

In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2003 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS — Tax Exemption" herein.

\$5,815,835.10

**POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1
SERIES 2003 SPECIAL TAX BONDS**

Dated: Current Interest Bonds: Date of Delivery
Capital Appreciation Bonds: Date of Delivery

Due: October 1, as shown below

The Series 2003 Special Tax Bonds (the "2003 Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and the Bond Indenture, dated as of January 1, 1998 (the "Master Bond Indenture"), by and between the Community Facilities District No. 1 of the Poway Unified School District (the "Community Facilities District") and U.S. Bank National Association (successor to First Trust of California, National Association), as fiscal agent (the "Fiscal Agent") as supplemented by a First Supplemental Bond Indenture dated as of January 1, 2003, by and between the Community Facilities District and the Fiscal Agent (the "Supplemental Indenture" and, together with the Master Bond Indenture, the "Bond Indenture"). The 2003 Bonds will be issued as current interest Bonds (the "Current Interest Bonds") and capital appreciation Bonds (the "Capital Appreciation Bonds"). The 2003 Bonds are payable from proceeds of Special Taxes (as defined herein) levied on property within the Community Facilities District according to the Rate and Method of Apportionment for Poway Unified School District Community Facilities District No. 1 approved by the qualified electors of the Community Facilities District and by the Board of Education of the Poway Unified School District (the "School District"), acting as Legislative Body of the Community Facilities District.

The 2003 Bonds are being issued (i) to finance, either directly or indirectly, the acquisition and construction of certain school facilities (the "School Facilities"), (ii) to acquire a Debt Service Reserve Fund Surety Bond in an amount equal to the 2003 Bonds Reserve Requirement, (iii) to pay interest on the 2003 Bonds through October 1, 2003 and (iv) to pay the costs of issuing the 2003 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "SCHOOL FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2003 BONDS" herein.

The 2003 Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers of the 2003 Bonds (the "Beneficial Owners") will not receive physical certificates representing their interests in the 2003 Bonds. Interest with respect to the Current Interest Bonds accrues from their date of delivery and is payable semiannually by check mailed on April 1 and October 1 of each year, commencing October 1, 2003. Payment to registered owners of \$1,000,000 or more in principal amount of the Current Interest Bonds, at the registered owner's written request, will be by wire transfer to an account in the continental United States of America. The Current Interest Bonds are issuable as fully registered Bonds in denominations of \$5,000 principal amount or any integral multiple thereof. The Capital Appreciation Bonds are dated the date of delivery of the 2003 Bonds and accrete in value from such date, compounded semiannually on April 1 and October 1 of each year, commencing October 1, 2003. The Capital Appreciation Bonds are issuable as fully registered Bonds with a maturity value of \$5,000 or any integral multiple thereof. Payments of principal and Accreted Value of and interest on the 2003 Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the 2003 Bonds. (See "THE 2003 BONDS — Book-Entry and DTC.")

The Current Interest Bonds are subject to optional redemption prior to maturity as described herein. The Capital Appreciation Bonds are not subject to redemption prior to maturity.

Payment of the principal of and interest on the 2003 Bonds when due will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the 2003 Bonds by MBIA Insurance Corporation.



The 2003 Bonds are subject to optional redemption and mandatory redemption as described herein.

THE 2003 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2003 BONDS, ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE 2003 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2003 BONDS. NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2003 BONDS. THE 2003 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES LEVIED AS MORE FULLY DESCRIBED HEREIN.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the 2003 Bonds involves risks which may not be appropriate for some investors. See "BONDOWNERS' RISKS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the 2003 Bonds.

The 2003 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Best Best & Krieger LLP, San Diego, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the School District and the Community Facilities District by Best Best & Krieger LLP and by McFarlin & Anderson, Lake Forest, California, Disclosure Counsel. It is anticipated that the 2003 Bonds, in book-entry form, will be available for delivery to DTC in New York, New York on or about February 13, 2003.

Stone & Youngberg LLC

Dated: January 28, 2003

\$5,815,835.10
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1
SERIES 2003 SPECIAL TAX BONDS

MATURITY SCHEDULE
Base CUSIP No. 738855*
\$3,295,000 Current Interest Serial Bonds

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield/ Price</u>	<u>CUSIP. No.</u>	<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield/ Price</u>	<u>CUSIP. No.</u>
2005	\$ 10,000	2.25 %	1.50%	GP4	2013	\$ 90,000	4.00 %	3.95%	GX7
2006	15,000	2.25	1.75	GQ2	2014	165,000	4.00	4.15	GY5
2007	25,000	2.25	2.15	GR0	2015	265,000	4.50	4.26	GZ2
2008	30,000	2.60	100	GS8	2016	370,000	4.30	4.38	HA6
2009	35,000	3.00	3.05	GT6	2017	440,000	4.375	4.48	HB4
2010	45,000	3.30	100	GU3	2018	425,000	5.00	4.53	HC2
2011	55,000	3.50	3.55	GV1	2019	580,000	4.60	4.68	HD0
2012	65,000	3.80	100	GW9	2020	680,000	4.70	4.78	HE8

\$1,965,000 5.00% Term 2003 Bonds due October 1, 2026 Yield 4.95% CUSIP No. 738855HG3

\$555,835.10 Capital Appreciation Serial Bonds

<u>Maturity (October 1)</u>	<u>Original Principal Amount</u>	<u>Yield to Maturity</u>	<u>Final Accreted Value</u>	<u>CUSIP. No.</u>	<u>Maturity (October 1)</u>	<u>Original Principal Amount</u>	<u>Yield to Maturity</u>	<u>Final Accreted Value</u>	<u>CUSIP. No.</u>
2021	\$285,292.70	5.40%	\$770,000	HH1	2022	\$270,542.40	5.50%	\$785,000	HJ7

* Copyright 2002, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.

POWAY UNIFIED SCHOOL DISTRICT

BOARD OF EDUCATION

Linda Vanderveen, *President*
Jeff Mangum, *Vice President*
Andy Patapow, *Clerk of the Board*
Steve McMillan, *Member*
Penny Ranftle, *Member*

SCHOOL DISTRICT CHIEF ADMINISTRATORS

Donald A. Phillips, Ed.D., *Superintendent*
John P. Collins, *Deputy Superintendent*
Keith L. Bradford, *Associate Superintendent – Business Support Services*

BOND COUNSEL/DISTRICT SPECIAL COUNSEL

Best Best & Krieger LLP
San Diego, California

SCHOOL DISTRICT COUNSEL

Best Best & Krieger LLP
San Diego, California

DISCLOSURE COUNSEL

McFarlin & Anderson
Lake Forest, California

SPECIAL TAX CONSULTANT & ADMINISTRATOR

David Taussig & Associates, Inc.
Newport Beach, California

FISCAL AGENT

U.S. Bank National Association
Los Angeles, California

NO DEALER, BROKER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION WITH RESPECT TO THE 2003 BONDS, OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, ANY SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE DESCRIBED ON THE COVER PAGE OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE 2003 BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE 2003 BONDS.

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

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

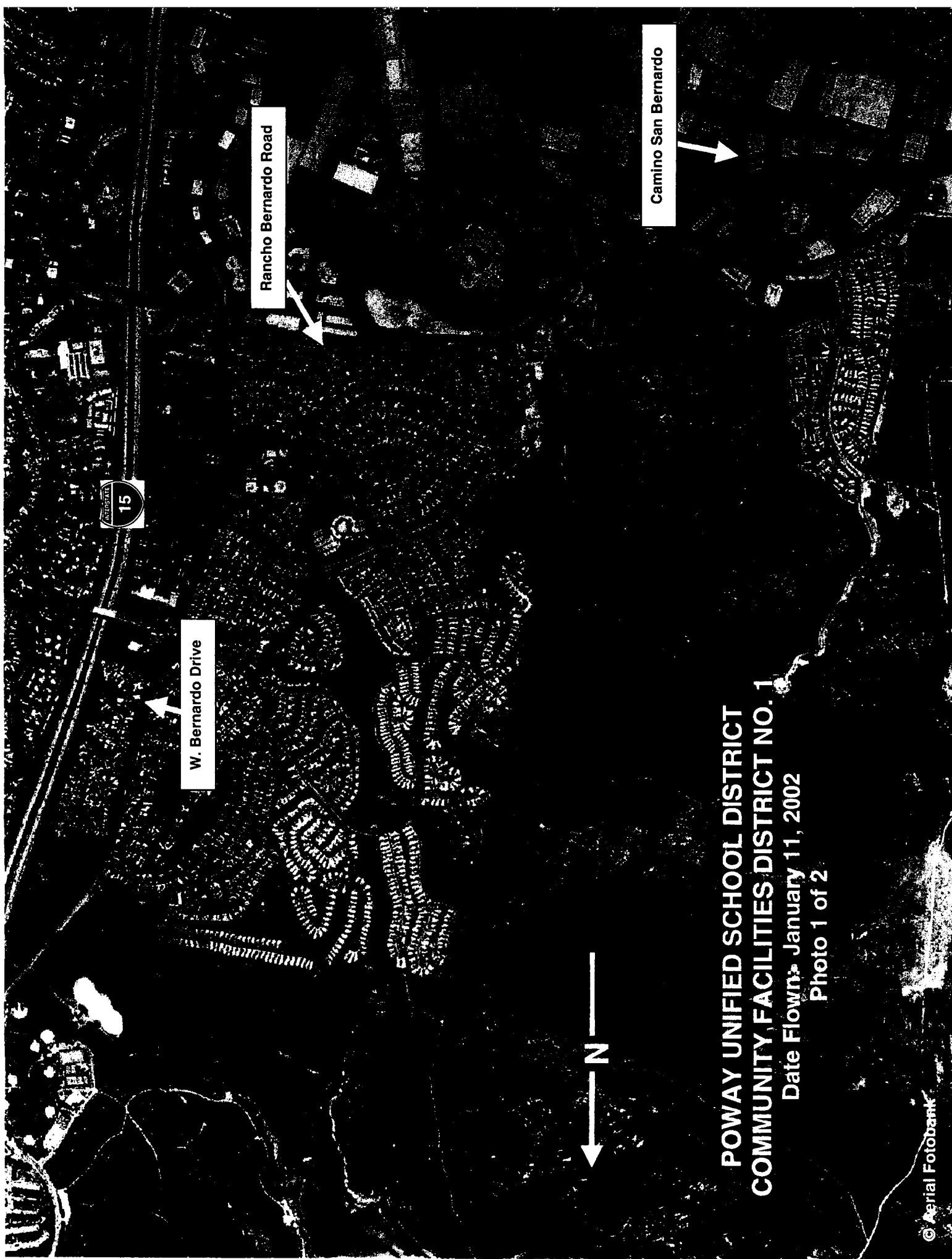
IN CONNECTION WITH THE OFFERING OF THE 2003 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2003 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE 2003 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE 2003 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2003 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
General	1
The School District	1
The Community Facilities District	1
Purpose of the 2003 Bonds	3
Sources of Payment for the 2003 Bonds	3
Description of the 2003 Bonds	4
Tax Exemption	5
Risk Factors Associated with Purchasing the 2003 Bonds	5
Municipal Bond Insurance	5
Forward Looking Statements	5
Professionals Involved in the Offering	5
Other Information	6
CONTINUING DISCLOSURE	6
ESTIMATED SOURCES AND USES OF FUNDS	7
SCHOOL FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2003 BONDS	7
THE 2003 BONDS	7
Authority for Issuance	7
General Provisions	7
Accreted Values	9
Debt Service Schedule	9
Estimated Debt Service Coverage	10
Redemption	11
Registration, Transfer and Exchange	12
Book-Entry and DTC	13
SECURITY FOR THE 2003 BONDS	13
General	13
Special Taxes	13
Rate and Method	14
Proceeds of Foreclosure Sales	15
Special Tax Fund	16
Bond Fund	17
Redemption Fund	17
Reserve Fund	17
Debt Service Reserve Fund Surety Bonds	17
Administrative Expense Fund	17
Improvement Fund	18
Investment of Moneys in Funds	18
Payment of Rebate Obligation	18
Parity Bonds	18
Special Taxes Are Not Within Teeter Plan	18
MBIA INSURANCE CORPORATION INSURANCE POLICY	19
The MBIA Insurance Corporation Insurance Policy	19
Debt Service Reserve Fund Surety Bonds	19
MBIA	20
MBIA Information	21
Financial Strength Ratings of MBIA	21
COMMUNITY FACILITIES DISTRICT NO. 1	22
General Information	22

Authority for Issuance	22
2002-03 Special Tax Levy	23
Delinquency History	25
Estimated Assessed Value-to-Lien Ratios and Tax Burdens	26
Direct and Overlapping Debt	28
Overlapping Assessment and Maintenance Districts	29
BONDOWNERS' RISKS	30
Risks of Real Estate Secured Investments Generally	30
Special Taxes Are Not Personal Obligations	30
The 2003 Bonds Are Limited Obligations of the Community Facilities District	31
Burden of Parity Liens, Taxes and Other Special Assessments on the Taxable Property	31
Disclosure to Future Purchasers	31
Utility Deregulation	32
State Budget	32
Hazardous Substances	32
Insufficiency of the Special Tax	33
Exempt Properties	33
Depletion of 2003 Bonds Reserve Account	34
Potential Delay and Limitations in Foreclosure Proceedings	34
Bankruptcy and Foreclosure Delay	35
Payments by FDIC and Other Federal Agencies	36
Factors Affecting Parcel Values and Aggregate Value	37
No Acceleration Provisions	37
District Formation	37
Billing of Special Taxes	38
Inability to Collect Special Taxes	38
Right to Vote on Taxes Act	38
Ballot Initiatives and Legislative Measures	39
Limited Secondary Market	39
Loss of Tax Exemption	40
Limitations on Remedies	40
LEGAL MATTERS	40
Legal Opinion	40
Tax Exemption	40
Absence of Litigation	41
No General Obligation of School District or Community Facilities District	41
RATINGS	42
UNDERWRITING	42
PROFESSIONAL FEES	42
MISCELLANEOUS	42
APPENDIX A - General Information About the Poway Unified School District	A-1
APPENDIX B - Rate and Method of Apportionment for Poway Unified School District Community Facilities District No. 1	B-1
APPENDIX C - Summary of Certain Provisions of the Bond Indenture	C-1
APPENDIX D - Form of Community Facilities District Continuing Disclosure Agreement	D-1
APPENDIX E - Form of Opinion of Bond Counsel	E-1
APPENDIX F - Form of Specimen Municipal Bond Insurance Policy	F-1
APPENDIX G - Book-Entry and DTC	G-1
APPENDIX H - Accreted Value Table	H-1



Rancho Bernardo Road

Camino San Bernardo

W. Bernardo Drive

— N —
↓

**POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1**

Date Flown: January 11, 2002

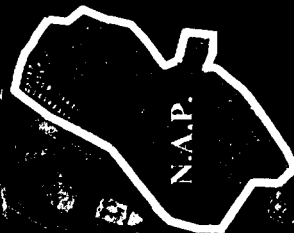
Photo 1 of 2

[THIS PAGE INTENTIONALLY LEFT BLANK]

**POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1**

Date Flown: January 11, 2002

Photo 2 of 2



Poway Road

Ted Williams Pkwy.

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT
\$5,815,835.10
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1
SERIES 2003 SPECIAL TAX BONDS

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2003 Bonds to potential investors is made only by means of the entire Official Statement.

General

This Official Statement, including the cover page and appendices hereto, is provided to furnish information regarding the Poway Unified School District Community Facilities District No. 1 Series 2003 Special Tax Bonds (the "2003 Bonds").

The 2003 Bonds are issued pursuant to the Act (as defined below) and the Bond Indenture, dated as of January 1, 1998 (the "Master Bond Indenture"), by and between the School District (as defined below) and U.S. Bank, N.A., as fiscal agent (the "Fiscal Agent"), as supplemented by a First Supplemental Bond Indenture dated as of January 1, 2003, by and between the Community Facilities District and the Fiscal Agent (the "Supplemental Indenture" and, together with the Master Bond Indenture, the "Bond Indenture"). See "THE 2003 BONDS – Authority of Issuance" herein. The Community Facilities District previously issued \$80,000,000 aggregate principal amount of its Series 1998 Special Tax Bonds (the "1998 Bonds") of which \$68,710,000 was outstanding as of January 1, 2003. The 1998 Bonds and 2003 Bonds (collectively, the "Bonds") are payable on a parity. The Community Facilities District may issued additional bonds payable on a parity with the 2003 Bonds pursuant to the provisions of the Bond Indenture for refunding purposes only. See "SECURITY FOR THE 2003 BONDS – Parity Bonds."

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 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 had approximately 32,500 students enrolled during Fiscal Year 2001-02. See APPENDIX A – "General Information About the Poway Unified School District" herein.

The Community Facilities District

The Community Facilities District includes several non-contiguous areas of land located in that portion of the School District which is within the boundaries of the City and the City of Poway. The Community Facilities District currently includes approximately 10,454 taxable residential units. The Community Facilities District is located along both sides of Interstate 15 approximately twenty miles northeast of the City in the northeastern portion of County. See "COMMUNITY FACILITIES DISTRICT NO. 1" herein.

The Community Facilities District was formed and the 2003 Bonds are being issued pursuant to the Act. The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a community facilities district to provide for and finance the cost of eligible

public facilities and services. Generally, the legislative body of the local agency which forms a community facilities district acts on behalf of such district as its legislative body. 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 two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness including interest thereon.

Pursuant to the Act, on March 28, 1987, the Board of Education (the "Board") of the School District adopted six resolutions (collectively, the "Resolutions of Intention") stating, among other things, its intention to form the Community Facilities District, to authorize the levy of a special tax on the taxable property within the Community Facilities District and to incur bonded indebtedness for the purpose of financing the acquisition, construction and equipping of certain public school improvements to serve the area within and around the Community Facilities District. Subsequent to a noticed public hearing, the Board adopted two resolutions on May 26, 1987 (collectively, the "Resolution of Formation") which established the Community Facilities District and authorized the levy of a special tax within the Community Facilities District, determined the necessity to incur bonded indebtedness within the Community Facilities District, called an election within the Community Facilities District on the proposition of incurring bonded indebtedness and levying a special tax, and ordered certain changes to the Community Facilities District proceedings and Resolution of Intention and to the Community Facilities District Report, and, on July 13, 1987, the Board ordered certain boundary changes to the Community Facilities District.

On August 25, 1987, an election was held within the Community Facilities District in which the eligible voters, which were the owners of land included within the boundaries of the Community Facilities District, approved by more than two-thirds vote the proposition authorizing the issuance of bonds in an aggregate principal amount not to exceed \$138,251,618 in 1986-87 dollars to finance the acquisition, construction and equipping of certain public school facilities to serve the area within the Community Facilities District, which authorized bond amount has been calculated by the Community Facilities District to be no less than \$7,000,000.00 as of the date hereof. (The Community Facilities District may issued additional bonds payable on a parity with the Bonds pursuant to the provisions of the Bond Indenture for refunding purposes only.) On September 19, 1987, the Board approved and authorized the execution of separate Mitigation Agreements pertaining to the Community Facilities District by and between the School District and American Newland Associates, Donald L. Bren Company, Carmel Mountain Ranch, Pardee Construction and Westwood Valley Partnership (each a "Mitigation Agreement" and, collectively, the "Mitigation Agreements"), declared the results of the election and established conditions precedent to the issuance of bonds of the Community Facilities District. On October 5, 1987, the Board, acting as the Legislative Body of Community Facilities District No. 1, adopted Ordinance No. 1-88 providing for the rate and method of apportionment and levying of the Special Tax, which Ordinance was amended by Ordinance No. 98-2, adopted by the Board on November 17, 1997 (collectively, the "Ordinance").

The Mitigation Agreements require that, under certain circumstances, the Community Facilities District reduce Special Taxes of the Community Facilities District and the total authorized bond amount for the Community Facilities District if other sources of funding are used for constructing schools within the Community Facilities District. The Board reduced the Community Facilities District Special Tax rates on June 26, 1995 pursuant to its Resolution No. 70-95, which reduced rates are reflected in the Revised Rate and Method of Apportionment set forth in APPENDIX B – "Rate and Method of Apportionment for Poway Unified School District Community Facilities District No. 1" (the "Rate and Method of Apportionment") and in the various tables herein projecting future Special Tax revenues. See "Sources of Payment for the 2003 Bonds" below regarding future Special Tax reductions.

On December 16, 2002, the Board, acting as the Legislative Body of the Community Facilities District, adopted its Resolution No. 43-2003 authorizing the issuance of the 2003 Bonds. The 2003 Bonds are being issued and delivered pursuant to the provisions of the Act and the Bond Indenture to finance school facilities. The 2003 Bonds are being sold pursuant to a Bond Purchase Agreement between the Underwriter and the Community Facilities District.

Purpose of the 2003 Bonds

The 2003 Bonds are being issued (i) to finance, either directly or indirectly, the acquisition and construction of certain school facilities (the "School Facilities"), (ii) to acquire a Debt Service Reserve Fund Surety Bond in an amount equal to the 2003 Bonds Reserve Requirement, (iii) to pay interest on the 2003 Bonds through October 1, 2003 and (iv) to pay the costs of issuing the 2003 Bonds. Proceeds of the 2003 Bonds will be used to fund the acquisition of School Facilities and related infrastructure required by the School District as a result of development of the property within the Community Facilities District. In addition, in conjunction with the issuance of the 2003 Bonds, the Community Facilities District will obtain a Debt Service Reserve Fund Surety Bond for 50% of the 1998 Bonds Reserve Requirement and use moneys in the 1998 Bonds Reserve Account for the acquisition of School Facilities and related infrastructure required by the School District. See "SCHOOL FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2003 BONDS," and "SECURITY FOR THE 2003 BONDS – Rate and Method."

Sources of Payment for the 2003 Bonds

The 2003 Bonds are secured by and payable on a parity with the 1998 Bonds from a first pledge of "Net Taxes," which is defined as proceeds of the Special Taxes levied and received by the Community Facilities District, including the net amounts (the "Delinquency Proceeds") collected pursuant to the foreclosure provisions of the Bond Indenture for the delinquency of Special Taxes and proceeds from any security for payment of Special Taxes in lieu of foreclosure, and net of the County, foreclosure counsel and other fees and expenses incurred by or on behalf of the Community Facilities District or the School District in undertaking such foreclosure proceedings, less Administrative Expenses (as defined in the Bond Indenture) not to exceed \$110,408 (escalating by 2% each year) with respect to the Community Facilities District. "Special Taxes" are defined in the Bond Indenture as the special taxes levied within the Community Facilities District pursuant to the Act, the Ordinance and the Bond Indenture.

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

The Rate and Method levies the Special Tax only against residential parcels. Property owned by the State, the federal government and local governments, as well as certain other property, is not subject to the Special Tax. See "SECURITY FOR THE 2003 BONDS – Rate and Method" and "BONDOWNERS' RISKS – Exempt Properties."

A Reserve Account was established with respect to the 1998 Bonds in the amount of \$6,225,748. A Debt Service Reserve Fund Surety Bond will be acquired for the 1998 Bonds in an amount equal to 50% of the 1998 Bonds Reserve Requirement and a Debt Service Reserve Fund Surety Bond will be acquired for the 2003 Bonds in an amount equal to the 2003 Bonds Reserve Requirement. A portion of the moneys on deposit in the 1998 Bonds Reserve Account prior to issuance of the 2003 Bonds will be transferred to the Improvement Fund. The 1998 Bonds and the 2003 Bonds are secured by a first pledge of all moneys deposited in the applicable Account in the Reserve Fund. See "SECURITY FOR THE 2003 BONDS." The Bond Indenture defines Reserve Requirement as an amount, as of any date of calculation, equal to the least of (i) 10% of the original proceeds of the 1998 Bonds, the 2003 Bonds or Parity Bonds, (ii) the then maximum annual debt service on the 1998 Bonds, the 2003 Bonds or Parity Bonds, or (iii) 125% of the then average annual debt service on the 1998 Bonds, the 2003 Bonds or Parity Bonds. The ability of the Board, in its capacity as Legislative Body of the Community Facilities District, to increase the annual Special Taxes levied to replenish each Account in the Reserve Fund is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of the Community Facilities District. The moneys in each Account in the Reserve Fund will only be used for payment of principal of, interest on and any redemption premium

on, the related 1998 Bonds or 2003 Bonds, as applicable. See “SECURITY FOR THE 2003 BONDS – Reserve Fund.”

The Community Facilities District has also covenanted in the Bond Indenture to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Special Taxes. For a more detailed description of the foreclosure covenant see “SECURITY FOR THE 2003 BONDS – Proceeds of Foreclosure Sales.”

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2003 BONDS. OTHER THAN THE SPECIAL TAXES OF THE COMMUNITY FACILITIES DISTRICT, NO TAXES ARE PLEDGED TO THE PAYMENT OF 2003 BONDS. THE 2003 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES OF THE COMMUNITY FACILITIES DISTRICT AS MORE FULLY DESCRIBED HEREIN.

Description of the 2003 Bonds

Current Interest and Capital Appreciation Bonds. The 2003 Bonds will be issued as current interest Serial Bonds (the “Current Interest Serial Bonds”) and capital appreciation Bonds (the “Capital Appreciation Bonds”). The Current Interest Serial Bonds mature on October 1 in the years indicated on the inside cover page hereof. The Capital Appreciation Bonds mature on October 1 in the years indicated on the inside cover page hereof.

The Capital Appreciation Bonds are payable only at maturity or redemption, and will not bear interest on a current basis. The maturity value of each Capital Appreciation Bond is equal to its Accreted Value at maturity, being comprised of its initial principal (“denominational”) amount and the accreted interest between the delivery date and its respective maturity date.

Registration. The 2003 Bonds will be issued in fully registered form only, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the 2003 Bonds (the “Beneficial Owners”) in the denominations set forth on the cover page hereof, under the book-entry-only system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the 2003 Bonds. See APPENDIX G – “Book-Entry and DTC.” In event that the book-entry-only system described below is no longer used with respect to the 2003 Bonds, the 2003 Bonds will be registered in accordance with the Bond Indenture. See “THE 2003 BONDS – Registration, Transfer and Exchange of Bonds.”

Denominations. Individual purchases of interests in the 2003 Bonds will be available to purchasers of the 2003 Bonds in the denominations of \$5,000 principal amount, or any integral multiple thereof in the case of Current Interest Bonds and in the denominations of \$5,000 maturity amounts, or integral multiple thereof in the case of Capital Appreciation Bonds, provided that one Capital Appreciation Bond may be issued in an odd maturity amount.

Redemption. The Current Interest Bonds maturing on or after October 1, 2013, may be redeemed prior to maturity, at the option of the Community Facilities District, in whole or in part on any date beginning on October 1, 2012. The Current Interest Term Bonds maturing on October 1, 2026, are subject to redemption prior to their stated maturity date from mandatory sinking fund payments beginning on October 1, 2022. The Capital Appreciation Bonds are not subject to redemption prior to maturity. See “THE 2003 BONDS – Redemption” herein.

Payments. Interest on the Current Interest Bonds accrues from their date of issuance and is payable semiannually on April 1 and October 1 (each a “Bond Payment Date”), commencing October 1, 2003. Each Capital Appreciation Bonds maturing October 1, 2021 and October 1, 2022, accrete in value from their initial principal amount on the date of delivery to their maturity value on the maturity thereof at the approximate

yields per annum set forth on the inside cover page hereof, compounded semiannually on April 1 and October of each year, commencing October 1, 2003, and is payable only at maturity as shown on the inside cover hereof.

Tax Exemption

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the 2003 Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the 2003 Bonds will be exempt from State personal income taxes. See “LEGAL MATTERS – Tax Exemption” herein.

Risk Factors Associated with Purchasing the 2003 Bonds

Investment in the 2003 Bonds involves risks that may not be appropriate for some investors. See the section of this Official Statement entitled “BONDOWNERS’ RISKS” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the 2003 Bonds.

Municipal Bond Insurance

The scheduled payment of principal or Accreted Value (in the case of Capital Appreciation Bonds) of and interest on the 2003 Bonds when due will be guaranteed under an insurance policy to be issued simultaneously with the delivery of the 2003 Bonds by MBIA Insurance Corporation (“MBIA”). See “MBIA INSURANCE CORPORATION INSURANCE POLICY – The MBIA Insurance Corporation Insurance Policy,” “MBIA,” “MBIA Information” and “– Financial Strength Ratings of MBIA” and APPENDIX F – “Form of Specimen Municipal Bond Insurance Policy.” MBIA issued an insurance policy with respect to the 1998 Bonds at the time of their issuance.

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. 1” 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

U.S. Bank National Association, Los Angeles, California, will serve as the fiscal agent for the 2003 Bonds and will perform the functions required of it under the Bond Indenture for the payment of the principal of and interest and any premium on the 2003 Bonds and all activities related to the redemption of the 2003 Bonds. Best Best & Krieger LLP, San Diego, California is serving as Bond Counsel to the Community Facilities District. Stone & Youngberg LLC is acting as Underwriter in connection with the issuance and delivery of the 2003 Bonds. McFarlin & Anderson, Lake Forest, California, is acting as Disclosure Counsel. David Taussig & Associates, Inc., Newport Beach, California, acted as special tax consultant, administrator and dissemination agent to the Community Facilities District.

Payment of the fees and expenses of Bond Counsel, Disclosure Counsel, the Underwriter and the Fiscal Agent is contingent upon the sale and delivery of the 2003 Bonds.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the 2003 Bonds, certain sections of the Bond Indenture, security for the 2003 Bonds, special risk factors, the Community Facilities District, the School District and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the 2003 Bonds, the Bond Indenture, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the 2003 Bonds, the Bond Indenture, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Associate Superintendent of the Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3098.

CONTINUING DISCLOSURE

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

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

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

ESTIMATED SOURCES AND USES OF FUNDS

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

SOURCES

Principal Amount of 2003 Bonds	\$5,815,835.10
Less: Underwriter's Discount	95,961.28
Plus: Net Premium	<u>8,545.65</u>
Total Sources	\$5,728,419.47

USES ⁽¹⁾

Deposit into 2003 Bonds Costs of Issuance Account ⁽²⁾	\$ 261,562.50
Deposit into 2003 Bonds Account in the Improvement Fund ⁽³⁾	5,312,158.97
Deposit into Capitalized Interest Subaccount of the 2003 Bonds Interest Account of the Bond Fund ⁽⁴⁾	<u>154,698.00</u>
Total Uses	\$5,728,419.47

(1) On the date of issuance of the 2003 Bonds, the 2003 Bonds Reserve Account will be at the 2003 Bonds Reserve Requirement; satisfied through a Debt Service Reserve Fund Surety in an amount equal to the 2003 Bonds Reserve Requirement acquired with proceeds of the 2003 Bonds. In addition, the 1998 Bonds Reserve Account will be at the 1998 Bonds Reserve Requirement; satisfied 50% through moneys previously on deposit in the 1998 Bonds Reserve Account and 50% through a Debt Service Reserve Fund Surety acquired with moneys previously on deposit in the 1998 Bonds Reserve Account.

(2) Includes, among other things, the fees and expenses of Bond Counsel, the fees and expenses of Disclosure Counsel, premium for Municipal Bond Insurance Policy, premium for the 2003 Bonds Debt Service Reserve Fund Surety, the cost of printing the preliminary and final Official Statements, fees and expenses of the Fiscal Agent and the fees of the Special Tax Consultant. The premium for the Municipal Bond Insurance Policy will be paid by the Community Facilities District. The premium for the 1998 Bonds Debt Service Reserve Fund Surety will be paid through other funds of the Community Facilities District.

(3) See "SCHOOL FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2003 BONDS" below.

(4) Represents capitalized interest on the 2003 Bonds through October 1, 2003.

SCHOOL FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2003 BONDS

The 2003 Bonds are being issued (i) to finance, either directly or indirectly, the acquisition and construction of certain school facilities (the "School Facilities"), (ii) to acquire a Debt Service Reserve Fund Surety Bond equal to the 2003 Bonds Reserve Requirement, (iii) to pay interest on the 2003 Bonds through October 1, 2003 and (iv) to pay the costs of issuing the 2003 Bonds. Proceeds of the 2003 Bonds will be used to fund the acquisition of 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 facilities, 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 and the acquisition of land for the construction of School Facilities or land or interests in land required to be provided as mitigation of environmental impacts associated with the development of School Facilities.

THE 2003 BONDS

Authority for Issuance

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

General Provisions

The Current Interest Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each April 1 and October 1, commencing on October 1, 2003 (each, an "Interest Payment Date"), and will mature in the amounts and on

the dates set forth on the inside cover page hereof. The Current Interest Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the 2003 Bonds. Ownership interests in the 2003 Bonds may be purchased in book-entry form only, in denominations of \$5,000 or any integral multiple thereof within a single maturity. So long as the 2003 Bonds are held in book-entry form, principal of, premium, if any, and interest on the 2003 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2003 Bonds in accordance with the procedures adopted by DTC. See “THE 2003 BONDS – Book-Entry and DTC.”

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

Interest on the Current Interest Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check of the Fiscal Agent mailed by first class mail, postage prepaid, 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 by the applicable Record Date of a Bond Owner of at least \$1,000,000 in aggregate principal amount of Current Interest Bonds by wire transfer in immediately available funds (i) to DTC (so long as the Current Interest Bonds are in book-entry form), or (ii) to an account at a financial institution in the continental United States of America designated by such Owner. Such instructions shall continue in effect until revoked in writing, or until such Current Interest Bonds are transferred to a new Owner. The principal of the Current Interest Bonds and any premium on the Current Interest Bonds due upon the maturity or redemption thereof and the payments of Maturity Value with respect to any Capital Appreciation Bonds payable by check in lawful money of the United States of America upon presentation and surrender of the Current Interest Bonds at maturity or the earlier redemption thereof at the Principal Office of the Fiscal Agent (currently for purposes of payment in St. Paul, Minnesota).

The Capital Appreciation Bonds are dated the date of delivery of such Bonds. The Capital Appreciation Bonds are payable only at maturity, according to the amounts set forth in the Accreted Value Tables (See “APPENDIX H – Accreted Value Tables” herein.). The Capital Appreciation Bonds will not bear interest on a current basis. The Capital Appreciation Bonds shall be issued in any denominations of their Principal Amounts but shall reflect denominations of \$5,000 Maturity Amount or integral multiple thereof; provided that one Capital Appreciation Bond may be issued in an odd Maturity Amount. Interest accretes in value daily over the term to its maturity (on the basis of a 360-day year consisting of twelve 30-day months), from the initial principal (denominational) amount on the date of issuance thereof to its stated maturity value at maturity thereof, on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between Bond Payment Dates). Interest on the Capital Appreciation Bonds maturing October 1, 2021 and October 1, 2022, shall be compounded semiannually on April 1 and October 1 of each year, commencing October 1, 2003, and shall be payable upon the maturity thereof.

See the maturity schedule on the inside cover page hereof and “Debt Service Schedule.”

Accreted Values

The Capital Appreciation Bonds shall have the principal and Accreted Value amounts per \$5,000 payment at maturity as shown on the inside cover hereof. Values of principal and Accreted Value on each compounding date prior to maturity are indicated on the tables set forth in APPENDIX H herein. Information on Accreted Values in this Official Statement and the Accreted Value tables in APPENDIX H have been provided by the Underwriter.

Debt Service Schedule

The following table presents the annual debt service on the 2003 Bonds (including sinking fund redemptions), assuming that there are no optional redemptions.

2003 BONDS				
Period Ending	Principal	Interest	Compounded Interest	Total Debt Service
10/1/2003	—	\$154,698.00		\$154,698.00
10/1/2004	—	244,260.00		244,260.00
10/1/2005	\$10,000.00	244,260.00		254,260.00
10/1/2006	15,000.00	244,035.00		259,035.00
10/1/2007	25,000.00	243,697.50		268,697.50
10/1/2008	30,000.00	243,135.00		273,135.00
10/1/2009	35,000.00	242,355.00		277,355.00
10/1/2010	45,000.00	241,305.00		286,305.00
10/1/2011	55,000.00	239,820.00		294,820.00
10/1/2012	65,000.00	237,895.00		302,895.00
10/1/2013	90,000.00	235,425.00		325,425.00
10/1/2014	165,000.00	231,825.00		396,825.00
10/1/2015	265,000.00	225,225.00		490,225.00
10/1/2016	370,000.00	213,300.00		583,300.00
10/1/2017	440,000.00	197,390.00		637,390.00
10/1/2018	425,000.00	178,140.00		603,140.00
10/1/2019	580,000.00	156,890.00		736,890.00
10/1/2020	680,000.00	130,210.00		810,210.00
10/1/2021	285,292.70	98,250.00	\$484,707.30	868,250.00
10/1/2022	290,542.40	98,250.00	514,457.60	903,250.00
10/1/2023	865,000.00	97,250.00		962,250.00
10/1/2024	540,000.00	54,000.00		594,000.00
10/1/2025	325,000.00	27,000.00		352,000.00
10/1/2026	215,000.00	10,750.00		225,750.00
	\$5,815,835.10	\$4,289,365.50	\$999,164.90	\$11,104,365.50

Estimated Debt Service Coverage

The following table illustrates the estimated coverage for the debt service on the 1998 Bonds and the 2003 Bonds. In the event of delinquencies in Special Tax payments received by the Community Facilities District, the estimated coverage ratios may not be achieved. See Table 3 captioned "Special Tax Delinquency History" under "COMMUNITY FACILITIES DISTRICT NO. 1" for information of historical Special Tax delinquencies in the Community Facilities District.

Year Ending October 1	Net Taxes ⁽¹⁾	1998 Bonds Debt Service	2003 Current Interest Bonds ⁽²⁾	2003 Capital Appreciation Bonds	Aggregate Debt Service	Debt Service Coverage
2003	\$7,495,063.96	\$6,005,313.75	\$154,698.00	\$0.00	\$6,160,011.75	121.7%
2004	7,644,967.42	6,126,813.75	244,260.00	0.00	6,371,073.75	120.0%
2005	7,797,870.37	6,245,563.75	254,260.00	0.00	6,499,823.75	120.0%
2006	7,953,822.08	6,371,063.75	259,035.00	0.00	6,630,098.75	120.0%
2007	8,112,898.52	6,497,313.75	268,697.50	0.00	6,766,011.25	119.9%
2008	8,275,158.20	6,628,563.75	273,135.00	0.00	6,901,698.75	119.9%
2009	8,440,662.11	6,763,813.75	277,355.00	0.00	7,041,168.75	119.9%
2010	8,609,481.85	6,897,063.75	286,305.00	0.00	7,183,368.75	119.9%
2011	8,781,669.65	7,037,563.75	294,820.00	0.00	7,332,383.75	119.8%
2012	8,957,296.97	7,174,743.75	302,895.00	0.00	7,477,638.75	119.8%
2013	8,838,730.65	7,053,287.50	325,425.00	0.00	7,378,712.50	119.8%
2014	8,026,858.98	6,298,487.50	396,825.00	0.00	6,695,312.50	119.9%
2015	6,716,410.81	5,096,725.00	490,225.00	0.00	5,586,950.00	120.2%
2016	5,395,529.22	3,885,025.00	583,300.00	0.00	4,468,325.00	120.8%
2017	4,798,979.05	3,327,318.75	637,390.00	0.00	3,964,708.75	121.0%
2018	4,254,661.07	2,899,112.50	603,140.00	0.00	3,502,252.50	121.5%
2019	3,600,409.01	2,213,225.00	736,890.00	0.00	2,950,115.00	122.0%
2020	2,829,417.88	1,489,175.00	810,210.00	0.00	2,299,385.00	123.1%
2021	2,150,888.76	855,050.00	98,250.00	770,000.00	1,723,300.00	124.8%
2022	1,942,438.59	648,000.00	118,250.00	785,000.00	1,551,250.00	125.2%
2023	1,482,560.82	199,025.00	962,250.00	0.00	1,161,275.00	127.7%
2024	812,112.16	0.00	594,000.00	0.00	594,000.00	136.7%
2025	529,732.06	0.00	352,000.00	0.00	352,000.00	150.5%
2026	<u>378,336.45</u>	<u>0.00</u>	<u>225,750.00</u>	<u>0.00</u>	<u>225,750.00</u>	<u>167.6%</u>
Total	\$133,825,956.64	\$99,712,248.75	\$9,549,365.50	\$1,555,000.00	\$110,816,614.25	N/A

⁽¹⁾ Includes Developed Property only.

⁽²⁾ Amounts shown from October 1, 2022, through October 1, 2026, includes mandatory sinking fund payments on the Current Interest Term Bonds maturing October 1, 2026.

Source: David Taussig & Associates, Inc. and Stone & Youngberg LLC.

Redemption

Optional Redemption. The Current Interest Bonds maturing on and after October 1, 2013 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 October 1, 2012, from such maturities as are selected by the Community Facilities District, and by lot within a maturity, from any source of funds, at the following redemption prices (expressed as percentages of the principal amount of the Current Interest Bonds to be redeemed), together with accrued interest to the date of redemption:

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

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

The Capital Appreciation Bonds are not subject to optional redemption prior to their fixed maturity dates.

Mandatory Sinking Payment Redemption. The Current Interest Bonds maturing on October 1, 2026, are subject to mandatory sinking redemption, in part by lot, on October 1 in each year commencing October 1, 2022, at a redemption price equal to the principal amount of the Current Interest 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:

2026 CURRENT INTEREST TERM BONDS

<u>Sinking Fund Redemption Date</u>	<u>Sinking Payments</u>
2022	\$20,000
2023	865,000
2024	540,000
2025	325,000
2026 (maturity)	215,000

The amounts in the foregoing table shall be reduced as a result of any prior partial redemption of the Current Interest Bonds pursuant to an optional redemption as specified in writing by the Community Facilities District to the Fiscal Agent.

Purchase In Lieu of Redemption. In lieu or partially in lieu of any optional, mandatory or mandatory sinking fund redemption, the Community Facilities District may elect to purchase such Current Interest Bonds at public or private sale as and when, and at such prices as the Community Facilities District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, and, in the case of funds in an Optional Redemption Account, the applicable premium to be paid in connection with the proposed redemption. Any accrued interest payable upon the purchase of Bonds may be paid from the amount in the Bond Fund for payment of interest on the next following Interest Payment Date.

Notice of Redemption. The Fiscal Agent shall mail, at least 30 days but no more than 60 days prior to the redemption date, notice of intended redemption, by first class mail, postage prepaid, to the respective registered Owners of the Current Interest Bonds at the addresses appearing on the Bond registry books. The actual receipt by the Owner of any Current Interest Bond of notice of such redemption shall not be a condition precedent to redemption, and neither the failure to receive such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such Current Interest Bonds or the cessation of interest on the redemption date.

Such notice shall (i) specify the serial numbers and the maturity date or dates of the Bonds selected for redemption, except that where all the Bonds are subject to redemption, or all the Bonds of one maturity, are to be redeemed, the serial numbers thereof need not be specified; (ii) state the date fixed for redemption and surrender of the Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Bonds are to be surrendered for redemption; (v) in the case of Current Interest Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed. Such notice shall further state that on the date fixed for redemption, there shall become due and payable on each Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon shall cease to accrue and be payable.

Effect of Redemption. When notice of redemption has been given substantially as provided for in the Bond Indenture, and the amount necessary for the redemption of the Current Interest Bonds called for redemption has been made available for that purpose, the Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Bond Indenture and upon presentation and surrender of said Current Interest Bonds at the place specified in the notice of redemption, the redemption price of such Bonds shall be paid to the Owner thereof. From and after the redemption date the Current Interest Bonds or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Bonds or portions thereof shall cease to bear further interest, and no Owner of such Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of the Bond Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

Registration, Transfer and Exchange

Registration. The Fiscal Agent will keep sufficient books for the registration and transfer of the 2003 Bonds, and upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said register, the 2003 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 absolute owner of such Bond for any and all purposes under the Bond Indenture, and the Community Facilities District and the Fiscal Agent shall not be affected by any notice to the contrary.

Transfers of Bonds. The transfer of any 2003 Bond may be registered only upon such books of registration upon surrender thereof to the Fiscal Agent, together with an assignment duly executed by the Owner or his attorney or legal representative, in satisfactory form. Upon any such registration of transfer, a new 2003 Bond or Bonds shall be authenticated and delivered in exchange for such 2003 Bond, in the name of the transferee, of any denomination or denominations authorized by the Bond Indenture, and in an aggregate principal amount equal to the principal amount of such 2003 Bond or Bonds so surrendered. The Fiscal Agent may make a charge for every such exchange or registration of transfer of Bonds sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such transfer or exchange. The Fiscal Agent shall not be required to register transfers or make exchanges of (i) 2003 Bonds for a period of 15 days next preceding to the date of any selection of the 2003 Bonds for redemption, or (ii) any 2003 Bonds selected for redemption.

Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Fiscal Agent for a like aggregate principal amount of 2003 Bonds of authorized denominations, interest rate and maturity, subject to the terms and conditions of the Bond Indenture, including the payment of certain charges, if any, upon surrender and cancellation of a 2003 Bond. Capital Appreciation Bonds shall not be exchanged for Current Interest Bonds and Current Interest Bonds shall not be exchanged for Capital Appreciation Bonds.

Book-Entry and DTC

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2003 Bonds. The 2003 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2003 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX G – "Book-Entry and DTC."

SECURITY FOR THE 2003 BONDS

General

The 2003 Bonds are secured by a first pledge of all of the Net Taxes and all moneys deposited in the applicable Account in the Bond Fund and in the 2003 Bonds Reserve Account and, until disbursed as provided in the Bond Indenture, in the Special Tax Fund. Pursuant to the Act and the Bond Indenture, the Community Facilities District will annually levy the Special Taxes in an amount required for the payment of principal of, and interest on, any outstanding 1998 Bonds or 2003 Bonds becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the 1998 Reserve Account or the 2003 Bonds Reserve Account and an amount estimated to be sufficient to pay the Administrative Expenses during such year. The Net Taxes and all moneys deposited into the applicable accounts (until disbursed as provided in the Bond Indenture) are pledged to the payment of the principal of, and interest and any premium on, the 2003 Bonds as provided in the Bond Indenture and in the Act until all of the 2003 Bonds have been paid and retired or until moneys or federal securities (as provided in the Bond Indenture) have been set aside irrevocably for that purpose.

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

Special Taxes

In accordance with the provisions of the Act, the Board established the Community Facilities District on May 26, 1987 for the purpose of financing the acquisition, construction and installation of certain public school improvements, as provided in the Resolution of Formation. At the time of adoption of the Resolution of Formation, the Board also voted to submit a proposition to the qualified electors of the Community Facilities District to authorize the issuance of an aggregate principal amount of bonds not to exceed \$138,251,618 in 1986-87 dollars, subject to escalation as described below under the caption "Parity Bonds," and the annual levy and collection of the Special Tax pursuant to the terms and conditions of the Act. The levy of the Special Tax and the rate and method of apportionment of the Special Tax were approved by more than two-thirds of the votes cast by the qualified electors within the Community Facilities District on August 25, 1987. On October 5, 1987, the Board, acting as the Legislative Body of the Community Facilities District, enacted Ordinance No. 1-88, and on November 17, 1997, the Board enacted Ordinance No. 98-2 amending and restating Ordinance No. 1-88 (collectively, the "Ordinance"), which Ordinance provides for the levying of the Special Tax. On June 26, 1995, the Board adopted Resolution No. 70-95 which implemented a reduction to the rate and method of apportionment of the Special Tax to reduce Special Taxes for Developed Property and provided that any escalation of Special Taxes for Fiscal Years after 1995-96 shall be calculated based on the revised Annual Special Tax approved by Resolution No. 70-95. The Rate and Method of Apportionment incorporating the Special Tax reductions approved by the Board pursuant to Resolution No. 70-95 is set forth in APPENDIX B hereto.

The Board, as the Legislative Body of the Community Facilities District, has covenanted in the Bond Indenture each year to levy Special Taxes up to the maximum rates permitted under the Rate and Method of Apportionment in an amount anticipated to be sufficient, together with any moneys on deposit in the Special Tax Fund and, with respect to the final Bond Year, in the Reserve Fund, and anticipated to be

available in the next succeeding Bond Year, to pay (i) the principal of, premium, if any, and interest on the 2003 Bonds due in such Bond Year, (ii) Administrative Expenses due or coming due, plus (iii) the amount, if any, necessary to replenish each Reserve Account of the Reserve Fund to an amount equal to the applicable Reserve Requirement established by the Bond Indenture. See the subcaption “ – Reserve Fund” below.

Notwithstanding the foregoing, the Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method of Apportionment. See APPENDIX B – “Rate and Method of Apportionment for Poway Unified School District Community Facilities District No. 1” hereto. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See “BONDOWNERS’ RISKS – Insufficiency of the Special Tax” herein.

Because the Special Tax levy is limited to the maximum Special Tax rates set forth in the Rate and Method of Apportionment, no assurance can be given that, in the event of Special Tax delinquencies, the receipt of Special Taxes will, in fact, be collected in sufficient amounts in any given year to pay debt service on the 2003 Bonds.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2003 BONDS. OTHER THAN THE SPECIAL TAXES, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2003 BONDS. THE 2003 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES MORE FULLY DESCRIBED HEREIN.

Rate and Method

The Rate and Method of Apportionment provides that no Special Tax shall be levied on commercial and/or industrial property and that all residential parcels in the Community Facilities District not otherwise exempt are to be classified for each fiscal year as Developed Property or Undeveloped Property. Developed Property includes any lot or parcel of land in the Community Facilities District which is used, zoned, or designated for residential purposes on the applicable general plan, specific plan or community plan which the City utilizes and relies upon in granting building permits for residential development, and for which a building permit for a residential dwelling unit(s) has been issued by March 1st of the prior fiscal year (“Developed Property”). Developed Property is then assigned to one of three tax classes: single family detached, single family attached, or apartments/mobile home. Any dwelling unit approved by the City as a condominium will be taxed as an apartment if such dwelling unit is utilized as an apartment until such time as the County Assessor assigns a separate assessor’s parcel number to such dwelling unit, after which time the dwelling unit will be taxed as single family attached Developed Property.

The Initial Special Tax rates, which commenced July 1, 1988 (as provided in the Rate and Method of Apportionment), have been and shall be, subject to escalation each fiscal year by an amount equal to the percentage increase in the Building Cost Index (the Building Cost Index for the City of Los Angeles based upon the most recently released data prior to June 30th of each fiscal year as set forth in the Engineering News-Record published in the McGraw-Hill Construction Weekly) for the preceding fiscal year multiplied times the Initial Special Tax for such preceding fiscal year. Maximum Special Taxes are determined based on the square footage of the dwelling unit and the year of initial taxation by the Community Facilities District. No parcel of Developed Property shall be taxed by the Community Facilities District for a period in excess of 25 years. Commencing with the levy of the Initial Special Tax on a parcel, the maximum Special Tax on Developed Property increases at a rate of 2% per year compounded annually, unless a higher escalator (not to exceed 4% per year) is approved by the Board at an annual public hearing.

Undeveloped Property includes all nonexempt parcels not classified as Developed Property (“Undeveloped Property”) and is subject to a per acre Special Tax, not to exceed \$750 per acre, but only to the extent necessary to assure payment of principal and interest on any Community Facilities District bonds and replenishment of any reserve for Community Facilities District bonds after taking into account the Special Taxes levied on Developed Property, including maximum escalators, and any Surplus Funds (as

defined in the Rate and Method of Apportionment) on deposit as of the July 1 preceding the levy. All of the property in the Community Facilities District, unless used for commercial or industrial purposes, or Undeveloped Property (other than under the circumstances described above), or owned by the State, federal or other local governments or otherwise exempted by law, is to be taxed for the purposes, to the extent and in the manner provided in the Rate and Method of Apportionment. Under the Rate and Method of Apportionment, an owner of a parcel may not prepay its share of the total remaining Special Tax obligation for such parcel.

UNDER NO CIRCUMSTANCES MAY THE SPECIAL TAX ON ANY ASSESSOR'S PARCEL EXCEED THE MAXIMUM RATES AS SET FORTH IN APPENDIX B HERETO. SEE APPENDIX B – "Rate and Method of Apportionment for Poway Unified School District Community Facilities District No. 1" herein.

The Rate and Method provides the means by which the Board may annually levy the Special Taxes within the Community Facilities District up to the applicable Maximum Special Tax to pay for School Facilities. The 2003 Bonds, when issued, will fund School Facilities and will be secured by any annual Special Taxes levied pursuant to the Rate and Method. The Rate and Method provides for the levy of the Initial Special Tax in the Fiscal Year following the date of issuance of a building permit and the levy of the Annual Special Tax for a period not to exceed 24 years thereafter for such Developed Property. A copy of the Rate and Method is included in APPENDIX B hereto.

In 1997, the Board adopted Resolution No. 70-95 which reduced Initial Special Tax rates for the 1987-88 Fiscal Year. A Notice of Special Tax Lien for the Community Facilities District as revised by Resolution No. 70-95 was recorded in the real property records of County on December 11, 1997 as Document No. 1997-0629116.

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. However, the Community Facilities District has covenanted for the benefit of the owners of the 2003 Bonds that it will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied, and diligently pursue to completion such foreclosure proceedings; provided that, notwithstanding the foregoing, the Community Facilities District may elect (1) to defer foreclosure proceedings on any parcel with a delinquency of \$10,000 or less, so long as the amount in the Reserve Fund is at least equal to the Reserve Requirement, or (2) to accept payment from a property owner of less than the full amount of the penalties, interest, costs and attorneys' fees related to a Special Tax delinquency, if permitted by law, if no default exists under the Bond Indenture, or will be cured upon receipt of such payment, and if no default will occur under the Bond Indenture in the Bond Year in which such settlement is entered into. In the event that the Community Facilities District elects to accept a payment under (2) above, any portion of the settlement amount received that exceeds the Special Taxes that are delinquent may be applied to pay Administrative Expenses of the Community Facilities District. The Community Facilities District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Fund at the Reserve Requirement or the reserve balance in any reserve fund established under the Bond Indenture at the required amount. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE" herein.

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

No assurances can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. See "BONDOWNERS' RISKS – Potential Delay and

Limitations in Foreclosure Proceedings.” If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the Community Facilities District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 120 days from the date of service of the Notice of Levy and 20 days from the subsequent notice of sale in which to redeem the property to be sold. If a judgment debtor fails to so redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made. The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price unless a lesser minimum bid price is authorized by the Owners of 75% of the principal amount of the 2003 Bonds outstanding.

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

If the Reserve Fund is depleted and delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Bondowners pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of foreclosure sale proceeds, if any. However, within the limits of the Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the Bonds and to replenish the Reserve Fund. There is, however, no assurance that the maximum Special Tax rates will be at all times sufficient to pay the amounts required to be paid on the 2003 Bonds by the Bond Indenture.

Special Tax Fund

Pursuant to the Bond Indenture, the Gross Taxes received by the Community Facilities District will be deposited in the Special Tax Fund, which will be held by the Fiscal Agent on behalf of the Community Facilities District. Moneys in the Special Tax Fund shall be held in trust by the Fiscal Agent for the benefit of the Community Facilities District and the owners of the 2003 Bonds. Pending disbursement, moneys in the Special Tax Fund will be subject to a lien in favor of the Bondowners of the 2003 Bonds as established under the Bond Indenture.

Disbursements. Moneys in the Special Tax Fund will be disbursed as needed to pay the obligations of the Community Facilities District in the following priority: (i) to the Administrative Expense Fund until the total of deposits therein for such Bond Year is equal to the Administrative Expense Requirement for that Bond Year; (ii) to the Interest Account of the Bond Fund established for each series of Bonds an amount sufficient to make both interest payments due on such Series of Bonds in such Bond Year; (iii) to the Principal Account of the Bond Fund established for each series of Bonds the total amount needed to make the principal payment due on the following October 1 of such Bond Year on the Outstanding Bonds, other than any Term Bonds of each series of Bonds; (iv) to the Sinking Fund Redemption Account of the Redemption Fund established for each series of Bonds the total amount needed to make the Sinking Fund Payment due on the following October 1 of such Bond Year on the Outstanding Term Bonds of each series of Bonds; (v) to the Account of the Reserve Fund established for the Bonds and for each series of Parity Bonds for which a Reserve Requirement has been established, the amount required to bring the balance in each Account to its proportionate share of the Reserve Requirement; (vi) to the Administrative Expense Fund the amount of any Administrative Expenses for such Bond Year in excess of the amount deposited pursuant to clause (i) above; (vii) to the Rebate Fund the amount required to be set aside or rebated to the Internal Revenue Service; and (viii) any remaining portion of each apportionment of Special Taxes remaining in the Special Tax Fund following the completion of the above deposits for any Bond Year shall be deposited into the Special Revenue Fund. ***The amounts in the Special Revenue Fund are not pledged to the repayment of the Bonds and may be used by the District for any lawful purpose.***

Investment. Moneys in the Special Tax Fund will be invested and deposited by the Community Facilities District as described in “Investment of Moneys in Funds” below. Interest earnings and profits resulting from such investment and deposit will be retained in the Special Tax Fund to be used for the purposes thereof. Pursuant to the Bond Indenture, all earnings on all funds and accounts established for a series of Bonds are to be transferred to the Special Tax Fund and immediately deposited in the funds and accounts for the same series of Bonds, except as follows: Earnings on the Administrative Expense Fund, Special Revenue Fund, the Rebate Fund and the Improvement Fund shall be retained therein; and, only to the extent not required to maintain the Reserve Requirement, earnings on the Reserve Fund shall be transferred to the Special Tax Fund and applied as provided above.

Bond Fund

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

On each Interest Payment Date, the Fiscal Agent will withdraw from the Bond Fund and pay to the owners of the 2003 Bonds the principal, interest and any premium then due and payable on the 2003 Bonds. Any amounts due on the 2003 Bonds by reason of the sinking payments or a redemption of the 2003 Bonds will be paid from the applicable account in the Redemption Fund.

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

Redemption Fund

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

Reserve Fund

In order to further secure the payment of principal of and interest on the 2003 Bonds, a Debt Service Reserve Fund Surety will be acquired in an amount equal to the 2003 Bonds Reserve Requirement (see “ESTIMATED SOURCES AND USES OF FUNDS” herein). Reserve Requirement is defined in the Bond Indenture to mean, as of any date of calculation, an amount equal to the least of (i) ten percent of the original proceeds of the 1998 Bonds, the 2003 Bonds or any Parity Bonds, (ii) maximum annual debt service on the 1998 Bonds, the 2003 Bonds or Parity Bonds, or (iii) 125% of the average annual debt service on the 1998 Bonds, 2003 Bonds or Parity Bonds.

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

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

Debt Service Reserve Fund Surety Bonds

Application has been made to MBIA for a commitment to issue a surety bond with respect to the Reserve Requirement for the 2003 Bonds and to issue a surety bond with respect to 50% of the Reserve Requirement for the 1998 Bonds (each a “Debt Service Reserve Fund Surety Bond” and together, the “Debt Service Reserve Fund Surety Bonds”). See “MBIA INSURANCE CORPORATION INSURANCE POLICY – Debt Service Reserve Fund Surety Bonds” herein.

Administrative Expense Fund

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

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

Improvement Fund

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

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

Investment of Moneys in Funds

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

Payment of Rebate Obligation

The Community Facilities District is required to calculate excess investment earnings in accordance with the requirements set forth in the Bond Indenture. If necessary, the Community Facilities District may use amounts in the Special Tax Fund, or amounts on deposit in the Administrative Expense Fund and other funds available to the Community Facilities District (except amounts required to pay debt service on the 2003 Bonds) to satisfy rebate obligations.

Parity Bonds

Bonds issued on a parity with the 1998 Bonds and the 2003 Bonds ("Parity Bonds") may be issued for refunding purposes and subject to specific conditions including that the Community Facilities District must be in compliance with all covenants set forth in the Bond Indenture and any Supplement then in effect and a certificate of the Community Facilities District to that effect will be filed with the Fiscal Agent. Parity Bonds may be issued at any time to refund Outstanding Bonds where the issuance of such Parity Bonds results in a reduction of Annual Debt Service on all Outstanding Bonds.

See APPENDIX C – "Summary of Certain Provisions of the Bond Indenture."

Special Taxes Are Not Within Teeter Plan

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

MBIA INSURANCE CORPORATION INSURANCE POLICY

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Although the Community Facilities District and the Underwriter believe MBIA to be a reliable source of information, neither the Community Facilities District nor the Underwriter guarantees the accuracy or completeness of such information, or the absence of material adverse changes therein at any time subsequent to the date hereof. Reference is made to APPENDIX F for a specimen of MBIA's policy.

The MBIA Insurance Corporation Insurance Policy

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Community Facilities District to the Fiscal Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on the 2003 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the 2003 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2003 Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of 2003 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the 2003 Bonds resulting from the insolvency, negligence or any other act or omission of the Fiscal Agent or any other paying agent for the 2003 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Fiscal Agent or any owner of a 2003 Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2003 Bonds or presentment of such other proof of ownership of the 2003 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2003 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the 2003 Bonds in any legal proceeding related to payment of insured amounts on the 2003 Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Fiscal Agent payment of the insured amounts due on such 2003 Bonds, less any amount held by the Fiscal Agent for the payment of such insured amounts and legally available therefor.

Debt Service Reserve Fund Surety Bonds

Application has been made to MBIA for a commitment to issue surety bonds with respect to the 2003 Bonds Reserve Account and the 1998 Bonds Reserve Account of the Reserve Fund (each a "Debt Service Reserve Fund Surety Bond," and together the "Debt Service Reserve Fund Surety Bonds"). The Reserve Requirement is satisfied with respect to the 2003 Bonds through the 2003 Bonds Debt Service Reserve Fund Surety Bond. The Reserve Requirement is satisfied with respect to the 1998 Bonds with moneys on deposit in the 1998 Bonds Reserve Account in the Reserve Fund together with the 1998 Bonds Debt Service Reserve Fund Surety Bond. The 2003 Bonds Debt Service Reserve Fund Surety Bond will provide that upon notice from the Fiscal Agent to MBIA to the effect that insufficient amounts are on deposit in the 2003 Bonds Account in the Reserve Fund to pay the principal of (at maturity or pursuant to mandatory redemption

requirements) and interest on the 2003 Bonds, MBIA will promptly deposit with the Fiscal Agent an amount sufficient to pay the principal of and interest on the 2003 Bonds, or the available amount of the Debt Service Reserve Fund Surety Bond relating to the 2003 Bonds, whichever is less. The 1998 Bonds Debt Service Reserve Fund Surety Bond will provide that moneys with respect to the 1998 Bonds will first be drawn from the money on deposit in the 1998 Bonds Reserve Account and upon notice from the Fiscal Agent to MBIA to the effect that insufficient amounts are on deposit in the 1998 Bonds Account in the Reserve Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the 1998 Bonds, MBIA will promptly deposit with the Fiscal Agent an amount sufficient to pay the principal of and interest on the 1998 Bonds, or the available amount of the Debt Service Reserve Fund Surety Bond relating to the 1998 Bonds, whichever is less. Upon the later of three (3) days after the receipt by MBIA of a Demand for Payment in the form attached to the Debt Service Reserve Fund Surety Bond, duly executed by the Fiscal Agent; or (ii) the payment date of the 1998 Bonds or 2003 Bonds as specified in the Demand for Payment presented by the Fiscal Agent to MBIA, MBIA will make a deposit of funds in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment to the Fiscal Agent, of amounts which are then due to the Fiscal Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the Debt Service Reserve Fund Surety Bonds is the initial face amount of the Debt Service Reserve Fund Surety Bonds less the amount of any previous deposits by the MBIA with the Fiscal Agent which have not been reimbursed by the Community Facilities District. The Community Facilities District and MBIA have entered into a Financial Guaranty Agreement dated January 1, 2003 the ("Agreement"). Pursuant to the Agreement, the Community Facilities District is required to reimburse MBIA, within one year of any deposit, the amount of such deposit made by MBIA with the Fiscal Agent under the Debt Service Reserve Fund Surety Bonds. Such reimbursement shall be made only after all required deposits to the Interest Account and the Principal Account in the Bond Fund and the Sinking Fund Redemption Account of the Redemption Fund have been made.

Under the terms of the Agreement, the Fiscal Agent is required to reimburse MBIA, with interest, until the face amount of the Debt Service Reserve Fund Surety Bonds is reinstated before any deposit is made to the Community Facilities District free of the lien of the Bond Indenture. No optional redemption of 1998 Bonds or 2003 Bonds, respectively, may be made until MBIA's Debt Service Reserve Fund Surety Bonds are reinstated. The Debt Service Reserve Fund Surety Bonds will be held by the Fiscal Agent in the 1998 Bonds Reserve Account and the 2003 Bonds Reserve Account and is provided as an alternative to the Community Facilities District depositing funds equal to each Reserve Requirement for outstanding 2003 Bonds and 1998 Bonds. The 2003 Bonds Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to the 2003 Bonds Reserve Requirement for the 2003 Bonds and the premium therefor will be fully paid by the Community Facilities District at the time of delivery of the 2003 Bonds. The 1998 Bonds Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to 50% of the 1998 Bonds Reserve Requirement for the 1998 Bonds and the premium therefor will be fully paid by the Community Facilities District from available moneys of the Community Facilities District.

MBIA

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "MBIA INSURANCE CORPORATION INSURANCE POLICY" and in APPENDIX F - "Specimen Financial

Guaranty Insurance Policy.” Additionally, MBIA makes no representation regarding the 2003 Bonds or the advisability of investing in the 2003 Bonds.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2001; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the 2003 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2002, MBIA had admitted assets of \$9.0 billion (unaudited), total liabilities of \$5.9 billion (unaudited), and total capital and surplus of \$3.1 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody’s Investors Service, Inc. rates the financial strength of MBIA “Aaa.”

Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., rates the financial strength of MBIA “AAA.”

Fitch, Inc. rates the financial strength of MBIA “AAA.”

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency’s current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2003 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2003 Bonds. MBIA does not guaranty the market price of the 2003 Bonds nor does it guaranty that the ratings on the 2003 Bonds will not be revised or withdrawn.

In the event MBIA were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

COMMUNITY FACILITIES DISTRICT NO. 1

The Community Facilities District includes approximately 10,454 taxable residential units located in the portion of the School District which is primarily within the boundaries of the City, except for approximately 15 parcels annexed to the Community Facilities District which are within the boundaries of the City of Poway. The Community Facilities District is located approximately 20 miles northeast of the downtown area of the City.

General Information

The development within the Community Facilities District consists of four, non-contiguous, master planned residential communities, including the Westwood Valley portion of Rancho Bernardo, Peñasquitos East, Carmel Mountain Ranch and Sabre Springs. In 1998, a few parcels in the City of Poway were annexed into the Community Facilities District that are not within these Master Planned Communities hereafter referred to as the Annexations. The developments are governed by the general and specific plans indicated below. Approximately 10,386 of the projected 12,700 residential units for the Community Facilities District have been completed and sold. The existing residential development within the Community Facilities District consists of 6,178 single family detached units, with home sizes ranging from 1,168 square feet to over 4,600 square feet, 2,066 attached units and 2,210 apartment units.

The development within the Community Facilities District consists of the following master planned residential communities:

(1) Peñasquitos East, which is governed by the Peñasquitos East Community Plan adopted by the City on October 17, 1978, by Resolution No. 222051, together with all amendments thereto.

(2) Sabre Springs, which is governed by the Sabre Springs Community Plan adopted by the City on July 1, 1982, by Resolution No. 3914, together with all amendments thereto.

(3) Carmel Mountain Ranch, which is governed by the Carmel Mountain Ranch Community Plan adopted by the City on August 14, 1984, by Resolution No. 261374, together with all amendments thereto, and a General Plan amendment adopted by the City on August 14, 1984 by Resolution No. R-261375.

(4) Westwood Valley, which is governed by the Rancho Bernardo Community Plan adopted by the City on March 28, 1978, by Resolution No. 220568.

Authority for Issuance

The 2003 Bonds are issued pursuant to the Act and the Bond Indenture. Proceedings relating to the formation are described in "INTRODUCTION – The Community Facilities District" herein.

Special Tax Lien and Levy: Notice of Special Tax Lien for the Community Facilities District was recorded in the real property records of County on September 10, 1987 as Document No. 87-514281. A Notice of Special Tax Lien for the Community Facilities District as revised by Resolution No. 70-95 which reduced Initial Special Tax rates for the 1987-88 Fiscal Year was recorded in the real property records of County on December 11, 1997 as Document No. 1997-0629116.

Resolution Authorizing Issuance of the 2003 Bonds: On December 16, 2002, the Board adopted Resolution No. 43-2003 approving issuance of the 2003 Bonds.

2002-03 Special Tax Levy

The Annual Special Tax in Fiscal Year 2002-03 ranged from \$602.14 - \$960.78 for single family detached units, \$410.00 - \$624.90 for single family attached units and \$218.66 - \$289.08 for apartments and mobile homes. \$6,970,349.96 in Special Taxes were levied on parcels within the Community Facilities District for Fiscal Year 2002-03. All of the foregoing Special Taxes were levied on Developed Property as defined in the Rate and Method of Apportionment for the Community Facilities District. Laterraza LLC, the largest single taxpayer in the Community Facilities District in Fiscal Year 2002-03, was responsible for approximately 1.46% of the total Community Facilities District Special Tax Levy for Fiscal Year 2002-03.

The table below summarizes the Fiscal Year 2002-03 Community Facilities District Special Tax levy made in accordance with the Rate and Method of Apportionment:

Table 1
Poway Unified School District
Community Facilities District No. 1
2002-03 Special Tax Levy

Land Use Class ⁽¹⁾	Fiscal Year 2002-03 Applied Tax Rate	Units Levied⁽²⁾	Special Taxes Levied⁽³⁾	Average Assigned Special Tax Rate	Average Maximum Special Tax Rate	Fiscal Year 2002-03 Levy as Percent of Total
SFD (>2,100 s.f.)	93%	3,617	\$3,327,818.94	\$920.05	\$989.31	47.74%
SFD (1,901 – 2,100 s.f.)	93%	989	830,352.72	839.59	902.79	11.91%
SFD (1,701 – 1,900 s.f.)	93%	910	710,560.46	780.84	839.61	10.19%
SFD (1,401 – 1,700 s.f.)	93%	550	397,805.42	723.28	777.73	5.71%
SFD (1,251 s.f.)	93%	82	52,098.70	635.35	683.18	0.75%
SFD (<1,251 s.f.)	93%	30	18,195.40	606.51	652.17	0.26%
SFA (>1,400 s.f.)	93%	444	264,104.98	594.83	639.61	3.79%
SFA (1,251 – 1,400 s.f.)	93%	285	163,480.74	573.62	616.80	2.35%
SFA (1,101 – 1,250 s.f.)	93%	136	76,839.38	565.00	607.52	1.10%
SFA (901 – 1,100 s.f.)	93%	913	438,126.90	479.88	516.01	6.29%
SFA (751 – 900 s.f.)	93%	128	56,115.20	438.40	471.39	0.81%
SFA (<751 s.f.)	93%	160	66,157.44	413.48	444.61	0.95%
AMH (>900 s.f.)	93%	1,164	326,365.54	280.38	301.49	4.68%
AMH (751 – 900 s.f.)	93%	381	95,665.40	251.09	269.99	1.37%
AMH (<751 s.f.)	93%	665	146,662.74	220.55	237.15	2.10%
TOTAL	N/A	10,454	\$6,970,349.96	N/A	N/A	100.00%

⁽¹⁾ Key: SFD - Single Family Detached
SFA - Single Family Attached
AMH - Apartment/Mobile Home

⁽²⁾ Units subject to tax declines over time starting in Fiscal Year 2012-13.

⁽³⁾ Totals may not sum due to rounding.

Source: David Taussig & Associates, Inc.

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

Table 2
Poway Unified School District
Community Facilities District No. 1
2002-03 Special Tax Levy by Planned Community

Planned Community	Fiscal Year 2002-03 Applied Tax Rate	Units Levied	Special Taxes Levied	Average Maximum Special Tax Rate	Fiscal Year 2002-03 Levy as Percent of Total
Rancho Bernardo	93%	985	\$626,089.38	\$635.62	8.98%
Carmel Mountain Ranch	93%	3,790	2,189,548.84	577.72	31.41%
Sabre Springs	93%	2,496	1,562,236.54	625.90	22.41%
Peñasquitos East	93%	3,168	2,578,731.00	813.99	37.00%
Annexations	<u>93%</u>	<u>15</u>	<u>13,744.20</u>	<u>916.28</u>	<u>.20%</u>
TOTAL	N/A	10,454	\$6,970,349.96	N/A	100.00%

Source: David Taussig & Associates, Inc.

Delinquency History

The following table summarizes the Special Tax delinquencies in the Community Facilities District from Fiscal Year 1996-97 to and including Fiscal Year 2001-02:

Table 3
Poway Unified School District
Community Facilities District No. 1
Special Tax Delinquency History

Fiscal Year	Aggregate Special Tax	Fiscal Year Amount Delinquent⁽¹⁾	Fiscal Year Delinquency Rate	Remaining Amount Delinquent as of 8/13/02	Remaining Delinquency Rate as of 8/13/02
1996-97	\$5,489,120	\$72,523	1.32%	\$361	0.01%
1997-98	5,922,147	29,200	0.49	441	0.01
1998-99	6,422,527	160,303	2.50	1,822	0.03
1999-00	6,701,643	53,559	0.80	5,731	0.09
2000-01	6,972,351	31,750	0.46	11,208	0.16
2001-02	6,773,559	33,178	0.49	33,178	0.49

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

Source: David Taussig & Associates, Inc.

Estimated Assessed Value-to-Lien Ratios and Tax Burdens

The assessed values, direct and overlapping land secured bonded indebtedness and total tax burden on the individual parcels vary among parcels within the Community Facilities District. The value of and tax burden on individual parcels is significant because in the event of a delinquency in the payment of Special Taxes a Community Facilities District may foreclose only against delinquent parcels.

The estimated assessed value-to-lien ratios for each of the parcels of Developed Property within the Community Facilities District upon which a Special Tax was levied in Fiscal Year 2002-03 range from 43 to 1 to 25 to 1. The table below groups value-to-lien ratios by planned community, including annexations, and by land use classification.

Table 4
Poway Unified School District
Community Facilities District No. 1
Developed Property
Value-to-Lien Analysis⁽²⁾

Planned Community/Unit Type⁽¹⁾	2002-03 Assessed Value⁽³⁾	2002-03 Lien⁽⁴⁾	Average Value-to-Lien Ratio
Rancho Bernardo			
SFD	\$213,186,518	\$5,605,531	38:1
SFA	-0-	-0-	N/A
AMH	30,447,775	1,088,489	28:1
Carmel Mountain Ranch			
SFD	\$553,705,454	\$15,942,013	36:1
SFA	147,484,675	4,079,009	36:1
AMH	120,584,374	3,389,281	36:1
Sabre Springs			
SFD	\$389,114,891	\$10,199,430	38:1
SFA	152,252,101	4,901,112	31:1
AMH	68,829,174	1,602,678	43:1
Peñasquitos East			
SFD	\$858,082,325	\$25,166,543	34:1
SFA	60,584,230	2,404,796	25:1
AMH	-0-	-0-	N/A
Annexations			
SFD	\$5,831,417	\$146,951	40:1
SFA	-0-	-0-	N/A
AMH	-0-	-0-	N/A
Total	\$2,600,102,934	\$74,525,835	35:1

⁽¹⁾ Key: SFD - Single Family Detached
SFA - Single Family Attached
AMH - Apartment/Mobile Home

⁽²⁾ Developed Property only.

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

⁽⁴⁾ Reflects only the Community Facilities District 1998 Bonds and the issuance of 2003 Bonds in the amount of \$5,815,835.10. For a description of other net direct and overlapping tax and assessment debt relating to Developed Property and Undeveloped Property, see Table 7 below.

Source: David Taussig & Associates, Inc.

The table below sets forth a summary of the estimated tax burden on parcels within the Community Facilities District based on Fiscal Year 2002-03 assessed property values and Fiscal Year 2002-03 tax and assessment levies within the Community Facilities District.

Table 5
Poway Unified School District
Community Facilities District No. 1
Estimated Annual Tax Burdens
Fiscal Year 2002-03

Land Use Class⁽¹⁾	Minimum Annual Tax Burden	Maximum Annual Tax Burden	Median Tax as % of AV⁽²⁾
SFD (>2,100 s.f.)	\$1,603.96	\$9,845.22	1.28%
SFD (1,901 – 2,100 s.f.)	850.24	5,920.80	1.30
SFD (1,701 – 1,900 s.f.)	1,507.34	6,219.46	1.30
SFD (1,401 – 1,700 s.f.)	1,252.34	4,840.60	1.30
SFD (1,251 – 1,400 s.f.)	1,826.74	3,975.88	1.29
SFD (<1,251 s.f.)	2,183.56	3,546.60	1.32
SFA (>1,400 s.f.)	1,001.56	4,534.76	1.27
SFA (1,251 – 1,400 s.f.)	1,483.18	3,719.52	1.30
SFA (1,101 – 1,250 s.f.)	604.54	3,155.26	1.30
SFA (901 – 1,100 s.f.)	785.06	3,279.74	1.33
SFA (751 – 900 s.f.)	1,052.40	2,350.18	1.35
SFA (<751 s.f.)	432.62	1,858.00	1.45
AMH (>900 s.f.)	943.23	1,875.75	1.25
AMH (751 – 900 s.f.)	850.36	1,691.11	1.26
AMH (<751 s.f.)	753.77	1,289.86	1.26

⁽¹⁾Key: SFD - Single Family Detached
SFA - Single Family Attached
AMH - Apartment/Mobile Home

⁽²⁾Tax burden reflects *ad valorem* taxes, Special Taxes as initially enrolled on Fiscal Year 2002-03 property tax roll, prior to corrections and other direct assessments. Twenty-seven (27) taxable parcels in the Community Facilities District have tax burdens in excess of 2% of their assessed value.

Source: David Taussig & Associates, Inc.

The table below summarizes median annual tax burdens as a percentage of assessed value by planned community.

Table 6
Poway Unified School District
Community Facilities District No. 1
Median Annual Tax Burdens

Planned Community	Median Tax as % of AV⁽¹⁾
Rancho Bernardo	1.31%
Carmel Mountain Ranch	1.29
Sabre Springs	1.29
Peñasquitos East	1.26
Annexations	1.25

⁽¹⁾Tax burden reflects *ad valorem* taxes, Special Taxes as initially enrolled on Fiscal Year 2002-03 property tax roll, prior to corrections and other direct assessments.

Source: David Taussig & Associates, Inc.

Direct and Overlapping Debt

The table below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the Community Facilities District prepared by California Municipal Statistics, Inc. and dated November 26, 2002 (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. See "– Overlapping Assessment and Maintenance Districts" below.

Property within the Community Facilities District is subject to special assessments, Special Taxes and *ad valorem* property taxes. The *ad valorem* property tax rate applicable to property within the Community Facilities District ranges from 1.01456% to 1.07165%. With respect to special assessments, almost all of the parcels in the Community Facilities District are subject to a County Water Authority water availability assessment, a Metropolitan Water District water standby charge and a San Diego Mosquito and Rat Control assessment. See "Overlapping Assessment and Maintenance Districts" below. In addition, the property that is located within the planned communities are subject to a maintenance district assessment accordingly: Rancho Bernardo Maintenance District, Carmel Mountain Ranch Maintenance District, Sabre Springs Maintenance District, Peñasquitos East Maintenance District and Park Village Maintenance District. The fifteen (15) properties within the annexations are subject to various other assessments ranging in amount from \$1.88 per parcel for a City of Poway Road Way Lighting assessment to \$596.00 per parcel for a Weed and Rubbish Abatement assessment. Only the Special Taxes and *ad valorem* taxes are associated with any indebtedness.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Community Facilities District in whole or in part. Such long term obligations generally are not payable from property taxes, assessment or special taxes on land in the Community Facilities District. 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 D hereto for the form of the Community Facilities District Continuing Disclosure Agreement.

Table 7
Poway Unified School District
Community Facilities District No. 1

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 1

2002-03 Local Secured Assessed Valuation: \$3,119,336,920

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 12/1/02</u>
San Diego County Water Authority	1.528%	\$ 25,136
Metropolitan Water District	0.275	1,382,040
City of Poway	0.068	1,020
City of San Diego	3.097	485,919
City of San Diego Open Space Park District	3.097	1,275,190
Poway Unified School District Community Facilities District No. 1	100.	68,710,000
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$71,879,305
Less: City of San Diego Open Space Park District		1,275,190
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$70,604,115

<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 12/1/02</u>
San Diego County General Fund Obligations	1.473%	\$ 7,264,293
San Diego County Pension Obligations	1.473	12,143,338
San Diego County Superintendent of Schools Obligations	1.473	30,454
Palomar Community College District Certificates of Participation	5.495	521,201
San Diego Community College District Certificates of Participation	0.691	290,047
City of Poway Certificates of Participation	0.068	34,677
City of San Diego General Fund Obligations	3.097	17,236,199
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$37,520,209

GROSS COMBINED TOTAL DEBT	\$109,399,514 (2)
NET COMBINED TOTAL DEBT	\$108,124,324

- (1) Based on redevelopment adjusted all property assessed valuation of \$3,109,091,633.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2002-03 Assessed Valuation:

Direct Debt (\$68,710,000)	2.20%
Total Gross Direct and Overlapping Tax and Assessment Debt	2.30%
Total Net Direct and Overlapping Tax and Assessment Debt	2.26%
Gross Combined Total Debt	3.51%
Net Combined Total Debt	3.47%

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

Overlapping Assessment and Maintenance Districts

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

County Water Authority Water Availability Charge. The County Water Authority imposes an annual direct assessment of \$10.00 per acre, or \$10.00 per parcel if the parcel is less than an acre. This pay-as-you-go assessment is used to fund capital improvements and will continue to be levied for an indefinite period.

County Mosquito/Rat Control. The San Diego County Department of Environmental Health imposes this annual direct assessment on all property within the County at a rate of \$2.28 per parcel. This assessment is fixed unless there is a vote by registered voters to increase the assessment. This pay-as-you-go assessment is used for vector surveillance and control programs. The County Department of Environmental Health provides free services to residents to control mosquito breeding and rodent activity.

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

Accordingly, the debt on the property within the Community Facilities District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the 2003 Bonds are issued between the value of the property and the debt secured by the Special Taxes and other taxes and assessments which may be levied on such property. The incurring of such additional indebtedness could also affect the ability and willingness of the property owners within the Community Facilities District to pay the Special Taxes when due.

Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of the property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes.

BONDOWNERS' RISKS

In addition to the other information contained in this Official Statement, the following risk factors should be carefully considered in evaluating the investment quality of the 2003 Bonds. The School District cautions prospective investors that this discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the 2003 Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the Community Facilities District to pay their Special Taxes when due. Any such failure to pay Special Taxes could result in the inability of the School District to make full and punctual payments of debt service on the 2003 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the Community Facilities District.

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 the Community Facilities District, 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.

Special Taxes Are Not Personal Obligations

The current and future owners of land within the Community Facilities District are not personally liable for the payment of the Special Taxes. Rather, the Special Tax is an obligation only of the land within the Community Facilities District. If the value of the land within the Community Facilities District is not sufficient to fully secure the Special Tax, then the Community Facilities District has no recourse against the landowner under the laws by which the Special Tax has been levied and the 2003 Bonds have been issued.

The 2003 Bonds Are Limited Obligations of the Community Facilities District

The Community Facilities District has no obligation to pay principal of and interest on the 2003 Bonds in the event Special Tax collections are delinquent, other than from amounts, if any, on deposit in the 2003 Bonds Reserve Account or funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent, nor is the Community Facilities District obligated to advance funds to pay such debt service on the 2003 Bonds.

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

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

The table in the section entitled "COMMUNITY FACILITIES DISTRICT NO. 1 – Direct and Overlapping Debt" states the presently outstanding amount of governmental obligations (with stated exclusions), the tax or assessment for which is or may become an obligation of one or more of the parcels of Taxable Property and furthermore states the additional amount of general obligation bonds the tax for which, if and when issued, may become an obligation of one or more of the parcels of Taxable Property. The table does not specifically identify which of the governmental obligations are secured by liens on one or more of the parcels of Taxable Property.

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Tax securing the 2003 Bonds.

In general, as long as the Special Tax is collected on the County tax roll, the Special Tax and all other taxes, assessments and charges also collected on the tax roll are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of proceedings to foreclose for delinquency of Special Taxes securing the 2003 Bonds, the Special Tax will be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Special Taxes will generally be on a parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro-rata basis. Although the Special Taxes will generally have priority over non-governmental liens on a parcel of Taxable Property, regardless of whether the non-governmental liens were in existence at the time of the levy of the Special Tax or not, this result may not apply in the case of bankruptcy.

While governmental taxes, assessments and charges are a common claim against the value of a parcel of Taxable Property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Tax is a claim with regard to a hazardous substance. See "Hazardous Substances" below.

Disclosure to Future Purchasers

The Community Facilities District recorded a Notice of Special Tax Lien for the Community Facilities District in the real property records of County on September 10, 1987 as Document No. 87-514281. A Notice of Special Tax Lien for the Community Facilities District as revised by Resolution No. 70-95 which reduced Initial Special Tax rates for the 1987-88 Fiscal Year was recorded in the real property records of County on December 11, 1997 as Document No. 1997-0629116. 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 the Community Facilities District 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.

Utility Deregulation

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

State Budget

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

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 the Community Facilities District 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 the Community Facilities District be affected by a hazardous substance, would be to reduce the marketability and value of the parcel by the costs of remedying the condition, because the owner (or operator) is obligated to remedy the condition. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling or disposing of it. All of these possibilities could significantly affect the financial and legal ability of a property owner to develop the affected parcel or other parcels, as well as the value of the property that is realizable upon a delinquency and foreclosure.

The assessed value of the property within the Community Facilities District 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 2003 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the Community Facilities District. The annual levy of the Special Tax is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the 2003 Bonds. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the 2003 Bonds, and certainly not a direct relationship.

The Special Tax levied in any particular tax year on a Taxable Property is based upon the revenue needs and application of Rate and Method. Application of 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 the Community Facilities District. Thus, in addition to annual variations of the revenue needs from the Special Tax, the following are some of the factors which might cause the levy of the Special Tax on any particular Taxable Property to vary from the Special Tax that might otherwise be expected:

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

(2) Failure of the owners of Taxable Property to pay the Special Tax and delays in the collection of or inability to collect the Special Tax by tax sale or foreclosure and sale of the delinquent parcels, thereby resulting in an increased tax burden on the remaining parcels of Taxable Property.

Except as set forth above under "SECURITY FOR THE 2003 BONDS – Special Taxes" and "– Rate and Method" herein, the Bond Indenture provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in "SECURITY FOR THE 2003 BONDS – Proceeds of Foreclosure Sales" and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the 2003 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the School District of the proceeds of sale if the 2003 Bonds Reserve Account is depleted. See "SECURITY FOR THE 2003 BONDS – Proceeds of Foreclosure Sales."

In addition, the Rate and Method limits the increase of Special Taxes levied on parcels of Developed Property to cure delinquencies of other property owners in the Community Facilities District. See "SECURITY FOR THE 2003 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 2003 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 the Community Facilities District 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 2003 Bonds Reserve Account

The 2003 Bonds Reserve Account is to be maintained at an amount equal to the 2003 Bonds Reserve Requirement (see “SECURITY FOR THE 2003 BONDS – Reserve Fund” herein). Funds in the 2003 Bonds Reserve Account may be used to pay principal of and interest on the 2003 Bonds in the event the proceeds of the levy and collection of the Special Tax against property within the Community Facilities District are insufficient. If funds in the 2003 Bonds Reserve Account are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the Bondowners pursuant to the Bond Indenture. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within the Community Facilities District, at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the 2003 Bonds Reserve Account will be depleted and not be replenished by the levy of the Special Tax.

Potential Delay and Limitations in Foreclosure Proceedings

The payment of property owners’ taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings, may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. See “SECURITY FOR THE 2003 BONDS – Proceeds of Foreclosure Sales” and “BONDOWNERS’ RISKS – Bankruptcy and Foreclosure Delay” herein. In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

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

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

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

at an amount less than the minimum bid. Such Superior Court approval requires the consent of the owners of 75% of the aggregate principal amount of the outstanding 2003 Bonds.

Delays and uncertainties in the Special Tax lien foreclosure process create significant risks for Bondowners. High rates of special tax payment delinquencies which continue during the pendency of protracted Special Tax lien foreclosure proceedings, could result in the rapid, total depletion of the 2003 Bonds Reserve Account prior to replenishment from the resale of property upon foreclosure. In that event, there could be a default in payment of the principal of, and interest on, the 2003 Bonds. See "Concentration of Ownership" above.

Bankruptcy and Foreclosure Delay

The payment of Special Taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent Special Taxes as discussed in the section herein entitled "SECURITY FOR THE 2003 BONDS" may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a judicial foreclosure may be delayed due to congested local court calendars or procedural delays.

The various legal opinions to be delivered concurrently with the delivery of the 2003 Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the obligation to pay the Special Tax to become extinguished, bankruptcy of a property owner or of a partner or other equity owner of a property owner, could result in a stay of enforcement of the lien for the Special Taxes, a delay in prosecuting Superior Court foreclosure proceedings or adversely affect the ability or willingness of a property owner to pay the Special Taxes and could result in the possibility of delinquent Special Taxes not being paid in full. In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Special Tax, or any such delay or non-payment, would increase the likelihood of a delay or default in payment of the principal of and interest on the 2003 Bonds and the possibility of delinquent Special Taxes not being paid in full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments.

In 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled *In re Glaspy 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. *Glaspy* is controlling precedent for bankruptcy courts in the State. If the *Glaspy* 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.

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

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 the Community Facilities District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the 2003 Bonds should assume that the Community Facilities District will be unable to collect Special Taxes or to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the 2003 Bonds Reserve Account and perhaps, ultimately, a default in payment on the 2003 Bonds. Based upon the secured tax roll as of January 1, 2001, the FDIC does not presently own any of the property in the Community Facilities District. The School District expresses no view concerning the likelihood that the risks described above will materialize while the 2003 Bonds are outstanding.

Factors Affecting Parcel Values and Aggregate Value

Geologic, Topographic and Climatic Conditions. The value of the Taxable Property in the Community Facilities District 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. The Community Facilities District, 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 the Community Facilities District 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 the Community Facilities District include changes in the law or application of the law. Such changes may include, without limitation, local growth control initiatives, local utility connection moratoriums and local application of statewide tax and governmental spending limitation measures.

No Acceleration Provisions

The 2003 Bonds do not contain a provision allowing for the acceleration of the 2003 Bonds in the event of a payment default or other default under the terms of the 2003 Bonds or the Bond Indenture. Pursuant to the Bond Indenture, a bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies (see APPENDIX C – “Summary of Certain Provisions of the Bond Indenture” herein). So long as the 2003 Bonds are in book-entry form, DTC will be the sole bondowner and will be entitled to exercise all rights and remedies of bondowner.

District Formation

California voters, on June 6, 1978, approved an amendment (“Article XIII A”) to the California Constitution. Section 4 of Article XIII A, requires a vote of two-thirds of the qualified electorate to impose “special taxes,” or any additional *ad valorem*, sales or transaction taxes on real property. At an election held in the Community Facilities District pursuant to the Act, more than two-thirds of the qualified electors within the Community Facilities District, consisting of the landowners within the boundaries of the Community

Facilities District, authorized the Community Facilities District to incur bonded indebtedness to finance the School Facilities and approved the Rate and Method. The Supreme Court of the State of California has not yet decided whether landowner elections (as opposed to resident elections) satisfy requirements of Section 4 of Article XIII A, nor has the Supreme Court decided whether the special taxes of a community facilities district constitute a "special tax" for purposes of Article XIII A.

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

Billing of Special Taxes

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

Under provisions of the Act, the Special Taxes are billed to the properties within the Community Facilities District which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See "SECURITY FOR THE 2003 BONDS – Proceeds of Foreclosure Sales" for a discussion of the provisions which apply and procedures which the Community Facilities District is obligated to follow in the event of delinquency in the payment of installments of Special Taxes.

Inability to Collect Special Taxes

In order to pay debt service on the 2003 Bonds, it is necessary that the Special Tax levied against land within the Community Facilities District be paid in a timely manner. The Community Facilities District has covenanted in the Bond Indenture under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the 2003 Bonds. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. In the event such superior court foreclosure is necessary, there could be a delay in principal and interest payments to the owners of the 2003 Bonds pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. Although the Act authorizes the Board to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the Board with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See "SECURITY FOR THE 2003 BONDS – Proceeds of Foreclosure Sales."

Right to Vote on Taxes Act

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

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2003 Bonds.

It may be possible, however, for voters or the Community Facilities District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2003 Bonds but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the 2003 Bonds.

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

The foregoing discussion of The Initiative should not be considered an exhaustive or authoritative treatment of the issues. The Community Facilities District does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of The Initiative on the 2003 Bonds as well as the market for the 2003 Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of The Initiative.

Ballot Initiatives and Legislative Measures

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

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the 2003 Bonds or, if a secondary market exists, that such 2003 Bonds can be sold for any particular price. Although the Community Facilities District has committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of

current information, the absence of credit rating for the 2003 Bonds or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS – Tax Exemption," the interest on the 2003 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2003 Bonds as a result of a acts or omission of the Community Facilities District and the School District in violation of certain provisions of the Code and the covenants of the Bond Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2003 Bonds, the School District has covenanted in the Bond Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2003 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2003 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the Bond Indenture. See "THE 2003 BONDS – Redemption."

Limitations on Remedies

Remedies available to the Bondowners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2003 Bonds or to preserve the tax-exempt status of the 2003 Bonds. See "Payments by FDIC and other Federal Agencies," "No Acceleration Provision" and "Billing of Special Taxes" herein.

The Board 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 has undertaken financing of the acquisition and construction of the School 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 in no way implies that the Board has evaluated these risks or the reasonableness of these risks, but to the contrary, the Board has made no such evaluation and is undertaking acquisition and construction of the School Facilities even though such risks may be serious and may ultimately halt or slow the progress of land development and forestall the realization of Taxable Property values.

LEGAL MATTERS

Legal Opinion

The legal opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, approving the validity of the 2003 Bonds will be made available to purchasers at the time of original delivery and is attached hereto as APPENDIX E. A copy of the legal opinion will be printed on each 2003 Bond. McFarlin & Anderson, Lake Forest, California is serving as Disclosure Counsel. Best Best & Krieger LLP will also pass upon certain legal matters for the School District and the Community Facilities District as special counsel to these entities.

Tax Exemption

In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2003 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Community Facilities District comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the 2003 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Community Facilities District has covenanted in the Bond Indenture to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2003 Bonds.

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

To the extent the issue price of any maturity of the 2003 Bonds is less than the amount to be paid at maturity of such 2003 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2003 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest on the 2003 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2003 Bonds is the first price at which a substantial amount of such maturity of the 2003 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2003 Bonds accrues daily over the term to maturity of such 2003 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2003 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2003 Bonds. Owners of the 2003 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the 2003 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2003 Bonds in the original offering to the public at the first price at which a substantial amount of such 2003 Bonds is sold to the public.

The 2003 Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Bond, and under Treasury Regulations, the amount of tax exempt interest received will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Owners of the 2003 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2003 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2003 Bonds other than as expressly described above.

Absence of Litigation

No litigation is pending or threatened concerning the validity of the 2003 Bonds. There is no action, suit or proceeding known by the Community Facilities District or the School District to be pending at the present time restraining or enjoining the delivery of the 2003 Bonds or in any way contesting or affecting the validity of the 2003 Bonds or any proceedings of the Community Facilities District or the School District taken with respect to the execution thereof. A no litigation certificate executed by the School District will be delivered to the Underwriter simultaneously with the delivery of the 2003 Bonds.

No General Obligation of School District or Community Facilities District

The 2003 Bonds are not general obligations of the School District or the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from proceeds of the Special Tax and proceeds of the 2003 Bonds, including amounts in the 2003 Bonds Reserve Account, Special Tax Fund and Bond Fund and investment income on funds held pursuant to the Bond Indenture (other than as necessary to be rebated to the United States of America pursuant to Section 148(f) of the Code and any applicable regulations promulgated pursuant thereto). Any tax levied for the payment of the 2003 Bonds shall be limited to the Special Taxes to be collected within the Community Facilities District.

RATINGS

The ratings assigned to the 2003 Bonds shall be as specified on the cover of the Official Statement based on the ability of the Community Facilities District to secure bond insurance and the assignment of a rating by the designated rating agency or rating agencies. Such ratings reflect only the view of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same at the address provided in the Official Statement. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2003 Bonds.

UNDERWRITING

The 2003 Bonds are being purchased by the Stone & Youngberg LLC at a purchase price of \$5,728,419.47 (which represents the aggregate principal amount of the 2003 Bonds less an underwriter's discount of \$95,961.28 plus a net premium of \$8,545.65).

The purchase agreement relating to the 2003 Bonds provides that the Underwriter will purchase all of the 2003 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement.

The Underwriter may offer and sell the 2003 Bonds to certain dealers and others at prices lower than the offering price stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

PROFESSIONAL FEES

Fees payable to certain professionals, including the Underwriter, McFarlin & Anderson, as Disclosure Counsel, Best Best & Krieger LLP, as Bond Counsel, and U.S. Bank National Association, as the Fiscal Agent, are contingent upon the issuance of the 2003 Bonds. The fees of David Taussig & Associates, Inc., as Special Tax Consultant, are in part contingent upon the issuance of the 2003 Bonds.

MISCELLANEOUS

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

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representatives of fact. This Official Statement is not to be construed as a contract or agreement between the Community Facilities District and the purchasers or owners of any of the 2003 Bonds.

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

COMMUNITY FACILITIES DISTRICT NO. 1 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. 1 of the Poway
Unified School District

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

GENERAL INFORMATION ABOUT THE POWAY UNIFIED SCHOOL DISTRICT

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

Introduction

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

General Information

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

Administration and Enrollment

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

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

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

**Poway Unified School District
Student Enrollment**

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

Source: California Department of Education and the School District.

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

Labor Relations

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

**Poway Unified School District
District Employees**

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

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

Source: The School District.

Retirement Programs

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

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

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

Insurance

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

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

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

POWAY UNIFIED SCHOOL DISTRICT COMMUNITIES FACILITIES DISTRICT NO. 1

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

The Special Tax applicable to each Residential Property in Community Facilities District No. 1 ("CFD No. 1") shall be determined by applying to such property the appropriate Special tax rate described below. No tax shall be levied on commercial and/or industrial property.

CLASSIFICATION OF RESIDENTIAL PROPERTY

All Residential Property shall be classified as either Developed Property or Undeveloped Property. Additionally, all Developed Property shall be further classified into one of the housing categories identified below.

Each Residential Property shall only be subject to an amount not to exceed the maximum Special Tax rate applicable to its classification.

DEVELOPED PROPERTY TAX RATES

Each Developed Property shall be subject to one of the following Special Tax rates as applicable:

Initial Special Tax:

The maximum Special Tax rate applicable to any Developed Property for the Initial Fiscal Year for such property shall be the then effective Initial Special Tax for the housing category for such property. The Initial Special Tax for the Fiscal Year commencing July 1, 1987, is as follows:

<u>Housing Classification</u>	<u>Housing Size (Square Feet)</u>	<u>Initial Special Tax</u>
Single family detached	Over 2,100	\$714.27
	1,901 – 2,100	\$650.76
	1,701 – 1,900	\$610.74
	1,401 – 1,700	\$569.85
	1,251 – 1,400	\$500.25
	1,250 and under	\$486.33
Single family attached	Over 1,400	\$464.58
	1,251 – 1,400	\$442.83
	1,101 – 1,250	\$438.48
	901 – 1,100	\$375.84
	751 – 900	\$354.09
	750 and under	\$331.47

Apartments/mobile home*	Over 900	\$220.98
	751 – 900	\$199.23
	750 and under	\$176.61

(* Any dwelling unit approved by the City of San Diego as a condominium shall be taxed as an apartment if such dwelling unit is utilized as an apartment until such time as the County Assessor assigns a separate assessor's parcel number to such dwelling unit, after which time the dwelling unit shall be taxed as single family attached.)

Commencing July 1, 1988, the above Initial Special Tax rates for each Fiscal Year shall be subject to escalation by an amount equal to the percentage increase in the Building Cost Index for the preceding Fiscal Year multiplied times the Initial Special Tax for such preceding Fiscal Year.

Annual Special Tax:

For each Fiscal Year following the Initial Fiscal Year for any Developed Property, such property shall be subject to an Annual Special Tax which shall equal the Initial Special Tax for such property subject to escalation in an amount not to exceed 2% per Fiscal Year. Provided, however, that commencing with the Fiscal Year beginning July 1, 1990, the Board may escalate the Annual Special Tax in each Fiscal Year up to an additional 2% for such Fiscal Year, only if the Board determines prior to the commencement of each such Fiscal Year, at an annual public hearing on such matter duly called and noticed, that such rate of escalation for such Fiscal Year is necessary to pay debt service, fund any required sinking fund, and finance School Facilities for such Fiscal Year. In no event, however, shall the escalation of the Annual Special Tax exceed four percent (4%) for any one Fiscal Year.

UNDEVELOPED PROPERTY TAX RATE

In the event that on July 1 of any Fiscal Year, the sum of

- (i) the maximum projected revenues that could be generated from the Special Tax if they were applied to all Developed Properties at the maximum rate possible (including without limitation increases that would result from the application of the Maximum Escalators), and
- (ii) all Surplus Funds, shall be insufficient to pay principal of and interest on the bonds of CFD No. 1 at that time outstanding for such Fiscal Year, and to make any deposits required to be made with respect to any reserve fund created with respect to such bonds for such Fiscal Year, all Undeveloped Property shall be subject to a Special Tax for such Fiscal year only, at a rate not to exceed \$750 per acre of Net Undeveloped Property (or a proportionate amount thereof for any portion of such acre), as calculated below. Such Special Tax on the Undeveloped Property shall be calculated for each acre (or fraction thereof) of Net Undeveloped Property as follows:

The amount minimally required to pay, for such Fiscal Year, the shortfall of principal of and interest on the bonds of CFD No. 1 at that time outstanding and to make any required deposits into any reserve fund established with respect to such bonds (such minimum shortfall to be calculated in accordance with the preceding sentence), shall be divided by the number of acres (including fractions thereof) of Net Undeveloped Property.

DEFINITIONS

"Annual Special Tax" means the maximum special tax that may be levied on any Developed Property for any Fiscal Year following the initial Fiscal year for such property, and shall be levied as long as necessary,

for a period not to exceed 24 years for such Developed Property, to pay for authorized School Facilities and discharge authorized bond obligations of CFD No. 1.

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

"Building Cost Index" shall mean the Building Cost Index for the City of Los Angeles based upon the most recently released data prior to June 30th of each Fiscal Year as set forth in the Engineering News-Record (ENR) published in the McGraw-Hill Construction Weekly.

"Developed Property" means any Residential Property for which a building permit for a residential dwelling unit(s) has been issued by March 1st of the prior Fiscal Year.

"Fiscal Year" means the period from July 1st of any calendar year through June 30th of the following calendar year.

"Housing Size" means the habitable square footage for initial City-issued building permits only, excluding garages, overhangs and covered patios.

"Initial Fiscal Year" means for any Developed Property the Fiscal Year commencing the July 1st following the date of the issuance of a building permit for a residential dwelling unit(s) for such property.

"Initial Special Tax" means the maximum special tax that may be levied on any Developed Property for the Initial Fiscal Year.

"Maximum Escalator" means, with respect to Developed Property, the application of the maximum annual escalations permitted pursuant to this Special Tax Formula, assuming a public hearing has been held to permit an annual 4% escalation (whether or not such public hearing has been held).

"Net Undeveloped Property" means for any lot or parcel of Undeveloped Property, the gross acreage of said lot or parcel less the acreage of (1) all publicly dedicated open space or such open space designed on any recorded final map or designated on the Community Plan for the lot or parcel, (2) all publicly dedicated streets with a right-of-way width of 98 feet or more or any such public street designated on the Community Plan for the lot or parcel, and (3) all other publicly dedicated parks, libraries, fire stations and other similar buildings and facilities or such buildings, facilities and properties which are designated on the applicable Community Plan for public dedication or ownership, and (4) all public utility easements located outside existing or proposed public rights-of-way.

"Residential Property" means any lot or parcel of land located within the boundaries of CFD No. 1 which is used, zoned, or designated for residential purposes on the applicable General Plan, Specific Plan or Community Plan which the City of San Diego utilizes and relies upon in granting building permits for residential development.

"School Facilities" means only those public facilities identified in the Description of Facilities for CFD No. 1 on file in the Office of the Secretary of the Board.

"Sinking Fund" means any fund funded from Developed Property Special Tax revenues dedicated for payment of debt service of the Community Facilities District No. 1 special tax bonds, or for the construction of School Facilities, which fund shall not exceed \$15,000,000 in any Fiscal Year.

"Surplus Funds" shall consist of all of the following: (a) all Special Tax revenues previously collected from CFD No. 1 and legally available to pay principal of and interest on bonds of CFD No. 1 at that time outstanding and to pay amounts required to be deposited into any reserve account established with respect

to such bonds; (b) all monies in any reserve fund established with respect to the bonds of CFD No. 1 at that time outstanding which is in excess of the minimum amount required to be on deposit therein; (c) all state funds collected and other funds received, and properly allocable to the School Facilities or the students enrolled in the School Facilities and which funds are legally eligible to be used for the School Facilities, and are not used to directly finance costs of the School Facilities; and (d) any amount on deposit in any Sinking Fund established with respect to such bonds.

"Undeveloped Property" means all Residential Property not classified as Developed Property.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

The following is a brief summary of certain provisions of the Bond Indenture. This summary does not purport to be complete and is qualified in its entirety by reference to said documents.

Definitions. Unless the context otherwise requires, the following terms shall have the following meanings for purposes of the Indenture:

"Accreted Interest" means, with respect to the Capital Appreciation Bonds, the Accreted Value thereof minus the Denominational Amount thereof as of the date of calculation.

"Accreted Value" means, with respect to the Capital Appreciation Bonds, as of the date of calculation, the Denominational Amount thereof, plus interest accreted thereon to such date of calculation, compounded semiannually on each April 1 and October 1 (commencing on October 1, 2003), with respect to the Capital Appreciation Bonds maturing on those dates specified in the Indenture, at the stated yield to maturity thereof, assuming in any such semiannual period that such Accreted Value increases in equal daily amounts on the basis of a 360-day year of twelve 30-day months.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, Sections 53311 *et seq.* of the California Government Code.

"Administrative Expense Requirement" means the amount of \$100,000 in the first Bond Year, increased by two percent (2%) per Bond Year thereafter and provided further that the District may in its sole discretion, fund additional Administrative Expenses, without limitation, from any other funds available to the District, including the Special Revenue Fund.

"Administrative Expenses" means the ordinary and necessary fees and expenses for determination of the Special Tax and administering the levy and collection of the Special Tax and of servicing the Bonds, including any or all of the following: the fees and expenses of the Fiscal Agent (including any fees or expenses of its counsel), the expenses of the District or the School District in carrying out their duties under the Indenture (including, but not limited to, annual audits, special tax consultants and attorneys and costs incurred in the levying and collection of the Special Taxes or complying with any information disclosure requirements of state or federal laws) including the fees and expenses of their counsel, all other costs and expenses of the District, including, but not limited to, Policy Costs with respect to the Bond Insurance Policy or the Reserve Policy, the School District or the Fiscal Agent incurred in connection with the discharge of their respective duties under the Indenture, any rebate due and owing on the Bonds as determined by the Administrator and all other costs of the School District in any way related to the administration of the District.

"Administrator" means the Superintendent or the Associate Superintendent, Business Support Services, of the School District or other officer of the School District as the legislative body of the District may designate.

"Authorized Investments" or "Qualified Investments" means, subject to applicable law:

1. Direct obligations (other than an obligation subject to variation in principal repayment) 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 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:

- Federal Home Loan Mortgage Corporation (FHLMC)
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
Senior Debt obligations
- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
Consolidated system-wide bonds and notes
- Federal Home Loan Banks (FHL Banks)
Consolidated debt obligations
- Federal National Mortgage Association (FNMA)
Senior debt obligations
Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
- Student Loan Marketing Association (SLMA)
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)
- Financing Corporation (FICO)
Debt obligations
- Resolution Funding Corporation (REFCORP)
Debt obligations

4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P and "Prime-1" by Moody's.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.

6. Commercial paper (having original maturities of not more than 270 days rated "A-1 +" by S&P and "Prime-1" by Moody's).

7. Money market funds rated "AAm" or "AAm-G" or better by S&P and "Prime-1" by Moody's (including those of the Fiscal Agent or its affiliates).

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 and acceptable to the Bond Insurer, provided that:

A. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach);

B. The Fiscal Agent or a third party acting solely as agent therefor or for the District (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

C. The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

D. All other requirements of S&P and Moody's in respect of repurchase agreements shall be met.

E. 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 (who shall give such direction if so directed by the Bond Insurer), 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, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), 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 (other than a life or property casualty insurance company) the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, the long-term debt paying a liability, of the guarantor is rated at least "AA" by S&P and "Aa" by Moody's; provided that, by the terms of the investment agreement:

(1) interest payments are to be made to the Fiscal Agent at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

(2) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the District and the Fiscal Agent hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(3) 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;

(4) the District or the Fiscal Agent receives the opinion of domestic counsel (which opinion shall be addressed to the District and the Bond Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Bond Insurer,

(5) the investment agreement shall provide that if during its term

(a) the providers 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 (i) 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 third party acting solely as agent therefor (the "Holder of the Collateral") 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 (ii) repay the principal of and accrued but unpaid interest on the investment; and

(b) 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, at the direction of the District or the Fiscal Agent (who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the District or Fiscal Agent; and

(6) 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);

(7) the investment agreement must provide that if during its term

(a) 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 (who shall give such direction if so directed by the Bond Insurer), be accelerated and amounts invested and accrued, but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate, and

(b) 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 providers 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.

"Authorized Representative of the School District" means any officer of the School District specified by the Superintendent or the Associate Superintendent, Business Support Services, of the School District in writing to the Fiscal Agent as an authorized representative of the School District for purposes of the Indenture and First Supplemental Bond Indenture.

"Average Annual Debt Service" means the average over all Bond Years of the annual debt service from the date of the Bonds to their maturity, including:

(1) the principal amount of all Outstanding Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

(2) the interest payable on the aggregate principal amount of the Bonds Outstanding in such Bond Year assuming the Bonds are retired as scheduled.

"Bond Counsel" means an attorney or a 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 any state of the United States of America or the District of Columbia.

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

"Bond Insurance Policy" means the municipal bond insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of principal and interest on the Bonds.

"Bond Insurer" means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York, and any successor thereto.

"Bond Register" means the books which the Fiscal Agent shall keep or cause to be kept, on which the registration and transfer of the Bonds shall be recorded.

"Bond Reserve Policy" or "Reserve Policy" means a policy of insurance satisfying all or any portion of the Reserve Requirement provided by, or approved in writing by, the Bond Insurer.

"Bond Year" means each twelve-month period extending from September 2 in one calendar year to October 1 of the succeeding calendar year, except in the case of the initial Bond Year which shall be the period from the Closing Date to October 1, 1998 as to the Series 1998 Bonds and from February 13, 2003 to October 1, 2003 as to the Series 2003 Bonds.

"Bondowner" or "Owner" means the person or persons in whose name or names any Bond is registered.

"Bonds" means the Poway Unified School District Community Facilities District No. 1 Series 1998 Special Tax Bonds issued under the Indenture and, if the context requires, any Parity Bonds issued in accordance with Section 9.02 of the Indenture, at any time Outstanding under the Indenture or any Supplement.

"Capital Appreciation Bonds" means those Series 2003 Bonds the interest component of which is compounded semiannually on each Interest Payment Date to maturity.

"Closing Date" or "Date of Delivery" means, with respect to the Series 1998 Bonds, February 4, 1998 and, with respect to the Series 2003 Bonds, February 13, 2003.

"Code" means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

"Completion of Project" means certification by the District to the Fiscal Agent of (i) the expenditure, commitment by contract or transfer pursuant to Section 3.08(c) of the Indenture of all moneys in the Improvement Account of the Improvement Fund having occurred, and (ii) the filing and recordation of a notice of completion by the School District with respect to the facilities or the provision of a title guarantee with regard to any facility for which no notice of completion was recorded.

"Costs of Issuance" means the costs and expenses incurred in connection with the issuance and sale of the Bonds including the acceptance and initial annual fees and expenses of the Fiscal Agent and the Escrow Bank, legal fees and expenses, costs of reproducing the Bonds costs of printing the preliminary and final Official Statements for the Bonds, fees of financial consultants, fees payable to the initial purchaser of the Bonds, the premium payable to the Bond Insurer of the Bonds and other fees and expenses set forth in a request of the District.

"County" means the County of San Diego, California.

"Current Interest Bonds" means the Series 2003 Bonds the interest on which is payable on each Interest Payment Date specified for each such Series 2003 Bond as designated and maturing in the years and in the amounts set forth in the Indenture.

"Denominational Amount" means, with respect to the Capital Appreciation Bonds, the initial offering price thereof, which represents the principal amount thereof (exclusive of any initial premium thereon), and, with respect to the Current Interest Bonds, the principal amount thereof.

"District" means Community Facilities District No. 1 of the Poway Unified School District established pursuant to the Act.

"First Supplemental Bond Indenture" means the First Supplemental Bond Indenture dated as of January 1, 2003 by and between the District and the Fiscal Agent.

"Fiscal Agent" means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, at its principal corporate trust office in Los Angeles, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in the Indenture and any successor thereto.

"Fiscal Year" means the twelve-month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the School District as its Fiscal Year in accordance with applicable law.

"Gross Taxes" means the amount of all Special Taxes and proceeds from the sale of property collected pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes and proceeds from any security for payment of Special Taxes in lieu of foreclosure.

"Indenture" means the Master Indenture as supplemented by the First Supplemental Bond Indenture and as may be further supplemented pursuant to the terms thereof.

"Independent Financial Consultant" means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the District, who, or each of whom:

(1) is in fact independent and not under the domination of the District or any of the property owners within the District;

(2) does not have any substantial interest, direct or indirect, in the District or any of the property owners within the District; and

(3) is not connected with the District as a member, officer or employee of the District or any of the property owners within the District, but who may be regularly retained to make annual or other reports to the District.

"Interest Payment Date" means each April 1 and October 1, commencing October 1, 1998 with respect to the Series 1998 Bonds and October 1, 2003 with respect to the Series 2003 Bonds.

"Insurance Fiscal Agent" means State Street Bank and Trust Company, National Association, or its successors under the Bond Insurance Policy.

"Investment Agreement" means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in subsection (11) of the definition of Authorized Investments in the Indenture.

"Master Indenture" means the Bond Indenture, dated as of January 1, 1998, by and between the District and First Trust of California, National Association, predecessor to U.S. Bank National Association, as Fiscal Agent.

"Maturity Value" means the Accreted Value of any Capital Appreciation Bond on its maturity date.

"Maximum Annual Debt Service" means the maximum sum obtained for any Bond Year by totaling the following for such Bond Year:

(1) the principal amount of all Outstanding Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

(2) the interest payable on the aggregate principal amount of all Bonds Outstanding in such Bond Year if the Bonds are retired as scheduled.

"Moody's" means "Moody's Investors Service, its successors and assigns.

"Net Taxes" means the amount of all Gross Taxes minus the Administrative Expense Requirement.

"Ordinance" means Ordinance No. 1-88 as amended and continued by Ordinance 98-2, each adopted by the legislative body of the District providing for the levy of the Special Tax.

"Outstanding" or "Outstanding Bonds" means all Bonds theretofore issued by the District, except:

(1) Bonds theretofore cancelled or surrendered for cancellation in accordance with Section 10.01 of the Indenture;

(2) Bonds for 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; and

(3) Bonds which have been surrendered to the Fiscal Agent for transfer or exchange or for which a replacement has been issued pursuant to the Indenture.

(4) Bonds defeased but without notice being given pursuant to the Indenture.

"Owner" or "Bondowner" means the person or persons in whose name or names any Bond is registered.

"Parity Bonds" means all bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in the Indenture or any Supplement, rank on a parity with the Bonds.

"Policy Costs" means all premiums and costs incurred by or on behalf of the District in connection with the delivery and/or maintenance of any Bond Insurance Policy or Bond Reserve Policy.

"Principal Corporate Trust Office" means the office of the Trustee at 550 South Hope Street, Suite 500, Los Angeles, California 90071 or such other offices as may be specified to the District by the Fiscal Agent in writing; provided, however for transfer, registration, exchange, payment and surrender of Bonds means care of the corporate trust office of U.S. Bank National Association in St. Paul, Minnesota or such other address specified by the Trustee to the District in writing.

"Prior Bonds" means Poway Unified School District Community Facilities District No. 1 Special Tax Bonds, Series A, issued pursuant to the Prior Resolution of the Board of Education of the Poway Unified School District.

"Prior Resolution" means Resolution No. 7-92 adopted by the Board of Education of the Poway Unified School District on August 26, 1991.

"Project" means the construction, acquisition and equipping of certain real and other tangible property with an estimated useful life of five years or longer, which is to be acquired or constructed within and without the District, including certain school and related facilities, as more particularly described in the Resolution of Formation.

"Project Costs" means the amounts necessary to finance the construction and acquisition of the Project and incidental expenses of the type authorized for financing under the Act associated therewith.

"Rating Agency" means Moody's and Standard & Poor's or both as the context requires.

"Rebate Fund" means the fund by that name established pursuant to the Indenture in which there are established the Accounts described in the Indenture.

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

"Regulations" means the final, temporary and proposed Treasury Regulations promulgated pursuant to Sections 103 and 141 through 150 of the Code.

"Reserve Fund" means the fund by that name established pursuant to the Indenture in which there are established the Accounts described in the Indenture.

"Reserve Policy" means a municipal bond insurance policy deposited with the Fiscal Agent pursuant to the Indenture, provided that all of the following requirements are met: (a) the insurer consents to such Reserve Policy or the issuer of such Reserve Policy is a bond insurer with a claims-paying ability

rating of at least "AAA" by Standard & Poors and "Aaa" by Moody's; (b) such Reserve Policy has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the Indenture; and (c) the Fiscal Agent is authorized pursuant to the terms of such Reserve Policy to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Bond Fund for the purpose of making payment required pursuant to the Indenture.

"Reserve Requirement" means, with respect to the Bonds and any Parity Bonds, as of any date of calculation an amount equal to the lesser of (1) ten percent (10%) of the original proceeds of the Bonds or any Parity Bonds, (2) Maximum Annual Debt Service on the Bonds or Parity Bonds, or (3) one hundred twenty-five percent (125%) of the Average Annual Debt Service on the Bonds or Parity Bonds.

"Resolution of Formation" means Resolution No. 46-87 adopted by the Board of Education of the School District on May 26, 1987, pursuant to which the Board of Education of the School District formed the District.

"Resolution" or "Resolution of Issuance" means Resolution No. 52-98 adopted by the Board of Education of the School District on December 15, 1997, authorizing the issuance of the Series 1998 Bonds, and approving the terms and provisions of this Indenture.

"School District" means the Poway Unified School District, California.

"Series 1998 Bonds" means the District's Series 1998 Bonds issued under the Indenture on February 4, 1998, in the aggregate principal amount of \$80,000,000.

"Series 1998 Bonds Administrative Expense Account" means the account by that name established in the Administrative Expense Fund pursuant to the Indenture.

"Series 1998 Bonds Improvement Subaccount" or "1998 Bonds Subaccount of the Improvement Account" means the subaccount by that name established in Improvement Account of the Improvement Fund pursuant to the Indenture.

"Series 1998 Bonds Interest Account" means the account by that name established in the Bond Fund pursuant to the Indenture.

"Series 1998 Bonds Optional Redemption Account" means the account by that name established in the Redemption Fund pursuant to the Indenture.

"Series 1998 Bonds Principal Account" means the account by that name established in the Bond Fund pursuant to the Indenture.

"Series 1998 Bonds Rebate Account" means the account by that name established in the Rebate Fund pursuant to the Indenture.

"Series 1998 Bonds Reserve Account" or the "1998 Bonds Account of the Reserve Fund" means the account by that name established in the Reserve Fund pursuant to the Indenture.

"Series 1998 Bonds Sinking Fund Redemption Account" means the account by that name established in the Redemption Fund pursuant to the Indenture.

"Series 2003 Bond Insurance Policy" means the municipal bond insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of principal and interest on the Series 2003 Bonds.

"Series 2003 Bond Reserve Policy" means a policy of insurance satisfying all or any portion of the Reserve Requirement as applicable to the Series 2003 Bonds provided by, or approved in writing by, the Bond Insurer.

"Series 2003 Bonds" shall mean the \$5,815,835.10 Community Facilities District No. 1 Series 2003 Special Tax Bonds issued pursuant to the Indenture as supplemented by the First Supplemental Bond Indenture.

"Series 2003 Bonds Administrative Expense Account" means the account by that name established in the Administrative Expense Fund pursuant to the Indenture.

"Series 2003 Bonds Authorized Investments" means:

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (FHA)
5. General Services Administration
Participation certificates
6. Government National Mortgage Association (GNMA or "Ginnie Mae")
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
(not acceptable for certain cash-flow sensitive issues.)
7. U.S. Maritime Administration
Guaranteed Title XI financing
8. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds

New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

- C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):
1. Federal Home Loan Bank System
Senior debt obligations
 2. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
Participation Certificates
Senior debt obligations
 3. Federal National Mortgage Association (FNMA or "Fannie Mae")
Mortgage-backed securities and senior debt obligations
 4. Student Loan Marketing Association (SLMA or "Sallie Mae")
Senior debt obligations
 5. Resolution Funding Corp. (REFCORP) obligations
 6. Farm Credit System
Consolidated systemwide bonds and notes
- D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2.
- E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.
- F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.
- G. Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to MBIA (Investment Agreement criteria is available upon request).
- H. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.
- I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.
- J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

- K. Repurchase Agreements for 30 days or less must follow the following criteria. Repurchase Agreements which exceed 30 days must be acceptable to MBIA (criteria available upon request)

Repurchase agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

1. Repos must be between the municipal entity and a dealer bank or securities firm
 - a. Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor's Corporation and Moody's Investor Services, or
 - b. Banks rated "A" or above by Standard & Poor's Corporation and Moody's Investor Services.
2. The written repo contract must include the following:
 - a. Securities which are acceptable for transfer are:
 - (1) Direct U.S. governments, or
 - (2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)
 - b. The term of the repo may be up to 30 days
 - c. The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).
 - d. Valuation of Collateral
 - (1) The securities must be valued weekly, marked-to-market at current market price plus accrued interest
 - (a) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

"Series 2003 Bonds Capitalized Interest Subaccount" means the subaccount by that name established in the Interest Account of the Bond Fund pursuant to the Indenture.

"Series 2003 Bonds Costs of Issuance Subaccount" means the subaccount by that name established in the Costs of Issuance Account of the Improvement Fund pursuant to the Indenture.

"Series 2003 Bonds Defeasance Securities" means:

1. Cash
2. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series -- "SLGs")
3. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities
4. Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.
5. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.
6. Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:
 - a. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
 - b. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
 - c. Federal Financing Bank
 - d. General Services Administration
Participation certificates
 - e. U.S. Maritime Administration
Guaranteed Title XI financing
 - f. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

"Series 2003 Bonds Improvement Subaccount" means the subaccount by that name established in the Improvement Account of the Improvement Fund pursuant to the Indenture.

"Series 2003 Bonds Interest Account" means the account by that name established in the Bond Fund pursuant to the Indenture.

"Series 2003 Bonds Optional Redemption Account" means the account by that name established in the Redemption Fund pursuant to the Indenture.

"Series 2003 Bonds Principal Account" means the account by that name established in the Bond Fund pursuant to the Indenture.

"Series 2003 Bonds Rebate Account" means the account by that name established in the Rebate Fund pursuant to the Indenture.

"Series 2003 Bonds Redemption Account" means the account by that name established in the Redemption Fund pursuant to the Indenture.

"Series 2003 Bonds Reserve Account" means the account by that name established in the Reserve Fund pursuant to the Indenture.

"Series 2003 Bonds Resolution" means Resolution No. 43 - 2003 adopted by the Board of Education of the School District on December 16, 2002, authorizing the issuance of the Series 2003 Bonds, and approving the terms and provisions of the First Supplemental Bond Indenture.

"Series 2003 Bonds Sinking Fund Redemption Account" means the account by that name established in the Redemption Fund pursuant to the Indenture.

"Sinking Fund Payment" means an annual payment to be applied to redeem a portion of the Term Bonds in accordance with the schedules set forth in the Indenture and any annual sinking fund payment to be applied to redeem any Parity Bonds as described in the Supplement for such Parity Bonds.

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

"Special Tax" or "Special Taxes" means the special taxes levied within the District pursuant to the Act, the Ordinance, and the Indenture.

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

"Standard & Poor's" means Standard & Poor's Corporation, its successors and assigns.

"Supplement" means any supplemental indenture amending or supplementing the Indenture.

"Tax Certificate" means the certificate by that name to be executed by the District on a Closing Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

"Tax-Exempt" means, with reference to an Authorized Investment, an Authorized 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.

"Treasurer" means the Treasurer-Tax Collector of the County acting on behalf of the District.

"Underwriter" means, with respect to each issue of the Bonds, the institution or institutions, if any, with whom the applicable District enters into a purchase contract for the sale of such issue, and with respect to the Series 1998 Bonds and the Series 2003 Bonds, the firm of Stone & Youngberg LLC.

Nature of Bonds. The Bonds shall be and are limited obligations of the District and shall be payable as to the principal thereof and interest thereon and any premiums upon the redemption thereof solely from (i) the Net Taxes and (ii) the amounts in the funds created hereunder and earnings thereon, other than moneys in the Administrative Expense Fund, the Improvement Fund (except for moneys in any Capitalized Interest Account established therein pursuant to the Indenture or any Supplement) and the Rebate Fund. The Bonds and interest thereon, together with any premium paid thereon upon redemption, are not obligations of the School District, but are limited obligations of the District secured by and payable from an irrevocable first lien on the Net Taxes. Except with respect to the Special Tax, neither the faith and credit nor the taxing power of the District or the School District is pledged for the payment of the Bonds or the interest thereon, and no owner of the Bonds may compel the exercise of taxing power by the District or the School District or the forfeiture of any of their property. The principal of and interest on the Bonds and premiums upon the redemption thereof, if any, are not a debt of the District, the School District, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds are not a legal or equitable pledge, charge, lien or encumbrance, upon any of the District's property, or upon any of its income, receipts, or revenues, except the amounts which are, under the Indenture and the Act, set aside for the payment of the Bonds and interest thereon and neither the members of the legislative body of the District or the Board of Education of the School District nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance.

Notwithstanding anything contained in the Indenture, the District or School District shall not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds or for the performance of any covenants contained in the Indenture. The District or School District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Pursuant to the Act and the Indenture, the Bonds shall be equally payable from the Net Taxes without priority for number, issue date, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any premiums upon the redemption thereof shall be exclusively paid from the Net Taxes and moneys on deposit in the Special Tax Fund, the Bond Fund, the Redemption Fund and the Bond Reserve Fund, which are set aside for the payment of the Bonds. The Net Taxes and any interest earned on the Net Taxes shall constitute a trust fund held for the benefit of the Owners of the Bonds to be applied to the payment of the principal of, premium, if any, and interest on the Bonds and so, long as any of the Bonds remain Outstanding and shall not be used for any other purpose, except as permitted by the Indenture or any Supplement. Notwithstanding any provision contained in the Indenture to the contrary, Net Taxes deposited in the Rebate Fund and Gross Taxes deposited in the Administrative Expense Fund shall no longer be considered to be pledged to the Bonds, and none of the Rebate Fund nor the Administrative Expense Fund nor the Cost of Issuance Account nor the Improvement Account of the Improvement Fund shall be construed as a trust fund held for the benefit of the Owners of the Bonds.

Nothing in the Indenture or any Supplement shall preclude (a) the redemption prior to maturity of any Bonds subject to call and redemption and payment of said Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as hereafter amended, or under any other law of the State of California, or (b) subject to the limitations contained in the Indenture, the issuance of Parity Bonds payable from Net Taxes.

Description of Bonds. The Bonds shall bear interest at the rates set forth above payable on the Interest Payment Dates in each year. Interest shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the date of the Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Interest shall be payable with respect to each Bond on each Interest Payment Date until the principal sum of that Bond has been paid; provided, however, that if at the maturity date of any Bond (or if the same is redeemable and shall be duly called for redemption, then at the date fixed for redemption) funds are available for the payment or redemption thereof, in full accordance with terms of the Indenture, such Bond shall then cease to bear interest.

The Bonds shall be payable both as to principal and interest, and as to any premiums upon the redemption thereof, in lawful money of the United States of America. The principal of the Bonds and any premiums due upon the redemption thereof shall be payable upon presentation and surrender thereof at the Principal Office of the Fiscal Agent. Interest on any Bond shall be paid to the person whose name shall appear in the Bond Register as the Owner of such Bond 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 on such Interest Payment Date by first class mail to such Bondowner at his or her address as it appears on the Bond Register, or, upon the written request delivered to the Fiscal Agent, by the applicable Record Date of a Bondowner of at least \$1,000,000 in aggregate principal amount of Bonds, or, if the Fiscal Agent on behalf of the District is the Owner, by wire transfer on such Interest Payment Date in immediately available funds to an account at a financial institution in the continental United States designated by such Owner.

Funds and Accounts, Investments.

Creation of Funds. There are created and established and shall be maintained by the Fiscal Agent on behalf of the District the following funds and accounts.

(1) The Poway Unified School District Community Facilities District No. 1 Special Tax Fund (the "Special Tax Fund").

(2) The Poway Unified School District Community Facilities District No. 1 Administrative Expense Fund (the "Administrative Expense Fund") in which there shall be established and created the 1998 Bonds Administrative Expense Account and the Series 2003 Bonds Administrative Expense Account.

(3) The Poway Unified School District Community Facilities District No. 1 Improvement Fund (the "Improvement Fund"), in which there shall be established and created (a) an Improvement Account and within the Improvement Account, the Series 1998 Bonds Improvement Subaccount and the Series 2003 Bonds Improvement Subaccount, and (b) a Cost of Issuance Account and within the Costs of Issuance Account, the Series 2003 Bonds Costs of Issuance Subaccount.

(4) The Poway Unified School District Community Facilities District No. 1 Bond Fund (the "Bond Fund"), in which there shall be established and created the Series 1998 Bonds Interest Account, the Series 1998 Bonds Principal Account, the Series 2003 Bonds Interest Account (and within the Series

2003 Bonds Interest Account, the Series 2003 Bonds Capitalized Interest Subaccount) and the 2003 Bonds Principal Account.

(5) The Poway Unified School District Community Facilities District No. 1 Redemption Fund (the "Redemption Fund"), in which there shall be established and created the Series 1998 Bonds Optional Redemption Account, the Series 1998 Bonds Sinking Fund Redemption Account, the Series 2003 Bonds Optional Redemption Account and the Series 2003 Bonds Sinking Fund Redemption Account.

(6) The Poway Unified School District Community Facilities District No. 1 Reserve Fund (the "Reserve Fund") in which there shall be established and created the Series 1998 Bonds Reserve Account and the Series 2003 Bonds Reserve Account for which the Administrator elects to establish a Reserve Requirement.

(7) The Poway Unified School District Community Facilities District No. 1 Rebate Fund (the "Rebate Fund") in which there shall be established and created the Series 1998 Bonds Rebate Account and the Series 2003 Bonds Rebate Account, the interest on which is excluded from gross income for federal income tax purposes.

(8) The Community Facilities District No. 1 Special Revenue Fund (the "Special Revenue Fund"). The Special Revenue Fund has been established purely for the convenience of the District and may be terminated or modified by the District at any time, without need of obtaining any amendment to the Indenture pursuant to any provisions of Article VI of the Indenture.

The Fiscal Agent may establish additional accounts or subaccounts of the above described funds and accounts as the Fiscal Agent shall deem necessary in furtherance of its duties pursuant to the Indenture. The District may request the establishment of such additional accounts as it deems necessary to meet its obligations pursuant to the Indenture and the Fiscal Agent shall establish such accounts.

Special Tax Fund. Upon the receipt of Special Taxes and other amounts constituting Gross Taxes, including regular and any other apportionments of tax revenues from the County's Auditor-Controller, the District will authorize direct deposit of said Gross Taxes to the Fiscal Agent for deposit into the Special Tax Fund. In each Bond Year promptly following deposit therein, amounts in the Special Tax Fund shall be transferred to the following funds in the following order of priority and in the following amounts:

(1) To the Administrative Expense Fund until the total of deposits therein for such Bond Year is equal to the Administrative Expense Requirement for that Bond Year;

(2) To the Interest Account of the Bond Fund established for each series of Bonds an amount sufficient to make both interest payments due on such series of Bonds in such Bond Year;

(3) To the Principal Account of the Bond Fund established for each series of Bonds the total amount needed to make the principal payment due on the following October 1 of such Bond Year on the Outstanding Bonds, other than any Term Bonds of each series of Bonds;

(4) To the Sinking Fund Redemption Account of the Redemption Fund established for each series of Bonds the total amount needed to make the Sinking Fund Payment due on the following October 1 of such Bond Year on the Outstanding Term Bonds of each series of Bonds;

(5) To the Account of the Reserve Fund established for the Bonds and for each series of Parity Bonds for which a Reserve Requirement has been established, the amount required to bring the balance in each Account to its proportionate share of the Reserve Requirement;

(6) To the Administrative Expense Fund the amount of any Administrative Expenses for such Bond Year in excess of the amount deposited pursuant to (1) above, in the amount as directed by the Administrator;

(7) To the Rebate Fund the amount required to be set aside or rebated to the Internal Revenue Service pursuant to the Indenture; and

(8) Any remaining portion of each apportionment of Special Taxes remaining in the Special Tax Fund following the completion of the above deposits for any Bond Year shall be deposited into the Special Revenue Fund.

All earnings (except earnings on the Administrative Expense Fund, Special Revenue Fund, the Rebate Fund and the Improvement Fund, which shall remain therein, and earnings on the Reserve Fund, which shall be transferred only to the extent not required to maintain the Reserve Requirement) on all Funds and Accounts established for a series of Bonds are to be transferred to the Special Tax Fund and immediately deposited in the funds and accounts for the same series of Bonds as required pursuant to the Indenture.

Administrative Expense Fund. The Administrative Expense Fund has been established as a reserve for Administrative Expenses that are necessarily incurred in the performance of the District's and the Fiscal Agent's obligations under the Indenture. The Fiscal Agent shall apply the moneys on deposit in the Administrative Expense Fund for payment of Administrative Expenses, as directed by the Administrator in writing. All earnings on the Administrative Expense Fund shall be retained therein.

Bond Fund. The principal and interest on the Bonds until maturity shall be paid by the Fiscal Agent from the Bond Fund. At the maturity of a series of Bonds and, after all principal and interest then due on such series of Bonds has been paid or provided for, moneys in the Accounts of the Bond Fund established for such series shall be transferred to the Special Tax Fund.

Redemption Fund.

A. Moneys deposited in each Sinking Fund Redemption Account of the Redemption Fund pursuant to the Indenture shall be used and applied by the Fiscal Agent to call and redeem, in accordance with the provisions of the Indenture or any sinking fund redemption provision in a Supplement, Bonds of the ~~same series for which~~ such Account was established.

B. In any Bond Year, after making the deposits to the full amount required for such Bond Year pursuant to the Indenture, the District may elect to deposit money from the Special Tax Fund or the Special Revenue Fund to the Redemption Fund to call Bonds for optional redemption as set forth in Section 4.01 (A) or in any optional redemption provision in a Supplement. The Fiscal Agent, at the written direction of the District, shall transfer from the Special Tax Fund or the Special Revenue Fund and deposit in any Optional Redemption Account of the Redemption Fund established for a series of Bonds moneys available for the purpose and sufficient to redeem, at the premiums payable as provided in the Indenture or in any optional redemption provision in a Supplement, as applicable, any Bonds called for optional redemption.

Moneys set aside in an Optional Redemption Account of the Redemption Fund shall be used solely for the purpose of redeeming Bonds of the same series for which such Account was established and shall be applied on or after the redemption date to the payment of principal of and premium on the Bonds to be redeemed upon presentation and surrender of such Bonds.

If, after all of the Bonds of a particular series have been redeemed and canceled or paid and canceled, there are moneys remaining in any account of the Redemption Fund established for such series, said moneys shall be transferred to the Special Tax Fund; provided, that if said moneys are part of the proceeds of refunding bonds said moneys shall be transferred to the fund or account created for the payment of principal of and interest on such refunding bonds.

Reserve Fund.

A. There shall be maintained in an Account of the Reserve Fund for the Bonds, and in any Account of the Reserve Fund established for a series of Bonds, an amount equal to the Reserve Requirement for such series of Bonds. Moneys in each Account of the Reserve Fund are pledged only to repay the series of Bonds for which such Account was established.

B. Moneys in an Account of the Reserve Fund shall be used solely for the purpose of paying when due the principal of, including Sinking Fund Payments, and interest on the series of Bonds for which such Account was established in the event that the moneys in the Interest Account and the Principal Account of the Bond Fund established for such series of Bonds are insufficient therefor or moneys in the Sinking Fund Redemption Account are insufficient to make a mandatory sinking fund redemption in accordance with the provisions of any Supplement and for deposit to the Account of the Rebate Fund established for such series of Bonds as required. The Fiscal Agent shall withdraw from the Reserve Fund for deposit in the appropriate Account of the Bond Fund, the Redemption Fund or the Rebate Fund moneys necessary for such purpose.

C. On each date that the Fiscal Agent makes a transfer from an Account of the Reserve Fund to the Bond Fund, the Sinking Fund Redemption Account of the Redemption Fund or the Rebate Fund, the Fiscal Agent shall notify the Administrator, in writing, as to the date and amount of such transfer. The Fiscal Agent shall then notify the District of the amount needed to replenish the Reserve Fund to the Reserve Requirement.

D. When the moneys in all Funds and Accounts for the series of Bonds for which such Account was established, except the Rebate Fund and the Administrative Expense Fund, are sufficient to redeem all Outstanding Bonds of such series on the following Interest Payment Date, then, but only if authorized in writing by the Administrator, all moneys in such Account of the Reserve Fund shall be transferred, at the direction of the District, either to the Interest and Principal Accounts of the Bond Fund or the Sinking Fund Redemption Account of the Redemption Fund related to such series of Bonds at least two (2) business days prior to such final Interest Payment Date to be used to pay principal of and interest on such series of Bonds when due, or to the Optional Redemption Account of the Redemption Fund for such series of Bonds to be used at the option of the Administrator to effect an optional redemption of Bonds pursuant to any Supplement on the earliest date on which all Outstanding Bonds of such series may be redeemed. Upon provision for payment or redemption of all Bonds and after payment of any amounts due to the Fiscal Agent and the Bond Insurer, all moneys remaining in the Reserve Fund shall be paid to the District.

E. Notwithstanding anything in the Indenture to the contrary, moneys in an Account of the Reserve Fund in excess of the portion of the Reserve Requirement required to be on deposit therein (other than investment earnings) shall be withdrawn from such Account of the Reserve Fund by the Fiscal Agent

and shall be transferred to the Special Tax Fund and immediately deposited in the funds and accounts for the same series of Bonds as required pursuant to Section 3.03 above.

F. The District shall have the right at any time to release funds from the Reserve Fund for any series of Bonds, in whole or in part, by tendering to the Fiscal Agent: (1) a Reserve Policy, and (2) an opinion of Bond Counsel stating that such release will not, in and of itself, cause interest on the series of Bonds with respect to which such Reserve Policy is tendered, to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Fiscal Agent, the Fiscal Agent shall transfer such funds from the Reserve Fund to the Improvement Fund. Upon expiration of any Reserve Policy, the District shall be obligated either (a) to replace such Reserve Policy with a new Reserve Policy or (b) to deposit or cause to be deposited with the Fiscal Agent an amount of funds equal to the Reserve Requirement.

Improvement Fund.

A. The moneys in the Improvement Accounts of the Improvement Fund shall be applied exclusively to pay the Project Costs. Amounts to pay the costs of issuing Parity Bonds shall be paid from the Cost of Issuance Account established for such issue upon receipt by the Fiscal Agent of written direction from the Administrator stating the payee(s) and the amount(s) owing. Amounts for Project Costs shall be disbursed by the Fiscal Agent from the Improvement Account only upon receipt of a written certificate from the Administrator stating that (1) the conditions to the release of such funds have been satisfied, (2) the name of the person to whom payment is due, (3) the amount to be paid, (4) the purpose for which the obligation to be paid was incurred, and (5) there has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, stop notice or claim affecting the right to receive payment of, any of the moneys payable to any of the persons named in such certificate or written requisition, which has not been released or will not be released simultaneously with the payment of, such obligation, other than materialmen's or mechanic's liens accruing by mere operation of law.

B. Any moneys remaining in the Cost of Issuance Account for each series of Bonds after 180 days following the issuance of such series of Bonds shall be transferred to the Special Tax Fund for such series of Bonds. Costs of issuance may be paid from the Improvement Account for such series of Bonds.

C. The Fiscal Agent shall transfer all moneys on deposit in the Improvement Account of the Improvement Fund for each series of Bonds upon completion of the Project and at the direction of the Administrator either to the Special Tax Fund or to the Optional Redemption Account of the Redemption Fund for such series of Bonds and such amounts shall be applied to the redemption of the Bonds of such series pursuant to Section 4.01(A) the Indenture or the corresponding optional redemption provision of any Supplement, as applicable.

D. Moneys transferred to an Optional Redemption Account of the Redemption Fund shall be invested at the written direction of the District at a Yield (as defined in the Tax Certificate) not in excess of the Yield (as defined in the Tax Certificate) on the applicable series of Bonds; provided, however, that such moneys may be invested at a Yield in excess of the Yield on the applicable series of Bonds if the District shall provide the Fiscal Agent with an opinion of Bond Counsel to the effect that such investment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

F. Notwithstanding anything in the Indenture to the contrary, and if any funds remain on deposit in all other Accounts and Subaccounts of the Improvement Fund for a series of Bonds more than three years from the original date of issuance of such Bonds, the Fiscal Agent shall immediately invest

such amounts in Tax-Exempt Obligations at the direction of the District, or shall restrict the Yield (as defined in the Tax Certificate) on such amounts at the direction of the District such that the Yield (as defined in the Tax Certificate) on such amounts is not in excess of the Yield (as defined in the Tax Certificate) on the series of Bonds from which such proceeds were derived, unless in the opinion of Bond Counsel delivered to the Fiscal Agent such restriction is not necessary to prevent the exclusion of interest on the Bonds from gross income for federal income tax purposes from being adversely affected.

Rebate Fund. The Fiscal Agent shall establish and maintain a fund separate from any other fund designated as the Rebate Fund and shall establish a separate Rebate Account therein for each series of Bonds, the interest of which is excluded from gross income for federal income tax purposes. All money at any time deposited in a Rebate Account of the Rebate Fund shall be held by the Fiscal Agent in trust, for payment to the United States Treasury. All amounts on deposit in the Rebate Fund shall be governed by the Indenture and the Tax Certificate, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected if such requirements are not satisfied.

The Fiscal Agent shall pay, as directed by the Administrator, to the United States Treasury, out of amounts in each Rebate Account.

In the event that, prior to the time of any payment required to be made from a Rebate Account, the amount in the Rebate Account is not sufficient to make such payment when such payment is due, the District shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due.

Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Indenture shall survive the defeasance and final payment of the Bonds.

Special Revenue Fund. After making the transfers required by the Indenture as described in the Special Tax Fund, in each Bond Year the Fiscal Agent shall transfer all remaining amounts in the Special Tax Fund to the Special Revenue Fund. The amounts in the Special Revenue Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. Notwithstanding anything to the contrary contained in the Indenture, the Special Revenue Fund has been established purely for the convenience of the District and may be terminated or modified by the District at any time, without need of obtaining any amendment to the Indenture pursuant to the provisions thereof.

Investments. Moneys held in any of the Funds and Accounts established for the Series 1998 Bonds under the Indenture shall be invested at the written direction of the Administrator only in Authorized Investments which shall be deemed at all times to be a part of such funds and accounts. Authorized Investments may be purchased at such prices as may be directed by the Administrator in written directions (or telephonic directions confirmed in writing) delivered to the Fiscal Agent. All Authorized Investments shall be acquired subject to the limitations set forth in the Indenture, the limitations as to maturities set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by the Administrator.

Moneys in all funds and accounts established for the Series 1998 Bonds, 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 this 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 Series 1998 Bonds Reserve Account of the Reserve Fund may be invested in such redeemable

investments of any maturity on or prior to the final maturity of the Series 1998 Bonds for which such Account was established. 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.

Moneys held in any of the Funds and Accounts established for the Series 2003 Bonds under the Indenture shall be invested at the written direction of the Administrator only in Series 2003 Bonds Authorized Investments which shall be deemed at all times to be a part of such funds and accounts. Series 2003 Bonds Authorized Investments may be purchased at such prices as may be directed by the Administrator in written directions (or telephonic directions confirmed in writing) delivered to the Fiscal Agent. All Series 2003 Bonds Authorized Investments shall be acquired subject to the limitations set forth in the Indenture, the limitations as to maturities set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by the Administrator.

Moneys in all funds and accounts established for the Series 2003 Bonds, except for the Reserve Fund, shall be invested in 2003 Bonds 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 this 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 Series 2003 Bonds Reserve Account of the Reserve Fund may be invested in such redeemable investments of any maturity on or prior to the final maturity of the Series 2003 Bonds for which such Account was established. Series 2003 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 Series 2003 Bonds Authorized Investments for repurchase under such agreement.

Moneys in all Funds and Accounts may be aggregated for purposes of investing in Authorized Investments or Series 2003 Authorized Investments, as applicable, 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.

All interest, profits and other income received from the investment of moneys in any Fund or Account established for a series of Bonds pursuant to this Indenture shall be deposited as set forth therein. Notwithstanding anything to the contrary contained therein, an amount of interest received with respect to any Authorized Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Authorized Investment shall be credited to the Fund or Account for the credit of which such Authorized Investment was acquired.

For the purpose of determining the amount in any Fund or Account other than the Reserve Fund, all Authorized Investments or Series 2003 Authorized Investments, as applicable, credited to such fund or account shall be valued at the lower of cost (exclusive of accrued interest after the first payment of interest following acquisition) or par value (plus, prior to the first payment of interest following acquisition, the amount of any accrued interest paid as part of the purchase price). Authorized Investments or Series 2003 Authorized Investments, as applicable, in the Reserve Fund shall be valued at their fair market value at least semi-annually on or before each Interest Payment Date (or more frequently as may be requested by the Administrator).

The Fiscal Agent may act as principal or agent in the making or disposing of any investment. The Fiscal Agent may sell or present for redemption any Authorized Investment or Series 2003 Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such

Authorized Investment or Series 2003 Authorized Investment is credited, and, subject to the provisions of the Indenture, the Fiscal Agent shall not be liable or responsible for any loss resulting from such investment.

In the absence of written investment direction from the Administrator, the Fiscal Agent shall invest, as applicable, solely in Authorized Investments set forth in subsection (7) of the definition thereof or in Series 2003 Authorized Investments set forth in subsection D. of the definition thereof.

Covenants and Warranty

Warranty. The District shall preserve and protect the security of the Bonds and the rights of the Owners against all claims and demands of all persons.

Covenants. So long as any of the Bonds are Outstanding and unpaid (except for the covenant described in paragraph K below, which will survive the repayment of the Bonds), the District makes the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary, convenient and desirable to secure the Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes:

A. Protection of Security and Rights of Owners. From and after the delivery of any of the Bonds by the District, the Bonds shall be incontestable by the District. The District shall preserve and protect the security of the Bonds and the rights of the Owners against all claims and demands of all persons. District covenants that promptly following its receipt of notice that the County tax collector intends to sell, for non-payment of *ad valorem* property taxes, any parcel subject to the lien of the Special Taxes of the District, the District shall, before the date of such proposed *ad valorem* tax sale, take such actions as are necessary under the California Revenue and Taxation Code (or similar laws from time-to-time in effect) to preserve and protect the lien of the Special Taxes of the District on such Parcel.

B. Modification of Maximum Authorized Special Tax. The District determines it to be necessary in order to preserve the security for the Bonds to covenant, and the District hereby does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, the District receives a certificate from an Independent Financial Consultant which certifies 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 amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method of Apportionment for the District) in each Fiscal Year for any Bonds Outstanding will equal at least 125% of the Annual Debt Service in the Bond Year commencing in each such Fiscal Year on all Bonds to remain Outstanding after the reduction is approved. Nothing in this paragraph B shall limit the ability of the District to issue Parity Bonds pursuant to the provisions of the Indenture, including the requirement that the maximum Special Taxes that may be levied on certain Developed Property (as defined in the Indenture) by the District in each subsequent Fiscal Year shall be at least 110% of the Annual Debt Service for each remaining Bond Year on all Outstanding Bonds and the Parity Bonds issued. The District covenants that in the event that any initiative is proposed or adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in this Section or to limit the power of the District to levy the Special Taxes, District will commence and pursue legal action in order to preserve its ability to comply with such covenants.

C. No Tender of Bonds in Payment of Special Taxes. The District covenants that it shall not accept the tender of Bonds in lieu of cash for the payment of Special Taxes levied by the District.

D. Punctual Payment. The District covenants that it will receive all Gross Taxes in trust and will, consistent with the Indenture, deposit the Gross Taxes with the Fiscal Agent and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Gross Taxes, whether received by the District in trust or deposited with the Fiscal Agent, all as provided in the Indenture, shall nevertheless be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond issued under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and in accordance with the Indenture to the extent Net Taxes and interest earnings transferred to the Special Tax Fund are available therefor, and that the payments into the Special Tax Fund, the Bond Fund, the Redemption Fund, the Reserve Fund and the Administrative Expense Fund will be made, all in strict conformity with the terms of the Bonds and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplements and of the Bonds issued under the Indenture.

E. Against Encumbrances. The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes, and, except for the issuance of refunding bonds, will not issue any obligation or security payable in whole or in part from the Net Taxes.

F. Levy of Special Tax. Commencing with Fiscal Year 1997-1998, the Board of Education of the School District, on behalf of the District, shall levy the Special Tax in an amount which, together with other available amounts on deposit with the Fiscal Agent, are sufficient to pay (i) the principal of and interest on the Bonds and the Administrative Expenses, and (ii) replenish the Reserve Fund to an amount equal to the Reserve Requirement so long as any Bonds are Outstanding. The District may reduce the amount to be levied hereunder by any amount, exclusive of Reserve Policy draws, to be transferred in the following Bond Year which is the final Bond Year for a series of Bonds from any reserve account established for the District under the Indenture to the interest and principal accounts for such Series Bonds. Notwithstanding the foregoing, in no event shall the amount of the Special Tax exceed the amount specified in the Ordinance.

G. Commence Foreclosure Proceedings. Pursuant to Section 53356.1 of the Act, the District covenants for the benefit of the Owners of the Bonds that it will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied, and diligently pursue to completion such foreclosure proceedings; provided that, notwithstanding the foregoing, the District may elect (1) to defer foreclosure proceedings on any parcel with a delinquency of \$10,000 or less, so long as the amount in the Reserve Fund is at least equal to the Reserve Requirement, or (2) to accept payment from a property owner of less than the full amount of the penalties, interest, costs and attorneys' fees related to a Special Tax delinquency if permitted by law, if no default exists under the Indenture, or will be cured upon receipt of such payment, and if no default will occur under the Indenture in the Bond Year in which such settlement is entered into. In the event that the District elects to accept a payment under (2) above, any portion of the settlement amount received that exceeds the Special Taxes that are delinquent may be applied to pay Administrative Expenses of the District. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the balance in the Reserve Fund at the Reserve Requirement or the reserve balance in any reserve fund established under the Indenture at the required amount.

H. Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Gross Taxes or any part thereof, or upon any funds in the hands of the Fiscal Agent, or which might impair the security of the Bonds; provided that nothing in the Indenture shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

I. Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the Project, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent or the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding or their representatives authorized in writing.

J. Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(1) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or of any other monies or property which would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code;

(2) Arbitrage. The District will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code;

(3) Federal Guaranty. The District will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code;

(4) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

(5) Hedge Bonds. The-District will make no use of the proceeds of the Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds;

(6) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in that certain Tax Certificate executed by the District in connection with any of the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture; and

(7) Other Tax Exempt Issues. The District will not use proceeds of other tax exempt securities to redeem any of the Bonds without first obtaining the written opinion of Bond Counsel that doing so will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Amendments to Indenture

Supplements Not Requiring Bond Owner Consent. The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt Supplements to the Indenture for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Indenture which may be inconsistent with any other provision therein, or to make any other provision with respect to matters or questions arising under the Indenture or in any resolution or order of the District relating to the 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, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds;

(d) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

(e) to modify, alter or amend the rate and method of apportionment of the Special Taxes in any manner so long as such changes do not reduce the maximum Net Special Taxes that may be levied in each year on property within the District to an amount which is less than 110% of the principal and interest due in each corresponding future Bond Year with respect to the Bonds Outstanding as of the date of such amendment; or

(f) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners.

No Supplement shall change the duties of the Fiscal Agent under the Indenture without the Fiscal Agent's written consent to the Supplement.

Supplements Requiring Bond Owner Consent. Exclusive of the Supplements described above, the Bond Insurer and Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding shall have the right to consent to and approve such Supplements 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 therein shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal or the payment date of interest on any Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, (c) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplement, without in the case of (a) and (b) the consent of the Owner of such Bond and in the case of (c) and (d) the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to enter into a Supplement, 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 Supplement. The Fiscal Agent shall, at the expense of the District, cause notice of the proposed Supplement to be mailed, by first class mail 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 Supplement and shall state that a copy thereof is on file at the office of the Administrator for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplement when consented to and approved by the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding as required by this section. Whenever at any time within one year after the date of the first mailing of such notice, the Fiscal Agent 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 Supplement described in such notice, and shall specifically consent to and approve the Supplement substantially in the form of the copy referred to in such notice as on file with the Administrator, such proposed Supplement, when duly entered into by the District and the Fiscal Agent, 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 then Outstanding have consented to the adoption of any Supplement, Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the execution and delivery by the District and the Fiscal Agent of any Supplement and the receipt of consent to any such Supplement from the Owners of not less than 60% in aggregate principal amount of Bonds Outstanding in instances where such consent is required pursuant to the provisions of this section, this Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the District, the Fiscal Agent and all Owners of Bonds then Outstanding shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

Notation of Bonds; Delivery of Amended Bonds. 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 Bond Outstanding at such effective date and presentation of his Bond for the purpose at the office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds. If the District shall so determine, new Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Bond Outstanding at such effective date such new Bonds shall be exchanged at the 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, for Bonds then Outstanding, upon surrender of such outstanding Bonds.

Notice Requirement. Prior to the effective date of any amendment made pursuant to the Indenture, so long as any Bonds or Parity Bonds are owned by the District, the District shall mail notice of the proposed amendment to the Rating Agency, the District, the District Fiscal Agent and the Bond Insurer.

Event of Default. Any one or more of the following events shall constitute an "event of default":

(a) Default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or from mandatory redemption;

(b) Default in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable; or

(c) Default by the District in the observance of any of the agreements, conditions or covenants on its part in the Indenture or in the Bonds contained, and the continuation of such default for a period of thirty (30) days after the District shall have been given notice in writing of such default by the Fiscal Agent, provided that if within 30 days the District has commenced curing of the default and diligently pursues elimination thereof, such period shall be extended to permit such default to be eliminated.

(d) The District shall become insolvent, not pay its debts as they become due, or be declared or petition to be declared bankrupt.

Remedies of Owners. Following the occurrence of an event of default, the Bond Insurer shall have the right to pursue any and all remedies given under the Indenture or at law or in equity. For purposes of exercising all rights and privileges available to Owners, the Bond Insurer shall be recognized as the registered owner of each Bond that it insures. Subject to the foregoing, 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 or her 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) Upon the happening of an event of default (as defined in the Indenture), 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 the Indenture, or in 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 of the Bonds at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes 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.

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

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

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

In case the moneys held by the Fiscal Agent after an event of default shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then all available amounts shall be applied to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

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 or any Supplement, then the Owner of such Bond shall cease to be entitled to the pledge of Net Taxes and other amounts pledged under the Indenture to the repayment of such Bond, 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 and any Supplement shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds pursuant to the Indenture, the Fiscal Agent shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and, after payment of any amounts due the Fiscal Agent thereunder, the Fiscal Agent shall pay over or deliver to the District's general fund all money or securities held by it pursuant to the Indenture which are not required for the payment of the interest due on and the principal of such Bonds.

Any Outstanding Bond shall be deemed to have been paid within the meaning expressed in the first paragraph of this section 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 or Parity Bond, as and when the same 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 Special Tax Fund, the Bond Fund, the Redemption Fund and the Reserve Fund and available under the terms of the Indenture to pay such Bond, 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 the Fiscal Agent, or another escrow bank appointed by the District, in trust, with respect to Series 1998 Bonds: (1) non-callable direct obligations of the United States of America ("Treasuries"), (2) evidence of ownership of proportionate interests in future interest and principal payments on Treasuries 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 Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated or (3) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively (or any combination thereof) or with respect to the Series 2003 Bonds, Series 2003 Defeasance Securities, which shall be authorized to be used to effect defeasance of the Bonds unless the Bond Insurer otherwise approves, in such amount as an Independent Financial Consultant shall

determine will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund, the Bond Fund, the Redemption Fund and the Reserve 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, notwithstanding that any Outstanding Bond shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplement 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 contained in the Indenture. In connection with a defeasance under (b) or (c) above, there shall be provided to the District and the Bond Insurer a certificate of a certified public accountant acceptable to the Bond Insurer stating its opinion as to the sufficiency of the moneys or securities deposited with the Fiscal Agent or the escrow bank to pay and discharge the principal of and interest on any Outstanding Bond 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 and that such defeasance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. Upon a defeasance, the Fiscal Agent shall release the rights of the Owners of such Bonds which have been defeased under the Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance of all Outstanding Bonds, the Fiscal Agent shall pay over or deliver to the District any funds held by the Fiscal Agent at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds or Parity Bonds when due. The Fiscal Agent shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

In the event a forward purchase agreement will be employed in the refunding, such agreement shall be subject to the approval of the Bond Insurer and shall be accompanied by such opinions of counsel as may be required by the Bond Insurer. The Bond Insurer shall be provided with final drafts of the above-referenced documentation, including any escrow deposit agreement, not less than five business days prior to the funding of the escrow.

Provisions Relating to 2003 Bond Insurance Policy.

A. In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the 2003 Bonds, the Fiscal Agent has not received sufficient moneys to pay all principal of and interest due on the 2003 Bonds, the Fiscal Agent shall immediately notify the Bond Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

B. If the deficiency is made up in whole or in part prior to or on the payment date, the Fiscal Agent shall so notify the Bond Insurer or its designee.

C. In addition, if the Fiscal Agent has notice that any Owner of a 2003 Bond has been required to disgorge payments of principal or interest on the 2003 Bond to a trustee in Bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes a voidable preference to such Owner within the meaning of any applicable bankruptcy laws, then the Fiscal Agent shall notify the Bond Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

D. The Fiscal Agent is hereby irrevocably, appointed and authorized to act as attorney-in-fact for Owners of the 2003 Bonds as follows:

1. If and to the extent there is a deficiency in amounts required to pay interest on the 2003 Bonds, the Fiscal Agent shall (a) execute and deliver to (the Insurance Fiscal Agent), in form satisfactory to the Insurance Fiscal Agent an instrument appointing the Bond Insurer as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to the Bond Insurer of the claims for interest to which such deficiency relates and which are paid by the Bond Insurer, (b) receive as designee of the respective Owners (and not as Fiscal Agent) in accordance with the 2003 Bond Insurance Policy payment from the Insurance Fiscal Agent with respect to the claims for interest as assigned, and (c) disburse the same to such respective Owners; and

2. If and to the extent of a deficiency in amounts required to pay principal of the 2003 Bonds, the Fiscal Agent shall (a) execute and deliver to the Insurance Fiscal Agent in form satisfactory to the Insurance Fiscal Agent an instrument appointing the Bond Insurer as agent for such Owner in any legal proceeding relating to the payment of such principal and an assignment to the Bond Insurer of any of the Obligation surrendered to the Insurance Fiscal Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Fiscal Agent and available for such payment (but such assignment shall be delivered only if payment from the Insurance Fiscal Agent is received), (b) receive as designee of the respective Owners (and not as Fiscal Agent) in accordance with the 2003 Bond Insurance Policy payment therefor from the Insurance Fiscal Agent, and (c) disburse the same to such Owners.

E. Payments with respect to claims for interest on and principal of 2003 Bonds disbursed by the Fiscal Agent from proceeds of the 2003 Bond Insurance Policy shall not be considered to discharge the obligation of the District with respect to such 2003 Bonds, and the Bond Insurer shall become the owner of such demand obligation and claims for this interest in accordance with the assignment made to it under the provisions of this subsection or otherwise.

F. Irrespective of whether any such assignment is executed and delivered, the District and the Fiscal Agent hereby agree for the benefit of the Bond Insurer that:

1. They recognize that to the extent the Bond Insurer makes payments, directly or indirectly (as by paying through the Fiscal Agent), on account of principal of or interest on the 2003 Bonds, the Bond Insurer will be subrogated to the rights of such Owners to receive the amount of such principal and interest from the District, with interest thereon as provided and solely from the sources stated in this Indenture and the 2003 Bonds; and

2. They will accordingly pay to the Bond Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the 2003 Bond Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Indenture and the 2003 Bond, but only from the sources and in the manner provided in the Indenture for the payment of principal of and interest on the 2003 Bonds to Owners, and will otherwise treat the Bond Insurer as the owner of such rights to the amount of such principal and interest.

G. In connection with the issuance of additional 2003 Bonds, the District shall deliver to the Bond Insurer a copy of the disclosure document, if any, regulated with respect to such additional 2003 Bonds.

H. Copies of any amendments made to the documents executed in connection with the issuance of the 2003 Bonds which are consented to by the Bond Insurer shall be sent to Standard & Poors and Moody's.

I. The Bond Insurer shall receive notice of the resignation or removal of the Fiscal Agent and the appointment of a successor thereto.

J. The Bond Insurer shall receive copies of all notices required to be delivered to Owners of the 2003 Bonds and, on an annual basis, copies of the District's audited financial statements and annual budget.

Notices. Any notice that is required to be given to an Owner or to the Fiscal Agent pursuant to the Indenture shall also be provided to the Bond Insurer.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

FORM OF COMMUNITY FACILITIES DISTRICT CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is executed and entered into as of January 1, 2003 by and among the Poway Unified School District on behalf of Community Facilities District No. 1 of the Poway Unified School District (the "Community Facilities District"), U.S. Bank National Association, a national banking association organized and existing under and by virtue of the laws of the United States (the "Bank") in its capacity as Fiscal Agent (the "Fiscal Agent"), and David Taussig & Associates, Inc., in its capacity as Dissemination Agent (the "Dissemination Agent") in connection with the issuance of the Community Facilities District No. 1 of the Poway Unified School District Series 2003 Special Tax Bonds (the "2003 Bonds");

W I T N E S S E T H :

WHEREAS, pursuant to the Bond Indenture, dated as of January 1, 1998 as supplemented by a First Supplemental Bond Indenture dated as of January 1, 2003 (collectively, the "Bond Indenture"), by and between the Community Facilities District and the Fiscal Agent, the Community Facilities District has issued the 2003 Bonds in the aggregate principal amount of \$5,815,835.10; and

WHEREAS, the 2003 Bonds are payable from and secured by special taxes levied on certain of the property within the Community Facilities District;

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

Section 1. Purpose of the Disclosure Agreement. The Disclosure Agreement is being executed and delivered by the Community Facilities District for the benefit of the owners and beneficial owners of the 2003 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Bond Indenture which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Community Facilities District pursuant to, and described in, Sections 3 and 4 of this Disclosure Agreement.

"Annual Report Date" shall mean January 31 next following the end of the Community Facility District's fiscal year, which fiscal year end, as of the date of this Disclosure Agreement, is June 30.

"Community Facilities District" means Community Facilities District No. 1 of the Poway Unified School District.

"Disclosure Representative" shall mean the Associate Superintendent, Business Support Services of the School District or his or her designee, or such other officer or employee as the Community Facilities District shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean 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.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at sec.gov/info/municipal/nrmsir.htm.

“Participating Underwriter” Stone & Youngberg LLC.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The Community Facilities District shall, or, shall cause the Dissemination Agent to, not later than the Annual Report Date commencing January 31, 2004, provide to each Repository, to the Fiscal Agent and to the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Community Facilities District shall provide the Annual Report to the Dissemination Agent. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the School District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if not available by that date. If the School District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). If the Dissemination Agent has not received a copy of the Annual Report on or before 15 business days prior to January 31 in any year, the Dissemination Agent shall notify the Community Facilities District of such failure to receive the Annual Report. The Community Facilities District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Community Facilities District and shall have no duty or obligation to review such Annual Report.

(b) If the Community Facilities District is unable to provide to the Repositories and to the Participating Underwriter an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repositories and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

- (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any;
- (ii) provide any Annual Report received by it to each Repository, the Fiscal Agent and the Participating Underwriter as provided herein; and
- (iii) if the Dissemination Agent is other than the Community Facilities District and to the extent it can confirm such filing of the Annual Report, file a report with the Community Facilities District, the Fiscal Agent and the Participating Underwriter certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Community Facilities District's Annual Report shall contain or incorporate by reference the following:

- (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 1998 Bonds, the 2003 Bonds and any refunding bonds:
 - (i) Principal amount of 1998 Bonds, 2003 Bonds and any refunding bonds outstanding as of a date within 30 days proceeding the date of the Annual Report;
 - (ii) Balance in the Accounts in the Bond Fund as of a date within 30 days proceeding the date of the Annual Report;
 - (iii) Balance in each Account in the Reserve Fund and statement of each Reserve Requirement as of a date within 30 days proceeding the date of the Annual Report and statement as to status of Reserve Policy for each Reserve Account;
 - (iv) Balance in the Improvement Fund as of a date within 30 days preceding the date of the Annual Report, and of any other fund not referenced in clauses (i), (ii), (iii) or (iv) hereof;
 - (v) A table summarizing assessed value-to-lien ratios for the property in Community Facilities District No. 1 and by Rate and Method of Apportionment of Special Taxes land use categories. The assessed values in such table will be determined by reference to the value of the parcels within Community Facilities District No. 1 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 1998 Bonds, 2003

Bonds and any refunding bonds of Community Facilities District No. 1 and all other debt secured by a tax or assessments levied on parcels within Community Facilities District No. 1.

- (vi) Information regarding the annual special taxes levied in Community Facilities District No. 1, amount collected, delinquent amounts and percent delinquent for the most recent fiscal year;
- (vii) Status of foreclosure proceedings of parcels within Community Facilities District No. 1 and summary of results of foreclosure sales, if available;
- (viii) A land ownership summary listing property owners responsible for more than 5% of the Special Tax levy as shown on the assessment roll of the San Diego County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, a summary of the Special Taxes levied on the property within Community Facilities District No. 1 owned by such property owners, and the assessed value of such property, as shown on such assessment roll;
- (ix) Concerning delinquent parcels as of the immediately preceding August 15;
 - number of parcels in Community Facilities District No. 1 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 Community Facilities District No. 1;
- (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 Community Facilities District No. 1 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 Community Facilities District No. 1 approved or submitted to the qualified electors of the Community Facilities District for approval prior to the filing of the Annual Report.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Community Facilities District shall provide such further

information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Community Facilities District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Community Facilities District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Community Facilities District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 1998 Bonds, 2003 Bonds and any Additional Bonds, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) Modifications to rights of security holders;
- (viii) Contingent or unscheduled bond calls;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities; and
- (xi) Rating changes.

(b) The Dissemination Agent shall, within five business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Community Facilities District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of the Listed Events described under clauses (ii), (iii), (vi), (x) and (xi) above shall mean actual knowledge by an officer at the corporate trust office of the Dissemination Agent. The Dissemination Agent shall have no responsibility for determining the materiality of any of the Listed Events.

(c) Whenever the Community Facilities District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Community Facilities District shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the Community Facilities District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Community Facilities District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f). The Community Facilities District shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.

(e) If in response to a request under subsection (b), the Community Facilities District determines that the Listed Event would not be material under applicable Federal securities law, the Community Facilities District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Community Facilities District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to the Participating Underwriter described on Exhibit B attached hereto. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected 2003 Bonds pursuant to the Bond Indenture.

Section 6. Termination of Reporting Obligation. All of the Community Facilities District's obligations hereunder shall terminate upon the earliest to occur of (i) the legal defeasance of the 2003 Bonds, (ii) prior redemption of the 2003 Bonds or (iii) payment in full of all the 2003 Bonds. If such determination occurs prior to the final maturity of the 2003 Bonds, the Community Facilities District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The Community Facilities District may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be David Taussig & Associates, Inc. The Dissemination Agent may resign by providing thirty days' written notice to the Community Facilities District and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Community Facilities District in a timely manner and in a form suitable for filing.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Community Facilities District, the Fiscal Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent and the Dissemination Agent shall agree to any amendment so requested by the Community Facilities District, so long as such amendment does not adversely affect the rights or obligations of the Fiscal Agent or the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal

requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2003 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2003 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by owners of the 2003 Bonds in the manner provided in the Bond Indenture for amendments to the Bond Indenture with the consent of owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the 2003 Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Community Facilities District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(f).

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Community Facilities District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Community Facilities District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Community Facilities District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Community Facilities District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the written direction of the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding 2003 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent) or any owner or beneficial owner of the 2003 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of

any failure of the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Section 7.04 of the Bond Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Bond Indenture, and the Fiscal Agent and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Fiscal Agent thereunder. The Dissemination Agent and the Fiscal Agent shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. This Disclosure Agreement does not apply to any other securities issued or to be issued by the Community Facilities District. The Dissemination Agent shall have no obligation to make any disclosure concerning the 2003 Bonds, the Community Facilities District or any other matter except as expressly set out herein, provided that no provision of this Disclosure Agreement shall limit the duties or obligations of the Fiscal Agent under the Bond Indenture. The Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The fact that the Fiscal Agent has or may have any banking, fiduciary or other relationship with the Community Facilities District or any other party, apart from the relationship created by the Bond Indenture and this Disclosure Agreement, shall not be construed to mean that the Fiscal Agent has knowledge or notice of any event or condition relating to the 2003 Bonds or the Community Facilities District except in its respective capacities under such agreements. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Community Facilities District as to the materiality of any event for purposes of Section 5 hereof. Neither the Fiscal Agent nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Dissemination Agent shall be paid compensation by the Community Facilities District for its services provided hereunder in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination in the performance of its duties hereunder. The Community Facilities District's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. Beneficiaries. The Participating Underwriter and the owners and beneficial owners from time to time of the 2003 Bonds shall be third party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the 2003 Bonds, and shall create no rights in any other person or entity.

Section 13. Notices. Any notice or communications to or among any of the parties to this Disclosure Agreement shall be given to all of the following and may be given as follows:

If to the Community
Facilities District: Community Facilities District No. 1 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: U.S. Bank National Association
550 South Hope Street
Los Angeles, California 90071
Telephone: 213/533-8700
Telecopier: 213/533-8736

If to the
Participating
Underwriter: Stone & Youngberg LLC
50 California Street, 35th Floor
San Francisco, California 94111
Telephone: 415/445-2300
Telecopier: 415/445-2395
Attention: Municipal Research Department

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.1 of the
Poway Unified School District

By: _____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION,
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. 1 of the Poway Unified School District

Name of Bond Issue: Community Facilities District No. 1 of the Poway Unified School District
Series 2003 Special Tax Bonds

Date of Issuance: February 13, 2003

NOTICE IS HEREBY GIVEN that Community Facilities District No. 1 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 January 1, 2003, by and among the Community Facilities District, U.S. Bank National Association, 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. 1
Stone & Youngberg LLC
U.S. Bank National Association

EXHIBIT B
PARTICIPATING UNDERWRITER

Stone & Youngberg LLC, 50 California Street, 35th Floor, San Francisco, California 94111,
Telephone: (415) 445-2300, Fax: (415) 445-2395, Attention: Municipal Research Department.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

Upon delivery of the 2003 Bonds, Best, Best & Krieger, San Diego, California, Bond Counsel to Community Facilities District No. 1 of the Poway Unified School District, proposes to render their final approving opinion with respect to the 2003 Bonds in substantially the following form:

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

BOND OPINION

POWAY UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 1 SERIES 2003 SPECIAL TAX BONDS

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Community Facilities District No. 1 of the Poway Unified School District (the "Community Facilities District"), of \$5,815,835.10 aggregate principal amount of the Poway Unified School District Community Facilities District No. 1 Series 2003 Special Tax Bonds (the "2003 Bonds"). The 2003 Bonds are issued pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Act"), a resolution adopted by the Board of Education on December 16, 2002 (the "Resolution"), and a Bond Indenture, dated as of January 1, 1998 (the "Original Bond Indenture"), by and between the Community Facilities District No. 1 of the Poway Unified School District (the "Community Facilities District") and U.S. Bank National Association (successor to First Trust of California, National Association), as fiscal agent (the "Fiscal Agent") as supplemented by a First Supplemental Bond Indenture dated as of January 1, 2003, by and between the Community Facilities District and the Fiscal Agent (the "Supplemental Indenture" and, together with the Original Bond Indenture, the "Bond Indenture").

We have examined the Act, the Resolution, the Bond Indenture and certified copies of the proceedings taken for the issuance and sale of the 2003 Bonds. As to questions of fact which are material to our opinion, we have relied upon the representations of the Community Facilities District and the Poway Unified School District without having undertaken to verify the accuracy of any such representations by independent investigation.

Based upon such examination, we are of the opinion, as of the date hereof, that the proceedings referred to above have been taken in accordance with the laws and the Constitution of the State of California, and that the 2003 Bonds, having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchaser thereof, and the Bond Indenture having been duly authorized and executed by the proper official, constitute the legally valid and binding obligations of the Community Facilities District enforceable in accordance with their terms subject to the qualifications specified below. Except where funds are otherwise available, as may be permitted by law, the 2003 Bonds are payable, as to

both principal and interest, solely from certain special taxes to be levied and collected within the Community Facilities District and other funds available therefor held under the Bond Indenture.

The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the issuance and delivery of the 2003 Bonds for the interest on the 2003 Bonds to be and remain exempt from federal income taxation. Noncompliance with such requirements could cause the interest on the 2003 Bonds to be subject to federal income taxation retroactive to the date of issuance of the 2003 Bonds. Pursuant to the Bond Indenture, the Community Facilities District has covenanted to comply with the requirements of the Code and applicable regulations promulgated thereunder.

We are of the opinion that, under existing statutes, regulations, rulings and court decisions, and assuming compliance by the Community Facilities District with the aforementioned covenants, the interest on the 2003 Bonds is excluded from gross income for purposes of federal income taxation and is exempt from personal income taxation imposed by the State of California.

We are further of the opinion that interest on the 2003 Bonds is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. However, interest on the 2003 Bonds received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations.

Although interest on the 2003 Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the 2003 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

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

The rights of the owners of the 2003 Bonds and the enforceability of the 2003 Bonds and the Bond Indenture may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

Best Best & Krieger LLP

APPENDIX F

FORM OF SPECIMEN MUNICIPAL BOND INSURANCE POLICY



FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Insurer, or any designee of the Insurer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Insurer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancelable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Assistant Secretary

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

BOOK-ENTRY AND DTC

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

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2003 Bonds. The 2003 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered 2003 Bond will be issued for each maturity of the 2003 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

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

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

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

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

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

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 2003 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payment on the 2003 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the 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 2003 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, 2003 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, 2003 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 2003 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 2003 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 2003 Bond for each maturity of the 2003 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Indenture. If the Community Facilities District fails to identify another qualified securities depository to replace the incumbent securities depository for the 2003 Bonds, then the 2003 Bonds shall no longer be restricted to being registered in the 2003 Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the 2003 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2003 Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the 2003 Bonds will be payable upon surrender thereof at the trust office of the Fiscal Agent identified in the Indenture, and (iii) the 2003 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 2003 Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the 2003 Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the 2003 Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the 2003 Bonds or the 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 2003 Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The 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 2003 Bonds or any error or delay relating thereto.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX H

ACCREDITED VALUE TABLE

	CAB Serial Bond 10/01/2021 5.4%	CAB Serial Bond 10/1/2022 5.5%
02/13/03	\$1,852.55	\$1,723.20
04/01/03	1,865.75	1,735.70
10/01/03	1,916.15	1,783.40
04/01/04	1,967.90	1,832.45
10/01/04	2,021.00	1,882.85
04/01/05	2,075.60	1,934.65
10/01/05	2,131.60	1,987.85
04/01/06	2,189.20	2,042.50
10/01/06	2,248.30	2,098.70
04/01/07	2,309.00	2,156.40
10/01/07	2,371.35	2,215.70
04/01/08	2,435.35	2,276.65
10/01/08	2,501.10	2,339.25
04/01/09	2,568.65	2,403.55
10/01/09	2,638.00	2,469.65
04/01/10	2,709.25	2,537.60
10/01/10	2,782.40	2,607.35
04/01/11	2,857.50	2,679.05
10/01/11	2,934.65	2,752.75
04/01/12	3,013.90	2,828.45
10/01/12	3,095.25	2,906.25
04/01/13	3,178.85	2,986.15
10/01/13	3,264.65	3,068.25
04/01/14	3,352.80	3,152.65
10/01/14	3,443.35	3,239.35
04/01/15	3,536.30	3,328.45
10/01/15	3,631.80	3,419.95
04/01/16	3,729.85	3,514.00
10/01/16	3,830.55	3,610.65
04/01/17	3,934.00	3,709.95
10/01/17	4,040.20	3,811.95
04/01/18	4,149.30	3,916.80
10/01/18	4,261.35	4,024.50
04/01/19	4,376.40	4,135.20
10/01/19	4,494.55	4,248.90
04/01/20	4,615.90	4,365.75
10/01/20	4,740.55	4,485.80
04/01/21	4,868.50	4,609.15
10/01/21	5,000.00	4,735.90
04/01/22		4,866.15
10/01/22		5,000.00

[THIS PAGE INTENTIONALLY LEFT BLANK]

