORP)
 - (1) Debt obligations
- 4. Unsecured certificates of deposit, time deposits, deposit accounts and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P.
- 5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.
- 6. Commercial paper (having original maturities of not more than 270 days rated "A-1" by S&P and "Prime-1" by Moody's.
- 7. Money market funds rated at least "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 pursuant to the Indenture agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
- B. the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof; or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks *pari passu* with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;
- C. the District and the Fiscal Agent receives the opinion of domestic counsel that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable);
- D. the investment agreement shall provide that if during its term
 - (1) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (a) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Fiscal Agent or a Holder of the Collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (b) transfer and assign the investment agreement to a then qualifying counterparty with ratings specified above; and
 - (2) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, within 10 days of the date of such withdrawal, suspension or reduction of the provider's rating, repay the principal of and accrued but unpaid interest on the investment;
- E. the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- F. the investment agreement must provide that if during its term
 - (1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Fiscal Agent, be accelerated and amounts invested and

accrued but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate, and

- (2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("Event of Insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate.

12. The Local Agency Investment Fund (LAIF) administered by the treasurer of the State to the extent such deposits remain in the name of and control of the Fiscal Agent.

"Prepayments" means Zone 1 Special Tax Revenues identified to the Fiscal Agent by an Authorized Representative as representing a prepayment of the Zone 1 Special Tax.

"Principal Account" means the account by such name established in the Bond Service Fund pursuant to the Indenture.

"Principal Corporate Trust Office" means the office of the Fiscal Agent at 550 South Hope Street, Suite 2650, Los Angeles, CA 90071 or such other offices as may be specified to the District by the Fiscal Agent in writing.

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

"Rebate Instructions" means the Rebate Instructions attached as Exhibit B to the Indenture.

"Record Date" means the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date whether or not such day is a Business Day.

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

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

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

"Reserve Requirement" means an amount initially equal to \$811,648.49 which amount shall, as of any date of calculation, be equal to the least of (i) Maximum Annual Debt Service for the Bonds, (ii) one hundred twenty-five percent (125%) of Average Annual Debt Service for the Bonds, or (iii) ten percent (10%) of the original principal amount of the Bonds less original issue discount, if any, plus original issue premium, if any, applicable to the Bonds.

"School District" means the Poway Unified School District.

"School Facilities" shall have the meaning given to such term in the Mitigation Agreement.

"School Facilities Costs" means the amounts necessary to finance the acquisition or construction of the School Facilities and incidental expenses associated therewith of the type authorized to be financed under the Act.

"School Facilities Fund" means the fund by that name established pursuant to the Indenture.

“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.

“Special Tax RMA” means the rate and method of apportionment of the special taxes authorized to be levied within the District and approved at the special election held in the District on January 20, 2004, as may be modified from time to time in accordance with the Act.

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

“State” means the State of California.

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

“Supplemental Indenture” means any bond indenture then in full force and effect which has been duly approved by resolution of the Legislative Body under and pursuant to the Act at a meeting of the Legislative Body duly convened and held, at which a quorum was present and acted thereon, amendatory of the Indenture or supplemental to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Supplemental School Facilities” means the acquisition, planning, construction, and/or financing of school facilities, including classrooms, multi-purpose, administration and auxiliary space at each school, central support and administrative facilities, interim housing, transportation, and special education facilities, together with furniture, equipment, and technology, needed by the School District to serve the student population of the School District and which are financed, in whole or in part, from Surplus Zone 1 Special Taxes.

“Surplus Zone 1 Special Taxes” means Zone 1 Special Taxes levied on Developed Property (as defined in the Special Tax RMA) in excess of the Annual Special Tax Requirement (as defined in the Special Tax RMA).

“Tax Exempt” means, with reference to a Permitted Investment, a Permitted Investment the interest earnings on which are excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code, other than one described in section 57(a)(5)(C) of the Code.

“Term Bonds” means the Bonds maturing on September 1, 2028 and the Bonds maturing on September 1, 2034.

“Yield” has the meaning assigned to such term for purposes of Section 148(f) of the Code.

“Zone 1 Special Tax” means the special tax authorized to be levied in Zone 1 of the District to finance the acquisition or construction of the School Facilities and Supplemental School Facilities pursuant to the Act and the Special Tax RMA.

“Zone 1 Special Tax Fund” means the fund by that name established pursuant to the Indenture.

“Zone 1 Special Tax Revenues” means (a) the proceeds of the Zone 1 Special Tax levied and received by the District, and (b) the Delinquency Proceeds.

Establishment of Funds and Accounts

Special Tax Fund.

A. The District shall, no later than the tenth (10th) Business Day after which Zone 1 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 Zone 1 Special Tax Revenues to the Fiscal Agent and, except as set forth in the following sentence, such amounts shall be deposited in the Zone 1 Special Tax Fund.

B. With the exception of Zone 1 Special Tax Revenues representing Prepayments which shall be transferred pursuant to the provisions of the Indenture, the Zone 1 Special Tax Revenues deposited in the Zone 1 Special Tax Fund shall be held in trust or transferred to the following other funds and accounts on the dates and in the amounts set forth in the following paragraphs and in the following order of priority:

1. The Fiscal Agent shall each Fiscal Year transfer to the Administrative Expense Fund from the first Zone 1 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, pursuant to the Indenture, 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 transfers 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 Zone 1 Special Tax Fund 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 Zone 1 Special Tax Fund to the Administrative Expense Fund the amounts specified in such request to pay those Administrative Expenses which the District reasonably expects (a) will become due and payable during such Fiscal Year or the cost of which Administrative Expenses have previously been incurred and paid by the District from funds other than the Administrative Expense Fund and (b) the cost of which Administrative Expenses will be in excess of the Administrative Expense Requirement for such Fiscal Year.
7. If, on or after September 2 of each year, after making the deposits and transfers required under 1. through 6. above, monies remain in the Zone 1 Special Tax Fund, such monies shall remain on deposit in the Zone 1 Special Tax Fund and shall be subsequently deposited or transferred pursuant to the provisions of 1. through 6 above, provided, however, that if at any time and from time to time the District determines, pursuant to the Mitigation Agreement, that all or any portion of such monies constitute the proceeds of Surplus Zone 1 Special Taxes, the District may, by written instructions executed by an Authorized Representative, direct the Fiscal Agent to transfer that amount of such monies constituting Surplus Zone 1 Special Taxes to the School District to be utilized to finance the acquisition or construction of Supplemental School Facilities pursuant to the provisions of the Mitigation Agreement.

C. The Fiscal Agent shall, upon receipt of Zone 1 Special Tax Revenues representing Prepayments together with written instructions of the District executed by an Authorized Representative, immediately transfer such Prepayments pursuant to such written instructions into the Interest Account of the Bond Service Fund and the Redemption Fund, as applicable, and utilize such funds to pay the interest and premium, if any, on and principal of Bonds to be redeemed pursuant to the Indenture. The Fiscal Agent may conclusively rely upon such instructions.

D. When there are no longer any Bonds Outstanding, any amounts then remaining on deposit in the Zone 1 Special Tax Fund shall be transferred to the District to be utilized to finance the acquisition or construction of Supplemental School Facilities pursuant to the provisions of the Mitigation Agreement.

Bond Service Fund.

A. 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 through October 1, 2005 prior to using any other funds on deposit in the Interest Account for such purpose.

B. Principal Account. All moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of the Term Bonds upon the mandatory sinking fund redemption thereof pursuant to the Indenture.

Costs of Issuance Fund.

The Fiscal Agent shall, upon the written requisition of the District executed by an Authorized Representative, in substantially the form attached to the Indenture as Exhibit C, disburse money from the

Costs of Issuance Fund, if any, on such dates and in such amounts as specified in such requisition to pay the Costs of Issuance related to the Bonds. 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 School Facilities Fund upon such transfer the Costs of Issuance Fund shall be closed.

School Facilities Fund.

A. The Fiscal Agent shall, from time to time, disburse monies from the School Facilities Fund to pay School Facilities Costs. Upon receipt of a payment request of the District duly executed by an Authorized Representative in substantially the form attached to the Indenture as Exhibit D, the Fiscal Agent shall pay the School Facilities Costs from amounts in the School Facilities Fund directly to the contractor or such other person, corporation or entity entitled to payment under the Indenture (including reimbursements, if any, to the District) unless the District requests payment to be made to the contractor or such other party jointly, in which case said School Facilities Costs shall be paid jointly. The Fiscal Agent may rely on an executed payment request as complete authorization for said payments.

B. After the final payment or reimbursement of all School Facilities Costs as certified by delivery of a written notice from an Authorized Representative to the Fiscal Agent, the Fiscal Agent shall transfer excess monies, if any, on deposit in, or subsequently deposited in, the School Facilities Fund to the Zone 1 Special Tax Fund and the Fiscal Agent shall apply the amount so transferred in accordance with the Indenture. Upon such transfer the School Facilities Fund shall be closed.

C. Notwithstanding anything in the Indenture to the contrary, if on the date which is three (3) years from the Delivery Date of the Bonds, any funds derived from the Bonds remain on deposit in the School Facilities Fund, upon written instruction from the District, the Fiscal Agent shall restrict the Yield on such amounts so that the Yield earned on the investment of such amounts is not in excess of the Yield on the Bonds, unless in the written opinion of Bond Counsel delivered to the Fiscal Agent such restriction is not necessary to prevent an impairment of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Reserve Fund

Moneys on deposit in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds as such amounts shall become due and payable in the event that the moneys in the Zone 1 Special Tax Fund and the Bond Service Fund for such purpose are insufficient therefor or 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 required by the Indenture 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 Zone 1 Special Tax Fund an amount necessary to increase the balance therein to the Reserve Requirement. If on March 1 or on September 1, or on the first Business Day thereafter if March 1 or September 1 is not a Business Day, of each year, the amount on deposit in the Reserve Fund is in excess of the Reserve Requirement, the Fiscal Agent shall transfer such excess to the Interest Account of the Bond Service Fund. In connection with any optional redemption of Bonds pursuant to the Indenture, amounts on deposit in the Reserve Fund which would be in excess of the Reserve Requirement following

such redemption shall be transferred to the Redemption Fund or the Interest Account of the Bond Service Fund, as applicable, prior to such redemption and applied to such redemption of Bonds pursuant to written instructions of the District executed by an Authorized Representative.

Upon receipt of written instructions of the District executed by an Authorized Representative instructing the Fiscal Agent to transfer certain moneys representing a Reserve Fund credit for a Prepayment pursuant to the 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 and the Bond Service Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall transfer the amount in the Reserve Fund to the Redemption Fund to be applied, on the next succeeding interest payment date, to the payment and redemption, in accordance with the Indenture, of all of the Outstanding Bonds. In the event that the amount so transferred from the Reserve Fund to the Redemption Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in the Reserve Fund shall be transferred to the District to be used for any lawful purpose of the District as set forth in the Act.

Rebate Fund.

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

Administrative Expense Fund.

The Fiscal Agent shall deposit from time to time the amounts authorized for deposit therein pursuant to the Indenture. The moneys in the Administrative Expense Fund shall be used to pay Administrative Expenses from time to time upon receipt by the Fiscal Agent of a written request of the District executed by an Authorized Representative specifying the name and address of the payee and the amount of the Administrative Expense and a description thereof and further stating that such request has not formed the basis of any prior request for payment.

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 redeeming the Bonds in accordance the written instructions of the District executed by an Authorized Representative given in accordance with the provisions of the Indenture. Any monies remaining on deposit in the Redemption Fund following the redemption of any such Bonds shall remain on deposit therein and shall be used for the purposes provided for in the Indenture.

Investment of Funds.

Unless otherwise specified in the Indenture, monies in the Zone 1 Special Tax Fund, the Bond Service Fund, the School Facilities Fund, the Reserve Fund, the Costs of Issuance Fund and Administrative Expense Fund shall, at the written direction of the District executed by an Authorized Representative given at least two (2) days prior, be invested and reinvested in Permitted Investments (including investments with the Fiscal Agent or an affiliate of the Fiscal Agent or investments for which the Fiscal Agent or an affiliate of the Fiscal Agent acts as investment advisor or provides other services so long as

the investments are Permitted Investments). Monies in the Redemption Fund and the Rebate Fund shall, at the written direction of the District executed by an Authorized Representative, be invested in Government Obligations or money market funds comprised solely of Government Obligations and rated in the highest rating category of S&P. Notwithstanding anything in the Indenture to the contrary, in the absence of written investment instructions, the Fiscal Agent shall invest solely in investments identified in paragraph 7 of the definition of Permitted Investments. Any Permitted Investments that are registerable securities shall be registered in the name of the Fiscal Agent.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the District periodic cash transaction statements, which include detail for all investment transactions made by the Fiscal Agent under the Indenture. The Fiscal Agent shall not be required to provide statements for accounts with zero balances.

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

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.

The Fiscal Agent is authorized pursuant to the Indenture, in making or disposing of any investment permitted by the Indenture, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Fiscal Agent or for any third person or dealing as principal for its own account.

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 pursuant to the Indenture for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provision with respect to matters or questions arising under the Indenture or in any Supplemental Indenture, provided that such action shall not adversely affect the interests of the Bondowners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(c) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the interests of the Bondowners; or

(d) to amend any provision of the Indenture relating to the Code as may be necessary or appropriate to assure compliance with the Code and the exclusion from gross income of interest on the Bonds.

Exclusive of the Supplemental Indentures provided for in the Indenture, the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal of, or the payment date of interest on, any Bond, or (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon without the consent of the affected Bondowner(s), or permit, or be construed as permitting, (x) a preference or priority of any Bond or Bonds over any other Bond or Bonds, (y) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, or (z) creating of a pledge of or lien or charge upon the Zone 1 Special Tax Revenues superior to the pledge provided for in the Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to approve a Supplemental Indenture, which pursuant to the terms of the Indenture shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The District shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, postage prepaid, to all Bondowners at their addresses as they appear in the bond register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the principal office of the District for inspection by all Bondowners. The failure of any Bondowner to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved as provided in the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the District shall receive an instrument or instruments purporting to be executed by the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to the approval thereof by the Legislative Body substantially in the form of the copy thereof referred to in such Notice as on file with the District, such proposed Supplemental Indenture, when duly approved by the Legislative Body, shall thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of 60% of the aggregate principal amount of the Bonds have consented to the approval of any Supplemental Indenture, Bonds which are known to the Fiscal Agent to be owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District,

shall be disregarded and shall be treated as though they were not outstanding for the purpose of any such determination.

Upon the approval of any Supplemental Indenture to the Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of the appropriate aggregate principal amount of Bonds in instances where such consent is required pursuant to the provisions of the Indenture, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Bonds then Outstanding shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments. Notwithstanding anything in the Indenture to the contrary, no Supplemental Indenture shall be entered into which would modify the duties of the Fiscal Agent under the Indenture, without the prior written consent of the Fiscal Agent.

After the effective date of any action taken as provided in the Indenture, the District may determine that the Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond at such effective date and presentation of this Bond for the purpose at the office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds. If the District shall so determine, new Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond at such effective date such new Bonds shall be exchanged at the corporate trust office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, without cost to each Owner of Outstanding Bonds, upon surrender of such Outstanding Bonds.

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 under the provisions of the Indenture 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.

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 Zone 1 Special Tax Revenues.

A. On or before June 1 of each Fiscal Year, the District will review the public records of the County of San Diego, California, in connection with the Zone 1 Special Tax levied in such Fiscal Year to determine the amount of Zone 1 Special Tax actually collected in such Fiscal Year. If the District determines that (a) any single parcel subject to the Zone 1 Special Tax is delinquent in the payment of Zone 1 Special Taxes in the aggregate of \$5,000 or more or (b) any single parcel or parcels under common ownership subject to the Zone 1 Special Tax are delinquent in the payment of Zone 1 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 the Indenture and for which the Zone 1 Special Taxes remain delinquent. With respect to aggregate delinquencies throughout Zone 1, if the District determines that it has collected less than 95% of the Zone 1 Special Taxes levied in the such Fiscal Year, then the District shall, not later than forty five (45) days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the owner of each delinquent parcel (regardless of the amount of such delinquency). The District will cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than ninety (90) days of such determination against any parcel for which a notice of delinquency was given pursuant to the Indenture and for which the Zone 1 Special Taxes remain delinquent.

B. The District shall preserve and protect the security of the Bonds and the rights of the Bondowners and defend their rights against all claims and demands of all persons. Until such time as an amount has been set aside sufficient to pay Outstanding Bonds at maturity or to the date of redemption if redeemed prior to maturity, plus unpaid interest thereon and premium, if any, to maturity or to the date of redemption if redeemed prior to maturity, the District will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or in any Bond issued under the Indenture.

C. The District will not issue any other obligations payable, principal or interest, from the Zone 1 Special Taxes which have, or purport to have, any lien upon the Zone 1 Special Taxes superior to or on a parity with the lien of the Bonds authorized in the Indenture. Nothing in the Indenture shall prevent the District from issuing and selling, pursuant to law, refunding bonds or other refunding obligations payable from and having a first lien upon the Zone 1 Special Taxes on a parity with the Outstanding Bonds so long as the issuance of such refunding bonds or other refunding obligations results in a reduction in the Annual Debt Service on the Bonds and such refunding bonds or other refunding obligations taken together.

D. The District will duly and punctually pay or cause to be paid the principal of and interest on each of the Bonds issued under the Indenture on the date, at the place and in the manner provided in said Bonds, but only out of Zone 1 Special Tax Revenues and such other funds as may be provided in the Indenture.

E. The District shall comply with all requirements of the Act so as to assure the timely collection of the Zone 1 Special Taxes. The District shall annually ascertain the parcels on which the Zone 1 Special

Taxes are to be levied in the following Fiscal Year, taking into account any subdivisions of parcels during the current Fiscal Year. The District shall effect the levy of the Zone 1 Special Tax in accordance with the Special Tax RMA and the Act each Fiscal Year so that the computation of such levy is complete and transmitted to the Auditor of the County of San Diego before the final date on which the Auditor of the County of San Diego will accept the transmission of the Zone 1 Special Tax for the parcels within Zone 1 of the District for inclusion on the next real property tax roll. Upon completion of the computation of the amount of the Zone 1 Special Tax levy, the District shall prepare or cause to be prepared, and shall transmit or cause to be transmitted to the Auditor of the County of San Diego, such data as such Auditor requires to include the levy of the Zone 1 Special Tax on the next real property tax roll.

The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District has determined that, absent the certification described below, a reduction in the Maximum Special Tax (as such term is defined in the Special Tax RMA) authorized to be levied in Zone 1 below the levels provided would interfere with the timely retirement of the Bonds. The District has determined it to be necessary in order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it shall not initiate proceedings to reduce the Maximum Special Tax authorized to be levied within Zone 1, 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 Zone 1 of the District as of the July 1 preceding the reduction, the Maximum Special Tax which may be levied on all Assessor's Parcels (as such term is defined in the Special Tax RMA) of Developed Property in Zone 1 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 authorized to be levied within Zone 1 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 authorized to be levied within Zone 1 approved pursuant to the preceding sentence may be approved without the consent of the Owners of the Bonds.

The District covenants that, in the event that any initiative is adopted by the qualified electors which purports to reduce the Maximum Special Tax authorized to be levied within Zone 1 below the levels authorized pursuant to the Special Tax RMA or to limit the power or authority of the District to levy Zone 1 Special Taxes pursuant to the Special Tax RMA, the District shall, from funds available under the Indenture, commence and pursue legal action in order to preserve the authority and power of the District to levy Zone 1 Special Taxes pursuant to the Special Tax RMA.

F. The District will at all times keep, or cause to be kept, proper and current books and accounts (separate from all other records and accounts) in which complete and accurate entries shall be made of all transactions relating to the Zone 1 Special Tax Revenues and other funds provided for in the Indenture.

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

H. The District covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the 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 Section 148(a) of the Code. To that end, the District will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds. In the event that at any time the District is of the opinion that for purposes of the Indenture it is necessary to restrict or limit the yield on the investment of any monies held under the Indenture or otherwise the District shall so instruct the Fiscal Agent in writing, and the Fiscal Agent shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the District agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of 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. The District specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under the Indenture.

Notwithstanding any provision of the Indenture, if the District shall obtain an opinion of Bond Counsel to the effect that any action required under this covenant is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of 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.

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

J. Not later than October 30th of each year, commencing October 30, 2005, and until October 30th following the final maturity of the Bonds, the District shall supply or cause to be supplied to the California Debt and Investment Advisory Commission by mail, postage prepaid, the information, if any, then required by Government Code Section 53359.5 to be submitted to such agency.

K. The District covenants that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting tender of Bonds in full payment or partial payment of any Zone 1 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 Zone 1 Special Tax Revenues to pay the principal of and interest on the Bonds when due.

L. The District shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the District under the provisions of the Indenture. The District warrants that upon the date of execution and delivery of the Bonds, the conditions, acts and things required by law and the Indenture to exist, to have happened and to have been performed precedent to and in the execution and delivery of such Bonds do exist, have happened and have been performed and the execution and delivery of the Bonds shall comply in all respects with the applicable laws of the State.

Defeasance.

If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond the interest due thereon and the principal thereof, at the times and in the manner

stipulated in the Indenture, then the Owner of such Bond shall cease to be entitled to the pledge of the Zone 1 Special Tax Revenues, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under the Indenture shall thereupon cease, terminate and become void and discharged and satisfied. In the event of the defeasance of all Outstanding Bonds and after payment of any amounts then owed to the Fiscal Agent, the Fiscal Agent shall pay over or deliver to the District all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds.

Any Outstanding Bond shall be deemed to have been paid within the meaning expressed in the preceding paragraph if such Bond is paid in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable;
- (b) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the funds established pursuant to the Indenture (exclusive of the Rebate Fund) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable; or
- (c) by depositing with an escrow bank appointed by the District, in trust, noncallable Permitted Investments of the type described in 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 an Independent Accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Fiscal Agent or the escrow bank, together with the interest to accrue thereon and moneys then on deposit in the funds established under the Indenture (exclusive of the Rebate Fund) and available for such purpose, together with the interest to accrue thereon to pay and discharge the principal of, premium, if any, and interest on all such Bonds to be defeased in accordance with the Indenture as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds being defeased have been legally defeased in accordance with the Indenture.

To accomplish such defeasance, the District shall cause to be delivered (i) a report of the Independent Accountant verifying the determination made pursuant to paragraph (c) above (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 Zone 1 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.

After the issuance and delivery of the Bonds, the Indenture shall be irrevocable, but shall be subject to modification to the extent and in the manner provided in the Indenture, but to no greater extent and in no other manner.

Events of Default.

The following events shall be Events of Default under the Indenture:

- A. Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise.
- B. Default in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable.
- C. Default by the District in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the District by the Fiscal Agent or to the District and the Fiscal Agent by the Owners of not less than twenty five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; provided that such default (other than a default arising from nonpayment of the Fiscal Agent's fees and expenses, which must be cured within such 30 day period unless waived by the Fiscal Agent) shall not constitute an Event of Default under the Indenture if the District shall commence to cure such default within said thirty (30) day period and thereafter diligently and in good faith shall cure such default within a reasonable period of time; or

D. The filing by the District of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the District, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property.

Application of Revenues and Other Funds After Default

If a default in the payment of the Bonds shall occur and be continuing, all revenues and any other funds then held 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 this Article or in any other provision of the Indenture, the Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners thereof at the respective dates of maturity, as provided in the Indenture, out of the Net Special Tax Revenue pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in the Indenture. The principal of the Bonds shall not be subject to acceleration under the Indenture.

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

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

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

**POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 11
(STONEBRIDGE ESTATES)
IMPROVEMENT AREA A 2004 SPECIAL TAX BONDS**

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

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

Definitions

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

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

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

“Administrative Expenses” means the expenses directly related to the administration of the District, including, but not limited to, the following: the costs of computing the Improvement Area A Special Taxes and preparing the annual Improvement Area A Special Tax collection schedules (whether by the School District or a designee thereof or both); the costs of collecting the Improvement Area A Special Taxes (whether by the County, the School District or otherwise); the costs of remitting the Improvement Area A Special Taxes to the Fiscal Agent; the costs of the Fiscal Agent (including its legal counsel) in the discharge of the duties of the Fiscal Agent required under the Indenture; the costs of the School District, the District or any designee thereof of complying with the arbitrage rebate requirements; the costs of the School District, the District, or any designee thereof of complying with School District, District or obligated person disclosure requirements associated with applicable federal or state securities laws and of the Act; the costs associated with preparing Improvement Area A Special Tax disclosure statements and responding to public inquiries regarding the Improvement Area A Special Taxes; the costs of the School District, District or any designee thereof related to an appeal of the Improvement Area A 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 \$20,000 which amount shall escalate by 2% in each Bond Year commencing in the Bond Year beginning on September 2, 2005.

“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.

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

“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 applicable qualifications and limitations contained in the appraisal prepared by the Appraiser and dated February 11, 2004.

“Appraiser” means Stephen G. White, MAI.

“Assessor’s Parcel” means an Assessor’s Parcel as defined in the Improvement Area A 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 Superintendent, Deputy Superintendent or Associate Superintendent, Business Support Services and authorized to act on behalf of the District under or with respect to the Indenture and all other agreements related to the Indenture.

“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 \$11,000,000 Poway Unified School District Community Facilities District No. 11 (StoneBridge Estates) Improvement Area A 2004 Special Tax Bonds, issued pursuant to the Indenture.

“Bond Service Fund” means the fund created and established pursuant to the Indenture.

“Bond Year” means each twelve-month period extending from September 2 in one calendar year to September 1 of the succeeding calendar year, except in the case of the initial Bond Year which shall be the period from the Delivery Date to September 1, 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.

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

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

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

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

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

“Costs of Issuance” means, as to the Bonds, all of the costs of issuing the Bonds, including but not limited to, all printing and document preparation expenses in connection with the Indenture and any Supplemental Indenture, the Bonds, and any and all other agreements, instruments, certificates or other documents issued in connection therewith; any computer and other expenses incurred in connection with the Bonds; the initial fees and expenses of the Fiscal Agent (including without limitation, legal fees, acceptance fees and first annual fees payable in advance); the fees and expenses of the appraiser, market absorption consultant, bond counsel, disclosure counsel, special tax consultant and other fees and expenses incurred in connection with the issuance of the Bonds, to the extent such fees and expenses are approved by the District.

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

“Delinquency Collection Expenses” means those fees and expenses of the District incurred by or on behalf of the District in or related to the collection of delinquent Improvement Area A Special Taxes.

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

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

“Depository” means DTC and its successors and assigns or if (a) the then Depository resigns from its functions as securities depository of the Bonds, or (b) the District discontinues use of the Depository pursuant to the Indenture, any other securities depository which agrees to follow procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Associate Superintendent, Business Support Services of the District.

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

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

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

“District” means Poway Unified School District Community Facilities District No. 11 (StoneBridge Estates).

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

“Fiscal Agent” means Zions First National Bank, and any successor thereto.

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

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

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

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

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

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

“Improvement Area A Special Tax RMA” means the rate and method of apportionment of the Improvement Area A Special Tax approved at the special election held in Improvement Area A of the District on January 20, 2004, as may be modified from time to time in accordance with the Act.

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

“Infrastructure Improvement” shall have the meaning given such term in the Mitigation Agreement.

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

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

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

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

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

“Maximum Annual Debt Service” means, as of the date of any calculation, the largest Annual Debt Service during the current or any future Bond Year.

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

“Mitigation Agreement” means the School Impact Mitigation and Public Facilities Funding Agreement between the School District and Sycamore Estates, LLC, a Delaware limited liability company, Sycamore II Estates, LLC, a Delaware limited liability company, McMillin Montecito 109, LLC, a Delaware limited liability company, Brookfield 6, LLC, a Delaware limited liability company and Brookfield 8, LLC, a Delaware limited liability company, as may be amended, superseded or supplemented by the parties thereof.

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

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

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

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

1. Bonds theretofore canceled or surrendered for cancellation in accordance with the Indenture;
2. Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent pursuant to the terms 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” means a member of or participant in the Depository.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (the Fiscal Agent shall be entitled to rely upon any written investment direction from an Authorized Representative of the District as a certification to the Fiscal Agent that such investment constitutes a Permitted Investment):

1. A. Direct obligations (other than an obligation subject to variation in principal payment) of the United States of America (“United States Treasury Obligations”);

B. Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America;

C. Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or

D. Evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

2. Federal Housing Administration debentures.

3. The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

A. Federal Home Loan Mortgage Corporation (FHLMC)

(1) Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(2) Senior Debt obligations

B. Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)

(1) Consolidated system-wide bonds and notes

C. Federal Home Loan Banks (FHL Banks)

(1) Consolidated debt obligations

D. Federal National Mortgage Association (FNMA)

(1) Senior debt obligations

(2) Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

E. Student Loan Marketing Association (SLMA)

(1) Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)

F. Financing Corporation (FICO)

(1) Debt obligations

G. Resolution Funding Corporation (REFCORP)

(1) Debt obligations

4. Unsecured certificates of deposit, time deposits, deposit accounts and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P.
5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.
6. Commercial paper (having original maturities of not more than 270 days rated 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 pursuant to the Indenture agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

B. the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof; or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks pari passu with the

obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;

C. the District and the Fiscal Agent receives the opinion of domestic counsel that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable);

D. the investment agreement shall provide that if during its term

(1) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (a) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Fiscal Agent or a Custodian acceptable to the District free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (b) transfer and assign the investment agreement to a then qualifying counterparty with ratings specified above; and

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

E. the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Custodian has a perfected first priority security interest in the 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 A Special Tax Revenues identified to the Fiscal Agent by an Authorized Representative as representing a prepayment of the Improvement Area A Special Tax.

“Principal Account” means the account by such name established in the Bond Service Fund pursuant to the Indenture.

“Principal Corporate Trust Office” means the office of the Fiscal Agent at 550 South Hope Street, Suite 2650, Los Angeles, CA 90071 or such other offices as may be specified to the District by the Fiscal Agent in writing.

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

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

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

“Rebate Instructions” means the Rebate Instructions attached as Exhibit B to the Indenture.

“Record Date” means the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date whether or not such day is a Business Day.

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

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

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

“Reserve Requirement” means an amount initially equal to \$992,160.84 which amount shall, as of any date of calculation, be equal to the least of (i) Maximum Annual Debt Service for the Bonds, (ii) one hundred twenty-five percent (125%) of Average Annual Debt Service for the Bonds, or (iii) ten percent (10%) of the original principal amount of the Bonds less original issue discount, if any, plus original issue premium, if any, applicable to the Bonds.

“School District” means the Poway Unified School District.

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

“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 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 Mitigation Agreement.

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

“Supplemental Indenture” means any bond indenture then in full force and effect which has been duly approved by resolution of the Legislative Body under and pursuant to the Act at a meeting of the Legislative Body duly convened and held, at which a quorum was present and acted thereon, amendatory of the Indenture or supplemental to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Supplemental School Facilities” means the acquisition, planning, construction, and/or financing of school facilities, including classrooms, multi-purpose, administration and auxiliary space at each school, central support and administrative facilities, interim housing, transportation, and special education facilities, together with furniture, equipment, and technology, needed by the School District to serve the student population of the School District and which are financed, in whole or in part, from Surplus Improvement Area A Special Taxes.

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

“Tax Exempt” means, with reference to a Permitted Investment, a Permitted Investment the interest earnings on which are excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code, other than one described in section 57(a)(5)(C) of the Code.

“Term Bonds” means the Bonds maturing on September 1, 2028 and September 1, 2034.

“Transferee” shall have the meaning given such term in the Mitigation Agreement.

“Yield” has the meaning assigned to such term for purposes of Section 148(f) of the Code.

Establishment of Funds and Accounts

Special Tax Fund.

A. The District shall, no later than the tenth (10th) Business Day after which Improvement Area A 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 Improvement Area A Special Tax Revenues to the Fiscal Agent and, except as set forth in the following sentence, such amounts shall be deposited in the Improvement Area A Special Tax Fund.

B. With the exception of Improvement Area A Special Tax Revenues representing Prepayments which shall be transferred pursuant to the provisions of the Indenture, the Improvement Area A Special Tax Revenues deposited in the Improvement Area A Special Tax Fund shall be held in trust or transferred

to the following other funds and accounts on the dates and in the amounts set forth in the following paragraphs and in the following order of priority:

1. The Fiscal Agent shall each Fiscal Year transfer to the Administrative Expense Fund from the first Improvement Area A 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, pursuant to the Indenture, 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 transfers and deposits required under 1. through 3. above, the Fiscal Agent shall transfer the amount, if any, necessary to replenish the amount then on deposit in the Reserve Fund to an amount equal to the Reserve Requirement.

5. On or after September 2 of each year after making the deposits and transfers required under 1. through 4. above, upon receipt of written instructions from an Authorized Representative, the Fiscal Agent shall transfer from the Improvement Area A Special Tax Fund to the Rebate Fund the amount specified in such request.

6. On or after September 2 of each year after making the deposits and transfers required under 1. through 5. above, upon receipt of a written request of an Authorized Representative, the Fiscal Agent shall transfer from the Improvement Area A Special Tax Fund to the Administrative Expense Fund the amounts specified in such request to pay (a) those Administrative Expenses which the District reasonably expects will become due and payable during such Fiscal Year in excess of the Administrative Expense Requirement for such Fiscal Year and (b) any Administrative Expenses that have previously been incurred and paid by the District from funds other than the Administrative Expense Fund.

7. If, on or after September 2 of each year, after making the deposits and transfers required under 1. through 6. above, monies remain in the Improvement Area A Special Tax Fund, such monies shall remain on deposit in the Improvement Area A Special Tax Fund and shall be subsequently deposited or transferred pursuant to the provisions of 1. through 6. above, provided, however, that if Agreement that all or any portion of such monies constitute the proceeds of Surplus Improvement Area A Special Taxes, the District may, by written instructions executed by an Authorized Representative, direct the Fiscal Agent to transfer that amount of such monies constituting Surplus Improvement Area A Special Taxes School to the School District to be utilized pursuant to the provisions of the Mitigation Agreement to finance the acquisition or construction of Supplemental School Facilities.

C. The Fiscal Agent shall, upon receipt of Improvement Area A Special Tax Revenues representing Prepayments together with written instructions of the District executed by an Authorized Representative, immediately transfer such Prepayments pursuant to such written instructions into the Interest Account of the Bond Service Fund and the Redemption Fund, as applicable, and utilize such funds to pay the interest and premium, if any, on and principal of Bonds to be redeemed pursuant to the Indenture. The Fiscal Agent may conclusively rely upon such instructions.

D. When there are no longer any Bonds Outstanding, any amounts then remaining on deposit in the Improvement Area A Special Tax Fund shall be transferred to the District to be utilized to finance the acquisition or construction of Supplemental School Facilities pursuant to the provisions of the Mitigation Agreement.

Bond Service Fund.

A. 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 through October 1, 2005 prior to using any other funds on deposit in the Interest Account for such purpose.

B. Principal Account. All moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of the Term Bonds upon the mandatory sinking fund redemption thereof pursuant to the Indenture.

Costs of Issuance Fund.

The Fiscal Agent shall, upon the written requisition of the District executed by an Authorized Representative, in substantially the form attached to the Indenture as Exhibit C, disburse money from the Costs of Issuance Fund, if any, on such dates and in such amounts as specified in such requisition to pay the Costs of Issuance related to the Bonds. 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 Infrastructure Improvement Fund. Upon such transfer, the Costs of Issuance Fund shall be closed.

Infrastructure Improvement Fund.

The Fiscal Agent shall, from time to time, disburse monies from the Infrastructure Improvement Fund to pay Actual Costs. Upon receipt of a payment request of the District duly executed by an Authorized Representative in substantially the form attached to the Indenture as Exhibit D (which payment request shall not exceed the corresponding payment request provided to the School District under the Mitigation Agreement), the Fiscal Agent shall pay the Actual Costs from amounts in the Infrastructure Improvement Fund directly to the contractor or such other person, corporation or entity entitled to payment under the Indenture (including reimbursements, if any, to the District) unless the District requests payment to be made to the contractor or such other party jointly, in which case said Actual Costs shall be paid jointly. The Fiscal Agent may rely on an executed payment request as complete authorization for said payments.

After the final payment or reimbursement of all Actual Costs as certified by delivery of a written notice from an Authorized Representative to the Fiscal Agent, the Fiscal Agent shall transfer excess monies, if any, on deposit in, or subsequently deposited in, the Infrastructure Improvement Fund to the Improvement Area A Special Tax Fund and the Fiscal Agent shall apply the amount so transferred in accordance with the Indenture. Upon such transfer, the Infrastructure Improvement Fund shall be closed.

Notwithstanding anything in the Indenture to the contrary, if on the date which is three (3) years from the Delivery Date of the Bonds, any funds derived from the Bonds remain on deposit in the Infrastructure Account, upon written instruction from the District, the Fiscal Agent shall restrict the Yield on such amounts so that the Yield earned on the investment of such amounts is not in excess of the Yield on the Bonds, unless in the written opinion of Bond Counsel delivered to the Fiscal Agent such restriction is not necessary to prevent an impairment of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Reserve Fund.

Moneys on deposit in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds as such amounts shall become due and payable in the event that the moneys in the Improvement Area A Special Tax Fund and the Bond Service Fund for such purpose are insufficient therefore or 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 required by the Indenture have been made for any Bond Year, if the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the Fiscal Agent shall transfer to the Reserve Fund from the first available monies in the Improvement Area A Special Tax Fund an amount necessary to increase the balance therein to the Reserve Requirement. If on March 1 or on September 1, or on the first Business Day thereafter if March 1 or September 1 is not a Business Day, of each year, the amount on deposit in the Reserve Fund is in excess of the Reserve Requirement inclusive of interest earnings and exclusive of excess created by optional redemption, the Fiscal Agent shall transfer such excess to the Interest Account of the Bond Service Fund. In connection with any optional redemption of Bonds pursuant to the Indenture, amounts on deposit in the Reserve Fund which would be in excess of the Reserve Requirement following such redemption shall be transferred to the Redemption Fund or the Interest Account of the Bond Service Fund, as applicable, prior to such redemption and applied to such redemption of Bonds pursuant to written instructions of the District executed by an Authorized Representative.

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

Whenever the balance in the Reserve Fund and the Bond Service 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, in accordance with the Bond Indenture 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.

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 of the District executed by an Authorized Representative, specifying the name and address of the payee and the amount of the Administrative Expense and a description thereof and further stating that such request has not formed the basis of any prior request for payment.

Redemption Fund.

Monies shall be deposited into the Redemption Fund by the Fiscal Agent pursuant to the terms of the Indenture and shall be set aside and used solely for the purpose of redeeming Bonds in accordance with written instructions of the District executed by an Authorized Representative given in accordance with the Indenture, as applicable. Following the redemption of any Bonds, if any funds remain in the Redemption Fund, such funds shall be transferred to the Improvement Area A Special Tax Fund.

Investment of Funds.

Unless otherwise specified in the Indenture, monies in the Improvement Area A Special Tax Fund, the Bond Service Fund, the Infrastructure Improvement Fund, the Reserve Fund, the Costs of Issuance Fund and Administrative Expense Fund shall, at the written direction of the District executed by an Authorized Representative given at least two (2) days prior, be invested and reinvested in Permitted Investments (including investments with the Fiscal Agent or an affiliate of the Fiscal Agent or investments for which the Fiscal Agent or an affiliate of the Fiscal Agent acts as investment advisor or provides other services so long as the investments are Permitted Investments). Monies in the Redemption Fund and the Rebate Fund shall, at the written direction of the District executed by an Authorized Representative, be invested in Government Obligations or money market funds comprised solely of Government Obligations and rated in the highest rating category of S&P. Notwithstanding anything in the Indenture to the contrary, in the absence of written investment instructions, the Fiscal Agent shall invest solely in investments identified in paragraph 7 of the definition of Permitted Investments. Any Permitted Investments that are registerable securities shall be registered in the name of the Fiscal Agent.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the District periodic cash transaction statements, which include detail for all investment transactions made by the Fiscal Agent under the Indenture. The Fiscal Agent shall not be required to provide statements for accounts with zero balances.

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

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.

The Fiscal Agent is authorized pursuant to the Indenture, in making or disposing of any investment permitted by the Indenture, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Fiscal Agent or for any third person or dealing as principal for its own account.

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 to the Indenture for any of the following purposes:

- (a) to cure any ambiguity, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provision with respect to matters or questions arising under the Indenture or in any Supplemental Indenture, provided that such action shall not adversely affect the interests of the Bondowners;
- (b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect;
- (c) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the interests of the Bondowners; or
- (d) to amend any provision of the Indenture relating to the Code as may be necessary or appropriate to assure compliance with the Code and the exclusion from gross income of interest on the Bonds.

Exclusive of the Supplemental Indentures provided for in the Indenture, the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal of, or the payment date of interest on, any Bond, or (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon without the consent of the affected Bondowner(s), or permit, or be construed as permitting, (x) a preference or priority of any Bond or Bonds over any other Bond or Bonds, (y) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, or (z) creating of a pledge of or lien or charge upon the Improvement Area A Special Tax Revenues superior to the pledge provided for in the Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to approve a Supplemental Indenture, which pursuant to the terms of the Indenture shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The District shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, postage prepaid, to all Bondowners at their addresses as they appear in the bond register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the principal office of the District for inspection by all Bondowners. The failure of any Bondowner to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved as provided in the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the District shall receive an instrument or instruments purporting to be executed by the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to the approval thereof by the Legislative Body substantially in the form of the copy thereof referred to in such Notice as on file with the District, such proposed Supplemental Indenture, when duly approved by the Legislative Body, shall thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of 60% of the aggregate principal amount of the Bonds have consented to the approval of any Supplemental Indenture, Bonds which are known to the Fiscal Agent to be owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not outstanding for the purpose of any such determination.

Upon the approval of any Supplemental Indenture pursuant to the Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of the appropriate aggregate principal amount of Bonds in instances where such consent is required pursuant to the provisions of the Indenture, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Bonds then Outstanding shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments. Notwithstanding anything in the Indenture to the contrary, no Supplemental Indenture shall be entered into which would modify the duties of the Fiscal Agent under the Indenture, without the prior written consent of the Fiscal Agent.

After the effective date of any action taken as provided in the Indenture, the District may determine that the Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond at such effective date and presentation of this Bond for the purpose at the office of the Fiscal Agent or at such additional offices

as the Fiscal Agent may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds. If the District shall so determine, new Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond at such effective date such new Bonds shall be exchanged at the corporate trust office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, without cost to each Owner of Outstanding Bonds, upon surrender of such Outstanding Bonds.

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 under the provisions of the Indenture 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 pursuant to 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.

As long as the Bonds are Outstanding and unpaid, the District, acting on behalf of the District, shall (through its proper members, officers, agents or employees) faithfully perform and abide by all of the covenants and agreements set forth in the Indenture; provided, however, that said covenants do not require the District to expend any funds other than the Improvement Area A Special Tax Revenues.

A. On or before June 1 of each Fiscal Year, the District will review the public records of the County of San Diego, California, in connection with the Improvement Area A Special Tax levied in such Fiscal Year to determine the amount of Improvement Area A Special Tax actually collected in such Fiscal Year. If the District determines that (a) any single parcel subject to the Improvement Area A Special Tax is delinquent in the payment of Improvement Area A Special Taxes in the aggregate of \$5,000 or more or (b) any single parcel or parcels under common ownership subject to the Improvement Area A Special Tax are delinquent in the payment of Improvement Area A 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 the Improvement Area A Special Taxes remain delinquent. With respect to aggregate delinquencies throughout the District, if the District determines that it has collected less than 95% of the Improvement Area A Special Taxes levied in the such Fiscal Year, then the District shall, not later than forty five (45) days of such determination, send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the owner of each delinquent parcel (regardless of the amount of such delinquency). The District will cause judicial foreclosure proceedings to be commenced and filed in the Superior Court not later than ninety (90) days of such determination against any parcel for which a notice of delinquency was given pursuant to the Indenture and for which the Improvement Area A Special Taxes remain delinquent.

B. The District shall preserve and protect the security of the Bonds and the rights of the Bondowners and defend their rights against all claims and demands of all persons. Until such time as an amount has been set aside sufficient to pay Outstanding Bonds at maturity or to the date of redemption if redeemed prior to maturity, plus unpaid interest thereon and premium, if any, to maturity or to the date of redemption if redeemed prior to maturity, the District will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or in any Bond issued under the Indenture.

C. The District will not issue any other obligations payable, principal or interest, from the Improvement Area A Special Taxes which have, or purport to have, any lien upon the Improvement Area A Special Taxes superior to or on a parity with the lien of the Bonds authorized in the Indenture. Nothing in the Indenture shall prevent the District from issuing and selling, pursuant to law, refunding bonds or other refunding obligations payable from and having a first lien upon the Improvement Area A Special Taxes on a parity with the Outstanding Bonds so long as the issuance of such refunding bonds or other refunding obligations results in a reduction in the Annual Debt Service on the Bonds and such refunding bonds or other refunding obligations taken together.

D. The District will duly and punctually pay or cause to be paid the principal of and interest on each of the Bonds issued under the Indenture on the date, at the place and in the manner provided in said Bonds, but only out of Improvement Area A Special Tax Revenues and such other funds as may be provided in the Indenture.

E. The District shall comply with all requirements of the Act so as to assure the timely collection of the Improvement Area A Special Taxes. The District shall annually ascertain the parcels on which the Improvement Area A Special Taxes are to be levied in the following Fiscal Year, taking into account any subdivisions of parcels during the current Fiscal Year. The District shall effect the levy of the Improvement Area A Special Tax in accordance with the Improvement Area A 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 A Special Tax for the parcels within the District for inclusion on the next real property tax roll. Upon completion of the computation of the amount of the Improvement Area A Special Tax levy, the District shall prepare or cause to be prepared, and shall transmit or cause to be transmitted to the Auditor of the County of San Diego, such data as such Auditor requires to include the levy of the Improvement Area A Special Tax on the next real property tax roll.

The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities

districts. For this reason, the District has determined that, absent the certification described below, a reduction in the Maximum Special Tax authorized to be levied below the levels provided would interfere with the timely retirement of the Bonds. The District has determined it to be necessary in order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it shall not initiate proceedings to reduce the Maximum Special Tax, unless, in connection therewith, (i) the District receives a certificate from one or more 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, the Maximum Special Tax which may be levied on all Assessor's Parcels of Developed Property in each Fiscal Year will equal at least 110% of the gross debt service on all Bonds to remain Outstanding after the reduction is approved and will not reduce the Maximum Special Tax payable from Assessor's Parcels of Developed Property is located to less than 110% of Maximum Annual Debt Service, and (ii) the Legislative Body finds pursuant to the Indenture that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds. Any reduction in the Maximum Special Tax approved pursuant to the preceding sentence may be approved without the consent of the Owners of the Bonds.

The District covenants that, in the event that any initiative is adopted by the qualified electors which purports to reduce the Maximum Special Tax below the levels authorized pursuant to the Improvement Area A Special Tax RMA or to limit the power or authority of the District to levy Improvement Area A Special Taxes pursuant to the Improvement Area A Special Tax RMA, the District shall, from funds available under the Indenture, commence and pursue legal action in order to preserve the authority and power of the District to levy Improvement Area A Special Taxes pursuant to the Improvement Area A Special Tax RMA.

F. The District will at all times keep, or cause to be kept, proper and current books and accounts (separate from all other records and accounts) in which complete and accurate entries shall be made of all transactions relating to the Improvement Area A Special Tax Revenues and other funds provided for in the Indenture.

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

H. The District covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the 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 Section 148(a) of the Code. To that end, the District will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds. In the event that at any time the District is of the opinion that for purposes of the Indenture it is necessary to restrict or limit the yield on the investment of any monies held under the Indenture or otherwise the District shall so instruct the Fiscal Agent in writing, and the Fiscal Agent shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the District agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of 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. The District specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under the Indenture.

Notwithstanding any provision of the Indenture, if the District shall obtain an opinion of Bond Counsel to the effect that any action required under this covenant is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of 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.

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

J. Not later than October 30th of each year, commencing October 30, 2005, and until October 30th following the final maturity of the Bonds, the District shall supply or cause to be supplied to the California Debt and Investment Advisory Commission by mail, postage prepaid, the information, if any, then required by Government Code Section 53359.5 to be submitted to such agency.

K. The District covenants that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting tender of Bonds in full payment or partial payment of any Improvement Area A 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 A Special Tax Revenues to pay the principal of and interest on the Bonds when due.

L. The District shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the District under the provisions of the Indenture. The District warrants that upon the date of execution and delivery of the Bonds, the conditions, acts and things required by law and the Indenture to exist, to have happened and to have been performed precedent to and in the execution and delivery of such Bonds do exist, have happened and have been performed and the execution and delivery of the Bonds shall comply in all respects with the applicable laws of the State.

Defeasance.

If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture, then the Owner of such Bond shall cease to be entitled to the pledge of the Improvement Area A Special Tax Revenues, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under the Indenture shall thereupon cease, terminate and become void and discharged and satisfied. In the event of the defeasance of all Outstanding Bonds and after payment of any amounts then owed to the Fiscal Agent, the Fiscal Agent shall pay over or deliver to the District all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds.

Any Outstanding Bond shall be deemed to have been paid within the meaning expressed in the preceding paragraph if such Bond is paid in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable;

- (b) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the funds established pursuant to the Indenture (exclusive of the Rebate Fund) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable; or
- (c) by depositing with an escrow bank appointed by the District, in trust, noncallable Permitted Investments of the type described in 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 an Independent Accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Fiscal Agent or the escrow bank, together with the interest to accrue thereon and moneys then on deposit in the funds established under the Indenture (exclusive of the Rebate Fund) and available for such purpose, together with the interest to accrue thereon to pay and discharge the principal of, premium, if any, and interest on all such Bonds to be defeased in accordance with the Indenture as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds being defeased have been legally defeased in accordance with the Indenture.

To accomplish such defeasance, the District shall cause to be delivered (i) a report of the Independent Accountant verifying the determination made pursuant to paragraph (c) above (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 Improvement Area A 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.

After the issuance and delivery of the Bonds, the Indenture shall be irrevocable, but shall be subject to modification to the extent and in the manner provided in the Indenture, but to no greater extent and in no other manner.

Events of Default.

The following events shall be Events of Default under the Indenture:

A. Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise.

B. Default in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable.

C. Default by the District in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the District by the Fiscal Agent or to the District and the Fiscal Agent by the Owners of not less than twenty five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; provided that such default (other than a default arising from nonpayment of the Fiscal Agent's fees and expenses, which must be cured within such 30 day period unless waived by the Fiscal Agent) shall not constitute an Event of Default under the Indenture if the District shall commence to cure such default within said thirty (30) day period and thereafter diligently and in good faith shall cure such default within a reasonable period of time; or

D. The filing by the District of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the District, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property.

Application of Revenues and Other Funds After Default

If a default in the payment of the Bonds shall occur and be continuing, all revenues and any other funds then held 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 this Article or in any other provision of the Indenture, the Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners thereof at the respective dates of maturity, as provided in the Indenture, out of the Net Special Tax Revenue pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in the Indenture. The principal of the Bonds shall not be subject to acceleration under the Indenture.

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

article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

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

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

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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 March 1, 2004, by and among the Poway Unified School District on behalf of Community Facilities District No. 11 (StoneBridge Estates) 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's Zone 1 2004 Special Tax Bonds and Improvement Area A 2004 Special Tax Bonds (collectively, the "2004 Bonds");

WITNESSETH:

WHEREAS, pursuant to each Bond Indenture, each dated as of March 1, 2004 (the "Bond Indenture"), each by and between the Community Facilities District and the Fiscal Agent, the Community Facilities District has issued the Zone 1 Bonds in the aggregate principal amount of \$9,000,000 and the Improvement Area A Bonds in the aggregate principal amount of 11,000,000; and

WHEREAS, the 2004 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 2004 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 each 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. 11 (StoneBridge Estates) 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 A of Community Facilities District No. 11 (StoneBridge Estates) 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.

“Zone 1 ” shall mean Zone 1 of Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District.

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, 2005, provide to each Repository, to the Fiscal Agent and to the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Community Facilities District shall provide the Annual Report to the Dissemination Agent. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the School District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if not available by that date. If the School District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). If the Dissemination Agent has not received a copy of the Annual Report on or before 15 business days prior to January 31 in any year, the Dissemination Agent shall notify the Community Facilities District of such failure to receive the Annual Report. The Community Facilities District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Community Facilities District and shall have no duty or obligation to review such Annual Report.

(b) If the Community Facilities District is unable to provide to the Repositories and to the Participating Underwriter an Annual Report by the date required in subsection (a), the Dissemination

Agent shall send a notice to the Repositories and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any;

(ii) provide any Annual Report received by it to each Repository, the Fiscal Agent and the Participating Underwriter as provided herein; and

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

Section 4. Content of Annual Reports. The Community Facilities District's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the School District prepared in accordance with generally accepted accounting principles as promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If audited financial statements are not available, at the time required for filing, unaudited financial statements shall be submitted with the Annual Report, and audited financial statements shall be submitted once available.

(b) The following information regarding the 2004 Bonds and any refunding bonds:

(i) Principal amount of 2004 Bonds and any refunding bonds outstanding as of a date within 30 days proceeding the date of the Annual Report;

(ii) Balance in the 2004 Bond Service Funds as of a date within 30 days proceeding the date of the Annual Report;

(iii) Balance in the Reserve Funds and statement of Reserve Requirements as of a date within 30 days proceeding the date of the Annual Report;

(iv) Balance in the School Facilities Fund and Infrastructure 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 Zone 1 / Improvement Area A and by each 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 Zone 1 / Improvement Area A 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 2004 Bonds and any refunding bonds with respect to either Zone 1 or Improvement Area A and all

other debt secured by a tax or assessments levied on parcels within Zone 1 / Improvement Area A.

- (vi) Information regarding the annual special taxes levied in Zone 1 / Improvement Area A, amount collected, delinquent amounts and percent delinquent for the most recent fiscal year;
- (vii) Status of foreclosure proceedings of parcels within Zone 1 / Improvement Area A 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 with respect to Zone 1 and Improvement Area A on the property within Zone 1 / Improvement Area A owned by such property owners, and the assessed value of such property, as shown on such assessment roll;
- (ix) Concerning delinquent parcels in Zone 1 / Improvement Area A as of the immediately preceding August 15;
 - number of parcels in Zone 1 / Improvement Area A 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 Zone 1 / Improvement Area A,
- (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 either Zone 1 or Improvement Area A 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 either Zone 1 or Improvement Area A 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.

A form of information cover sheet for municipal secondary market disclosure recommended by the Municipal Securities Rulemaking Board is attached as Exhibit C.

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 2004 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 2004 Bonds pursuant to each 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 2004 Bonds, (ii) prior redemption of the 2004 Bonds or (iii) payment in full of all the 2004 Bonds. If such determination occurs prior to the final maturity of the 2004 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 2004 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 2004 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 2004 Bonds in the manner provided in the applicable Bond Indenture for amendments to such 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 2004 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 2004 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent) or any owner or beneficial owner of the 2004 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 applicable 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 6.08 of each Bond Indenture are hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the applicable 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 2004 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 applicable 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 applicable 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 2004 Bonds or the Community Facilities District except in its respective capacities under such agreements. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Community Facilities District as to the materiality of any event for purposes of Section 5 hereof. Neither the Fiscal Agent nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Dissemination Agent shall be paid compensation by the Community Facilities District for its services provided hereunder in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination in the performance of its duties hereunder. The Community Facilities District's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. Beneficiaries. The Participating Underwriter and the owners and beneficial owners from time to time of the 2004 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 2004 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. 11
(StoneBridge Estates) 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

If to the Dissemination Agent: David Taussig & Associates, Inc.
1301 Dove Street, Suite 600
Newport Beach, California 92660
Telephone: (949) 955-1500
Telecopier: (949) 955-1590

If to the Fiscal Agent: Zions First National Bank
550 S. Hope Street, Suite 2650
Los Angeles, California 90071
Telephone: (213) 593-3152
Telecopier: (213) 593-1160

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. 11
(StoneBridge Estates)
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. 11 (StoneBridge Estates) of the Poway Unified School District

Name of Bond Issue: Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District Zone 1 2004 Special Tax Bonds and Improvement Area A 2004 Special Tax Bonds

Date of Issuance: April 1, 2004

NOTICE IS HEREBY GIVEN that Community Facilities District No. 11 (StoneBridge Estates) 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 March 1, 2004, by and among the Community Facilities District, Zions First National Bank, as Fiscal Agent and David Taussig & Associates, Inc. as Dissemination Agent. [The Community Facilities District anticipates that the Annual Report will be filed by _____.]

Dated: _____, 20__

David Taussig & Associates, Inc. as
Dissemination Agent, on behalf of the Community
Facilities District

cc: Community Facilities District No. 11 (StoneBridge Estates)
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.

EXHIBIT C

**MUNICIPAL SECONDARY MARKET DISCLOSURE
INFORMATION COVER SHEET**

Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement
(please include name of state where issuer is located):

**\$9,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 11
(STONEBRIDGE ESTATES)
ZONE 1 2004 SPECIAL TAX BONDS**

(California)

Provide nine-digit CUSIP* numbers if available, to which the information relates:

Maturity (September 1)	CUSIP Number	Maturity (September 1)	CUSIP Number
2006	738855JH9	2016	738855JT3
2007	738855JJ5	2017	738855JU0
2008	738855JK2	2018	738855JV8
2009	738855JL0	2019	738855JW6
2010	738855JM8	2020	738855JX4
2011	738855JN6	2021	738855JY2
2012	738855JP1	2022	738855JZ9
2013	738855JQ9	2028	738855KC8
2014	738855JR7	2034	738855KD6
2015	738855JS5		

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement
(please include name of state where issuer is located):

\$11,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 11
(STONEBRIDGE ESTATES)
IMPROVEMENT AREA A
2004 SPECIAL TAX BONDS

(California)

Provide nine-digit CUSIP* numbers if available, to which the information relates:

Maturity (September 1)	CUSIP Number	Maturity (September 1)	CUSIP Number
2006	738855KE4	2016	738855KQ7
2007	738855KF1	2017	738855KR5
2008	738855KG9	2018	738855KS3
2009	738855KH7	2019	738855KT1
2010	738855KJ3	2020	738855KU8
2011	738855KK0	2021	738855KV6
2012	738855KL8	2022	738855KW4
2013	738855KM6	2028	738855KZ7
2014	738855KN4	2034	738855LA1
2015	738855KP9		

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located): _____

Other Obligated Person's Name (if any): _____

(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP* number(s), if available, of Issuer: _____

*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

☐ Electronic (number of pages attached) _____ ☐ Paper (number of pages attached) _____

If information is also available on the Internet, give URL: _____

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. ☐ Annual Financial Information and Operating Data pursuant to Rule 15c2-12

(Financial information and operating data should not be filed with the MSRB.)

Fiscal Period Covered: _____

B. ☐ Audited Financial Statements or CAFR pursuant to Rule 15c2-12

Fiscal Period Covered: _____

C. ☐ Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate)

- | | |
|--|--|
| 1. <input type="checkbox"/> Principal and interest payment delinquencies | 6. <input type="checkbox"/> Adverse tax opinions or events affecting the tax-exempt status of the security |
| 2. <input type="checkbox"/> Non-payment related defaults | 7. <input type="checkbox"/> Modifications to the rights of security holders |
| 3. <input type="checkbox"/> Unscheduled draws on debt service reserves reflecting financial difficulties | 8. <input type="checkbox"/> Bond calls |
| 4. <input type="checkbox"/> Unscheduled draws on credit enhancements reflecting financial difficulties | 9. <input type="checkbox"/> Defeasances |
| 5. <input type="checkbox"/> Substitution of credit or liquidity providers, or their failure to perform | 10. <input type="checkbox"/> Release, substitution, or sale of property securing repayment of the securities |
| | 11. <input type="checkbox"/> Rating changes |

D. ☐ Notice of Failure to Provide Annual Financial Information as Required

E. ☐ Other Secondary Market Information (Specify): _____

I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:

Issuer Contact:

Name _____ Title _____
Employer _____
Address _____ City _____ State _____ Zip Code _____
Telephone _____ Fax _____
Email Address _____ Issuer Web Site Address _____

Dissemination Agent Contact, if any:

Name _____ Title _____
Employer _____
Address _____ City _____ State _____ Zip Code _____
Telephone _____ Fax _____
Email Address _____ Relationship to Issuer _____

Obligor Contact, if any:

Name _____ Title _____
Employer _____
Address _____ City _____ State _____ Zip Code _____
Telephone _____ Fax _____
Email Address _____ Obligor Web site Address _____

Investor Relations Contact, if any:

Name _____ Title _____
Telephone _____ Email Address _____

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APPENDIX F

FORM OF MAJOR DEVELOPER CONTINUING DISCLOSURE AGREEMENTS

A separate Major Developer Continuing Disclosure Agreement will be provided by McMillin Montecito 109 LLC and Brookfield 6 LLC and Brookfield 8 LLC.

This CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”) is executed and entered into as of March 1, 2004, by and between Zions First National Bank, a national banking association organized and existing under and by virtue of the laws of the United States of America (the “Bank”), in its capacity as dissemination agent (the “Dissemination Agent”) and in its capacity as Fiscal Agent with respect to the Community Facilities District’s Zone 1 2004 Special Tax Bonds and Improvement Area A 2004 Special Tax Bonds (collectively, the “2004 Bonds”), and [McMillin Montecito 109, LLC,] [Brookfield 6 LLC and Brookfield 8 LLC,] organized and existing under and by virtue of the laws of the State of Delaware (the “Property Owner”);

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Property Owner for the benefit of the owners and beneficial owners of the 2004 Bonds.

Section 2. Definitions. In addition to the definitions set forth above and in the Fiscal Agent Agreement, 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:

“*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 undertaking of a Major Developer, or an Affiliate thereof, and the Dissemination Agent, for the benefit of the owners and beneficial owners of the 2004 Bonds containing terms substantially similar to this Disclosure Agreement (as modified for such Major Developer’s development and financing plans with respect to the Improvement Area), whereby such Major Developer or Affiliate agrees to provide semi-annual reports and notices of significant events, setting forth the information described in sections 4 and 5 hereof, respectively, with respect to the portion of the property in the Improvement Area owned by such Major Developer and its Affiliates and, at the option of the Property Owner or such Major Developer, agrees to indemnify the Dissemination Agent pursuant to a provision substantially in the form of Section 11 hereof.

“*Dissemination Agent*” means Zions First National Bank, or any successor Dissemination Agent designated in writing by the Property Owner, and which has filed with the Property Owner, the Community Facilities District and the Fiscal Agent a written acceptance of such designation, and which is experienced in providing dissemination agent services such as those required under this Disclosure Agreement.

“*Community Facilities District*” means Community Facilities District No. 11 of the Poway Unified School District.

“*Improvement Area*” means Improvement Area A of Community Facilities District No. 11 of the Poway Unified School District.

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

“Major Developer” means, as of any Report Date, an owner of land in the Improvement Area responsible in the aggregate for 15% or more of the Special Taxes in the Improvement Area actually levied at any time during the then-current fiscal year.

“National Repository” means 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 Securities and Exchange Commission’s Internet site at www.sec.gov/info/municipal/nrmsir.htm.

“Official Statement” means the final official statement executed by the Community Facilities District in connection with the issuance of the 2004 Bonds.

“Participating Underwriter” means Stone & Youngberg LLC, the original underwriter of the 2004 Bonds required to comply with the Rule in connection with offering of the 2004 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.

“Property” means the property owned by the Property Owner in the Improvement Area.

“Report Date” means April 1 and October 1 of each calendar year.

“Repository” means each National Repository and each State Repository, if any.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Semi-Annual Report” means any Semi-Annual Report provided by the Property Owner pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Special Taxes” means the special taxes levied on taxable property within the Improvement Area and used to pay debt service on the 2004 Bonds.

“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 3. Provision of Semi-Annual Reports.

(a) The Property Owner shall, or upon written direction shall cause the Dissemination Agent to, not later than the Report Date, commencing October 1, 2004, provide to each Repository a Semi-Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement with a copy to the Fiscal Agent (if different from the Dissemination Agent), the Participating Underwriter and the Community Facilities District. Not later than 15 Business Days prior to the Report Date, the Property Owner shall provide the Semi-Annual Report to the Dissemination Agent. The Property Owner shall provide a written certification with (or included as a part of) each Semi-Annual Report furnished to the Dissemination Agent, the Fiscal Agent (if different from the Dissemination Agent), the Participating Underwriter and the Community Facilities District to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it under this Disclosure Agreement. The Dissemination Agent, the Fiscal Agent, the Participating Underwriter and the Community Facilities District may conclusively rely upon such certification of the Property Owner and shall have no duty or obligation to review the Semi-Annual Report. The Semi-Annual Report may be submitted as a single document or as separate documents

comprising a package, and may incorporate by reference other information as provided in Section 4 of this Disclosure Agreement.

(b) If the Dissemination Agent does not receive a Semi-Annual Report by 15 days prior to the Report Date, the Dissemination Agent shall send a reminder notice to the Property Owner that the Semi-Annual Report has not been provided as required under Section 3(a) above. The reminder notice shall instruct the Property Owner to determine whether its obligations under this Disclosure Agreement have terminated (pursuant to Section 6 below) and, if so, to provide the Dissemination Agent with a notice of such termination in the same manner as for a Listed Event (pursuant to Section 5 below). If the Property Owner does not provide, or cause the Dissemination Agent to provide, a Semi-Annual Report to the Repositories by the Report Date as required in subsection (a) above, the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board and appropriate State Repository, if any, in substantially the form attached hereto as Exhibit A, with a copy to the Fiscal Agent (if other than the Dissemination Agent), the Community Facilities District, the Participating Underwriter and the Property Owner.

(c) 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) to the extent the Semi-Annual Report has been furnished to it, file a report with the Property Owner (if the Dissemination Agent is other than the Property Owner), the Community Facilities District 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.

Section 4. Content of Semi-Annual Reports. The Property Owner's Semi-Annual Report shall contain or incorporate by reference the information set forth in Exhibit B, any or all of which may be included by specific reference to other documents, including official statements of debt issues of the Property Owner 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 Property Owner shall clearly identify each such other document so included by reference. With respect only to the Semi-Annual Report that is required to be provided no later than April 1 of each Fiscal Year, if audited financial statements of the Property Owner or its parent company (the "Financial Statements") are prepared, attach the audited Financial Statements. If such audited Financial Statements are not available by the time such Semi-Annual Report is required to be filed, 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. If the financial information or operating data to be provided in a Semi-Annual Report is amended pursuant to the provisions hereof, the first Semi-Annual Report 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.

In addition to any of the information expressly required to be provided in Exhibit B, the Property Owner's Semi-Annual Report shall include 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.

A form of information cover sheet for municipal secondary market disclosure recommended by the Municipal Securities Rulemaking Board is attached as Exhibit C.

Section 5. Reporting of Significant Events.

(a) The Property Owner shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the 2004 Bonds, if material:

(i) bankruptcy or insolvency proceedings commenced by or against the Property Owner and, if known, any bankruptcy or insolvency proceedings commenced by or against any Affiliate of the Property Owner;

(ii) failure to pay any taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property;

(iii) filing of a lawsuit against the Property Owner or, if known, an Affiliate of the Property Owner, seeking damages which could have a significant impact on the Property Owner's ability to pay Special Taxes or to sell or develop the Property;

(iv) material damage to or destruction of any of the improvements on the Property;

(v) any payment default or other material default by the Property Owner on any loan with respect to the construction of improvements on the Property;

(vi) 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 Property Owner's most recently disclosed financing plan or development plan or on the ability of such Property Owner, or any Affiliate of such Property Owner that owns any portion of the Property, to pay Special Taxes within the Community Facilities District when due;

(vii) Any materially adverse significant amendments to land use entitlements for such Property Owner's Property;

(viii) Any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development on such Property Owner's Property;

(ix) Any previously undisclosed legislative, administrative or judicial challenges to development on such Property Owner's Property, if material to the Development Plan;

(x) Any changes, if materially adverse to the development plan, in the alignment, design or likelihood of completion of significant public improvements affecting such Property Owner's Property, including major thoroughfares, sewers, water conveyance systems and similar facilities, and

(b) Whenever the Property Owner obtains knowledge of the occurrence of a Listed Event, the Property Owner shall as soon as possible determine if such event would be material under applicable Federal securities law; and

(c) If the Property Owner determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Property Owner shall, or shall cause the Dissemination Agent to, promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository, if any, with a copy to the Fiscal Agent, the Community Facilities District and the Participating Underwriter.

Section 6. Duration of Reporting Obligation.

(a) All of the Property Owner's obligations hereunder shall commence on the date hereof and shall terminate (except as provided in Section 11) on the earliest to occur of the following:

(i) upon the legal defeasance, prior redemption or payment in full of all the 2004 Bonds, or

(ii) at such time as property owned by the Property Owner is no longer responsible for payment of 15% or more of the Special Taxes, or

(iii) the date on which the Property Owner prepays in full all of the Special Taxes attributable to the Property;

provided, however, that notwithstanding that the Property owned by the Property Owner is no longer responsible for payment of 15% or more of the Special Taxes, in the event the Property Owner shall transfer any portion of its Property to another property owner which, taking into account such transfer shall be a Major Developer, the Property Owner's obligations hereunder shall continue with respect to the Property transferred and the other property owned by such Major Owner until such time as the transferee shall have assumed the obligations of the Property Owner hereunder or such transferee shall have the disclosure obligations set forth herein with respect to such Property pursuant to a Major Developer Continuing Disclosure Agreement executed in connection with issuance of the 2004 Bonds or an Assumption Agreement.

The Property Owner shall give notice of the termination of its obligations under this Disclosure Agreement in the same manner as for a Listed Event under Section 5.

(b) If a portion of the property in the Community Facilities District owned by the Property Owner, or any Affiliate of the Property Owner, is conveyed to a Person that, upon such conveyance, will be a Major Developer, the obligations of the Property Owner hereunder with respect to the property in the Community Facilities District owned by such Major Developer and its Affiliates may be assumed by such Major Developer or by an Affiliate thereof and the Property Owner's obligations hereunder will be terminated. In order to effect such assumption, such Major Developer or Affiliate shall enter into an Assumption Agreement in form and substance satisfactory to the Community Facilities District and the Participating Underwriter.

Section 7. Dissemination Agent. The Property Owner may, from time to time, appoint or engage a Dissemination Agent to assist the Property Owner in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Zions First National Bank. The Dissemination Agent may resign by providing thirty days' written notice to the Community Facilities District, the Property Owner and the Fiscal Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Property Owner may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied (provided, however, that the Dissemination Agent shall not be obligated under any such amendment that modifies or increases its duties or obligations hereunder without its written consent thereto):

(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 2004 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 2004 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 2004 Bonds in the manner provided in the applicable Bond Indenture(s) 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 2004 Bonds.

If an amendment is made to the accounting principles 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 qualitative analysis in accordance with Generally Accepted Accounting Principles (GAAP) shall be deemed to satisfy this requirement. 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 hereof.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Property Owner 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 Property Owner 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 Property Owner shall have no obligation under this 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 Property Owner to comply with any provision of this Disclosure Agreement, the Fiscal Agent shall (upon written direction and only to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys), and the Participating Underwriter and any owner or beneficial owner of the 2004 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Property Owner 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 Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Property Owner to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Property Owner agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys' fees) of defending against any such claim of liability, but excluding liabilities, costs and expenses due to the Dissemination Agent's negligence or willful misconduct or failure to perform its duties hereunder. The Dissemination Agent shall be paid compensation for its services provided hereunder in accordance with its schedule of fees as amended from time to time, which schedule, as amended, shall be reasonably acceptable, and all reasonable expenses, reasonable legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Community Facilities District, the Property Owner, the Fiscal Agent, the 2004 Bond owners,

or any other party. The obligations of the Property Owner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2004 Bonds.

Section 12. Notices. Any notice or communications to be among any of the parties to this Disclosure Agreement may be given as follows:

If to the Community
Facilities District: Community Facilities District No.11 (StoneBridge Estates)
of the Poway Unified School District
13626 Twin Peaks Road
Poway, California 92064-3098
Telephone: 858-679-2552
Telecopier: 858-513-0967
Attention: Associate Superintendent

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: 213/593-3152
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

If to the
Property Owner:

Telephone:
Telecopier:
Attention:

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Property Owner (its successors and assigns), the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the 2004 Bonds, and shall create no rights in any other person or entity. All obligations of the Property Owner hereunder shall be assumed by any legal successor to the obligations of the Property Owner as a result of a sale, merger, consolidation or other reorganization.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; EXECUTION PAGE FOLLOWS]

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Dated: April 1, 2004

MCMILLIN MONTECITO 109, LLC, a Delaware limited liability company

By: McMillin Management Services, L.P., a California limited partnership

Its: Manager

By: Corky McMillin Construction Services, Inc.
a California corporation

Its: General Partner

By: _____
Its: _____

By: _____
Its: _____

[BROOKFIELD 6 LLC, a Delaware limited liability company

By: _____
Its: _____

By: _____
Its: _____

BROOKFIELD 8 LLC, a Delaware limited liability company

By: _____
Its: _____

By: _____
Its: _____

AGREED AND ACCEPTED:
Zions First National Bank,
as Dissemination Agent

By: _____
Title: _____

EXHIBIT A

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

Name of Issuer: Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District

Name of Bond Issue: Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District Zone 1 2004 Special Tax Bonds and Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District Improvement Area A 2004 Special Tax Bonds

Date of Issuance: April 1, 2004

NOTICE IS HEREBY GIVEN that _____ (the "Property Owner") has not provided a Semi-Annual Report with respect to the above-named bonds as required by that certain Major Developer Continuing Disclosure Agreement, dated March 1, 2004. The Property Owner anticipates that the Semi-Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:
Zions First National Bank

By: _____
Its: _____

cc: Zions First National Bank
Community Facilities District No. 11 (StoneBridge Estates)
of the Poway Unified School District
[Property Owner]

EXHIBIT B

SEMI-ANNUAL REPORT

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 11 (STONEBRIDGE ESTATES) ZONE 1 2004 SPECIAL TAX BONDS AND

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 11 (STONEBRIDGE ESTATES) IMPROVEMENT AREA A 2004 SPECIAL TAX BONDS

This Semi-Annual Report is hereby submitted under Section 4 of the Major Developer Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of March 1, 2004, executed by the undersigned (the "Property Owner") in connection with the issuance of the above-captioned bonds by Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District (the "Community Facilities District").

Capitalized terms used in this Semi-Annual Report but not otherwise defined have the meanings given to them in the Disclosure Agreement.

I. Property Ownership and Development

The information in this section is provided as of _____ (this date must be not more than 60 days before the date of this Semi-Annual Report).

A. Property currently owned by the Property Owner in Improvement Area A of the Community Facilities District (the "Property"):

Development Name(s) _____

Total Lots and Homes in the Development	Total Homes Completed (_____, 200__)	Total Homes Sold (Closed Escrow) (_____, 200__)	Property Sold (Closed Escrow) Since the Last Semi-Annual Report (Report dated __, 200__)
Acres* _____	Acres* _____	Acres* _____	Acres* _____
Lots _____	Lots _____	Lots _____	Lots _____
Homes _____	Homes _____	Homes _____	Homes _____

* For bulk land sales only (excluding sales of finished lots for completed homes.)

B. Status of land development or home construction activities with regard to the Property:

C. Status of building permits and any significant amendments to land use or development entitlements with regard to the Property:

D. Status of any land purchase contracts with regard to the Property, whether acquisition of land by the Property Owner or sales of land to other property owners (other than individual homeowners).

E. Any changes, if material, to the development plan, in the alignment, design or likelihood of completion of significant public improvements affecting such Property Owner's Property, including major thoroughfares, sewers, water conveyance systems and similar facilities.

II. Legal and Financial Status of Property Owner

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any change in the legal structure of the Property Owner or the financial condition and financing plan of the Property Owner that would materially and adversely interfere with its ability to complete its proposed development of the Property. With respect only to the Semi-Annual Report that is required to be provided no later than April 1 of each Fiscal Year, if audited financial statements of the Property Owner or its parent company (the "Financial Statements") are prepared, attach or incorporate by reference to materials on file with the Repositories or Securities and Exchange Commission, the audited Financial Statements. If such audited Financial Statements are not available by the time such Semi-Annual Report is required to be filed, 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.

III. Change in Development or Financing Plans

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any development plans or financing plans relating to the Property *that are materially different from* the proposed development and financing plan described in the Official Statement. Describe any change in the provider of the Letter of Credit or provide information regarding a cash deposit in lieu of the Letter of Credit

IV. Status of Tax Payments

Describe status of payment of taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property.

V. Official Statement Updates

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any other significant changes in the information relating to the Property Owner or the Property contained in the Official Statement under the headings "CONTINUING DISCLOSURE – Developers," "COMMUNITY FACILITIES DISTRICT NO. 11 (STONEBRIDGE ESTATES) – General Information," " – Environmental Review," " – Environmental Permits," and "Property Ownership and Development" that would materially and adversely interfere with the Property Owner's ability to develop and sell the Property as described in the Official Statement.

VI. Other Material Information

In addition to any of the information expressly required above, 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.

Certification

The undersigned Property Owner hereby certifies that this Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by the Property Owner under the Continuing Disclosure Agreement dated as of March 1, 2004 executed by the Property Owner in connection with the issuance of the above-captioned bonds.

ANY OTHER STATEMENTS REGARDING THE PROPERTY OWNER, THE DEVELOPMENT OF THE PROPERTY, THE PROPERTY OWNER'S FINANCING PLAN OR FINANCIAL CONDITION, OR THE 2004 BONDS, OTHER THAN STATEMENTS MADE BY THE PROPERTY OWNER IN AN OFFICIAL RELEASE OR NEWSPAPER OF GENERAL CIRCULATION, OR FILED WITH THE MUNICIPAL SECURITIES RULEMAKING BOARD OR A NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION REPOSITORY, ARE NOT AUTHORIZED BY THE PROPERTY OWNER. THE PROPERTY OWNER IS NOT RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF ANY SUCH UNAUTHORIZED STATEMENTS.

THE PROPERTY OWNER HAS NO OBLIGATION TO UPDATE THIS SEMI-ANNUAL REPORT OTHER THAN AS EXPRESSLY PROVIDED IN THE DISCLOSURE AGREEMENT.

Dated: _____, 20__

[MCMILLIN MONTECITO 109, LLC, a Delaware limited liability company

By: McMillin Management Services, L.P., a California limited partnership

Its: Manager

By: Corky McMillin Construction Services, Inc.
a California corporation

Its: General Partner

By: _____
Its: _____

By: _____
Its: _____]

[BROOKFIELD 6 LLC, a Delaware limited liability company

By: _____
Its: _____

By: _____
Its: _____

[BROOKFIELD 8 LLC, a Delaware limited liability company

By: _____
Its: _____

By: _____
Its: _____

EXHIBIT C

**MUNICIPAL SECONDARY MARKET DISCLOSURE
INFORMATION COVER SHEET**

Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement
(please include name of state where issuer is located):

**\$9,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 11
(STONEBRIDGE ESTATES)
ZONE 1 2004 SPECIAL TAX BONDS**

(California)

Provide nine-digit CUSIP* numbers if available, to which the information relates:

Maturity (September 1)	CUSIP Number	Maturity (September 1)	CUSIP Number
2006	738855JH9	2016	738855JT3
2007	738855JJ5	2017	738855JU0
2008	738855JK2	2018	738855JV8
2009	738855JL0	2019	738855JW6
2010	738855JM8	2020	738855JX4
2011	738855JN6	2021	738855JY2
2012	738855JP1	2022	738855JZ9
2013	738855JQ9	2028	738855KC8
2014	738855JR7	2034	738855KD6
2015	738855JS5		

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement
(please include name of state where issuer is located):

\$11,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 11
(STONEBRIDGE ESTATES)
IMPROVEMENT AREA A
2004 SPECIAL TAX BONDS

(California)

Provide nine-digit CUSIP* numbers if available, to which the information relates:

Maturity (September 1)	CUSIP Number	Maturity (September 1)	CUSIP Number
2006	738855KE4	2016	738855KQ7
2007	738855KF1	2017	738855KR5
2008	738855KG9	2018	738855KS3
2009	738855KH7	2019	738855KT1
2010	738855KJ3	2020	738855KU8
2011	738855KK0	2021	738855KV6
2012	738855KL8	2022	738855KW4
2013	738855KM6	2028	738855KZ7
2014	738855KN4	2034	738855LA1
2015	738855KP9		

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located): _____

Other Obligated Person's Name (if any): _____
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP* number(s), if available, of Issuer: _____

*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

☐ Electronic (number of pages attached) _____ ☐ Paper (number of pages attached) _____

If information is also available on the Internet, give URL: _____

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. ☐ **Annual Financial Information and Operating Data pursuant to Rule 15c2-12**
(Financial information and operating data should not be filed with the MSRB.)

Fiscal Period Covered: _____

B. ☐ **Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

Fiscal Period Covered: _____

C. ☐ Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate)

- | | |
|--|--|
| 1. <input type="checkbox"/> Principal and interest payment delinquencies | 6. <input type="checkbox"/> Adverse tax opinions or events affecting the taxexempt status of the security |
| 2. <input type="checkbox"/> Non-payment related defaults | 7. <input type="checkbox"/> Modifications to the rights of security holders |
| 3. <input type="checkbox"/> Unscheduled draws on debt service reserves reflecting financial difficulties | 8. <input type="checkbox"/> Bond calls |
| 4. <input type="checkbox"/> Unscheduled draws on credit enhancements reflecting financial difficulties | 9. <input type="checkbox"/> Defeasances |
| 5. <input type="checkbox"/> Substitution of credit or liquidity providers, or their failure to perform | 10. <input type="checkbox"/> Release, substitution, or sale of property securing repayment of the securities |
| | 11. <input type="checkbox"/> Rating changes |

D. ☐ Notice of Failure to Provide Annual Financial Information as Required

E. ☐ Other Secondary Market Information (Specify): _____

I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:

Issuer Contact:

Name _____	Title _____
Employer _____	
Address _____	City _____ State _____ Zip Code _____
Telephone _____	Fax _____
Email Address _____	Issuer Web Site Address _____

Dissemination Agent Contact, if any:

Name _____	Title _____
Employer _____	
Address _____	City _____ State _____ Zip Code _____
Telephone _____	Fax _____
Email Address _____	Relationship to Issuer _____

Obligor Contact, if any:

Name _____	Title _____
Employer _____	
Address _____	City _____ State _____ Zip Code _____
Telephone _____	Fax _____
Email Address _____	Obligor Web site Address _____

Investor Relations Contact, if any:

Name _____	Title _____
Telephone _____	Email Address _____

APPENDIX G

FORMS OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds, Best, Best & Krieger, San Diego, California, Bond Counsel to Community Facilities District No. 11 (StoneBridge Estates) of the Poway Unified School District, but subject to the matters described in "LEGAL MATTERS - Proposed Regulations; Possible Change in Form of Bond Counsel Opinion," proposes to render their final approving opinions with respect to each Series of the 2004 Bonds in substantially the following form:

April 1, 2004

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

\$9,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 11
(STONEBRIDGE ESTATES)
ZONE 1 2004 SPECIAL TAX BONDS

BOND OPINION

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the Poway Unified School District (the "District") of Community Facilities District No. 11 (StoneBridge Estates) Zone 1 2004 Special Tax Bonds in the aggregate principal amount of \$9,000,000 ("Bonds"). The Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California) and Resolution No. 48-2004 adopted by the Board of Education of the Poway Unified School District (the "School District") acting in its capacity as the Legislative Body of the District on March 8, 2004, and the Bond Indenture executed in connection therewith dated as of March 1, 2004, by and between the District and Zions First National Bank, as Fiscal Agent (the "Bond Indenture"). Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Bond Indenture.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings in connection with the formation of the District and the issuance of the Bonds (the "District Proceedings"). We have also examined certificates and representations of fact made by public officials and officers of the District and the School District, the Underwriter, the Developer and others as we have deemed necessary to render this opinion.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the District or the School District other than the record of the District Proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof which has been or may be supplied to any purchaser of the Bonds. In rendering this opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the accuracy of the factual matters represented, warranted or certified therein.

The Bond Indenture and other related documents refer to certain requirements and procedures which may be changed and certain actions which may be taken, in circumstances and subject to terms and conditions set forth in such documents, upon the advice or with an approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to any Bond or the interest thereon if any such change is made or action is taken upon the advice or approval of counsel other than ourselves.

No opinion is expressed herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. The opinions may be affected by actions or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events occur. As to questions of fact material to our opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein. Furthermore, we have assumed compliance with all covenants contained in the Bond Indenture, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes. Failure to comply with certain of such covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of original issuance of the Bonds.

It is to be understood that the rights and obligations under the Bonds and the Bond Indenture are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws heretofore or hereafter enacted, affecting the enforcement of creditors' rights and remedies, to the application of equitable principles when equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases.

Based on and subject to the foregoing, and in reliance thereon, and our consideration of such questions of law as we have deemed relevant to the circumstances, we are of the following opinions:

1. The District has, and the District Proceedings show, full power and authority to issue the Bonds. The Bonds constitute legal, valid and binding obligations of the District, payable in accordance with their terms. The District has the full right, power and authority to levy and pledge the Zone 1 Special Taxes to the Owners of the Bonds. The Bonds are limited obligations of the District payable solely from and secured by a pledge of the Zone 1 Special Taxes, and from other funds and accounts pursuant to the Bond Indenture and are not obligations of the School District, the State of California, or any public agency thereof (other than the District).
2. The Bond Indenture has been duly and validly authorized, executed and delivered by, and constitutes a valid and binding obligation of, the District.
3. Interest on the Bonds (including any original issue discount properly allocable to the owner thereof) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum taxes imposed on individuals and corporations; although it should be noted that with respect to corporations, such interest will be excluded as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. We express no opinion regarding other tax consequences related to the Bonds or to the accrual or receipt of the interest on the Bonds.

We express no opinion as to any matter other than as expressly set forth above.

Respectfully Submitted,

BEST BEST & KRIEGER LLP

April 1, 2004

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

\$11,000,000
**POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 11
(STONEBRIDGE ESTATES)
IMPROVEMENT AREA A 2004 SPECIAL TAX BONDS**

BOND OPINION

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the Poway Unified School District (the "District") of Community Facilities District No. 11 (StoneBridge Estates) Improvement Area A 2004 Special Tax Bonds in the aggregate principal amount of \$11,000,000 (the "Bonds"). The Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California) and Resolution No. 49-2004 adopted by the Board of Education of the Poway Unified School District (the "School District") acting in its capacity as the Legislative Body of the District on March 8, 2004, and the Bond Indenture executed in connection therewith dated as of March 1, 2004, by and between the District and Zions First National Bank, as Fiscal Agent (the "Bond Indenture"). Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Bond Indenture.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings in connection with the formation of the District and the issuance of the Bonds (the "District Proceedings"). We have also examined certificates and representations of fact made by public officials and officers of the District and the School District, the Underwriter, the Developer and others as we have deemed necessary to render this opinion.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the District or the School District other than the record of the District Proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof which has been or may be supplied to any purchaser of the Bonds. In rendering this opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the accuracy of the factual matters represented, warranted or certified therein.

The Bond Indenture and other related documents refer to certain requirements and procedures which may be changed and certain actions which may be taken, in circumstances and subject to terms and conditions set forth in such documents, upon the advice or with an approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to any Bond or the interest thereon if any such change is made or action is taken upon the advice or approval of counsel other than ourselves.

No opinion is expressed herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. The opinions may be affected by actions or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events occur. As to questions of fact material to our opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein. Furthermore, we have assumed compliance with all covenants contained in the Bond Indenture, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes. Failure to comply with certain of such covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of original issuance of the Bonds.

It is to be understood that the rights and obligations under the Bonds and the Bond Indenture are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws heretofore or hereafter enacted, affecting the enforcement of creditors' rights and remedies, to the application of equitable principles when equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases.

Based on and subject to the foregoing, and in reliance thereon, and our consideration of such questions of law as we have deemed relevant to the circumstances, we are of the following opinions:

1. The District has, and the District Proceedings show, full power and authority to issue the Bonds. The Bonds constitute legal, valid and binding obligations of the District, payable in accordance with their terms. The District has the full right, power and authority to levy and pledge the Improvement Area A Special Taxes to the Owners of the Bonds. The Bonds are limited obligations of the District payable solely from and secured by a pledge of the Improvement Area A Special Taxes, and from other funds and accounts pursuant to the Bond Indenture and are not obligations of the School District, the State of California, or any public agency thereof (other than the District).

2. The Bond Indenture has been duly and validly authorized, executed and delivered by, and constitutes a valid and binding obligation of, the District.

3. Interest on the Bonds (including any original issue discount properly allocable to the owner thereof) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum taxes imposed on individuals and corporations; although it should be noted that with respect to corporations, such interest will be excluded as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. We express no opinion regarding other tax consequences related to the Bonds or to the accrual or receipt of the interest on the Bonds.

We express no opinion as to any matter other than as expressly set forth above.

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 2004 Bonds, payment of principal of and interest on the 2004 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2004 Bonds, confirmation and transfer of beneficial ownership interests in the 2004 Bonds and other Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2004 Bonds is based solely on information furnished by DTC to the Community Facilities District which the Community Facilities District believes to be reliable, but the Community Facilities District, 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 2004 Bonds. The 2004 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 2004 Bond will be issued for each maturity of the 2004 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2004 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2004 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 2004 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 2004 Bonds, except in the event that use of the book-entry system for the 2004 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of 2004 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 2004 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2004 Bonds may wish to take certain steps to augment the transmissions to them of notices of significant events with respect to the 2004 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2004 Bonds documents. For example, Beneficial Owners of 2004 Bonds may wish to ascertain that the nominee holding the 2004 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 2004 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 2004 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Community Facilities District as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2004 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payment on the 2004 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Community Facilities District or the Fiscal Agent, on 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 Community Facilities 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 2004 Bonds at any time by giving reasonable notice to the Community Facilities District and the Fiscal Agent. Under such

circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered as described in the Indenture.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Community Facilities District believes to be reliable, but the Community Facilities 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 2004 Bonds, or (b) the Community Facilities District determines that DTC shall no longer act and delivers a written certificate to the Fiscal Agent to that effect, then the Community Facilities District will discontinue the Book-Entry System with DTC for the 2004 Bonds. If the Community Facilities District determines to replace DTC with another qualified securities depository, the Community Facilities District will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the 2004 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Indenture. If the Community Facilities District fails to identify another qualified securities depository to replace the incumbent securities depository for the 2004 Bonds, then the 2004 Bonds shall no longer be restricted to being registered in the 2004 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 2004 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2004 Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the 2004 Bonds will be payable upon surrender thereof at the trust office of the Fiscal Agent identified in the Indenture, and (iii) the 2004 Bonds will be transferable and exchangeable as provided in the Indenture.

The Community Facilities 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 2004 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 2004 Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the 2004 Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the 2004 Bonds or the Indenture. The Community Facilities 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 2004 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 Community Facilities 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 2004 Bonds or any error or delay relating thereto.

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