

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. In addition, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bonds constitutes original issue discount. See “TAX EXEMPTION” herein with respect to tax consequences relating to the Bonds.*

**\$7,080,000**

**COMMUNITY FACILITIES DISTRICT NO. 8  
OF THE ETIWANDA SCHOOL DISTRICT  
2002 SPECIAL TAX BONDS**

**Dated: Delivery Date**

**Due: September 1, as shown below**

The Community Facilities District No. 8 of the Etiwanda School District 2002 Special Tax Bonds (the “Bonds”) are being issued by Community Facilities District No. 8 of the Etiwanda School District (the “District”) to finance certain elementary and intermediate school facilities for the Etiwanda School District (the “School District”), to fund the reserve account established under the Resolution of Issuance (defined below), to provide capitalized interest and fund administrative expenses with respect to the Bonds, and to pay the costs of issuance of the Bonds. The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California), and pursuant to Resolution No. 0102-28 adopted by the Board of Trustees of the School District on behalf of the Community Facilities District No. 8 of the Etiwanda School District (the “District”) on February 28, 2002, as supplemented by Supplement to Resolution No. 0102-28, dated as of March 1, 2002 (as so supplemented, the “Resolution of Issuance”).

The Bonds are payable from Net Taxes (as defined herein) derived from a certain annual Special Tax (as defined herein) to be levied on taxable land within the District and from certain other funds pledged under the Resolution of Issuance, all as further described herein. The Special Tax is to be levied according to the rate and method of apportionment approved by the Board of Trustees of the School District and the qualified electors within the District. See “SOURCES OF PAYMENT FOR THE BONDS” and Appendix A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” herein.

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases of the Bonds may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable commencing September 1, 2002 and semiannually thereafter on each March 1 and September 1. Principal of and interest on the Bonds will be paid by U.S. Bank, N.A., as the Fiscal Agent for the Bonds, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See “THE BONDS—General Provisions” herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COUNTY OF SAN BERNARDINO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE SCHOOL DISTRICT OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND OTHER AMOUNTS HELD UNDER THE RESOLUTION OF ISSUANCE AS MORE FULLY DESCRIBED HEREIN.

The Bonds are subject to optional redemption and mandatory sinking fund redemption as set forth herein. See “THE BONDS—Redemption of the Bonds” herein.

**Investment in the Bonds involves risks that are not appropriate for certain investors. Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the section of this Official Statement entitled “SPECIAL RISK FACTORS” for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

**MATURITY SCHEDULE**  
Base CUSIP No. 29767P  
Serial Bonds \$1,155,000

Maturity Date (September 1)	Principal Amount	Interest Rate	Price	CUSIP No.	Maturity Date (September 1)	Principal Amount	Interest Rate	Price	CUSIP No.
2004	\$10,000	3.500%	100%	AC0	2012	\$ 80,000	5.500%	100%	AL0
2005	10,000	4.000	100	AD8	2013	95,000	5.600	100	AM8
2006	15,000	4.350	100	AE6	2014	110,000	5.700	100	AN6
2007	20,000	4.700	100	AF3	2015	125,000	5.800	100	AP1
2008	30,000	4.900	100	AG1	2016	145,000	5.900	100	AQ9
2009	45,000	5.000	100	AH9	2017	165,000	6.000	100	AR7
2010	55,000	5.100	100	AJ5	2018	185,000	6.050	100	AS5
2011	65,000	5.300	100	AK2					

\$705,000 6.125% Term Bonds due September 1, 2021 Price: 100% CUSIP No. 29767PAA4  
\$5,220,000 6.250% Term Bonds due September 1, 2032 Price: 99.75% CUSIP No. 29767PAB2

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the School District and the District by Parker & Covert LLP, Tustin, California. It is anticipated that the Bonds in book-entry form will be available for delivery on or about April 9, 2002.

**STONE & YOUNGBERG LLC**

Dated: March 22, 2002

**ETIWANDA SCHOOL DISTRICT  
COUNTY OF SAN BERNARDINO  
STATE OF CALIFORNIA**

**BOARD OF TRUSTEES**

Mondi M. Taylor, President  
Cecilia L. Solorio, Clerk  
Brynna R. Cadman, Member  
David W. Long, Member  
Mark H. Murphy, Member

**SCHOOL DISTRICT STAFF**

John L. Golden, Jr., Superintendent  
Rebecca Lawrence, Assistant Superintendent of Instruction and Pupil Services  
Douglas M. Claflin, Administrator for Business Services  
Shawn Judson, Administrator of Personnel  
Heidi Soehnel, Administrator of Special Programs

**COUNSEL TO THE DISTRICT AND THE SCHOOL DISTRICT**

Parker & Covert LLP  
Tustin, California

**BOND COUNSEL AND DISCLOSURE COUNSEL**

Stradling Yocca Carlson & Rauth,  
a Professional Corporation  
Newport Beach, California

**SPECIAL TAX CONSULTANT**

Special District Financing & Administration  
Escondido, California

**REAL ESTATE APPRAISER**

Stephen G. White, MAI  
Fullerton, California

**FISCAL AGENT**

U.S. Bank, N.A.  
Los Angeles, California

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

This Official Statement is not to be construed as a contract with the purchasers or Owners of the 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 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 a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of 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 any other parties described herein since the date hereof. All summaries of the Resolution of Issuance or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the School District for further information in connection therewith.

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

**TABLE OF CONTENTS**

	<b>Page</b>
INTRODUCTION.....	1
The District.....	1
Forward Looking Statements .....	3
Sources of Payment for the Bonds .....	3
The Appraisal.....	4
Description of the Bonds.....	4
Tax Exemption.....	5
Professionals Involved in the Offering.....	5
Continuing Disclosure.....	5
Parity Bonds.....	5
Bond Owners’ Risks .....	6
Other Information.....	6
ESTIMATED SOURCES AND USES OF FUNDS.....	6
THE BONDS .....	7
Authority for Issuance.....	7
Purpose of the Bonds .....	7
General Provisions .....	7
Redemption of the Bonds.....	7
Selection of Bonds for Redemption .....	8
Notice of Redemption .....	9
Registration of Exchange or Transfer .....	9
SOURCES OF PAYMENT FOR THE BONDS .....	9
Special Taxes .....	10
Covenant Not to Reduce Special Tax Rates Unless Certain Conditions are Met .....	13
Existing Liens.....	13
No Obligation of the School District Upon Delinquency.....	13
Special Taxes Are Not Within Teeter Plan .....	13
Proceeds of Foreclosure Sales.....	14
Reserve Account .....	15
Issuance of Parity Bonds.....	15
Priority of Bonds and Pledge of Net Taxes.....	15
Debt Service Schedule .....	16
THE COMMUNITY FACILITIES DISTRICT.....	17
General Description of the District .....	17
Description of Authorized School Facilities .....	17
Direct and Overlapping Indebtedness .....	18
Ad Valorem Overrides .....	21
DIRECT ASSESSMENTS.....	21
City of Rancho Cucamonga .....	21
City of Fontana.....	22
Other Special Assessments.....	22
PROPERTY OWNERSHIP AND THE DEVELOPMENTS .....	23
The Developers .....	23
History of Property Tax Payments; Loan Defaults; Litigation; Bankruptcy .....	37
Appraised Value-to-Lien Ratio .....	38
Largest Special Taxpayers .....	40
THE ETIWANDA SCHOOL DISTRICT.....	40

General Information .....	40
Administration and Enrollment .....	41
Insurance .....	41
<b>SPECIAL RISK FACTORS .....</b>	<b>41</b>
Risks of Real Estate Secured Investments Generally .....	42
Concentration of Ownership .....	42
Limited Obligations .....	42
Insufficiency of Special Taxes .....	42
Failure to Develop Properties.....	43
Natural Disasters .....	44
Future Land Use Regulations and Growth Control Initiatives .....	44
Endangered Species .....	45
Hazardous Substances .....	45
Electricity Problems .....	46
Events of September 11, 2001 .....	46
Local Water Service.....	47
Payment of the Special Tax is not a Personal Obligation of the Owners .....	47
Appraised Value.....	47
Parity Taxes, Special Assessments and Land Development Costs .....	47
Disclosures to Future Purchasers .....	48
Special Tax Delinquencies.....	49
FDIC/Federal Government Interests in Properties .....	49
Bankruptcy and Foreclosure.....	50
Funds Invested in the County Investment Pool.....	51
No Acceleration Provision .....	51
Loss of Tax Exemption .....	51
Limited Secondary Market.....	52
Proposition 218 .....	52
Ballot Initiatives .....	53
Limitations on Remedies.....	53
<b>TAX EXEMPTION .....</b>	<b>53</b>
<b>LEGAL OPINION .....</b>	<b>54</b>
<b>ABSENCE OF LITIGATION.....</b>	<b>54</b>
<b>NO RATING.....</b>	<b>55</b>
<b>UNDERWRITING.....</b>	<b>55</b>
<b>FINANCIAL INTERESTS .....</b>	<b>55</b>
<b>PENDING LEGISLATION .....</b>	<b>55</b>
<b>ADDITIONAL INFORMATION.....</b>	<b>55</b>
Appendix A     Rate and Method of Apportionment of Special Tax .....	A-1
Appendix B     Appraisal Report .....	B-1
Appendix C     Form of Opinion of Bond Counsel .....	C-1
Appendix D     General Information Concerning the Region.....	D-1
Appendix E     Excerpts from the Resolution of Issuance.....	E-1
Appendix F     Continuing Disclosure Agreements .....	F-1
Appendix G     Book-Entry Only System.....	G-1

**\$7,080,000**  
**COMMUNITY FACILITIES DISTRICT NO. 8**  
**OF THE ETIWANDA SCHOOL DISTRICT**  
**2002 SPECIAL TAX BONDS**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by Community Facilities District No. 8 of the Etiwanda School District (the “District”) of its 2002 Special Tax Bonds in the aggregate principal amount of \$7,080,000 (the “Bonds”). The proceeds of the Bonds will be used to finance certain elementary school and intermediate school facilities for the Etiwanda School District (the “School District”), to fund the reserve account securing the Bonds, to pay capitalized interest and fund administrative expenses with respect to the Bonds and to pay costs of issuance.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the “Act”), and pursuant to Resolution No. 0102-28 adopted on February 28, 2002 by the Board of Trustees (the “Board”) of the School District, as the legislative body of the District, as supplemented by Supplement to Resolution No. 0102-28 Governing Terms of the Community Facilities District No. 8 of the Etiwanda School District 2002 Special Tax Bonds dated as of March 1, 2002 (as so supplemented, the “Resolution of Issuance”).

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 and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in Appendix E—“EXCERPTS FROM THE RESOLUTION OF ISSUANCE -- DEFINITIONS” herein.

**Changes Since the Preliminary Official Statement**

This Official Statement contains several changes to the information in the Preliminary Official Statement, including: (a) revisions to the principal amounts of the Bonds to reflect the final sizing, (b) insertions and changes reflecting the interest rates, maturity dates and amounts, redemption provisions and prices of the Bonds, and (c) changes to the discussion of Carriage Estates II, LLC included under the caption “PROPERTY OWNERSHIP AND THE DEVELOPMENTS – The Developers – *Carriage Estates II, LLC*” herein.

One of the Developers (defined below), Pacific Crest Communities, Inc., a California corporation has notified the District that it has recently undergone a change in management which gave its equity partners and lenders a right to declare technical defaults under their respective agreements. See “PROPERTY OWNERSHIP AND DEVELOPMENTS - The Developers – *Carriage Estates II, LLC*” herein for a discussion of Pacific Crest’s expected Plan of Finance in light of such defaults.

**The District**

The District was formed in June, 2001 and the Bonds are being issued pursuant to the Act and the Resolution of Issuance. 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. 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.

Pursuant to the Act, on May 24, 2001 the Board, acting as the legislative body of the District, adopted Resolution No. 0001-45 (the “Resolution of Intention”), stating its intention to form the District and to authorize the levy of a special tax on the taxable property within the District, and Resolution No. 0001-46, stating its intention to incur bonded indebtedness in an aggregate principal amount not to exceed \$15,000,000 within the District for the purpose of financing the acquisition, construction and equipping of certain school improvements to serve the area within the District and its neighboring areas. Subsequent to a noticed public hearing on June 28, 2001, the Board adopted Resolution Nos. 0001-57, 0001-58 and 0001-59 on June 28, 2001 (collectively, the “Resolution of Formation”) which established the District, authorized the levy of a special tax within the District, determined the necessity to incur bonded indebtedness in an amount not to exceed \$15,000,000 within the District and called an election within the District on the proposition of incurring bonded indebtedness, levying a special tax and setting an appropriations limit.

On June 28, 2001, an election was held within the District in which the landowners eligible to vote approved the proposition authorizing the issuance of bonds in an amount not to exceed \$15,000,000 to finance the acquisition, construction and equipping of certain school improvements within the District and the appropriations limit of \$15,000,000 per year. On February 14, 2002, the Board, acting as the legislative body of the District, adopted Resolution and Ordinance No. 0001-61 (the “Ordinance”) which provides for the rate and method of apportionment and levying of the Special Tax (the “Rate and Method”). The Bonds are being issued and delivered pursuant to the provisions of the Act and the Resolution of Issuance. The Bonds are being sold pursuant to a Bond Purchase Agreement between the Underwriter and the District. For more complete information, see “THE BONDS—General Provisions” herein.

The District is non-contiguous with portions of the District located in the City of Fontana, California and portions located in the City of Rancho Cucamonga, California. The City of Fontana is located in central San Bernardino County, directly west of the City of Rialto and east of the City of Rancho Cucamonga. The City of Rancho Cucamonga is located in northwestern San Bernardino County, 37 miles east of downtown Los Angeles, north of the San Bernardino (10) Freeway and generally west of the Ontario (15) Freeway. The District consists of approximately 200 gross acres of developable land approved for the construction of 701 single family detached homes. There are seven major property owners within the District. According to the Appraisal (defined below), 295 residential building permits were issued (“Developed Property” as defined in the Rate and Method) and 147 residential units were completed as of January 1, 2002. See “PROPERTY OWNERSHIP AND THE DEVELOPMENTS—Table 6” herein.

As of January 1, 2002 the property within the District was owned by 119 individual homeowners and the following major landowners: (i) The Forecast Group, L.P., acquired as of January 14, 2002 by the K. Hovnanian Forecast Homes, Inc., a California corporation (“Hovnanian Forecast”), which owned approximately 44 gross acres to be developed with approximately 248 detached single family homes, (ii) APHRC78, LLC and APHRC24, LLC, each a Delaware limited liability company (collectively “APHRC”) which collectively owned approximately 35 gross acres to be developed with approximately 102 detached single family homes, (iii) D.R. Horton Los Angeles Holding Company, Inc., a California corporation (“D.R. Horton”) which owned approximately 20.81 gross acres to be developed with approximately 97 detached single family homes, (iv) CenterStone Communities Inc., a California corporation which owned approximately 19.55 gross acres to be developed with approximately 76 detached single family homes (“CenterStone” or “Fontana 76 Investors”), (v) Carriage Estates II LLC, a California limited liability company (“Carriage Estates II”) which owned approximately 48.6 gross acres to be developed with approximately 70 detached single family homes, (vi) Fontana Mountain View L.P., a California limited partnership (“Fontana Mountain View”) which owned approximately 14 gross acres to be developed with approximately 50 detached single family homes, and (vii) Crestwood Corporation, a California corporation (“Crestwood”) which owned approximately 8 gross acres to be developed with approximately 16 detached single family homes. Hovnanian Forecast, APHRC, D.R. Horton, CenterStone, Carriage Estates II, Fontana Mountain View and Crestwood are

collectively referred to as the “Developers.” See “PROPERTY OWNERSHIP AND THE DEVELOPMENTS” herein.

### **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 “THE COMMUNITY FACILITIES DISTRICT” and “PROPERTY OWNERSHIP AND THE DEVELOPMENTS.”

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 DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

### **Sources of Payment for the Bonds**

As used in this Official Statement, the term “Special Tax” is that tax which has been authorized to be levied against certain land within the District pursuant to the Act and in accordance with the Rate and Method. See Appendix A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” herein. Under the Resolution of Issuance, the principal of and interest on the Bonds are payable from Net Taxes and all amounts in the Special Tax Fund (including the Interest Account, the Principal Account, the Redemption Account and the Reserve Account but excluding the Administrative Expense Account) established under the Resolution of Issuance. The Net Taxes are the Special Tax proceeds, including all proceeds from foreclosure sales for delinquent Special Taxes, remaining after payment of the Administrative Expense Requirement (as defined below). The Bonds are secured only by the Net Taxes collected within the District. Amounts in the Acquisition and Construction Fund, the Excess Investment Earnings Fund and the Special Tax Holding Fund are not pledged to the repayment of the Bonds.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COUNTY OF SAN BERNARDINO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE SCHOOL DISTRICT OR THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND OTHER AMOUNTS HELD UNDER THE RESOLUTION OF ISSUANCE AS MORE FULLY DESCRIBED HEREIN.

The Net Taxes are the primary security for the repayment of the Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent in certain funds under the Resolution of Issuance, including amounts held in the Reserve Account of the Special Tax Fund. The District has covenanted for the benefit of the owners of the Bonds that it will, under certain circumstances described herein, commence, or cause to be commenced, and diligently prosecute to judgment (unless the delinquency is brought current), judicial foreclosure proceedings



against assessor's parcels with delinquent Special Taxes. See "SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales" herein."

The land and existing improvements in the District were valued at \$82,662,000 as of January 1, 2002 in an appraisal as described below. See "Appraisal" below.

The District has covenanted not to issue additional indebtedness secured by the Special Taxes on a parity basis to the lien of the Bonds, except for refunding bonds which do not result in an increase in annual debt service. See "SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Bonds" herein. Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes may also be levied on the property within the District. See "SPECIAL RISK FACTORS—Parity Taxes, Special Assessments and Land Development Costs" herein.

EXCEPT FOR THE NET TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS.

### **The Appraisal**

An MAI appraisal of the land and existing improvements within the District was prepared by Stephen G. White, MAI, Fullerton, California (the "Appraiser"), as of January 1, 2002. The Appraisal is entitled "Summary Appraisal Report Covering Etiwanda School District Community Facilities District No. 8" (the "Appraisal Report"). See Appendix B—"APPRAISAL REPORT". The Appraisal provides an estimate of the market value of the fee simple interest in the parcels within the District. The Appraisal Report sets forth an estimate of the value of various properties within the District. The Appraiser is of the opinion that the market value of the land and improvements in existence within the District as of January 1, 2002, was \$82,662,000, providing an overall District-wide appraised value-to-lien ratio (including the Bonds and all overlapping debt) of 11.28 to 1. The Appraisal is based upon a variety of assumptions and limiting conditions that are described in Appendix B. The School District and the District make no representation as to the accuracy of the Appraisal. See "PROPERTY OWNERSHIP AND THE DEVELOPMENTS—Appraised Value-to-Lien Ratios." There is no assurance that the property within the District can be sold for the prices set forth in the Appraisal Report or that any parcel can be sold for a price sufficient to pay the Special Tax for that parcel in the event of a default in payment of Special Taxes by the landowner. See "SPECIAL RISK FACTORS—Appraised Value" and Appendix B—"APPRAISAL REPORT" herein.

### **Description of the Bonds**

The Bonds will be issued and delivered as fully registered Bonds, 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 Bonds (the "Beneficial Owners") in the denominations of \$5,000 or any integral multiple thereof, under the book-entry 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 Bonds. In the event that the book-entry-only system described herein is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Resolution of Issuance. See Appendix G—"BOOK-ENTRY ONLY SYSTEM."

Principal of, premium, if any, and interest on the Bonds is payable by the Fiscal Agent to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. See Appendix G—"BOOK-ENTRY ONLY SYSTEM."

The Bonds are subject to optional redemption and mandatory sinking fund redemption as described herein. For a more complete descriptions of the Bonds and the basic documentation pursuant to which they are

being sold and delivered, see “THE BONDS” and Appendix E—“EXCERPTS FROM THE RESOLUTION OF ISSUANCE” herein.

### **Tax Exemption**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. See “TAX EXEMPTION” herein.

Set forth in Appendix C is the opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain other tax consequences incident to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see “TAX EXEMPTION” herein.

### **Professionals Involved in the Offering**

U.S. Bank, N.A., Los Angeles, California, will act as Fiscal Agent under the Resolution of Issuance. Stone & Youngberg LLC is the Underwriter of the Bonds. All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel. Certain legal matters will be passed on for the School District and the District by Parker & Covert LLP, Tustin, California. Other professional services have been performed by Stephen G. White, MAI, Fullerton, California, as the Appraiser, and Special District Financing & Administration, Escondido, California, as Special Tax Consultant.

For information concerning respects in which certain of the above-mentioned professionals, advisors, counsel and consultants may have a financial or other interest in the offering of the Bonds, see “FINANCIAL INTERESTS” herein.

### **Continuing Disclosure**

The District and Carriage Estates II have agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5).

See Appendix F—“CONTINUING DISCLOSURE AGREEMENTS” herein for a form of the District and Developer Continuing Disclosure Agreements.

The District is in material compliance with its prior continuing disclosure agreements. Carriage Estates II has represented that it has not undertaken any prior continuing disclosure obligations.

### **Parity Bonds**

The District may, at any time after the issuance and delivery of the Bonds under the Resolution of Issuance, issue Parity Bonds, solely for the purpose of refunding all or a portion of the Bonds, payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense

Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds. See “SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Bonds” herein.

**Bond Owners’ Risks**

Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the section of this Official Statement entitled “SPECIAL RISK FACTORS” for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds. The Bonds are not rated by any nationally recognized rating agency. The purchase of the Bonds involves risks, and the Bonds may not be appropriate investments for some types of investors. See “SPECIAL RISK FACTORS” herein.

**Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Brief descriptions of the Bonds and the Resolution of Issuance are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Resolution of Issuance, the Bonds and the constitution and laws of the State as well as the proceedings of the School District, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Resolution of Issuance. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Resolution of Issuance.

Copies of the Resolution of Issuance, the Appraisal and other documents and information are available for inspection and (upon request and payment to the District of a charge for copying, mailing and handling) for delivery from the School District at 6061 East Avenue, Etiwanda, California 91739, Attention: Superintendent.

**ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the expected sources and uses of Bond proceeds.

**Sources of Funds**

Principal Amount of Bonds	\$ 7,080,000.00
Less Original Issue Discount	(13,050.00)
Less Underwriter’s Discount	<u>(159,340.10)</u>
Total Sources	\$ 6,907,609.90

**Uses of Funds:**

Project Account of the Acquisition and Construction Fund	\$ 5,390,669.00
Interest Account of the Special Tax Fund <sup>(1)</sup>	606,069.14
Costs of Issuance Account of the Acquisition and Construction Fund	162,871.76
Reserve Account of the Special Tax Fund	708,000.00
Administrative Expense Account	<u>40,000.00</u>
Total Uses	\$ 6,907,609.90

<sup>(1)</sup> Represents capitalized interest on the Bonds through September 1, 2003.

## THE BONDS

### Authority for Issuance

The Bonds in the aggregate principal amount of \$7,080,000 are authorized to be issued by the District under and subject to the terms of the Resolution of Issuance, the Act and other applicable laws of the State of California.

### Purpose of the Bonds

The Bonds are being issued to provide funds: (i) to finance certain elementary school and intermediate school facilities; (ii) to fund the reserve account securing the Bonds; (iii) to pay capitalized interest on the Bonds; (iv) to pay costs of issuance; and (v) to pay administrative expenses with respect to the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE COMMUNITY FACILITIES DISTRICT—Description of Authorized School Facilities” herein.

### General Provisions

The Bonds will be issued and delivered in the aggregate principal amount of \$7,080,000, initially in book-entry form and will bear interest at the rates per annum and will mature on the dates set forth on the inside cover page hereof. Individual purchases of the Bonds may be made in principal amounts of \$5,000 and any integral multiple thereof. The Bonds will be dated the Delivery Date and interest will be payable thereon on September 1 and March 1 of each year, commencing September 1, 2002 (individually, an “Interest Payment Date”). Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication of that Bond to which interest has been paid or duly provided for in full unless (i) the date of authentication is an Interest Payment Date, in which event it shall bear interest from such date, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest shall be payable from the Delivery Date.

The Bonds are issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee DTC. DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 and any integral multiple thereof. See Appendix G—“BOOK-ENTRY-ONLY SYSTEM.”

### Redemption of the Bonds

*Optional Redemption.* The Bonds maturing on or after September 1, 2010 are subject to redemption prior to maturity at the option of the District, on or after March 1, 2009, on any Interest Payment Date, in whole or in part, at the following redemption prices, expressed as a percentage of the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption:

Redemption Dates	Redemption Price
March 1, 2009 and September 1, 2009	101%
March 1, 2010 and any Interest Payment Date thereafter	100

*Mandatory Sinking Fund Redemption.* The Bonds maturing on September 1, 2021 are subject to mandatory sinking fund redemption in part, by lot, on September 1, 2019 and on each September 1 thereafter to maturity, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, as follows:

**Term Bonds Due on September 1, 2021**

Year (September 1)	Mandatory Sinking Fund Redemption Amount
2019	\$ 210,000
2020	235,000
2021 (Maturity)	260,000

The Bonds maturing on September 1, 2032 are subject to mandatory sinking fund redemption in part, by lot, on September 1, 2022 and on each September 1 thereafter to maturity, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, as follows:

**Term Bonds Due on September 1, 2032**

Year (September 1)	Mandatory Sinking Fund Redemption Amount
2022	\$ 285,000
2023	315,000
2024	350,000
2025	385,000
2026	420,000
2027	460,000
2028	505,000
2029	550,000
2030	595,000
2031	650,000
2032 (Maturity)	705,000

In the event the District shall elect to redeem Bonds as provided under this heading “—Redemption of the Bonds”, the District shall give written notice to the Fiscal Agent of its election so to redeem, the redemption date and the principal amount of the Bonds to be redeemed. The notice to the Fiscal Agent shall be given at least 30 but no more than 60 days prior to the redemption date or such shorter period as shall be acceptable to the Fiscal Agent.

*Purchase of Bonds.* In lieu of payment at maturity or redemption, moneys in the Special Tax Fund may be used and withdrawn by the Fiscal Agent for purchase of Outstanding Bonds, upon the filing with the Fiscal Agent of an Officer’s Certificate requesting such purchase, at a public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer’s Certificate may provide, but in no event will Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if the Bonds were to be redeemed in accordance with the Resolution of Issuance.

**Selection of Bonds for Redemption**

If less than all of the Bonds Outstanding are to be redeemed (except with respect to mandatory sinking fund redemption in which case selection shall be by lots), the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof, and, in selecting portions of such Bonds for redemption, the Fiscal Agent shall treat each such Bond as representing

that number of Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000. The Fiscal Agent shall promptly notify the District in writing of the Bonds, or portions thereof, selected for redemption.

### **Notice of Redemption**

Notice of redemption, containing the information required by the Resolution of Issuance, will be given by the Fiscal Agent in the name of the District at least 30 but not more than 60 days prior to the redemption date. The Resolution of Issuance requires that the notice of redemption (a) specify the serial numbers and the maturity date or dates of the Bonds selected for redemption, except that where all the Bonds subject to redemption, or all the Bonds of one maturity, are to be redeemed, the serial numbers thereof need not be specified; (b) state the date fixed for redemption and surrender of the Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds are to be surrendered for redemption; and (e) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed. The redemption notice will further state that on the specified date there shall become due and payable upon 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. The redemption notice shall also be forwarded to each of the Repositories described in the Continuing Disclosure Agreement.

Neither the failure to receive such notice nor any defect therein will affect the sufficiency of the proceedings for the redemption of such Bonds. From and after the redemption date, the Bonds, or portions thereof so designated for redemption, shall be deemed to be no longer outstanding and such Bonds or portions thereof will cease to bear further interest.

In addition, no owner of any of the Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of the Resolution of Issuance, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts made available to the Fiscal Agent.

### **Registration of Exchange or Transfer**

Upon cessation of the book-entry system, the registration of any Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the corporate trust office of the Fiscal Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney. Bonds may be exchanged at said corporate trust office of the Fiscal Agent for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Fiscal Agent will not collect from the Owner any charge for any new Bond issued upon any transfer or exchange but will require the Bondowner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange. Whenever any Bond shall be surrendered for registration of transfer or exchange, the District shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount; provided that the Fiscal Agent shall not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding the date of any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

## **SOURCES OF PAYMENT FOR THE BONDS**

As described below, the principal of and interest on the Bonds are payable from Net Taxes and all amounts in the Special Tax Fund (including the Interest Account, the Principal Account, the Redemption Account and the Reserve Account but excluding the Administrative Expense Account) established under the Resolution of Issuance. Amounts in the Acquisition and Construction Fund, the Excess Investment Earnings

Fund and the Special Tax Holding Fund are not pledged to the repayment of the Bonds. The Net Taxes are the Special Tax proceeds, including all proceeds from foreclosure sales for delinquent Special Taxes, remaining after payment of the Administrative Expenses. The Bonds are secured only by the Net Taxes collected within the District.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COUNTY OF SAN BERNARDINO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE SCHOOL DISTRICT OR THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND OTHER AMOUNTS HELD UNDER THE RESOLUTION OF ISSUANCE AS MORE FULLY DESCRIBED HEREIN.

## **Special Taxes**

### **General**

In accordance with the provisions of the Act, the Board established the District on June 28, 2001 for the purpose of financing the acquisition, construction and installation of certain school improvements, as provided in the Resolution of Formation. The Resolution of Formation authorized the District to submit a proposition to the qualified electors of the District to authorize the issuance of an aggregate principal amount of bonds not to exceed \$15,000,000 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 were approved by the qualified electors within the District on June 28, 2001. On February 14, 2002, the Board, acting as the legislative body of the District, adopted the Ordinance which provides for the levying of the Special Tax. The Rate and Method approved by the Board and the qualified electors is set forth in Appendix A hereto.

The Board, as the legislative body of the District, has covenanted in the Resolution of Issuance to cause the Treasurer-Tax Collector of the County of San Bernardino (the "County Treasurer") to levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount anticipated to be sufficient, together with any moneys on deposit in the Special Tax Fund established by the Resolution of Issuance (including such amounts deposited in the Reserve Account for the payment of debt service on the Bonds in the final Bond Year) and anticipated to be available in the next succeeding Bond Year, to pay in the following order of priority (i) Administrative Expenses due or coming due, (ii) the principal of and interest on the Bonds, (iii) the amount, if any, necessary to replenish the Reserve Account for the Bonds to an amount equal to the Reserve Requirement established by the Resolution of Issuance, plus (iv) Rebataable Arbitrage relating to the Bonds. See the subcaption "—Reserve Account" 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 for the District. See Appendix A—"RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" 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 "SPECIAL RISK FACTORS—Insufficiency of Special Taxes."

### **Rate and Method of Apportionment of Special Tax**

The District is legally authorized and has covenanted to cause the levy of the Special Taxes in an amount determined according to a methodology, *i.e.*, the Rate and Method, which the Board and the qualified electors of the District have approved. The Rate and Method apportions the total amount of Special Taxes to be collected among the taxable parcels in the District as more particularly described herein. The District adopted its Rate and Method following a public hearing and an election conducted pursuant to the provisions of the Act. The full text of the Rate and Method is set forth in Appendix A hereto. The School District approved the Rate and Method pursuant to the Resolution of Formation adopted on June 28, 2001.

The Rate and Method of Apportionment classifies property to be taxed as "Taxable Property" or property which is exempt from the Special Tax. Taxable Property is further classified as "Developed Property," or "Undeveloped Property." Developed Property consists of all assessor's parcels in the District, exclusive of Public Property (defined in Appendix A), for which a building permit has been issued as of June 30 of the fiscal year preceding the fiscal year for which Special Taxes are being levied. Taxable Property excludes certain property in the District with respect to which the Special Tax obligation was prepaid prior to the issuance of the Bonds. Pursuant to the Resolution of Issuance, the District may not allow prepayments of Special Taxes after the issuance of the Bonds. See Table 6 under the caption "PROPERTY OWNERSHIP AND THE DEVELOPMENTS" for a summary of Taxable Property.

Residential Developed Property is assigned to one of six land use classes depending on the size and type (attached or detached) of the dwelling constructed. Assigned Special Tax rates for fiscal year 2001-02 range from \$299 per unit to \$1,071 per unit for residential dwellings, which rates escalated on July 1, 2001 and which will continue to escalate July 1st each year by two percent (2%) of the maximum amount which could have been levied the previous year. All Developed Property is taxed pursuant to the Rate and Method of Apportionment based on square footage, exclusive of garages or other structures which are not used as living spaces. Undeveloped Property (all Taxable Property not classified as Developed Property), was not taxed in 2001-02 but the maximum rate applicable was \$4,233 per acre, escalating July 1st each year by two percent (2%) of the maximum amount which could have been levied the previous year. See Appendix A hereto.

The amount of Special Tax that the District may levy is limited by the Maximum Special Tax rates set forth in the Rate and Method. Under the Rate and Method, the Maximum Special Tax for a parcel of Developed Property is the greater of (i) the amount derived by the application of the Assigned Special Tax (as described above) or (ii) the amount derived by the application of the Backup Special Tax, which equaled \$4,233 per acre for fiscal year 2001-02, and which amount will increase on July 1 of each fiscal year thereafter by an amount equal to two percent (2%) of the Backup Special Tax for the previous fiscal year.

The Board levies the Special Tax, which levy commenced fiscal year 2001-02, to the extent necessary, in four steps: first, on Developed Property up to 91% of the applicable Assigned Special Tax; second on Undeveloped Property up to 100% of the applicable Maximum Special Tax for Undeveloped Property; third, on Developed Property up to 100% of the applicable Assigned Special Tax; and fourth, on Developed Property up to the Maximum Special Tax, applying the Backup Special Tax.

Notwithstanding the foregoing, as of January 1, 2002, approximately 120 gross acres of property in the District were classified as Undeveloped Property and 87 lots were classified as Developed Property. However, it should be noted that, because interest on the Bonds will be funded initially from Bond proceeds, the Special Taxes are projected to be levied only on Developed Property for Fiscal Year 2002-03. Special Taxes are expected to be levied on Undeveloped Property for the first time in Fiscal Year 2003-04.

The Rate and Method of Apportionment provides that no Special Tax levy will be imposed on Exempt Property consisting of parks, public properties, utility properties belonging to public or private utilities and properties exempt from general ad valorem taxes.

**UNDER NO CIRCUMSTANCES MAY THE SPECIAL TAX ON ANY ASSESSOR'S PARCEL EXCEED THE MAXIMUM RATES AS SET FORTH IN APPENDIX A HERETO. See Appendix A "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" herein.**

In connection with the issuance of the Bonds, Special District Financing & Administration, the District's Special Tax Consultant, will certify that the Maximum Special Tax that may be levied on assessor's parcels within the District will be at least equal to 110 percent of (110%) maximum annual debt service on the Bonds. Actual collections of the Special Tax will depend on the amount of Special Tax delinquencies.



## Collection of Special Taxes and Flow of Funds

The Special Taxes will be levied and collected by the County Treasurer in the same manner and at the same time as *ad valorem* property taxes. Upon receipt of Special Taxes, however no later than February 15 and August 15 of each Fiscal Year, Special Taxes received by the County Treasurer will be deposited in the Special Tax Fund established by the Resolution of Issuance held by the Fiscal Agent. The Fiscal Agent is required to disburse moneys in the Special Tax Fund, as received, as needed, to the Administrative Expense Account of the Special Tax Fund an amount equal to the "Administrative Expense Requirement." The Administrative Expense Requirement is an amount equal to \$40,000 escalating at 2% per year commencing September 2, 2003. Additionally, on the dates specified in the Resolution of Issuance and if there are sufficient amounts available in the Special Tax Fund for such purposes, the Fiscal Agent shall make the following transfers and in the priority as follows:

- First: To the Interest Account, an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds on said Interest Payment Date. Moneys in the Interest Account shall be used for the payment of interest on the Bonds as the same become due;
- Second: To the Principal Account, an amount such that the balance in the Principal Account one Business Day prior to September 1 of each year commencing September 1, 2004, shall equal the principal payment or Sinking Fund Payment of the Bonds due on such September 1. Moneys in the Principal Account shall be used for the payment of the principal or Sinking Fund Payment of the Bonds as the same become due;
- Third: To the Redemption Account, an amount sufficient to pay the principal of and interest on and any premiums payable on Bonds called for optional redemption or mandatory redemption;
- Fourth: To the Reserve Account of the Special Tax Fund to the extent necessary to replenish the Reserve Account to the Reserve Requirement;
- Fifth: To the Administrative Expense Account of the Special Tax Fund the amount of any Administrative Expenses for the current Bond Year in excess of the Administrative Expense Requirement as directed by the Superintendent;
- Sixth: To the Excess Investment Earnings Fund established by the Resolution of Issuance to the extent directed by the School District pursuant to the Resolution of Issuance; and
- Seventh: To the Special Tax Holding Fund established by the Resolution of Issuance such remaining amounts in the Special Tax Fund after making the foregoing transfers on September 1.

Although the Special Taxes will constitute liens on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of property within the District. Moreover, other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the District or the landowners therein. See "SPECIAL RISK FACTORS—Parity Taxes, Special Assessments and Land Development Costs" herein. There is no assurance that the property owners in the District will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. See the portion of this Official Statement entitled "SPECIAL RISK FACTORS."

## **Covenant Not to Reduce Special Tax Rates Unless Certain Conditions are Met**

The District has covenanted in the Resolution of Issuance that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax so long as the Bonds are Outstanding, including the initiation of proceedings under the Act to reduce the maximum Special Tax rates (the "Maximum Rates") on then existing Developed Property below the amounts which are necessary to pay Administrative Expenses and projected to provide Special Taxes in an amount equal to 110 percent (110%) of annual debt service each year on the Outstanding Bonds. The District has further covenanted that in the event an ordinance is adopted by initiative pursuant to Section 3 of Article XIII C of the California Constitution, which purports to reduce or otherwise alter the Maximum Rates, it will commence and pursue legal action seeking to preserve its ability to comply with its covenants. There are no California court cases interpreting the enforceability of the foregoing covenants in light of Article XIII C. See "SPECIAL RISK FACTORS—Proposition 218."

## **Existing Liens**

The lots within the District are subject to *ad valorem* tax liens imposed by the Chaffey Joint Union High School District and the Metropolitan Water District, as well as other special tax liens, parcel charges and assessments liens imposed by the cities of Rancho Cucamonga and Fontana, some of which relate to outstanding bonds or other indebtedness and some of which relate to maintenance or services.

For properties in the City of Fontana fees for monthly sewer service are assessed annually and collected on the secured roll, as well as charges for vector control. Properties within the City of Rancho Cucamonga are subject to additional special taxes and parcel charges imposed for landscaping, lighting, and maintenance, as well as for other infrastructure.

The lien for the Special Taxes is co-equal to the lien for the overlapping assessments and special taxes and the lien for general property taxes. See "THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness."

The District is unaware of any present or contemplated assessment district or community facilities district that includes property within the District except as described above. The District has no control, and the School District has only limited control, over the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which, through the levy of a tax or an assessment, will be on a parity with the Special Taxes.

## **No Obligation of the School District Upon Delinquency**

The School District is under no obligation to transfer any funds of the School District into the Special Tax Fund for payment of the principal of or interest on the Bonds if a delinquency occurs in the payment of any Special Taxes. See "SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales" for a discussion of the District's obligation to foreclosure Special Tax liens upon delinquencies.

## **Special Taxes Are Not Within Teeter Plan**

The Special Taxes are not encompassed within the alternate procedure for the distribution of certain property tax levies on the secured roll pursuant to Chapter 3, Part 8, Division 1 of the California Revenue and Taxation Code (Section 4701 et seq.), commonly referred to as the "Teeter Plan." The County of San Bernardino has adopted a Teeter Plan under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies with 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 special taxes, assessments, or reassessments in its Teeter Plan. The Special Taxes of the District are not included in the County's Teeter Plan.

## Proceeds of Foreclosure Sales

The net proceeds received following a judicial foreclosure sale of land within the District resulting from a property owner's failure to pay the Special Tax when due are pledged to the payment of principal of and interest on the Bonds. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Collection of Special Taxes and Flow of Funds*" herein.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the Board, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted for the benefit of the owners of the Bonds that it will order, and cause to be commenced as hereinafter provided and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following two paragraphs.

On or about July 1 of each Fiscal Year, the Superintendent shall compare the amount of Special Taxes theretofore levied in the District to the amount of Special Taxes theretofore received by the District, and:

(A) Individual Delinquencies. If the Superintendent determines that parcels under common ownership subject to the Special Tax in the District are delinquent in the payment of Special Taxes in the aggregate amount of \$5,000 or more, then the Superintendent shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the District within 90 days of such determination.

(B) Aggregate Delinquencies. If the Superintendent determines that (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies under subsection (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, the District shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

If foreclosure is necessary and other funds (including amounts in the Reserve Account of the Special Tax Fund) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the District. See "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure" herein. Moreover, 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. See "SPECIAL RISK FACTORS—Appraised Value" herein. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the School District any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

## **Reserve Account**

In order to further secure the payment of principal of and interest on the Bonds, upon delivery of the Bonds, the District will deposit in the Reserve Account such amount equal to the Reserve Requirement with respect to the Bonds. Thereafter, the District is required, subject to the limits on the levy of the Special Tax, to deposit and to maintain the Reserve Requirement in the Reserve Account at all times while any of the Bonds are outstanding. Amounts in the Reserve Account are to be used to pay debt service on the Bonds to the extent other monies are not available therefor or to redeem in full the remaining Bonds. The Reserve Requirement for the Bonds will not exceed the least of: (i) 10% of the original proceeds of the Bonds; (ii) maximum annual principal and interest requirements on all Bonds outstanding or (iii) 125% of the average annual principal and interest requirements on all Bonds outstanding. See Appendix E—“EXCERPTS FROM THE RESOLUTION OF ISSUANCE” herein. Subject to the limits on the maximum annual Special Tax which may be levied within the District, as described in Appendix A, the District has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement while any Bonds are outstanding. Amounts in the Reserve Account are to be applied to the payment of (i) debt service on the Bonds to the extent other monies are not available therefor, and (ii) the principal and interest due on the final maturity of the Bonds. See Appendix E—“EXCERPTS FROM THE RESOLUTION OF ISSUANCE—RESERVE ACCOUNT” herein for a description of additional requirements. In no event shall amounts in the Reserve Account be used to pay fees or expenses of the Fiscal Agent or its counsel.

## **Issuance of Parity Bonds**

The District may, at any time after the issuance and delivery of the Bonds under the Resolution of Issuance, issue Parity Bonds for refunding purposes only payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds; **provided, however, that Parity Bonds may only be used for the purpose of refunding all or a portion of the Bonds then Outstanding.** See Appendix E—“EXCERPTS FROM THE RESOLUTION OF ISSUANCE” herein.

## **Priority of Bonds and Pledge of Net Taxes**

The District pledged and assigned to the Fiscal Agent all Net Taxes (Special Taxes remaining after the payment of Administrative Expense Requirement) for the payment of principal of, premium, if any, and interest on the Bonds. Pursuant to the Act and the Resolution of Issuance, the Bonds shall be and are equally secured by a pledge of and lien upon the Net Taxes, and other amounts on deposit in the Special Tax Fund and the Reserve Account of the Special Tax Fund. So long as any of such Bonds are Outstanding and unpaid, the Net Taxes and the interest thereon may be used only as provided in the Resolution of Issuance unless the Bondowners shall authorize other uses of such Net Taxes pursuant to the provisions of the Resolution of Issuance. Nothing in the Resolution of Issuance or in any Supplemental Resolution of Issuance shall preclude the redemption prior to maturity of any Bonds subject to call and redemption or the payment of the Bonds from proceeds of refunding bonds issued under the Act or under any other law of the State.

Amounts in the Administrative Expense Account, the Acquisition and Construction Fund, the Excess Investment Earnings Fund and the Special Tax Holding Fund are not pledged to the repayment of the Bonds. The facilities financed with the proceeds of the Bonds are not in any way pledged to pay the debt service with respect to the Bonds. Any proceeds of condemnation, destruction or other disposition of any facilities financed with the proceeds of the Bonds are not pledged to pay the debt service with respect to the Bonds and are free and clear of any lien or obligation imposed under the Resolution of Issuance.

## Debt Service Schedule

The Special Tax is to be levied against the property within the District and collected according to the Rate and Method. See Appendix A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

In Fiscal Year 2002-03 a total of \$273,342 in Special Taxes is projected to be levied against Developed Property. This amount, if collected, will be sufficient to pay estimated Administrative Expenses for Fiscal Year 2002-03 and pay-as-you-go funding of school facilities. The portion of the proceeds of the Bonds set aside to pay capitalized interest on the Bonds is sufficient to pay interest on the Bonds through September 1, 2003. The District has covenanted to levy the Special Tax each year in time to have it placed on the secured property tax roll of the County. Actual collections of the Special Tax will depend on the Special Tax delinquencies.

**TABLE 1  
ETIWANDA SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 8  
DEBT SERVICE SCHEDULE**

Period Ending	Principal	Interest	Total Debt Service
2002	\$	\$ 171,437.88	\$ 171,437.88
2003		434,631.26	434,631.26
2004	10,000.00	434,631.26	444,631.26
2005	10,000.00	434,281.26	444,281.26
2006	15,000.00	433,881.26	448,881.26
2007	20,000.00	433,228.76	453,228.76
2008	30,000.00	432,288.76	462,288.76
2009	45,000.00	430,818.76	475,818.76
2010	55,000.00	428,568.76	483,568.76
2011	65,000.00	425,763.76	490,763.76
2012	80,000.00	422,318.76	502,318.76
2013	95,000.00	417,918.76	512,918.76
2014	110,000.00	412,598.76	522,598.76
2015	125,000.00	406,328.76	531,328.76
2016	145,000.00	399,078.76	544,078.76
2017	165,000.00	390,523.76	555,523.76
2018	185,000.00	380,623.76	565,623.76
2019	210,000.00	369,431.26	579,431.26
2020	235,000.00	356,568.76	591,568.76
2021	260,000.00	342,175.00	602,175.00
2022	285,000.00	326,250.00	611,250.00
2023	315,000.00	308,437.50	623,437.50
2024	350,000.00	288,750.00	638,750.00
2025	385,000.00	266,875.00	651,875.00
2026	420,000.00	242,812.50	662,812.50
2027	460,000.00	216,562.50	676,562.50
2028	505,000.00	187,812.50	692,812.50
2029	550,000.00	156,250.00	706,250.00
2030	595,000.00	121,875.00	716,875.00
2031	650,000.00	84,687.50	734,687.50
2032	705,000.00	44,062.50	749,062.50
Totals	\$ 7,080,000.00	\$ 10,201,473.06	\$ 17,281,473.06

Source: Stone & Youngberg LLC

## **THE COMMUNITY FACILITIES DISTRICT**

### **General Description of the District**

The land in the District is non-contiguous and is situated, in part, in the City of Rancho Cucamonga and, in part, in the City of Fontana, adjacent communities in the western area of San Bernardino County. All of the District is located within the boundaries of the School District, which covers portions of each city. The development projects proposed for the District consist solely of single family detached residential construction. The proposed developments will offer a variety of residential lot sizes and units.

The City of Rancho Cucamonga is located in northwestern San Bernardino County, 37 miles east of downtown Los Angeles, north of the San Bernardino (Interstate 10) Freeway and generally west of the Ontario (Interstate 15) Freeway. The City of Fontana is located just east of Rancho Cucamonga in the central area of San Bernardino County, delineated on the west by Interstate 15 and the cities of Rancho Cucamonga and Ontario, and on the east by the City of Rialto and unincorporated County land. The District consists of approximately 200 gross acres approved or partially entitled for the construction of 701 residential units which are to be single family detached homes (the "Development"). All of the Development has approved tentative maps or final maps for all residential parcels. As of January 1, 2002 residential building permits had been issued for 295 units within the District. See also "PROPERTY OWNERSHIP AND THE DEVELOPMENTS" herein.

### **Description of Authorized School Facilities**

The facilities authorized to be acquired by the District with the proceeds of the Bonds consist of various public elementary and intermediate school improvements, or portions thereof (the "Facilities") and incidental expenses related to the planning and designing of such Facilities, environmental evaluations, formation of the District, sale of bonds and any other costs associated with the construction, completion and inspection of the Facilities.

The Facilities may include the construction of improvements or reimbursement to the School District for construction of improvements, to some or all of University Elementary School, Heritage Intermediate School, Edison Intermediate School, Summit Intermediate School, John L. Golden Elementary School and/or Etiwanda Intermediate School. The expected total cost of the Facilities to be financed with the proceeds of the Bonds is \$5,390,669. The John L. Golden Elementary School and Etiwanda Intermediate School and a portion of Heritage Intermediate School are complete as of the date of issuance of the Bonds.

## Delinquency History

Table 2 summarizes the *ad valorem* tax delinquencies in the District for the four prior fiscal years.

**TABLE 2**  
**ETIWANDA SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 8**  
**AD VALOREM TAX DELINQUENCY HISTORY**

Fiscal Year	Aggregate Ad Valorem & Special Assessments	Fiscal Year Amount Delinquent	Fiscal Year Delinquency Rate <sup>(1)</sup>	Amount Collected as of 12/15/01 <sup>(2)</sup>	Remaining Delinquency as of 12/15/01 <sup>(3)</sup>	Remaining Delinquency Rate as of 12/15/01
1998/99	\$ 59,232	\$12,406	20.95%	\$ 59,232	\$ 0	0.00%
1999/00	57,888	0	0.00	57,888	0	0.00
2000/01	139,942	0	0.00	139,942	0	0.00
2001/02	248,557	0	0.00	122,557	2,737 <sup>(4)</sup>	1.10

<sup>(1)</sup> The delinquent taxes shown for 1998/99 are solely attributable to a previous owner of assessor's parcel 0225-251-17 representing Tract 15866 (Rancho Vista), which is currently owned by APHRC24, LLC.

<sup>(2)</sup> Amount collected includes second installment of FY 2001/02 taxes for some parcels.

<sup>(3)</sup> Delinquent taxes are solely attributable to three of the five parcels owned by Carriage Estates II.

<sup>(4)</sup> As of 2/01/02 this delinquent amount has been paid in full.

Source: Special District Financing & Administration

## Direct and Overlapping Indebtedness

The ability of an owner of land within the District to pay the Special Taxes could be affected by the existence of other taxes and assessments imposed upon the property. These taxes consist of the direct and overlapping debt set forth in Table 3 below. As of January 1, 2002, the sum of the direct and overlapping debt applicable to the property within the District, excluding the Bonds, was \$248,589. In addition, other public agencies whose boundaries overlap those of the District could, without the consent of the District, and in certain cases without the consent of the owners of the land within the District, impose additional taxes or assessment liens on the property within the District in order to finance public improvements to be located inside of or outside of such area. The lien created on the property within the District through the levy of such additional taxes or assessments may be on a parity with the lien of the Special Taxes. See "SPECIAL RISK FACTORS—Parity Taxes, Special Assessments and Land Development Costs" herein.

Set forth below is a direct and overlapping debt report prepared by California Municipal Statistics, Inc. as of January 1, 2002. The table provides that the assessed value of the property within the District has been determined to be \$11,028,262 for the Fiscal Year 2001-02. Such assessed value includes areas in the District to be used as streets and easements and other non-residential uses. As a result, Bondowners should not rely on this assessed valuation to reflect the value of parcels. The debt report sets forth those entities which have issued debt and does not include entities which only levy or assess fees, charges, *ad valorem* taxes or other special taxes. See Table 4 for all entities levying in the District. The debt report is included for general information purposes only. Although the District has reviewed the debt report, it makes no representations as to its completeness or accuracy.

**TABLE 3  
ETIWANDA SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 8  
DIRECT AND OVERLAPPING DEBT**

2001-02 Assessed Valuation: \$11,028,262

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 1/1/02</u>
Metropolitan Water District	0.001%	\$ 5,275
Chaffey Joint Union High School District	0.050	38,365 <sup>(1)</sup>
Cucamonga County Water District	0.114	68
Etiwanda School District Community Facilities District No. 8	100.000	- <sup>(2)</sup>
Rancho Cucamonga Community Facilities District No. 84-1	0.907	<u>55,508</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$ 99,216</b>
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>	<u>% Applicable<sup>(3)</sup></u>	<u>Debt 1/1/02</u>
San Bernardino County General Fund Obligations	0.010%	\$ 107,957
San Bernardino County Pension Obligations	0.010	35,432
Chaffey Community College District Certificates of Participation	0.023	2,138
Chaffey Joint Union High School District Certificates of Participation	0.049	2,024
City of Fontana Certificates of Participation	0.007	<u>1,822</u>
<b>TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$ 149,373</b>
<b>COMBINED TOTAL DEBT</b>		<b>\$ 248,589<sup>(4)</sup></b>

Ratios to 2001-02 Assessed Valuation:

Direct Debt.....	—%
Total Direct and Overlapping Tax and Assessment Debt .....	0.90%
Combined Total Debt.....	2.25%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: \$0

- <sup>(1)</sup> Excludes approximately \$43 million of general obligation bonds to be sold in April 2002.  
<sup>(2)</sup> Excludes Mello-Roos Act bonds to be sold.  
<sup>(3)</sup> Based on redevelopment adjusted all property assessed valuation of \$8,073,488.  
<sup>(4)</sup> Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

Table 4 below sets forth fiscal year 2001-02 overall tax rates also applicable to selected properties within the District. Table 4 sets forth those entities with fees, charges, ad valorem taxes and special taxes regardless of whether those entities have issued debt.



**TABLE 4**  
**ETIWANDA SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 8**  
**ESTIMATED MINIMUM FISCAL YEAR 2002-03 TAX OBLIGATION**  
**FOR SMALLEST DWELLING UNIT IN EACH TRACT**

City of Jurisdiction Project Name Developer	Rancho Cucamonga					Fontana				
	Oakcrest at Etiwanda Crestwood	Rancho Vista- APHRC78	Rancho Vista II APHRC24	Vista Monte H/F	Carriage Estates II Pacific Crest	San Carmela D.R. Horton	Ventana Pointe H/F	Morningside North H/F	Centerstone @ /Landing Centerstone (Fontana 76 Investors)	Sonata Corman Leigh (Fontana 50)
Gross Acreage	7.93	25.03	7.94	21.00	48.65	20.81	23.30	10.00	19.55	13.95
Dwelling Unit Type	SFD	SFD	SFD	SFD	SFD	SFD	SFD	SFD	SFD	SFD
Total Proposed D/Us:	16	78	24	147	70	97	101	42	76	50
Minimum D/U Size	2,212	2,600	2,600	1,897	3,466	2,545	2,511	1,550	2,200	1,649
Minimum Est Sales Price	\$290,000	\$319,990	\$349,000	\$227,990	\$425,000	\$278,990	\$227,990	\$180,990	\$210,000	\$195,990
Ad Valorem Property Taxes:										
Basic Levy	\$2,900.00	\$3,199.90	\$3,490.00	\$2,279.90	\$4,250.00	\$2,789.90	\$2,279.90	\$1,809.90	\$2,100.00	\$1,959.90
Metropolitan Water District	22.33	24.64	26.87	17.56	32.73	21.48	17.56	13.94	16.17	15.09
Chaffey Joint Union HS District	27.84	30.72	33.50	21.89	40.80	26.78	21.89	17.38	20.16	18.82
Cucamonga County WD	3.48	3.84	4.19	2.74	5.10	3.35	2.74	2.17	2.52	2.35
Total General Property Taxes	\$2,953.65	\$3,259.10	\$3,554.57	\$2,322.08	\$4,328.63	\$2,841.51	\$2,322.08	\$1,843.38	\$2,138.85	\$1,996.16
Assessments, Special Taxes & Parcel Charges:										
Etiwanda SD – CFD No. 8 <sup>(1)</sup>	701.72	779.69	779.69	584.77	857.66	779.69	779.69	584.77	701.72	584.77
Metropolitan Water Dist—Standby	7.89	7.89	7.89	7.89	7.89	7.89	7.89	7.89	7.89	7.89
County Vector Control							5.62	5.62	5.62	5.62
City Special Districts:										
RC Lighting District No. 1	\$17.77	\$17.77	\$17.77	\$17.77	\$17.77	\$17.77	—	—	—	—
RC Lighting District No. 3						\$47.15				
RC Lighting District No. 5			\$34.60							
RC Lighting District No. 7					\$33.32					
RC Lighting District No. 8	\$193.75	\$193.75		\$193.75			—	—	—	—
RC Landscape District No. 2						\$422.00				
RC Landscape District No. 6			\$246.97							
RC Landscape District No. 7					\$307.05					
RC Landscape District No. 9	\$375.91	\$375.91		\$375.91			—	—	—	—
RC CFD No. 84-1 <sup>(2)</sup>			\$268.07			\$268.07				
RC CFD No. 85-1						\$116.50				
Fon CFD No. 16-M <sup>(3)</sup>							394.00	394.00	394.00	394.00
Fontana Sewer Fee							\$180.72	\$180.72	\$180.72	\$180.72
Total Assessments Parcel Charges	\$1,297.04	\$1,375.01	\$1,354.99	\$1,180.09	\$1,223.69	\$1,659.07	\$1,367.92	\$1,173.00	\$1,289.95	\$1,173.00
Projected Total Property Tax	\$4,250.69	\$3,854.42	\$4,909.55	\$3,502.16	\$5,552.31	\$4,500.58	\$3,690.00	\$3,016.38	\$3,428.80	\$3,169.15
Projected Effective Tax Rate	1.47%	1.45%	1.41%	1.54%	1.31%	1.61%	1.62%	1.67%	1.63%	1.62%

<sup>(1)</sup> Reflects 91% of the FY 2002/03 Assigned Special Tax applicable to each parcel.

<sup>(2)</sup> 268.07 per acre.

<sup>(3)</sup> Amount shown is Projected Actual Tax; Maximum authorized tax is \$595; only Ventana Pointe is currently included in CFD No. 16-M, but it is anticipated that the other tracts within the City of Fontana will be annexed to this or another CFD with comparable authorized and actual tax rates for similar facilities.

Source: Special District Financing & Administration

## **Ad Valorem Overrides**

***Chaffey Joint Union High School District Bond***—Property within the District is subject to a tax by the Chaffey Joint Union High School District resulting from the issuance of \$85,000,000 in general obligation bonds, of which, according to California Municipal Statistics, Inc., \$38,365 is allocable to property in the District. The amount allocable to property within the District will increase as the assessed valuation in the District increases and more bonds are issued. These bonds are issued to fund the modernization and enhancement of existing school facilities as well as the construction of two (2) new high schools within the school district. The bond authorization approved by the qualified voters is \$128 million. This tax is scheduled to end 25 years from the date of the last series of bonds, which is anticipated to occur around 2005. The Chaffey Joint Union High School District anticipates issuing its final series of bonds in April 2002. The maximum par parcel tax rate permitted by the California Constitution to be levied is \$30.00 per \$100,000 of assessed value. The applicable rate in fiscal year 2001-02 for these bonds is approximately \$9.60 per \$100,000 of assessed value.

***Metropolitan Water District Debt Service***—Property within the District is subject to a Metropolitan Water District Debt Service tax. The rate on such property is 0.0077% of assessed value. The tax is used to pay debt service on \$850,000,000 in bonds which were issued by the Metropolitan Water District under an authorization of \$850,000,000, and of which was approximately \$527,480,000 was outstanding as of June 30, 2001.

## **DIRECT ASSESSMENTS**

### **City of Rancho Cucamonga**

The following direct assessments are applicable to properties within the District which are located within the City of Rancho Cucamonga.

*City of Rancho Cucamonga Street Lighting Maintenance District No. 1* — The assessment pays for energy and maintenance of streetlights on arterial streets. The current assessment rate is \$17.77 per single family residence. The commercial rate is \$35.54 per acre. Any increase in the assessment must be approved by the voters.

*City of Rancho Cucamonga Street Lighting Maintenance District No. 3* — The assessment pays for energy and maintenance of streetlights within the Victoria Planned Community. The current assessment rate is \$47.15 per single family residence. The commercial rate is \$94.30 per acre. Any increase in the assessment must be approved by the voters.

*City of Rancho Cucamonga Street Lighting Maintenance District No. 5* — The assessment pays for energy and maintenance of streetlights within the Caryn Planned Community. The current assessment rate is \$34.60 per single-family residence. Any increase in the assessment must be approved by the voters.

*City of Rancho Cucamonga Street Lighting Maintenance District No. 7* — The assessment pays for energy and maintenance of streetlights within the Etiwanda Highlands Community. The current assessment rate is \$33.32 per single family residence. Any increase in the assessment must be approved by the voters.

*City of Rancho Cucamonga Street Lighting Maintenance District No. 8* — The assessment pays for energy and maintenance of streetlights in South Etiwanda. The current assessment rate is \$193.75 per single family residence. Any increase in the assessment must be approved by the voters.

*City of Rancho Cucamonga Street Landscape Maintenance District No. 2* — The assessment pays for the on-going maintenance of parkways, paseos and an equestrian trail within the Victoria Planned Community.

The current assessment rate is \$422.00 per single family residence. The commercial rate is \$844.00 per acre, and the vacant rate is \$105.50 per acre. Any increase in the assessment must be approved by the voters.

*City of Rancho Cucamonga Street Landscape Maintenance District No. 6* — The assessment pays for the on-going maintenance of parkways and paseos within the Caryn Planned Community. The current assessment rate is \$246.97 per single family residence. Any increase in the assessment must be approved by the voters.

*City of Rancho Cucamonga Street Landscape Maintenance District No. 7* — The assessment pays for the on-going maintenance of parkways and paseos within the Etiwanda Highlands Community. The current assessment rate is \$307.05 per single family residence. Any increase in the assessment must be approved by the voters.

*City of Rancho Cucamonga Street Landscape Maintenance District No. 9* — The assessment pays for the on-going maintenance of parkways in South Etiwanda. The current assessment rate is \$375.91 per single family residence. Any increase in the assessment must be approved by the voters.

*City of Rancho Cucamonga Community Facilities District No. 84-1 (Drainage Facilities)* - The special tax is levied on property owners each year to repay bonds issued to finance the construction of the drainage facilities. Bonds were initially issued in 1985 and subsequently refunded in 1992. The final year of maturity for the refunding bonds is 2005 and the levy of special taxes will terminate when the bonds have been defeased. The maximum special tax for properties within the district is \$550 per gross acre. For fiscal year 2000-01, the actual special tax was \$268.07 per gross acre. For the average developed residential lot within the boundaries of the district, the City estimates that the annual special tax obligation would be approximately \$40.

*City of Rancho Cucamonga Community Facilities District No. 85-1 (Fire Protection)* - The special tax is levied on property owners each year to meet the budget requirements for the current year. The district was formed to provide fire suppression services, such as wages, operations and maintenance, within the boundaries of Archibald, Etiwanda, Highland and Fourth Street. Currently, the special tax is \$116.50 per single family residence. The special tax is set each year by the City's Fire Board, and is on-going. Commercial property is \$116.50 per acre plus \$0.63 per square foot, and industrial property is \$116.50 per acre plus \$0.78 per square foot.

## **City of Fontana**

The following direct assessments are applicable to properties within the District which are located within the City of Fontana.

*City of Fontana Annual Sewer Services Fee* — For new developments within the City of Fontana the City collects the monthly sewer fee of \$15.06 on the secured roll. The charge is placed on the tax bills of residential property owners for which a certificate of occupancy has been issued prior to the beginning of the fiscal year.

*City of Fontana Community Facilities District No. 16-M* — The special tax pays for the maintenance of parks, parkways and common areas within the boundaries of the district as well as graffiti removal. The current special tax rate is \$394.00 per single family residence and the maximum annual special tax rate is \$595.00 per single family residence.

## **Other Special Assessments**

Metropolitan Water District Water Standby Charge: The standby charge is a pay-as-you-go assessment for capital improvements of the distribution systems, the construction and maintenance of

reservoirs, as well as the California State Water Contract Costs. The current assessment rate is \$7.89 per parcel. Any increase in the assessment must be approved by the voters.

San Bernardino County Vector Control: This charge is levied by the County of San Bernardino to pay for mosquito abatement and rat control services. It is applicable only to properties within the District which are located within the City of Fontana.

### **PROPERTY OWNERSHIP AND THE DEVELOPMENTS**

*The Developers have provided the following information. No assurance can be given that the proposed development will occur as described herein or that it will be completed in a timely manner. This information should not be construed to suggest that the Bonds or the Special Taxes securing the Bonds are personal obligations of the Developers or that in the event of a default a deficiency action against any Developer is an available remedy. See "SPECIAL RISK FACTORS" herein.*

#### **The Developers**

The Developers are composed of seven separate California entities which, as of January 1, 2002, together are developing the land within the District. The District is comprised of 9 separate residential development projects which are planned, currently under construction or recently completed by the Developers, and include undeveloped residential acreage, vacant single-family residential lots, homes under construction and completed homes. As of January 1, 2002, 119 homes had been sold to individual homeowners.

The overall District is comprised of a total of approximately 200 gross acres, which are to be developed with a total of approximately 701 dwelling units. As of January 1, 2002, there were approximately 147 completed homes and approximately 148 homes under construction. The vacant land for the remaining 406 homes ranges from raw to mostly graded condition.

Table 5 below sets forth the name of each Developer and the name(s) and appraised value of the project(s) being developed by each of the Developers:

**TABLE 5  
ETIWANDA SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 8  
PROPERTY OWNERSHIP AND APPRAISED VALUES**

**(As of January 1, 2002)**

Owner/Developer	Development Location	Total Units	Market Value
Hovnanian Forecast (Ventana Pointe)	Rancho Cucamonga	101	\$ 3,816,000
Hovnanian Forecast (Vista Monte)	Rancho Cucamonga	147	24,680,000
APHRC24 LLC (American Pacific Homes)	Rancho Cucamonga	24	4,904,000
APHRC78 LLC (American Pacific Homes)	Rancho Cucamonga	78	17,683,000
D.R. Horton	Rancho Cucamonga	97	11,988,000
Fontana 76 Investors (CenterStone Communities)	Fontana	76	2,540,000
Carriage Estates II (Pacific Crest Communities)	Rancho Cucamonga	70	6,415,000
Fontana Mountain View (Corman Leigh Communities)	Fontana	50	1,550,000
Crestwood Corporation, Inc.	Rancho Cucamonga	16	896,000
Individual Homeowners (Morningside North)	Fontana	<u>42</u>	<u>8,190,000</u>
Total		701	\$ 82,662,000

Source: The Appraisal Report; See APPENDIX B

Table 6 below describes the development status for each of the proposed development projects in the District:

**TABLE 6**  
**ETIWANDA SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 8**  
**PROPERTY OWNERSHIP AND DEVELOPMENT STATUS**  
**(As of January 1, 2002)**

Owner/Developer	Project Name(s)	Total Units	Completed	Sold	Status of Development		Blue Top Lots	Raw Land/Lots	Map Status
					Units Under Construction	Finished Lots			
Hovnanian Forecast	Ventana Pointe	101	0	0	31	0	70	0	final recorded
	Vista Monte	147	71	58	23	53	0	0	final recorded
APHRC78 LLC	Rancho Vista	78	31	19	28	19	0	0	final recorded
APHRC24 LLC	Rancho Vista II	24	0	0	23	1	0	0	final recorded
D.R. Horton Los Angeles Holding Company, Inc.	San Carmela	97	3	0	43	51*	0	0	final recorded
Fontana 76 Investors (CenterStone Communities)	CenterStone at The Landing	76	0	0	24	0	0	76	tentative map approved
Carriage Estates II (Pacific Crest Communities)	Carriage Estates II	70	0	0	0	0	0	70	final map approved
Fontana Mountain View (Corman Leigh Communities)	Sonata	50	0	0	0	0	0	50	tentative map approved
Crestwood Corporation, Inc.	Oakcrest Estates	16	0	0	0	0	0	16	tentative map approved
Individual Homeowners (Morningside North)	Morningside North	42	42	42	0	0	0	0	final recorded
<b>TOTAL</b>		<b>701</b>	<b>147</b>	<b>119</b>	<b>172</b>	<b>124</b>	<b>70</b>	<b>188</b>	

\* Lots are substantially finished with a minor deduction to complete work to a finished condition.  
Source: The Appraisal. See APPENDIX "B" hereof.

**Hovnanian Forecast.** The Forecast Group, L.P. acquired the property in the District currently owned by Hovnanian Forecast in May and June of 2001. The Forecast Group, L.P., a California limited partnership (the "Forecast Group"), was formed in September 28, 1993 to be the successor to substantially all the assets and liabilities of the single family residential real estate development business of the James Previti Family Trust (the "Trust"), a living, revocable trust with James Previti as Trustor. On January 14, 2002, Hovnanian Enterprises, Inc. ("Hovnanian Enterprises") acquired the California homebuilding assets of The Forecast Group, L.P., and created K. Hovnanian Forecast Homes, Inc., a California corporation (referred to herein as Hovnanian Forecast) to own and operate those projects.

Hovnanian Enterprises was founded in 1959 and is one of the nation's largest homebuilders. Headquartered in Red Bank, New Jersey, Hovnanian Enterprises designs, constructs and markets single-family homes, townhomes and condominiums in planned residential communities in Alabama, California, Maryland, Mississippi, New Jersey, New York, North Carolina, Pennsylvania, Tennessee, Texas and Virginia. Hovnanian Enterprises' homes are marketed and sold under the trade names K. Hovnanian, Washington Homes, Goodman Homes, Matzel & Mumford, Diamond Homes, Westminster Homes, Fortis Homes and Forecast Homes. Hovnanian Enterprises is also one of the nation's largest developers of active adult communities, under the name of K. Hovnanian's Four Seasons Communities.

The parent company of K. Hovnanian Forecast Homes, Inc. is subject to the informational requirements of the Securities Exchange Commission Act of 1934, as amended (the "Exchange Act"), and in accordance therewith file reports, proxy statements and other information with Securities and Exchange Commission (the "SEC"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and the SEC's regional office at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the office of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. Hovnanian Enterprises, Inc., the parent company of K. Hovnanian Forecast Homes, Inc., is actively traded on the NYSE. The trade symbol is HOV.

All of the Southern California projects of Hovnanian Forecast are currently managed by the team which managed the homebuilding operations of The Forecast Group, L.P., comprised of Frank Glanker, President, Jim Rex, Southern Division President and Rick Munkvold, Regional Chief Financial Officer.

Hovnanian Forecast is developing two separate properties in the District which together consist of approximately 45 acres with an approved tract map for 248 single-family residential planned lots.

Description of Projects. The Vista Monte project includes approximately 21 acres and will contain a total of 147 homes. There are currently 58 completed-sold homes, 13 completed-unsold homes, 23 homes under construction, and 53 vacant lots which are in a finished condition. The project has five model homes ranging from 1,897 to 2,740 square feet. The project was opened in April 2001 and the original sales prices ranged from \$227,990 to \$258,990. The current selling prices have increased and range from \$232,000 to \$263,000. When the project first opened the anticipated absorption rate was expected to be eight sales per month. The project has currently been performing at 9.75 homes per month. The project is currently estimated to deliver the last home in December 2003.

Zoning for the project designates Low Medium Residential which permits a density of 4 to 8 dwelling units per acre, and the general plan designates both Low Residential and Low-Medium Residential which permits a density of 2 to 4 and 4 to 8 dwelling units per acre, respectively.

Other than the completed-sold homes, the Vista Monte property is owned by Hovnanian Forecast. The property was acquired by The Forecast Group, L.P. related entity, Rancho Cucamonga Land Co., LLC, by

deed recorded March 15, 2000. It was then deeded to The Forecast Group, L.P. by deed recorded May 23, 2001.

The Ventana Pointe project is comprised of approximately 23.3 acres and will contain 101 homes. There are currently 3 model homes under construction and approximately 50% completed, and 28 production homes under construction of which 10 have slabs completed and 18 are being formed for the foundations. The remaining 70 vacant lots are in a graded blue-top condition with utilities currently being installed. The project's three model homes range from 2,511 to 3,060 square feet. The project was opened in October 2001 and the original sales prices ranged from \$227,990 to \$249,990. The current selling prices have increased to \$241,000 to \$263,000. When the project first opened the anticipated absorption rate was expected to be six sales per month. The project has currently been performing at thirteen sales per month. The project is currently estimated to deliver the last home in December 2003.

Zoning for the project and general plan designate the property for residential development. The Tract, No. 16137, is recorded for 101 residential lots. The minimum lot size is approximately 6,200 square feet and the average size is approximately 7,000 square feet. The indicated density of the tract is approximately 4.3 lots per acre.

The Ventana Pointe property is entirely owned by Hovnanian Forecast. The overall site was acquired by The Forecast Group from several different parties by deeds recorded June 22, 2001.

Project Name	Location	Unit Size (Square Feet)	Price Range	Total Units
Vista Monte	west side of East Ave. at Highfield and opposite Day Canyon Dr., Rancho Cucamonga	1,897-2,740	\$227,990-\$258,990	147
Ventana Pointe	Beach Ave. and Sierra Lakes Pkwy, Fontana	2,511-3,060	\$227,990-\$249,990	101

Financing. The parent company of K. Hovnanian Forecast Homes, Inc., Hovnanian Enterprises, has obtained a revolving line of credit through Bank of America to finance its general operations including the Vista Monte and Ventana Pointe projects. The loan is currently not in default. Interest is paid based on the average outstanding principal balance. Hovnanian Forecast anticipates that the primary source of repayment on the revolving line will be through the home sales.

Development Experience. Hovnanian Forecast is the successor to the residential real estate development business founded in 1971 by Mr. James P. Previti. From 1971 through 1989, the predecessor company's operations were focused on the Southern California regions known as the Inland Empire and Antelope Valley. In 1989, the predecessor company expanded operations into the Sacramento Valley region of Northern California. Further diversification and expansion occurred in 1995 when Forecast Homes, Inc. expanded into northern San Diego County. Since 1976, Forecast Homes, Inc. and its predecessor entities have closed more than 15,970 homes, including 2,154 homes during the fiscal year ended October 31, 2001.



Recent projects completed by Forecast Homes, Inc. include:

Project Name	Location	Unit Size (Square Feet)	Price Range	Total Units
Aberdeen at Eagle Glen	Corona, CA	1,555-2,100	\$210K-\$260K	141
Stratford at Eagle Glen	Corona, CA	2,138-3,329	\$230K-\$280K	221
French Valley 3	French Valley, CA	1,322-1,866	\$163K-\$189K	227
Morningside North	Fontana, CA	1,550-2,119	\$178K-\$195K	183
Vintage Collection	Rancho Cucamonga, CA	2,138-2,850	\$240K-\$290K	56
Rancho Vista	Palmdale, CA	1,539-2,363	\$164K-\$178K	85
Meadow Crest	Palmdale, CA	2,562-3,054	\$202K-\$222K	119
Rio Vista	Oceanside, CA	1,490-2,585	\$229K-\$272K	258

Projects currently under development by Hovnanian Forecast and its affiliates in Southern California include the following:

Project Name	Location	Unit Size (Square Feet)	Price Range	Total Units
Sterling Green at Eagle Glen	Corona, CA	2,188-3,188	\$262K-\$300K	144
Country Meadows	Menifee, CA	1,342-2,000	\$152K-\$175K	138
Vista Monte	Rancho Cucamonga, CA	1,897-2,740	\$229K-\$262K	147
Ventana Pointe	Fontana, CA	2,537-3,060	\$236K-\$258K	101
Sycamore Hills	Fontana, CA	1,874-2,311	\$186K-\$200K	241
Heritage/Grand	Corona, CA	2,107-3,471	\$229K-\$277K	172
Moreno Valley Ranch	Moreno Valley, CA	1,559-2,555	\$149K-\$191K	354
Starpoint Ranch	Acton, CA	2,208-2,863	\$299K-\$340K	197
Meadow Crest	Lancaster, CA	1,539-2,555	\$146K-\$176K	131
Rancho Vista 96	Palmdale, CA	1,871-2,336	\$193K-\$215K	96
Shore Pointe	Lake Elsinore, CA	1,874-2,511	\$198K-\$215K	144

Table 7 below summarizes the sources and uses of funds to complete, as a whole, Hovnanian Forecast's Vista Monte and Ventana Pointe developments and the expected cash flow from Hovnanian Forecast's operations within the District.

**TABLE 7  
ETIWANDA SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 8  
HOVNIANIAN FORECAST'S PROJECTED  
SOURCES AND USES OF FUNDS**

	<b>Nov 2001 – Jan 2002</b>	<b>Feb 2002 – April 2002</b>	<b>May 2002 – July 2002</b>	<b>Aug 2002 – Oct 2002</b>	<b>Nov 2002 – Jan 2003</b>	<b>Feb 2003 – April 2003</b>	<b>Totals</b>
<b>Total Revenues/Inflows</b>	<b>\$ 6,008,478</b>	<b>\$10,479,062</b>	<b>\$10,939,584</b>	<b>\$11,933,806</b>	<b>\$ 5,109,896</b>	<b>\$ 2,587,749</b>	<b>\$ 47,058,575</b>
Land	\$ 610,792	\$ 978,614	\$ 1,015,474	\$ 1,124,498	\$ 519,420	\$ 229,208	\$ 4,478,006
Site Development	1,219,215	2,140,959	2,237,891	2,433,535	1,024,461	534,461	9,590,522
Production Overhead	74,585	138,859	145,771	156,815	62,151	35,931	614,112
Finance Cost	67,999	168,594	180,126	185,272	53,895	49,988	705,874
Sales Center Cost	84,298	133,961	138,911	154,087	71,760	31,182	614,199
Taxes/Other	32,773	55,016	57,306	62,862	27,705	13,327	248,989
Warranty	44,579	77,236	80,650	87,926	37,527	19,113	347,031
<b>Total Lot Cost</b>	<b>\$ 2,134,241</b>	<b>\$ 3,693,239</b>	<b>\$ 3,856,129</b>	<b>\$ 4,204,995</b>	<b>\$ 1,796,919</b>	<b>\$ 913,210</b>	<b>\$ 16,598,733</b>
<b>Structure Costs</b>	<b>\$ 2,456,621</b>	<b>\$ 4,396,948</b>	<b>\$ 4,602,606</b>	<b>\$ 4,987,074</b>	<b>\$ 2,058,729</b>	<b>\$ 1,110,983</b>	<b>\$ 19,612,961</b>
<b>Point of Sale Costs</b>	<b>\$ 216,288</b>	<b>\$ 368,728</b>	<b>\$ 384,248</b>	<b>\$ 421,035</b>	<b>\$ 184,508</b>	<b>\$ 89,668</b>	<b>\$ 1,664,475</b>
Selling	\$ 70,232	\$ 85,254	\$ 86,823	\$ 86,823	\$ 70,337	\$ 25,367	\$ 424,836
Advertising	61,350	61,350	61,350	61,350	61,350	20,450	327,200
<b>Total Period Costs</b>	<b>\$ 131,582</b>	<b>\$ 146,604</b>	<b>\$ 148,173</b>	<b>\$ 148,173</b>	<b>\$131,687</b>	<b>\$ 45,817</b>	<b>\$ 752,036</b>
<b>Total Outflows</b>	<b>\$ 4,938,732</b>	<b>\$ 8,605,519</b>	<b>\$ 8,991,156</b>	<b>\$ 9,761,277</b>	<b>\$ 4,171,843</b>	<b>\$ 2,159,678</b>	<b>\$ 38,628,205</b>
<b>Net Cash Inflows</b>	<b>\$ 1,069,746</b>	<b>\$ 1,873,543</b>	<b>\$ 1,948,428</b>	<b>\$ 2,172,529</b>	<b>\$ 938,053</b>	<b>\$ 428,071</b>	<b>\$ 8,430,370</b>

Source: Hovnanian Forecast

**American Pacific Homes, Inc.** APHRC24 LLC and APHRC78 LLC are Delaware limited liability companies. The manager of each of APHRC24 LLC and APHRC78 LLC is American Pacific Homes, Inc., which is a California corporation, formed in 2000 by Alex S. Xu, the principal of Concordia Homes of Southern California and Concordia Homes LLC. The management team of American Pacific Homes is the same as that of Concordia Homes of Southern California; Concordia Homes of Southern California changed its name to American Pacific Homes in 2000. Concordia Homes of Southern California was formed in 1997 and focused on the development of residential single family homes for sale in southern California. American Pacific Homes is primarily a single family residential and multi-family residential builder. While based in the heart of Inland Empire, the company is currently expanding in Ventura, Los Angeles, San Gabriel Valley, southwestern San Bernardino County and Northwestern Riverside County.

APHRC24 LLC and APHRC78 LLC purchased property located in the District, consisting of approximately 35 acres with an approved tentative tract map for 102 single-family residential planned lots, in September and December of 2000. They have indicated that they will develop the 102 lots with four product lines with square footage running from 2,600 to 4,443 square feet. The typical lot size for all four product lines will be approximately 7,200 - 12,000 square feet. The first delivery of lots to home buyers began in the second quarter of 2001 with final sales estimated by American Pacific Homes to be in the fourth quarter of 2002.

Description of Projects. APHRC24 LLC and APHRC78 LLC will each develop one project in the District. Rancho Vista will consist of 78 single family units, 55 of which will comprise a gated community. Rancho Vista II will consist of 24 single family detached homes. Both projects are located in the City of Rancho Cucamonga. There are 31 completed homes, 28 homes under construction and 19 vacant lots in Rancho Vista. 23 of the 24 units in Rancho Vista II are under construction.

The two projects which constitute the Rancho Vista development together with the lot size, estimated unit size, estimated base sales price range and the units to be sold for each project are set forth below. American Pacific Homes indicates that all approvals and permits needed to complete the 102 lots owned by American Pacific Homes affiliates have been obtained.

Project Name	Location	Unit Size (Square Feet)	Price Range	Total Units
Rancho Vista	East and Baseline, Rancho Cucamonga	2,600-3,600	\$309,000-\$359,000	78
Rancho Vista II	Highland and Milliken, Rancho Cucamonga	2,600-3,500	\$349,000-\$389,000	24

Plan of Finance APHRC78 has obtained a construction loan from Comerica to finance phases 1-3 (42 units) of the proposed Rancho Vista development and the perimeter construction for the 42 units. The loan is not currently in default and is in the principal amount of \$12,600,000 (the "Comerica Loan") of which \$2,000,000 is currently available for construction. The Comerica Loan is due in full in June, 2002 with a one year extension available, and is payable in monthly installments of interest only which commenced upon original funding. APHRC24 has obtained a construction loan as of August, 2001 from PFF Bank and Trust to finance Rancho Vista II (24 units) of its proposed development and the perimeter construction for the 24 units. The loan is not in default and is in the principal amount of \$6,200,000 of which \$3,000,000 is currently available for construction. This loan is due in December, 2002 with a six month extension available. Interest only will be paid monthly upon the principal funded.

American Pacific Homes intends to finance up to 25 percent (25%) of the costs of the total development through contributions of its contributing members, American Pacific Homes, a California company and Alex S. Xu, the principal of American Pacific Homes. The remaining 75 percent (75%) of development costs are expected to be financed through acquisition and development loans from PFF Bank and

Trust and Comerica to fund the construction and development of all necessary off-site improvements. APHRC78 and APHRC24 each expects to repay its respective loan from a percentage of each sale to homeowners, based on a specific release price to be stipulated in each construction loan agreement. The Comerica loans consist of (a) an acquisition and development construction loan in the commitment amount of \$4,500,000 covering 42 lots and 42 houses, and (b) an \$8,100,000 construction loan, each with a 12 month term. The acquisition and development construction loan and the \$8,100,000 construction loan will mature in June of 2002 and are expected to be paid off at that time. The interest on all loans is paid monthly from the interest reserve contained in the loans. The main source of repayment is expected to be derived from home sales.

Development Experience. Recent residential projects under development by American Pacific Homes, Inc. and its predecessor Concordia Homes, in southern California include the following:

Project Name	Location	Unit Size (Square Feet)	Price Range	No. of Units
Spanish Hills Estate	Camarillo	4,000-6,000	\$800,000-980,000	11
Bryant Ranch Estate	Yucaipa	2,404-3,002	\$228,900-274,990	34
Estate Hills	Alta Loma	4,500-6,500	\$699,000-800,000	15
Heritage Park Estate	Rancho Cucamonga	3,200-4,000	\$390,000-450,000	30
Heritage Park	Rancho Cucamonga	3,200-4,000	\$425,000-575,000	28
Hastings Ranch Terrace	Pasadena	1,300-1,700	\$219,990-249,990	16
Rio Vista	Riverside County	Various	to be determined	1,000+
Oxnard Development	Oxnard	1,400-1,850	\$239,000-259,000	119
Lake Estates	Lake Elsinore	2,400-2,900	\$179,000-229,000	133
Hidden Canyon	Canyon Crest	4,140-4,800	\$530,000-650,000	65
Pleasant Valley	Oxnard	1,400-1,850	\$169,000-199,000	43
Monterey Views	Monterey Park	3,200-4,148	\$539,000-700,000	30
Concordia RC-20	Rancho Cucamonga	2,800-3,200	\$259,000-339,000	20
Hidden Canyon	Riverside	4,140-4,900	\$550,000-650,000	23
Rancho Vista	Rancho Cucamonga	2,600-3,600	\$309,000-359,000	78
Rancho Vista II	Rancho Cucamonga	2,600-3,500	\$349,000-389,000	24

Table 8 below summarizes the sources and uses of funds to complete, as a whole, American Pacific Homes' Rancho Vista and Rancho Vista II developments and the expected cash flow from American Pacific Homes' operations within the District.

**TABLE 8**  
**ETIWANDA SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 8**  
**AMERICAN PACIFIC HOMES' PROJECTED**  
**SOURCES AND USES OF FUNDS**

	As of Sept 1, 2001	Sept-Dec 2001	Jan-June 2002	July-Dec 2002	Totals
<b>CASH INFLOWS:</b>					
Housing Revenues	<u>\$ 3,746,757</u>	<u>\$ 2,742,057</u>	<u>\$ 20,588,870</u>	<u>\$ 8,472,115</u>	<u>\$ 35,549,800</u>
<b>TOTAL CASH INFLOWS:</b>	<u>\$ 3,746,757</u>	<u>\$ 2,742,057</u>	<u>\$ 20,588,870</u>	<u>\$ 8,472,115</u>	<u>\$ 35,549,800</u>
<b>CASH OUTFLOWS:</b>					
Pre-Acquisition Costs (Actual)	0	0	0	0	0
Raw Land Purchase	8,243,000	0	0	0	8,243,000
Site Development	311,313	1,092,041	16,225	2,400	1,421,978
Fees & Permits—Site	172,613	176,232	88,116	0	436,960
Direct Construction	3,370,730	3,707,138	5,259,113	969,540	13,306,520
Fees & Permits—Housing	0	0	0	0	0
Service & Warranty	18,734	13,710	102,944	42,361	177,749
Contingencies	<u>377,260</u>	<u>125,753</u>	<u>108,102</u>	<u>15,333</u>	<u>626,448</u>
Total Land & Construction	<u>12,493,649</u>	<u>5,114,874</u>	<u>5,574,500</u>	<u>1,029,633</u>	<u>24,212,655</u>
Total Field Expense	<u>385,030</u>	<u>276,352</u>	<u>243,492</u>	<u>9,399</u>	<u>914,272</u>
Total Selling & Marketing	<u>698,308</u>	<u>198,219</u>	<u>757,513</u>	<u>309,138</u>	<u>1,963,177</u>
Total General and Administrative	<u>599,226</u>	<u>350,702</u>	<u>344,901</u>	<u>127,163</u>	<u>1,421,992</u>
Total Property Taxes	<u>101,601</u>	<u>28,044</u>	<u>25,637</u>	<u>2,844</u>	<u>158,126</u>
<b>Total Financing Cost</b>	<u>850,617</u>	<u>404,392</u>	<u>548,688</u>	<u>47,237</u>	<u>1,850,935</u>
<b>TOTAL CASH OUTFLOWS</b>	<u>\$ 15,128,431</u>	<u>\$ 6,372,583</u>	<u>\$ 7,494,731</u>	<u>\$ 1,525,413</u>	<u>\$ 30,521,157</u>
<b>NET CASH FLOW</b>	<u>\$ (11,381,674)</u>	<u>\$ (3,630,526)</u>	<u>\$ 13,094,140</u>	<u>\$ 6,946,703</u>	<u>\$ 5,028,643</u>

Source: American Pacific Homes

***D.R. Horton Los Angeles Holding Company, Inc.*** D.R. Horton Los Angeles Holding Company, Inc. is a part of D.R. Horton, Inc. D.R. Horton was created in 1978 in the Dallas/Fort Worth metroplex, and in 1987 began expanding nationwide. D.R. Horton has 45 operating divisions in 38 markets and 20 states across the United States. D.R. Horton, Inc. is traded on the New York Stock Exchange and has over \$1 billion in stockholder's equity.

The parent company of D.R. Horton Los Angeles Holding Company, Inc. is subject to the informational requirements of the Exchange Act, and in accordance therewith file reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be inspected and copied at facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and the SEC's regional office at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the office of the NYSE at 20 Broad Street, New York, New York 10005. D.R. Horton, the parent company of D.R. Horton Los Angeles Holding Company, Inc., is actively traded on the NYSE. The trade symbol is DHI.

**Description of Project.** The project consists of 97 single family dwellings. As of January 1, 2002, all utilities have been installed in the in-tract streets. Three models are complete and 43 homes are under construction. The remaining 51 lots are in a nearly finished condition.

Project Name	Location	Unit Size (Square Feet)	Estimated Price Range	No. of Units
San Carmela	North side of Baseline Road/San Carmela, Rancho Cucamonga	2,545-3,192	\$278,990-\$305,990	97

Development Experience. Recent projects under development by D.R. Horton Los Angeles Holding Company, Inc. and its affiliates in the Inland Empire region of southern California include the following:

Project Name	Location	Unit Size (Square Feet)	Estimated Price Range	Total Units
Hawthornes	Rancho Cucamonga	2,545-3,432	\$273,990-\$304,990	79
Hidden Crest	Corona	2,898-3,752	Not yet estimated	90
Cypress Creek	Chino	1,416-1,925	\$197,990-\$223,990	147

**CenterStone Communities, Inc.** Fontana 76 Investors, LLC, is a California limited liability company. The manager of Fontana 76 Investors, LLC is CenterStone Communities, Inc., a California corporation. Harold G. Woods, Jr., the President of CenterStone, is responsible for all of CenterStone Communities, Inc.'s forward planning and project development. CenterStone Communities, Inc. principals, with its key management team, represent over 60 years in the home building industry. Headquartered in Santa Ana, California, CenterStone has been building residential communities throughout Southern California and Nevada for over 11 years.

Description of Project. Fontana 76 Investors, LLC purchased 19.5 acres which it plans to develop into 76 single family homes. As of January 1, 2002, the 76 lots are in raw condition. Grading of the project has commenced.

Project Name	Location	Unit Size (Square Feet)	Price Range	Total Units
CenterStone at The Landings	NW of Baseline and Hemlock Ave., Fontana	2,200 –2,700	\$210,000-\$240,900	76

Development Experience. Recent projects under development by CenterStone Inc. and its affiliates in southern California include the following:

Project Name	Location	Unit Size (Square Feet)	Price Range
CenterStone Westminster	Westminster	1,600-2,000	\$210,000-\$250,000
CenterStone Collection	Westminster	1,500-2,200	\$215,000-\$290,000
CenterStone Seabridge	Huntington Beach	2,200-2,500	\$300,000-\$425,000
CenterStone Westbridge	Westminster	1,288-2,200	\$260,000-\$320,000
CenterStone Sunset Park	Westminster	1,608-2,208	\$299,900-\$408,900
CenterStone Collection	Buena Park	1,708-2,463	\$299,900-\$438,800
CenterStone Cerritos	Cerritos	2,600-3,200	\$438,000-\$588,000

**Carriage Estates II, LLC.** Carriage Estates II, LLC is a California limited liability company with Pacific Crest Communities, Inc. as its managing member and Stephen Roy Bernstein Intervivos Trust as its member. Pacific Crest Communities, Inc. is a California corporation based in Ontario, California that has been in the business of developing residential real estate projects in California since 1999. Pacific Crest Communities, Inc. is an affiliate of Mar Vista Homes, Inc. which has been building homes since 1997. Pacific Crest and its affiliates are currently building in the Southern California region.

Pacific Crest Communities, Inc., and Mar Vista Homes, Inc. have recently undergone a change in management.

Carriage Estates II, LLC has indicated that it will develop 70 lots with five product lines with square footages ranging from 3,802 to 5,187 square feet. The typical lot size for all five product lines will be approximately 20,016-40,648 square feet, with an average lot size of 25,000 square feet. The first delivery of houses to homebuyers is projected to be in the second quarter of 2002 with final sales estimated to be in the second quarter of 2003.

Description of Project. Carriage Estates II, LLC purchased property located in the District, consisting of approximately 49 acres with an approved tentative tract map for 70 single-family residential planned lots. The property was acquired from Lennar Homes by deed recorded August 3, 2001. The price was \$6,300,000 for the land in raw condition with an approved tentative tract map for 70 lots. Lennar Homes had assembled this property from four separate owners, with the purchases closing in March 2001, and a total purchase price of approximately \$4,000,000.

The zoning and general plan designate Very Low Residential which permits a density of less than 2 dwelling units per acre. The tract, No. 16147, has been processed through the City of Rancho Cucamonga and received final approval in December of 2001 for 70 residential lots. The 70 lots indicate a density of 1.4 lots per acre on 48.65 acres.

As of January 1, 2002, the grading is well underway with several lots nearing blue-top condition at the north end of the tract. The tract map was recorded on January 25, 2002. Construction of the model homes is due to start in January and be completed in May, with construction of the first phase of 11 production homes to begin in March and be completed in August or September.

Project Name	Location	Unit Size (Square Feet)	Price Range	Total Units
Carriage Estates II	Etiwanda Ave. and Summit Ave., Rancho Cucamonga	3,802-5,187	\$453,000-\$499,000	70

Plan of Finance Carriage Estates II, LLC has obtained financing (First Deed of Trust, dated July 30, 2001) in the amount of \$19,635,000 from Guaranty Bank, and \$5,100,000 from Lowe Enterprises Residential Investors, LLC (Second Deed of Trust, dated August 1, 2001). Additionally, Carriage Estates II, LLC (“Borrower”) has obtained two construction loans secured by one Construction Deed of Trust from Guaranty Bank (“Lender”), terms of which are as follows:

1. Acquisition and Development Loan to finance the acquisition and construction of site improvements, in the principal amount of \$7,695,000, of which \$4,977,432 is currently available for construction. The maturity date of the A&D loan shall be 24 months from the initial disbursement of the loan proceeds and may be extended by two consecutive periods of three (3) calendar months.

2. Revolving Loan to finance construction of the proposed residences on lots, and lot improvements, in the amount of \$11,940,000, of which \$11,940,000 is available for construction. The maturity date of the revolving loan is not later than 10 months from the date of the first disbursement for construction of a residence, however, Lender may, at it’s option, extend the required release date up to three months. Borrower may not request any disbursements to commence construction of new residences after the date, which is 24 months from the initial disbursement of loan proceeds.

Both loans are current with interest being paid monthly from the interest reserve contained in the loans. The main source of repayment is expected to be derived from home sales.

\$4,590,000 of the \$5,100,000 junior loan (Second Deed of Trust, dated August 1, 2001) with Lowe Enterprises Residential Investors, LLC was used to finance the land purchase and closing costs. The junior loan is due and payable in full on July 31, 2003 with a six month extension available and is payable in monthly installments of interest only which commenced upon the original funding and is being paid through the interest reserve contained in the loan. The main source of repayment will be the home sales.

Additionally, \$1,263,000 of the senior loan (First Deed of Trust, dated July 30, 2001) from Guaranty Bank was used to finance the land purchase.

Carriage Estates II, LLC financed the remaining land purchase costs through contributions of \$510,000 of its member, Stephen Roy Bernstein Intervivos Trust.

Changes Since the Preliminary Official Statement

Carriage Estates II, LLC has provided the following information to the District since the date of the Preliminary Official Statement.

Due to the change in management of Pacific Crest Communities, Inc. and Mar Vista Homes, Inc., the equity partners and lenders of Pacific Crest Communities, Inc. and Mar Vista Homes, Inc. have the right to declare a default under their respective agreements. Guaranty Bank and Lowe Enterprises Residential Investors, LLC have each given a formal notice of default in respect of Carriage Estates, II. Pacific Crest Communities is in the process of arranging alternative financing for the Guaranty Bank loan and estimates such alternative financing will be completed on or before May 30, 2002. This alternative financing may have a different structure than the present structure of the Guaranty Bank loan, but is expected to be in an aggregate amount equal to, or greater than, the Guaranty Bank loan. Pacific Crest Communities, Inc. and Lowe Enterprises Residential Investors, LLC have agreed in principal to resolve the default and anticipate the documents relating to such resolution will be completed on or before May 15, 2002. To date, no other lenders or equity partners of Pacific Crest Communities, Inc. or its affiliates have given a formal notice of default to Pacific Crest Communities, Inc. or its affiliates although they have been notified of the management change.

At this time, Pacific Crest Communities, Inc. and its affiliates have no present knowledge of any default which would materially and adversely impact the completion or construction schedule of the Carriage Estates, II project. Currently, Pacific Crest Communities, Inc., its affiliates and the Stephen Roy Bernstein Intervivos trust are funding construction costs through additional equity contributions and have the financial capacity to fund construction through the anticipated financial restructuring described above.

As of the date hereof, sewer improvements to the Carriage Estates II, LLC project in the District are approximately eighty percent (80%) complete, four model homes are ready to be dry walled, ten additional homes are under construction and sixty lots are in finished condition (including those lots with homes under construction.) Carriage Estates II, LLC has released 21 homes for sale, of which 18 have been sold to homebuyers with executed contracts and deposits in place.

Development Experience. Recent single family residential projects under development by Pacific Crest Communities or its affiliates in southern California include the following:

<u>Project Name</u>	<u>Total Units</u>	<u>Location</u>
Carriage Estates	88	Rancho Cucamonga
Tamarind Estates	41	Riverside County
Courtyards at Claremont	25	Claremont
Amethyst Estates	19	Alta Loma
Haciendas at Rancho Carrillo	70	Carlsbad
Estrella at the Crosby Estate	25	Rancho Santa Fe



Table 9 below summarizes the sources and uses of funds to complete, as a whole, Pacific Crest's Carriage Estates II development and the expected cash flow from Carriage Estates II's operations within the District.

**TABLE 9**  
**ETIWANDA SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 8**  
**CARRIAGE ESTATES II'S PROJECTED**  
**SOURCES AND USES OF FUNDS**

	As of Sept 1, 2002	Sept-Dec 2002	Jan-June 2003	Totals
<b>CASH INFLOWS:</b>				
Housing Revenues	\$ 11,609,524	\$ 11,609,524	\$ 4,442,502	\$ 37,661,550
<b>TOTAL CASH INFLOWS:</b>	<b>\$ 11,609,524</b>	<b>\$ 11,609,524</b>	<b>\$ 4,442,502</b>	<b>\$ 37,661,550</b>
<b>CASH OUTFLOWS:</b>				
Pre-Acquisition Costs (Actual)				
Raw Land Purchase	\$ 6,363,000	\$ --	\$ --	\$ 6,363,000
Site Development	2,703,716	53,910	--	2,757,623
Fees & Permits—Site	1,652,725	131,112	--	1,783,837
Direct Construction	8,460,599	3,319,712	3,319,712	15,100,023
Fees & Permits—Housing	383,500	71,500	--	455,000
Service & Warranty	77,000	77,000	91,000	245,000
Total Land & Construction	19,640,540	3,653,234	3,410,712	26,704,486
Total Field Expense	1,042,244	266,984	266,984	1,576,212
Total Selling & Marketing	1,685,002	384,000	452,573	2,521,575
Total General and Administrative	688,872	219,436	219,439	1,127,747
Total Property Taxes	50,000	35,000	20,000	105,000
Financing Cost	1,263,515	200,995	111,720	1,576,230
<b>TOTAL CASH OUTFLOWS</b>	<b>\$ 24,370,173</b>	<b>\$ 4,759,649</b>	<b>\$ 4,481,428</b>	<b>\$ 33,611,250</b>
<b>NET CASH FLOW</b>	<b>\$ (12,760,649)</b>	<b>\$ 6,849,875</b>	<b>\$ 9,961,074</b>	<b>\$ 4,050,300</b>

Source: Pacific Crest

**Fontana Mountain View L.P.** Corman Leigh Communities, Inc., a California corporation, is the Managing Member of Mountain View-Fontana LLC, which is the general partner of Fontana Mountain View L.P., a California limited partnership. Corman Leigh Communities, Inc. was founded by Daniel R. Leigh over 15 years ago, and is a community developer/builder in Southern California. The company has successfully completed a variety of projects ranging from commercial and industrial developments to residential communities.

Description of Project. Fontana Mountain View L.P. purchased 13.94 acres of land in July 2001, which it plans to develop into 50 residential units under the management of Corman Leigh Communities. Grading has just begun.

Project Name	Location	Unit Size (Square Feet)	Price Range	Total Units
Sonata	Fontana	1,649-2,212	\$195,000-\$221,990	50

Development Experience. Recent residential projects under development by Corman Leigh Communities and its affiliates in southern California include the following:

Project Name	Location	Unit Size (Square Feet)	Price Range	Total Units
Cimarron at Three Rings Ranch	Beaumont	1,915-2,620	\$158,990-\$184,990	67

***Crestwood Corporation, Inc.*** Crestwood Corporation, a California corporation, was created in 1976. Crestwood builds primarily in the Inland Empire, and has built numerous single family residences. Crestwood acquired its land in the District, consisting of 7.93 acres, by a deed recorded June 29, 2001.

Description of Project. Crestwood Corporation plans to develop, construct and sell 16 single family homes during 2002. Zoning and general plan designate this land for “Low Residential” development which permits a density of 2 to 4 dwelling units per acre.

Project Name	Location	Unit Size (Square Feet)	Price Range	Total Units
Oakcrest at Etiwanda	East Avenue, Rancho Cucamonga	2,212-2,680	\$290,000-\$330,000	16

Development Experience. Other single family residential developments completed or under development by Crestwood Corporation, Inc. or its affiliates or principals in southern California include the following:

Project Name	Location	Units	Year Built
Emerald Glen	Yucaipa	66	1992/1993
Country Lane	Rialto	14	1992
Emerald Hills	Calimesa	32	1994
Tara Glen I	Yucaipa	43	1995/1996
Tara Glen II	Yucaipa	24	1996
Country Lane I	Calimesa	39	1996/1997
Victoria Meadows	Yucaipa	87	1999
Summit Ridge	Yucaipa	18	1999
Bordeaux Estates	Upland	13	1999/2000
Oakcrest Estates	San Dimas	14	2000
Sycamore Crest	Chino Hills	16	2001
Walnut Crest	Walnut	6	2000/2001
Alta Loma Tract 15963	Rancho Cucamonga	12	2001
Esmeralda	San Dimas	4	2001

### **History of Property Tax Payments; Loan Defaults; Litigation; Bankruptcy**

Each of the Developers represents that neither it nor any entity in which it has an ownership interest has ever been materially delinquent in the payment of any ad valorem property tax, special assessment or special taxes. Each of the Developers also represents that neither it nor any entity in which it has an ownership interest is in default on any loans, lines of credit or other obligation related to its development in the District or its other projects. Each Developer further represents that neither it nor its related entities has filed bankruptcy or been declared bankrupt. Each of the Developers also represents that there is no litigation of any nature in which it has been served, or to its knowledge, is pending or threatened, which if successful, would materially

adversely affect its ability to complete its development within the District on a timely basis or to pay the Special Tax or ad valorem tax obligations on the parcels that it owns within the District when due.

### **Appraised Value-to-Lien Ratio**

The Appraisal Report sets forth an estimate of the value of various properties within the District. The Appraiser is of the opinion that the market value of the land and improvements in existence within the District as of January 1, 2002, was \$82,662,000, providing a District-wide appraised value-to-lien ratio (using the aggregate principal amount of the Bonds as lien) of approximately 11.68 to 1. The ratio of said value to the sum of the principal amount of the Bonds and the other overlapping debt attributable to the land within the District is approximately 11.28 to 1. The District will not annually conduct an appraisal of property within the District and, therefore, the appraised value-to-lien ratio within the District will not be annually updated. See Appendix B—“APPRAISAL REPORT” herein.

Table 10 below sets forth the estimated value-to-lien ratio for each category of property and for the District as a whole for each Developer and individual homeowners, based upon the appraised value for such property as of January 1, 2002. Table 11 summarizes the debt allocable to both Developed and Undeveloped Property in the District by each property owner.

**TABLE 10**  
**ETIWANDA SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 8**  
**VALUE-TO-LIEN RATIOS—ALLOCATED BY PROPERTY OWNER**

Developer	Project	Dwelling Units at Buildout	Permitted <sup>(1)</sup> D/Us as of Jan 1, 2002	Appraised <sup>(2)</sup> Property Value	General Fund Obligation Debt <sup>(3)(4)</sup>	Bonded Special Assessments (Excl. CFD) <sup>(5)(6)</sup>	Etiwanda SD <sup>(7)</sup> CFD No. 8 Debt	Aggregate Outstanding & CFD 8 Debt	Value-to-Lien Ratio
Hovnanian Forecast	Vista Monte	89	36	\$10,180,000	\$ 18,171	\$ 5,549	\$ 827,331	\$ 851,051	11.96:1
	Ventana Pointe	101	31	3,816,000	7,243	6,297	1,043,456	1,056,997	3.61:1
APHRC78	Rancho Vista	59	40	10,843,000	19,355	3,679	657,790	680,823	15.93:1
APHRC24	Rancho Vista II	24	23	4,904,000	8,754	12,506	268,905	290,165	16.90:1
D.R. Horton	San Carmela	97	46	11,988,000	21,398	50,546	1,013,024	1,084,969	11.05:1
Fontana 76 Investors (CenterStone Communities)	Centerstone	76	0	2,540,000	4,821	4,739	714,394	723,954	3.51:1
Carriage Estates II	Carriage Estates II	70	0	6,415,000	11,451	4,365	881,243	897,058	7.15:1
Fontana Mountain View (Corman Leigh Communities))	Sonata	50	0	1,550,000	2,942	3,118	402,854	408,914	3.79:1
Crestwood Corporation, Inc.	Oakcrest	16	0	896,000	1,599	998	149,056	151,653	5.91:1
Individual Homeowners:									
	Rancho Vista	19	19	6,840,000	12,209	1,185	219,052	232,446	59.24:1
	Morningside	42	42	8,190,000	15,546	2,619	361,058	379,223	21.60:1
	Vista Monte	58	58	14,500,000	25,882	3,616	541,838	571,337	25.38:1
<b>Total</b>		<b>701</b>	<b>295</b>	<b>\$82,662,000</b>	<b>\$149,373</b>	<b>\$99,216</b>	<b>\$7,080,000</b>	<b>\$7,328,589</b>	<b>11.28:1</b>

Notes:

- (1) As identified in the Appraisal, homes in the District which were owned and occupied as of January 1, 2002 are included under Individual Homeowners.
- (2) As identified in the Appraisal.
- (3) Debt as identified on the debt statement prepared by California Municipal Statistics.
- (4) Debt was allocated to the applicable properties using the valuations identified in the Appraisal.
- (5) Debt as identified on the debt statement prepared by California Municipal Statistics (Rancho Cucamonga CFD No. 84-1 was allocated only to Tract Nos. 15866 (Rancho Vista II) and Tract 16128 (San Carmela)).
- (6) Debt was allocated to the applicable properties based on the number of dwelling units proposed to be developed, regardless of current development status.
- (7) Debt was first allocated to the projected permitted dwelling units through June 30, 2002 applicable to each project. The remaining debt was allocated to the undeveloped properties based on the remaining number of dwelling units to be constructed.

Source: Special District Financing & Administration

## Largest Special Taxpayers

The special tax consultant estimates that, based on ownership projected for June 30, 2002, the Developers would be responsible for approximately 84% of the 2002-03 Special Taxes if capitalized interest was not available to pay debt service on the Bonds through September 1, 2003. In determining the investment quality of the Bonds, Bondowners should be aware that almost all of the Special Taxes will be paid by the Developers until such time as additional parcels are transferred to individual owners. To date, the Developers have been current in the payment of the County *ad valorem* property taxes.

The Table 11 identifies the Developers and individual homeowners who are currently responsible for the payment of the largest amounts of Special Taxes. Table 11 also shows the total amount of the Special Tax for which each such property owner is currently responsible and the percentage of the estimated total amount of the Special Tax for Fiscal Year 2002-03 for which each Developer is expected to be responsible, assuming no change has occurred does not take into account permitted homes may be occupied in the current ownership status. With the exception of the Developers, no property owner is projected to be responsible for more than 1.00% of total amount of the Special Tax levied throughout the District for Fiscal Year 2002-03.

**Table 11**  
**ETIWANDA SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 8**  
**ALLOCATION OF SPECIAL TAXES BY PROPERTY OWNERSHIP(1)**

Projected Fiscal Year 2002/03 Special Taxes

Property Owner	Projected Permitted D/Us as of 06/30/02	Avg. FY 02/03 Tax Per Permitted D/U	Estimated FY 2002/03 Special Taxes			Percent of Special Tax Obligation
			Developed Property	Undeveloped Property	All Property	
1. Forecast Homes, Inc.	81	\$ 750.33	\$ 60,777	\$ 37,083	\$ 97,859	22.20%
2. D.R. Horton	46	808.50	37,191	15,358	52,549	11.92
3. American Pacific Homes	74	864.51	63,973	4,165	68,138	15.46
4. Fontana 76 Investors/Centerstone	3	727.71	2,183	28,129	30,312	6.88
5. Carriage Estates II	15	974.61	14,619	57,201	71,820	16.29
6. Fontana Mountain View (Corman Leigh Communities)	3	623.75	1,871	19,643	21,514	4.88
7. Crestwood Corporation	8	721.21	5,770	5,939	11,709	2.66
8. Individual Homeowners	<u>119</u>	<u>729.89</u>	<u>86,857</u>	<u>0</u>	<u>86,857</u>	<u>19.71</u>
Totals	349	\$ 782.93	\$273,242	\$ 167,518	\$ 440,760	100.00%

Source: Special District Financing & Administration based on projected building permit issuances by the Developers.

## THE ETIWANDA 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 taxing power of the School District have been pledged to the payment of the Bonds and the Bonds will not be payable from any of School District's revenues or assets.*

### General Information

The School District, a political subdivision of the State of California established in 1883, currently operates eight elementary schools, three intermediate schools, and one District Education Center. Encompassing approximately 47.5 square miles, the School District includes portions of the incorporated Cities of Rancho Cucamonga and Fontana and some unincorporated areas of San Bernardino County. Approximately 80% of the student population of the School District resides in the City of Rancho Cucamonga

and approximately 70% of the territory of the School District is within the territorial limits and the sphere of influence of the City of Rancho Cucamonga.

**Administration and Enrollment**

The management and policies of the School District are administered by a Superintendent of Schools and a staff which provides business, pupil, personnel, administrative personnel, and instruction support services.

The School District employs approximately 416 certificated professionals and approximately 271 classified professionals. The pupil-teacher ratio averages 26 to 1 for kindergarten classes, 18 to 1 for grades 1st through 3rd, and 28 to 1 for grades 4th through 8th.

The School District’s collective bargaining unit is the Etiwanda Teaching Association (“ETA”) which represents all certificated personnel. The current contract for ETA is a three year contract and expires June 30, 2002.

The School District is governed by a five member Board of Trustees. The members are elected to four year terms.

The student enrollment as of January 18, 2002 was 9,535. Average Daily Attendance figures for the most recent five fiscal years are provided in the following table.

**Etiwanda School District Average Daily Attendance  
(1997-98 through 2001-02)**

Fiscal Year	Total Average Daily Attendance
1997-98	5,780
1998-99	6,203
1999-00	7,237
2000-01	8,245
2001-02 <sup>(1)</sup>	9,250

<sup>(1)</sup> Estimated.

Source: Etiwanda School District

**Insurance**

The School District maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverages for property damage, fire and theft, general public liability and worker’s compensation, as are adequate, customary and comparable with such insurance maintained by similarly situated school districts. In addition, based upon prior claims experience, the School District believes that the recorded liabilities for self-insured claims are adequate.

**SPECIAL RISK FACTORS**

The purchase of the Bonds involves significant risks and, therefore, the Bonds are not suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. The Bonds have not been rated by a rating agency. 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 Bonds. The occurrence of one or more of the events discussed herein could

adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See “— Appraised Value” and “— Limited Secondary Market” below.

### **Risks of Real Estate Secured Investments Generally**

The Bond Owners 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 District, the supply of or demand for competitive properties in such area, and the market value of residential property or buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses.

### **Concentration of Ownership**

Based on the ownership status of the land within the District as of January 1, 2002, approximately 84% of the Special Taxes securing the Bonds, if levied for fiscal year 2002-2003 without taking into consideration capitalized interest, would be payable by the Developers. Until the construction and sale of the single-family homes in the District to individual homeowners, the receipt of the Special Taxes therefor is dependent on the willingness and the ability of the respective Developers to pay the Special Taxes when due. Failure of the Developers, or any successor, to pay the annual Special Taxes when due could result in a default in payments of the principal of, and interest on, the Bonds, when due. See “— Failure to Develop Properties” below. Interest for the Bonds is capitalized through September 1, 2003.

No assurance can be made that the Developers, or their successors, will complete the intended construction and development in the District. See “— Failure to Develop Properties” below. No assurance can be given that the Developers or their successors, will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See “— Bankruptcy and Foreclosure” below, for a discussion of certain limitations on the District’s ability to pursue judicial proceedings with respect to delinquent parcels.

### **Limited Obligations**

The Bonds and interest thereon are not payable from the general funds of the School District. Except with respect to the Special Taxes, neither the 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, except as provided in the Resolution of Issuance, no Owner of the Bonds may compel the exercise of any taxing power by the District or the School District or force the forfeiture of any School District or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the School District or a legal or equitable pledge, charge, lien or encumbrance upon any of the School District’s or the District’s property or upon any of the School District’s or the District’s income, receipts or revenues, except the Special Taxes and other amounts pledged under the Resolution of Issuance.

### **Insufficiency of Special Taxes**

Under the Rate and Method set forth in Appendix A hereto, the annual amount of Special Tax to be levied on each taxable parcel in the District will be based primarily on whether such parcel is developed or not and, for Developed Property, the square footage of the dwelling unit. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes.” Accordingly, to the extent Undeveloped Property does not become

Developed Property, the collection of the Special Taxes will be dependent on the willingness and ability of the owners of Undeveloped Property to pay such Special Taxes when due. See “—Failure to Develop Properties” and “— Appraised Value” below for a discussion of the risks associated with Undeveloped Property.

The Rate and Method governing the levy of the Special Tax expressly exempts parks, public properties, utility properties belonging to public or private utilities and properties exempt from general *ad valorem* taxes. If for any reason property within the District becomes exempt from taxation by reason of ownership by a non-taxable entity, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within the District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, 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 and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. **Due to problems of collecting taxes from public agencies, if a substantial portion of land within the District was to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which might not be sufficient to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.**

In the event fewer units are built than currently projected, it will result in property owners paying higher Special Taxes which could have a negative impact on the willingness and ability of such property owners to pay such Special Taxes when due. For purposes of evaluating the investment quality of the Bonds, Bondowners should assume that unimproved parcels within the District will remain vacant and unimproved. See Appendix B and “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes.”

### **Failure to Develop Properties**

Development of property within the District may be subject to unexpected delays, disruptions and changes which may affect the willingness and ability of the Developers or any property owner to pay the Special Taxes when due. Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect planned land development. Development of land in the District is also subject to the availability of water. Finally, development of land is subject to economic considerations.

The Developers have significant land improvements underway in the District. However, significant infrastructure improvements remain to be completed, primarily with respect to the Ventana Pointe, Carriage Estates II, CenterStone at the Landings, Oakcrest and Sonata projects. No assurance can be given that the remaining proposed residential development will be partially or fully completed; and for purposes of evaluating the investment quality of the Bonds, prospective purchasers should assume that such parcels will remain vacant and unimproved.

Undeveloped or partially developed land is inherently less valuable than developed land and provides less security to the Bondowners should it be necessary for the District to foreclose on the property due to the nonpayment of Special Taxes. The failure to complete development of the required infrastructure for



development in the District as planned, or substantial delays in the completion of the development or the required infrastructure for the development due to litigation or other causes may reduce the value of the property within the District and increase the length of time during which Special Taxes will be payable from undeveloped property, and may affect the willingness and ability of the owners of property within the District to pay the Special Taxes when due.

There can be no assurance that land development operations within the District will not be adversely affected by a future deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, an increase in mortgage interest rates, the income tax treatment of real property ownership, or the national economy. A slowdown of the development process and the absorption rate could adversely affect land values and reduce the ability or desire of the property owners to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the Bonds when due.

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

The payment of principal of and interest on the Bonds is completely dependent upon receipt of Special Taxes levied on Developed Property and Undeveloped Property. Undeveloped Property is less valuable per unit of area than Developed Property, especially if there are no plans to develop such land or if there are severe restrictions on the development of such land. The Undeveloped Property also provides less security to the Bondowners should it be necessary for the District to foreclose on Undeveloped Property due to the nonpayment of the Special Taxes. Furthermore, an inability to develop the land within the District as currently proposed will make the Bondowners dependent upon timely payment of the Special Taxes levied on Undeveloped Property. A slowdown or stoppage in the continued development of the District could reduce the willingness and ability of the Developer to make Special Tax payments on Undeveloped Property and could greatly reduce the value of such property in the event it has to be foreclosed upon. See “— Appraised Value” below.

### **Natural Disasters**

The District is located adjoining the foothills of the San Bernardino Mountains, a seismically active region in Southern California. Significant fault zones in this region include the Elsinore, San Jacinto, Wildomar, Cucamonga, Rialto-Colton and San Andreas Fault Zones. There is significant potential for destructive ground-shaking during the occurrence of a major seismic event. In addition, land along the aforementioned fault lines may be subject to liquefaction during the occurrence of such an event. While the areas within the District subject to the lien of Special Taxes is not on the San Andreas fault, the District is subject to unpredictable seismic activity due to its close proximity to the San Andreas fault.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

### **Future Land Use Regulations and Growth Control Initiatives**

It is possible that future growth control initiatives could be enacted by the voters or future local, state or federal land use regulations could be adopted by governmental agencies and be made applicable to the development of the portions of the District not yet developed with the effect of negatively impacting the ability of the owner of such land to complete the development of such land if they should desire to develop it. See

“— Endangered Species” below. This possibility presents a risk to prospective purchasers of the Bonds in that an inability to complete desired development increases the risk that the Bonds will not be repaid when due. The owners of the Bonds should assume that any reduction in the permitted density, significant increase in the cost of development of the vacant land or substantial delay in development caused by growth and building permit restrictions or more restrictive land use regulations would cause the values of such vacant land within the District to decrease. A reduction in land values increases the likelihood that in the event of a delinquency in payment of Special Taxes a foreclosure action will result in inadequate funds to repay the Bonds when due.

Completion of construction of any proposed structures on the vacant land within the District is subject to the receipt of approvals from a number of public agencies concerning the layout and design of such structures, land use, health and safety requirements and other matters. The failure to obtain any such approval could adversely affect the planned development of such land.

Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits. As of January 1, 2002, 295 lots planned for the District were completed or under construction. Lots not yet under construction could be impacted by future land use regulations which could cause significant delays and cost increases not currently anticipated, thereby reducing the development potential of the vacant property and the ability or willingness of owners of such land to pay Special Taxes when due, and also could cause land values of such land within the District to decrease substantially from those in the Appraisal.

### **Endangered Species**

During the 1990s, there was an increase in activity at the State and federal level related to the possible listing of certain plant and animal species found in the Southern California area as endangered species. An increase in the number of endangered species would curtail development in a number of areas. At present, the property within the District is not known to be inhabited by any plant or animal species which is on the endangered species list or which either the California Fish and Game Commission or the United States Fish and Wildlife Service has proposed for addition to the endangered species list. Notwithstanding this fact, new species are proposed to be added to the State and federal protected lists on a regular basis. Any action by the State or federal governments to protect species located on or adjacent to the property within the District could negatively impact the Developers’ ability to complete the development as planned. This, in turn, could reduce the likelihood of timely payment of the Special Tax and would likely reduce the value of the land estimated by the Appraiser and the potential revenues available at a foreclosure sale for delinquent Special Taxes. See “— Failure to Develop Properties” and “— Appraised Value” herein.

### **Hazardous Substances**

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or 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 substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The value of the property within the District, as set forth in the various tables herein, does not reflect the presence of any hazardous substance or the possible liability of the owner (or operator) for the remedy of a

hazardous substance condition of the property. The District has not independently verified, but is not aware, that any owner (or operator) of any of the parcels within the District has such a current liability with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the parcels 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 it. All of these possibilities could significantly affect the value of a parcel and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

### **Electricity Problems**

The State in 2000 and 2001 experienced a crisis in the supply and pricing of electricity. The crisis resulted in blackouts in areas throughout the State during the first half of 2001.

Although it is too early to assess the full effect of the electric power shortage on the State's economy, several economists have predicted that the economy will be affected. One of these economists has expressed the opinion that the volatility associated with projected rolling blackouts coupled with rising electricity bills could lead some businesses to cease operation or leave the State. Further, expenditures on plant expansion, employment and job growth and personal income may be affected. The associated uncertainty regarding job security and personal income may cause people to defer the purchase of homes and have an adverse effect on the demand for new homes. This could affect the Developers' ability to develop and sell property in the District.

The District is served by the Southern California Edison Company. Under the current terms of State regulation, until mid 2001, Southern California Edison Company had not been able to pass through significant portions of the substantial increase in the wholesale cost of gas and electricity to its customers and it, as well as Pacific Gas and Electric Company have experienced a significant cash crisis. As a result of the crisis, 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 Southern California Edison Company's ability to provide electrical service cannot be predicted. Any decrease in the demand for new homes or any electric power could adversely affect the absorption rate for the development of the District and assumptions upon which the Appraisal is based. Furthermore, the effect of the electricity crisis on the local or State economy cannot be predicted. It is possible that the electricity crisis could also affect the ability of property owners to pay Special Taxes on their property when due.

### **Events of September 11, 2001**

Neither the District nor the Developers can predict the economic effect of the unprecedented September 11, 2001 terrorist attacks on the World Trade Center and the Pentagon and the response of the United States government, though impacts could be significant. No assurance can be given that the direct and indirect consequences of military and/or terrorist activities in this country or abroad will not have an effect on the District, the Developers or property owners in the District, which may include, among other effects, a slowdown in home sales and a decrease in land values in the District.

## **Local Water Service**

All water for the District will be provided by the Cucamonga County Water District. At this time, no assurances can be given that adequate water supply will be available to support continued development when drought conditions occur. See “— Failure to Develop Properties.”

## **Payment of the Special Tax is not a Personal Obligation of the Owners**

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the District has no recourse against the owner.

## **Appraised Value**

The value of the property within the District is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, the District’s only remedy is to commence foreclosure proceedings against the delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes. See “PROPERTY OWNERSHIP AND DEVELOPMENTS—Appraised Value-to-Lien Ratio.”

The Appraiser has estimated, on the basis of certain definitions, assumptions and limiting conditions contained in the Appraisal, that as of January 1, 2002, the value of the land within the District was \$82,662,000. The Appraisal is based on a number of assumptions and limiting conditions as stated in Appendix B—“APPRAISAL REPORT.” The Appraisal does not reflect any possible negative impact which could occur by reason of future slow or no growth voter initiatives, an economic downturn, any potential limitations on development occurring due to time delays, an inability of any landowner to obtain any needed development approval or permit, the presence of hazardous substances or other adverse soil conditions within the District, the listing of endangered species or the determination that habitat for endangered or threatened species exists within the District, or other similar situations. See “PROPERTY OWNERSHIP AND THE DEVELOPMENTS—Appraised Value-to-Lien Ratio.”

Prospective purchasers of the Bonds should not assume that the land within the District could be sold for the amount stated in the Appraisal at a foreclosure sale for delinquent Special Taxes. In arriving at the estimate of market value, the Appraiser assumes that any sale will be unaffected by undue stimulus and will occur following a reasonable marketing period, which is not always present in a foreclosure sale. See Appendix B for a description of other assumptions made by the Appraiser and for the definitions and limiting conditions used by the Appraiser. Any event which causes one of the Appraiser’s assumptions to be untrue could result in a reduction of the value of the land within the District from that estimated by the Appraiser. Additionally, value-to-lien ratios of individual parcels vary greatly.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See “SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales.”

## **Parity Taxes, Special Assessments and Land Development Costs**

Property within the District is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within the District. See “THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness.”

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See “— Bankruptcy and Foreclosure” below.

Development of land within the District is contingent upon construction or acquisition of major public improvements such as arterial streets, water distribution facilities, sewage collection and transmission facilities, drainage and flood protection facilities, gas, telephone and electrical facilities, schools, parks and street lighting, as well as local in-tract improvements and on-site grading and related improvements. According to the Appraisal, the majority of these improvements have been acquired and/or completed with respect to the Rancho Vista, Rancho Vista II, Vista Monte, and San Carmela projects, but have not been completed with respect to the Carriage Estates II, CenterStone at the Landings, Ventana Pointe, Oakcrest and Sonata projects in the District. There can be no assurance that these improvements will be constructed or will be constructed in time for development to proceed as currently expected. The cost of these additional improvements plus the public and private in-tract, on-site and off-site improvements could increase the public and private debt for which the land within the District is security. This increased debt could reduce the ability or desire of the property owners to pay the annual Special Taxes levied against the property. In that event there could be a default in the payment of principal of, and interest on, the Bonds when due.

**Neither the District nor the School District, however, have control over the ability of other entities and districts to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by special taxes and *ad valorem* taxes or assessments. Any such special taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for the property within the District described herein. See “SOURCES OF PAYMENT FOR THE BONDS” and “THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness.”**

#### **Disclosures to Future Purchasers**

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The School District has caused a notice of the Special Tax to be recorded in the Office of the Recorder for the County against each parcel. 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 property within the District or 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.

## **Special Tax Delinquencies**

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, are customarily billed to the properties within the District on the *ad valorem* property tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments.

See “SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales,” for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Resolution of Issuance, in the event of delinquencies in the payment of Special Taxes. See “— Bankruptcy and Foreclosure” below, for a discussion of the policy of the Federal Deposit Insurance Corporation (the “FDIC”) regarding the payment of special taxes and assessment and limitations on the District’s ability to foreclose on the lien of the Special Taxes in certain circumstances.

## **FDIC/Federal Government Interests in Properties**

The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the “FDIC”), the Drug Enforcement Agency, the Internal Revenue Service, or other federal agency has or obtains an interest. In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that 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 Mello-Roos 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.

The FDIC has filed claims against the County of Orange, California in the United States Bankruptcy Court and in Federal District Court contending, among other things, that special taxes are not *ad valorem* taxes, and therefore not payable by the FDIC, and any special taxes previously paid by the FDIC must be refunded. The FDIC is also seeking a ruling that special taxes may not be imposed on properties while they are in FDIC receivership. The Bankruptcy Court ruled in favor of the FDIC’s positions and, on March 22,

1999, the United States Bankruptcy Appellate Panel of the Ninth Circuit affirmed the decision of the Bankruptcy Court. The County of Orange has appealed such ruling to the United States Court of Appeals for the Ninth Circuit and the FDIC has cross-appealed. The Ninth Circuit has issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from Mello-Roos special taxes. The FDIC does not currently own any of the property in the District.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, a default in payment on the Bonds.

### **Bankruptcy and Foreclosure**

Bankruptcy, insolvency and other laws generally affecting creditors rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners' taxes and the ability of the 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 "SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales." In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Secondly, the Bankruptcy Code might prevent moneys on deposit in the Special Tax Fund from being applied to pay interest on the Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against a Developer or its successors and if the court found that any of such landowners had an interest in such moneys within the meaning of Section 541(a)(1) of the Bankruptcy Code.

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount and priority of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in procuring Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled *In re Glasply Marine Industries*. In that case, the court held that ad valorem property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed after the filing of the bankruptcy petition were declared to be "administrative expenses" of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all the proceeds of the sale except the amount of the pre-petition taxes.

The Bankruptcy Reform Act of 1994 (the "Bankruptcy Reform Act") included a provision which exempts from the Bankruptcy Code's automatic stay provisions, "the creation of a statutory lien for an *ad valorem* property tax imposed by . . . a political subdivision of a state if such tax comes due after the filing of the petition [by a debtor in bankruptcy court]." This amendment effectively makes the Glasply holding inoperative as it relates to *ad valorem* real property taxes. However, it is possible that the original rationale of the Glasply ruling could still result in the treatment of post-petition special taxes as "administrative expenses," rather than as tax liens secured by real property, at least during the pendency of bankruptcy proceedings.

According to the court's ruling, as administrative expenses, post-petition taxes would be paid, assuming that the debtor had 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 Special Taxes levied after the filing of a petition in bankruptcy. Glasply is controlling precedent on bankruptcy courts in the State. If the Glasply precedent was applied to the levy of the Special Taxes, the amount of Special Taxes received from parcels whose owners declare bankruptcy could be reduced.

The various legal opinions to be delivered concurrently with the delivery of the 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.

### **Funds Invested in the County Investment Pool**

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county. Following payment of the Special Taxes to the District, such funds may be invested in the name of the School District or the District for a period of time in the County investment pool. In the event of a petition of or the adjustment of County debts under Chapter 9 of the Federal Bankruptcy Code, a court might hold that the Bond Owners do not have a valid and/or prior lien on the Special Taxes or debt service payments where such amounts are deposited in the County investment pool and may not provide the Bond Owners with a priority interest in such amounts. In that circumstance, unless the Bond Owners could "trace" the funds that have been deposited in the County investment pool, the Bond Owners would be unsecured (rather than secured) creditors of the County. There can be no assurance that the Bond Owners could successfully so trace the Special Taxes or debt service payments.

### **No Acceleration Provision**

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Resolution of Issuance or in the event interest on the Bonds becomes included in gross income for federal income tax purposes. Pursuant to the Resolution of Issuance and further subject to the prior lien of owners of Bonds, an owner is given the right for the equal benefit and protection of all owners of a series similarly situated to pursue certain remedies described in Appendix E—EXCERPTS FROM THE RESOLUTION OF ISSUANCE" and "—Remedies of Bondowners" attached to this Official Statement.

### **Loss of Tax Exemption**

As discussed under the caption "TAX EXEMPTION" herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Resolution of Issuance with respect to compliance with certain provisions of the Internal Revenue Code of 1986. Should such an event of taxability occur, the Bonds are not subject to an early redemption and will remain outstanding until maturity or until redeemed under the redemption provisions contained in the Resolution of Issuance.



## **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the District and Carriage Estates II have committed to provide certain statutorily required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. See "CONTINUING DISCLOSURE." Any failure to provide annual financial information, if required, 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 a credit rating for the 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.

## **Proposition 218**

An initiative measure entitled the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article XIIC and Article XIID 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. The initiative could potentially impact the Special Taxes otherwise available to the District to pay the principal of and interest on the Bonds as described below.

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

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

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

It may be possible, however, for voters or the District or the School District acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. 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 Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses.

Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels of Developed Property within the District to less than an amount projected to equal to 110% of annual debt service each year on the Outstanding Bonds and Parity Bonds. In connection with the foregoing covenant, the District has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds. The District also has covenanted that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

The interpretation and application of the Initiative will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See “— Limitations on Remedies.”

### **Ballot Initiatives**

Articles XIII A, XIII B, XIII C and XIII D were adopted pursuant to measures 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. On March 6, 1995 in the case of Rossi v. Brown, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the City, or local districts to increase revenues or to increase appropriations or on the ability of the landowners within the District to complete the remaining proposed development. See “— Failure to Develop Properties” herein.

### **Limitations on Remedies**

Remedies available to the Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Resolution of Issuance to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or others similar laws affecting generally the enforcement of creditor’s rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Resolution of Issuance. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners.

## **TAX EXEMPTION**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of corporations. In addition, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at

maturity with respect to the Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. The amount of original issue discount that accrues to the owner of the Bond is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest on the Bonds (and original issue discount) is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest on the Bonds (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of interest on the Bonds (and original issue discount) for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX C.

#### **LEGAL OPINION**

The legal opinions of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, approving the validity of the Bonds in substantially the form set forth as Appendix C hereto, will be made available to purchasers at the time of original delivery. Certain legal matters will be passed upon for the School District and the District by Parker & Covert LLP, Tustin, California and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel.

#### **ABSENCE OF LITIGATION**

No litigation is pending or threatened concerning the validity of the Bonds and a certificate of the District to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds. Neither the School District nor the District is aware of any litigation pending or threatened which questions the existence of the District or the School District or contests the authority of the District to levy and collect the Special Taxes or to issue and retire the Bonds.

**NO RATING**

The District has not made and does not contemplate making application to any rating agency for the assignment of a rating to the Bonds.

**UNDERWRITING**

The Bonds are being purchased by Stone & Youngberg LLC (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of \$6,907,609.90 (being \$7,080,000.00 aggregate principal amount thereof, less original issue discount of \$13,050.00, and less underwriter’s discount of \$159,340.10). The purchase contract relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

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

**FINANCIAL INTERESTS**

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel and the Fiscal Agent are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

**PENDING LEGISLATION**

The District is not aware of any significant pending legislation which would have material adverse consequences on the Bonds or the ability of the District to pay the principal of and interest on the Bonds when due.

**ADDITIONAL INFORMATION**

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions. 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.

The execution and delivery of this Official Statement by the Superintendent of the School District has been duly authorized by the Board of Trustees of the Etiwanda School District acting in its capacity as the legislative body of the District.

**COMMUNITY FACILITIES DISTRICT NO. 8 OF THE  
ETIWANDA SCHOOL DISTRICT**

By: \_\_\_\_\_ /S/  
Superintendent of the Etiwanda School District, which  
is acting in its capacity as the legislative body of  
Community Facilities District No. 8 of the Etiwanda  
School District

## APPENDIX A

### RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 8 of the Etiwanda School District ("CFD No. 8") and collected each Fiscal Year, in an amount determined by the Board of Trustees of the Etiwanda School District (the "Board" or the "District") through the application of the appropriate Special Tax for "Developed Property" and "Undeveloped Property", as described below. All of the real property in CFD No. 8, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

#### **Section A. Definitions.**

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on the Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, lot line adjustment, condominium plan, or other recorded parcel map.

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 8 including, but not limited to, the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the District, CFD No. 8, or a designee thereof); the costs of collecting the Special Taxes (whether by the District or otherwise); the costs of remitting the Special Taxes to the fiscal agent or trustee; the costs of the fiscal agent or trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the District, CFD No. 8 or any designee thereof of complying with arbitrage rebate requirements; the costs to the District, CFD No. 8 or any designee thereof of complying with District, CFD No. 8 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the District, CFD No. 8 or any designee thereof related to an appeal of the Special Tax. Administrative Expenses shall also include, but not be limited to, amounts advanced by the District or CFD No. 8 for any other administrative purposes of CFD No. 8, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

"Assessor's Parcel" means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor's Parcel number.

"Assessor's Parcel Map" means an official map of the Assessor of the County of San Bernardino designating parcels by Assessor's Parcel number.

"Assigned Special Tax" means the Special Tax for each Land Use Category of Developed Property, as determined in accordance with Section C.1.a. below.

"Backup Special Tax" means the Special Tax amount set forth in Section C.1.b. below.

"Bonds" means any bonds or other indebtedness (as defined in the Act), whether in one or more series, secured by the levy of Special Taxes.

“CFD Administrator” means an official of the District, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

“Developed Property” means all Assessor’s Parcels in CFD No. 8, exclusive of Public Property, for which a building permit has been issued as of June 30 of the Fiscal Year preceding the Fiscal Year for which Special Taxes are being levied.

“Final Subdivision” means a subdivision of property by recordation of a final map, parcel map, or lot line adjustment, pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.) or recordation of a condominium plan pursuant to California Civil Code 1352 that creates individual lots for which building permits may be issued without further subdivision.

“Fiscal Year” means the period starting on July 1 and ending on the following June 30.

“Indenture” means the indenture, fiscal agent agreement, trust agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

“Land Use Category” means any of the categories listed in Table 1.

“Maximum Special Tax” means the maximum Special Tax, determined in accordance with Section C, which can be levied in any Fiscal Year on any Assessor’s Parcel.

“Non-Residential Property” means all Assessor’s Parcels of Developed Property for which a building permit was issued for a non-residential use.

“Public Property” means property within the boundaries of the Improvement Area owned by, irrevocably offered or dedicated to, or for which an easement for purposes of public right-of-way has been granted to the federal government, the State of California, the County of San Bernardino, or the City of Fontana or any local government or other public agency, provided that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified according to its use.

“Proportionately” means for Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is the same for all Assessors’ Parcels of Developed Property. For Undeveloped Property, “Proportionately” means that the ratio of the actual Special Tax levy per acre to the Maximum Special Tax per acre is the same for all Assessor’s Parcels of Undeveloped Property.

“Residential Property” means all Assessor’s Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

“Special Tax” means the special tax to be levied in each Fiscal Year on each Assessor’s Parcel of Taxable Property to fund the Special Tax Requirement.

“Special Tax Requirement” means that amount required in any Fiscal Year for CFD No. 8 to: (i) pay directly for facilities or debt service on all outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay Administrative Expenses; and (iv) pay any amounts required to establish or replenish any reserve funds for the outstanding Bonds; less (v) a credit for funds available to reduce the annual Special Tax levy as determined pursuant to the Indenture.

“Taxable Property” means all of the Assessor’s Parcels within the boundaries of CFD No. 8 which are not exempt from the Special Tax pursuant to law or Section E below.

“Undeveloped Property” means all Taxable Property not classified as Developed Property.

**Section B. Assignment to Development Status.**

Each Fiscal Year, all Taxable Property of CFD No. 8 shall be classified as Developed Property or Undeveloped Property and shall be subject to the levy of Special Taxes in accordance with this Rate and Method of Apportionment as determined pursuant to Sections C and D below. Developed Property which satisfies the criteria for Residential Property and Non-Residential Property shall be assigned thereto.

For purposes of determining the applicable Table 1 Assigned Special Tax for Developed Property, each Assessor’s Parcel of Residential Property shall be assigned to a Land Use Category based upon the house square footage of improvements constructed or to be constructed on such Assessor’s Parcel and each Assessor’s Parcel of Non-Residential Property shall be assigned to the applicable Non-Residential Land Use Category. With respect to Residential Property, the square footage of improvements shall be determined from all building permits issued and shall be exclusive of garages or other structures which are not used as living space.

**Section C. Maximum Special Tax Rates.**

1. Developed Property

The Maximum Special Tax for each Assessor’s Parcel classified as Developed Property shall be the greater of (i) the applicable Table 1 Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax.

a. Assigned Special Tax

The Assigned Special Tax for each Land Use Category as shown in Table 1 below.

**TABLE 1**

Assigned Special Taxes for Developed Property  
Community Facilities District No. 8

Land Use Category	Taxable Unit	Square Feet of Dwelling Unit	Assigned Special Tax Per Taxable Unit
1	Resid. D/U	3,500 sq. ft. or greater	\$ 1,050
2	Resid. D/U	3,001 sq. ft. to 3,499 sq. ft.	\$ 924
3	Resid. D/U	2,501 sq. ft. to 3,000 sq. ft.	\$ 840
4	Resid. D/U	2,001 sq. ft. to 2,499 sq. ft.	\$ 756
5	Resid. D/U	2,000 sq. ft. or less	\$ 630
6	Apartment per ind. unit	N/A	\$ 294

Each July 1st, commencing July 1, 2001, the Assigned Special Tax for each Category shall be increased by two percent (2%) of the maximum amount which could have been levied the previous year.

b. Backup Special Tax

The Backup Special Tax attributable to each Acre of a Final Subdivision is \$4,150 per acre. The Backup Special Tax attributable to a Final Subdivision is equal to Backup Special Per Acre multiplied by the Acreage of all Taxable Property.

The Backup Special Tax for each Assessor's Parcel of Residential Property in a Final Subdivision shall be computed by dividing the aggregate Backup Special Tax attributable to the Assessor's Parcels of Taxable Property for which building permits for residential construction have or may be issued, as determined in the preceding paragraph, by the number of such Assessor's Parcels (i.e., the number of residential lots) within such Final Subdivision.

The Backup Special Tax for each Assessor's Parcel of Non-Residential Property in a Final Subdivision shall be equal to Backup Tax Per Acre shown in Table 2 multiplied by the Acreage of such Assessor's Parcel within such Final Subdivision.

Each July 1 commencing July 1, 2001, the Backup Special Tax shall be increased by two percent (2%) of the maximum amount which could have been levied the previous year.

2. Undeveloped Property.

The Maximum Special Tax for Undeveloped Property shall be \$4,150 per Acre.

Each July 1 commencing July 1, 2001, the Backup Special Tax shall be increased by two percent (2%) of the maximum amount which could have been levied the previous year.

**Section D. Apportionment of Special Tax.**

Commencing with Fiscal Year 2001-2002 and for each following Fiscal Year, the Board shall determine the Special Tax Requirement and shall levy the Special Tax until the amount of Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property at 91 % of the applicable Assigned Special Tax;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property, at up to 100% of the Maximum Special Tax for Undeveloped Property;

Third: If additional moneys are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax to be levied on each Assessor's Parcel of Developed Property shall be increased Proportionately at up to 100% of the Assigned Special Tax for each such Assessor's Parcel;

Fourth: If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, the Special Tax to be levied on each Assessor's Parcel of Developed Property whose Maximum Special Tax is derived by the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel.

Notwithstanding the above, under no circumstances will the Special Taxes levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) per Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 8.

The special tax shall be levied for forty (40) years with respect to a particular parcel. If the special tax is levied beginning 2001-2002 with respect to a particular parcel, the special tax shall not be levied after fiscal year 2041-2042 with respect to that particular parcel.



**Section E.      Exemptions.**

The Special Tax shall not be levied upon parks, public properties, utility properties belonging to public or private utilities and properties exempt from general ad valorem taxes. The Special Tax obligation associated with any taxable Property within the CFD must be prepaid and permanently satisfied prior to being acquired by any public entity for which ordinary ad valorem taxes do not apply. The District may make a determination that such prepayment is not necessary.

**Section F.      Manner of Collection.**

The Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that CFD No. 8 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on Assessor's Parcels having delinquent Special Taxes as permitted by the Act.

A three-member Appeals Board, to be appointed by the legislative body of the CFD, shall set forth all rules and further specifics relating to the implementation, interpretation and administration of the special tax formula. Any dispute regarding the allocation or amount of special taxes levied against any particular parcel shall be submitted to the Appeals Board for consideration.

**APPENDIX B**  
**APPRAISAL REPORT**

[THIS PAGE INTENTIONALLY LEFT BLANK]

**SUMMARY APPRAISAL REPORT**

**COVERING**

**Etiwanda School District  
Community Facilities District No. 8  
Cities of Rancho Cucamonga and Fontana**

**DATE OF VALUE:**

January 1, 2002

**SUBMITTED TO:**

Doug Claflin  
Etiwanda School District  
6061 East Ave.  
Etiwanda, CA 91739

**DATE OF REPORT:**

January 14, 2002

**SUBMITTED BY:**

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

# Stephen G. White, MAI



Real Estate Appraiser

1370 N. BREA BLVD., SUITE 308 • FULLERTON, CALIFORNIA 92835-4128  
(714) 738-1898 • FAX (714) 738-4371

January 14, 2002

Doug Clafin  
Etiwanda School District  
6061 East Ave.  
Etiwanda, CA 91739

Re: Communities Facilities District No. 8  
Rancho Cucamonga and Fontana

Dear Mr. Clafin:

In accordance with your request and the District's authorization, I have completed a Complete Appraisal of the properties within the above-referenced Community Facilities District (CFD). These properties include 10 separate residential projects which are planned, currently under construction or recently completed by different builders, and include undeveloped residential acreage, vacant single-family residential lots, homes under construction and completed homes.

The purpose of this appraisal is to estimate the aggregate market value of the various properties within this CFD. Within the report, the values are estimated for the property categories of homes completed-sold, homes completed-unsold, homes under construction and vacant lots or acreage. The homes completed-sold are owned by various homeowners and are valued on a mass appraisal basis. The other categories of property are owned by the various builders, and are valued as an overall ownership.


Based on the inspections of the properties and analysis of matters pertinent to value, the following conclusions of market value have been arrived at, subject to the Assumptions and Limiting Conditions, and as of January 1, 2002:

<u>Project</u>	<u>Owner/Builder</u>	<u>Market Value</u>
Rancho Vista II	APHRC24 LLC (American Pacific Homes)	\$ 4,904,000
San Carmela	D.R. Horton	\$11,988,000
Carriage Estates II	Carriage Estates II (Pacific Crest Communities)	\$ 6,415,000
Oakcrest at Etiwanda	Crestwood Corp.	\$ 896,000
Rancho Vista	APHRC 78 LLC (American Pacific Homes)	\$17,683,000
Vista Monte	The Forecast Group	\$24,680,000
Sonata	Corman Leigh Communities	\$ 1,550,000
Centerstone at the Landing	Fontana 76 Investors (CenterStone Communities)	\$ 2,540,000
Morningside North	Individual Homeowners	\$ 8,190,000
Ventana Pointe	The Forecast Group	\$ 3,816,000
		\$82,662,000

MR. DOUG CLAFLIN  
JANUARY 14, 2002  
PAGE 2

The following is the balance of this 73-page Summary Appraisal Report which includes the Certification, Assumptions and Limiting Conditions, definitions, exhibits, and a summary of the pertinent property data, valuation and market data from which the value conclusions were derived.

Sincerely,

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

SGW:sw  
Ref: 01075

## TABLE OF CONTENTS

	PAGES
Certification.....	5
Assumptions and Limiting Conditions.....	6-7
Purpose and Use of the Appraisal, Scope of the Appraisal, Date of Value, Property Rights Appraised, Definitions.....	8-9
 <b>INTRODUCTION</b>	
Overview of CFD No. 8, General Area Description, Appraisal Methodology.....	10-12
<b>RANCHO VISTA II – AMERICAN PACIFIC HOMES.....</b>	<b>13-19</b>
<b>SAN CARMELA – D.R. HORTON.....</b>	<b>20-26</b>
<b>CARRIAGE ESTATES II – PACIFIC CREST COMMUNITIES.....</b>	<b>27-32</b>
<b>OAKCREST AT ETIWANDA – CRESTWOOD CORP.....</b>	<b>33-37</b>
<b>RANCHO VISTA – AMERICAN PACIFIC HOMES.....</b>	<b>38-42</b>
<b>VISTA MONTE –THE FORECAST GROUP.....</b>	<b>43-48</b>
<b>SONATA – CORMAN LEIGH COMMUNITIES.....</b>	<b>49-53</b>
<b>CENTERSTONE AT THE LANDING – CENTERSTONE COMMUNITIES.....</b>	<b>54-57</b>
<b>MORNINGSIDE NORTH.....</b>	<b>58-61</b>
<b>VENTANA POINTE – THE FORECAST GROUP.....</b>	<b>62-67</b>
 <b>ADDENDA</b>	
Tabulation of Single-Family Residential Land Sales.....	68-69
Tabulation of Apartment Land Sales.....	70
Qualifications of Appraiser.....	71-73

## CERTIFICATION

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

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

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

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



## ASSUMPTIONS AND LIMITING CONDITIONS

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

1. No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. All engineering studies, if applicable, are assumed to be correct. Any plot plans or other illustrative material in this report are included only to help the reader visualize the property.
6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
7. It is assumed that the property is in full compliance with all applicable federal, state and local environmental regulations and laws unless the lack of compliance is stated, described and considered in the appraisal report.
8. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents and other legislative or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in the report is based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
11. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. However, the appraiser is not qualified to detect such substances. The presence of such substances may affect the value of the property, but the value estimated in this

**ASSUMPTIONS AND LIMITING CONDITIONS, Continuing**

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

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

**SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS**

1. Estimates of land development costs and fees to get various of the subject properties from their as is condition to finished single family residential lots have been obtained from the various property owners or their representatives. These costs are integral to the analysis of the value of the as is condition of the land, and have been relied upon in this appraisal as being reasonably accurate.

## **PURPOSE AND USE OF THE APPRAISAL**

The purpose of this appraisal is to estimate the aggregate market value of all of the pertinent property located within Community Facilities District No. 8 of the Etiwanda School District. This Summary Appraisal Report is to be used as required in the bond issuance.

## **SCOPE OF THE APPRAISAL**

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

## **DATE OF VALUE**

The date of value for this appraisal is January 1, 2002.

## **PROPERTY RIGHTS APPRAISED**

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

## **DEFINITION OF MARKET VALUE**

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

## **DEFINITION OF FINISHED LOT**

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

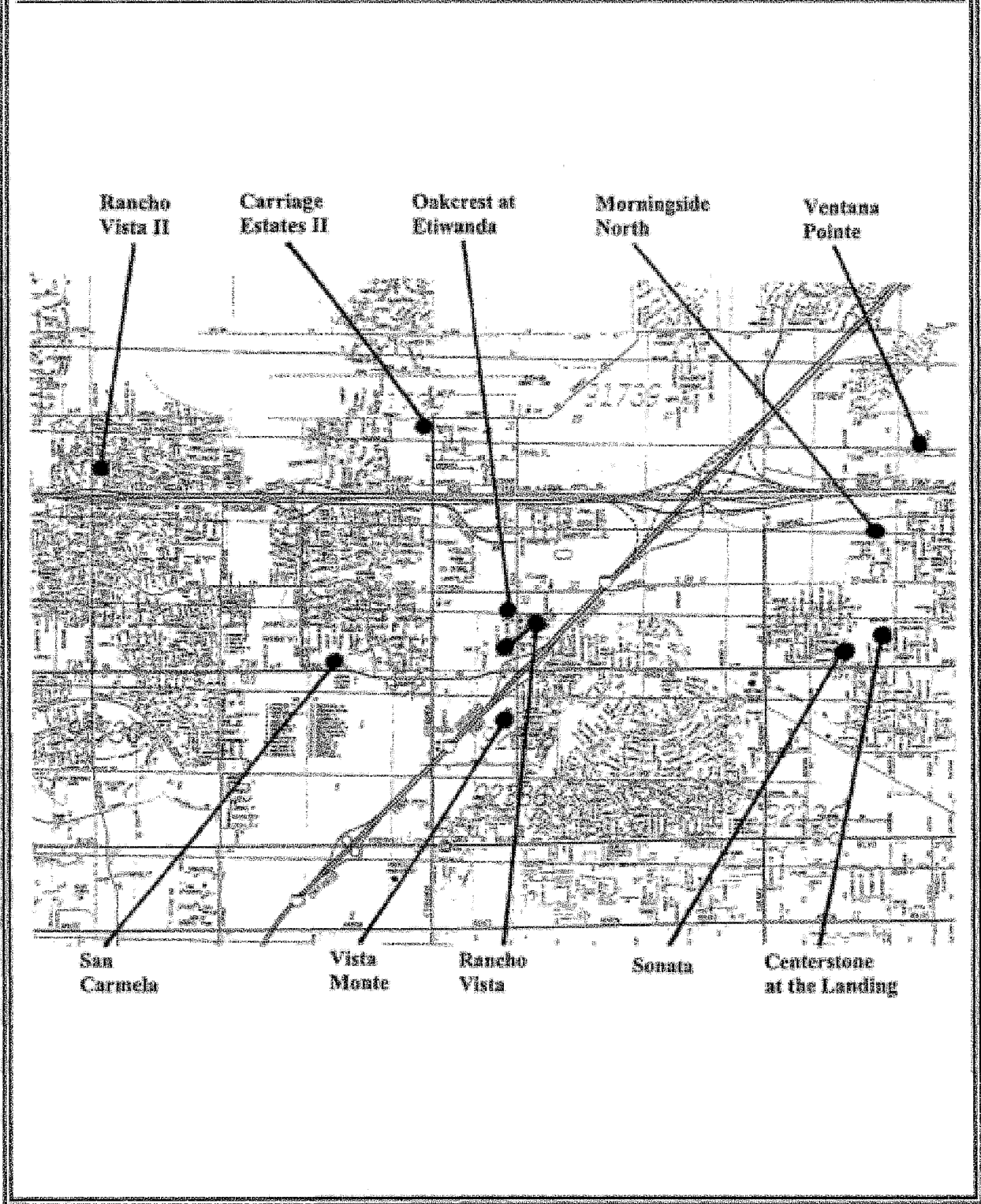
### **DEFINITION OF BLUE-TOP LOT**

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

### **DEFINITION OF RAW LAND**

In this case, the land is entitled for development, but it has not been graded from its raw condition, and still lacks the necessary infrastructure of streets, utilities, etc.

**MAP OF CFD NO. 8**



## INTRODUCTION

### OVERVIEW OF CFD NO. 8

CFD No. 8 is comprised of 10 separate residential projects, all of which are or will be single-family residential tracts. All but one of the projects have grading or construction underway, and one of the projects is a recently built-out tract of homes. These 10 projects are discussed in greater detail on following pages.

The map on the opposite page indicates the approximate location of each of the 10 projects. As indicated, these projects are located to the west and east of the I-15 Freeway, north of Foothill Blvd. and south of Summit Ave. These locations are in the east part of the City of Rancho Cucamonga and at the northwest end of the City of Fontana. All of the projects are located within the boundaries of the Etiwanda School District.

The overall CFD comprises a total of approximately 200 gross acres, which are to be developed with a total of 701 single-family detached homes. There are currently a total of 147 completed homes and 138 homes under construction. The vacant land for the remaining 416 homes ranges from raw to partly graded condition.

### GENERAL AREA DESCRIPTION

Rancho Cucamonga and Fontana are located in the southwestern part of San Bernardino County. Rancho Cucamonga lies mostly to the west of the I-15 Freeway and just to the north of the I-10 Freeway. Fontana lies mostly to the east of the I-15 Freeway, on both sides of the I-10 Freeway, extending north from the Riverside County line. To the west is the City of Upland and to the east is the City of Rialto and the unincorporated community of Bloomington. To the south is the City of Ontario and unincorporated Riverside County area, and to the north is unincorporated San Bernardino County area.

Both Rancho Cucamonga and Fontana have experienced a significant amount of growth over the past 10 years. Rancho Cucamonga had a population of about 130,000 as of 1/1/2000, which was a 28% increase from the 1990 census of 101,409. Most of the new residential development has taken place in the north and northeast parts of the city. Per City information, the population is expected to grow to a population of 170,000 by the year 2010.

Fontana had a population of 87,535 in 1990, with a current estimate of about 130,000. This indicates a significant increase of 49% over the past 11 or 12 years. Most of this new development has taken place in the north part of the city, such as in the master-planned communities of Village of Heritage and Hunter's Ridge.

Both cities have good freeway access via the I-10 and I-15 Freeways. The I-10 Freeway provides access west to Los Angeles and east to San Bernardino, and the I-

## GENERAL AREA DESCRIPTION, Continuing

I-15 Freeway provides access south to Ontario and into Riverside County, and north into the high desert area. In addition, the segment of the 210 Freeway from Day Creek Blvd. in Rancho Cucamonga to just east of Sierra Ave. in Fontana has recently opened. This freeway is parallel to and about 5 miles north of the I-10 Freeway, and runs through the north part of Fontana and Rancho Cucamonga. Within several years it will be completed to the LaVerne/San Dimas area to the west, and ultimately it will extend into San Bernardino to the east.

In summary, the projects comprising CFD No. 8 are located in the strong growth areas of Rancho Cucamonga and Fontana, where the bulk of the new residential growth has been taking place in recent years. With the higher home prices in adjacent areas of Los Angeles County, and much of the area to the west along the I-10 Freeway already built-out, this area along the I-15 Freeway corridor represents the natural progression for growth. This area will also continue to benefit from the improved access upon ultimate completion of the 210 Freeway.

## APPRAISAL METHODOLOGY

The estimate of market value in this report is an aggregate of the values as concluded for the 10 separate residential projects. Furthermore, the values of each of the 10 single-family projects, where appropriate, are segregated into the following categories:

- Homes Completed-Sold
- Homes Completed-Unsold
- Homes Under Construction
- Vacant lots or acreage

The homes completed and sold represent those which have been completed by the builder and where sales have closed to the various new homeowners. The homes completed but unsold represent those which have been completed by the builder but a closed sale has not yet occurred to a homeowner. Thus, these include the model homes, homes in escrow, or unsold inventory.

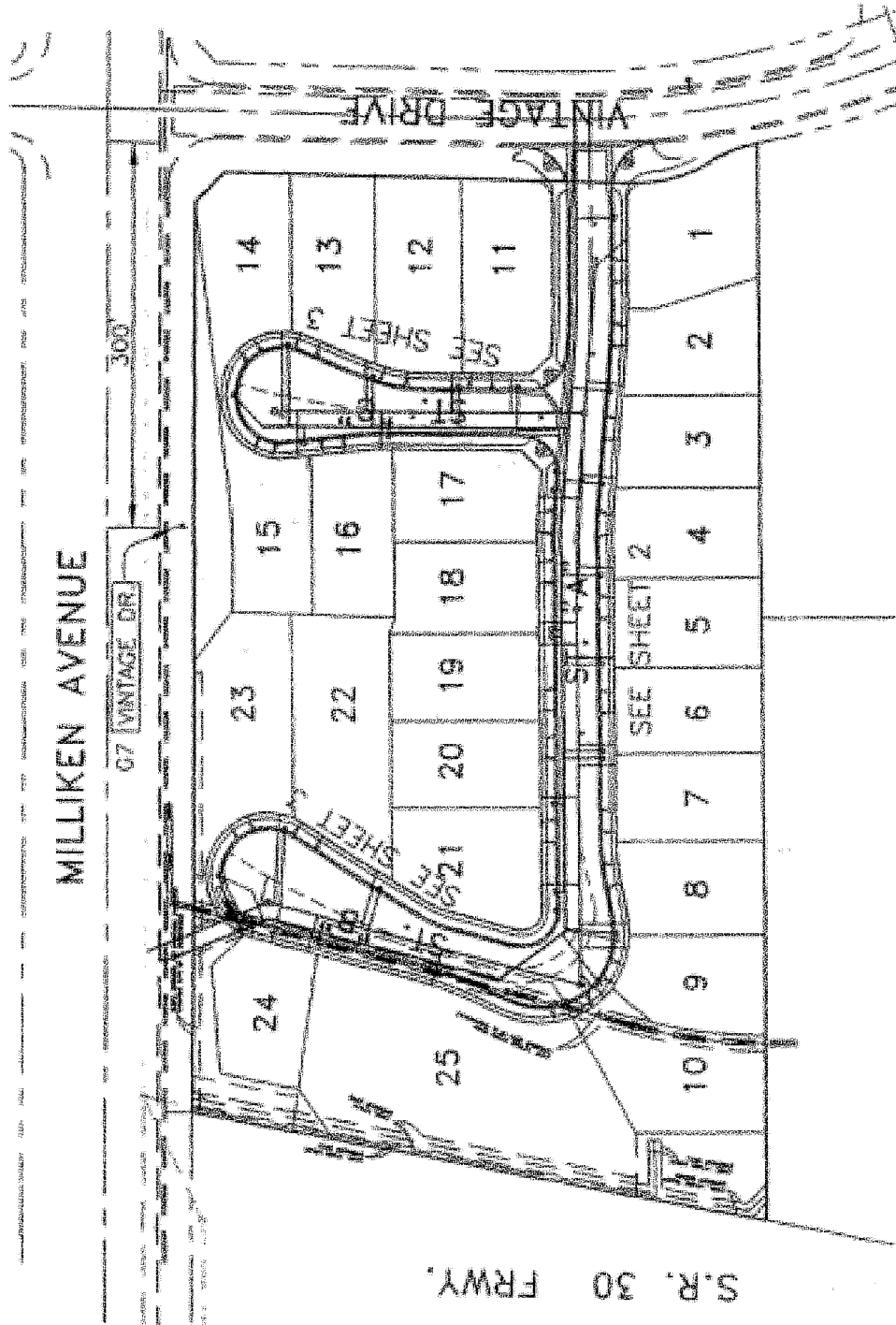
The vacant lots include lots which are in a finished condition and ready for construction to commence, as well as lots in a blue-top condition (graded but without in-tract streets and utilities completed). The vacant acreage comprises 4 of the projects, 3 of which are being or have been graded, with grading due to start in the near future on the other project.

[THIS PAGE INTENTIONALLY LEFT BLANK]



RANCHO VISTA II

SCALE 1"=100'



## RANCHO VISTA II – AMERICAN PACIFIC HOMES

### PROPERTY DATA

#### Location

This property is located at the southeast corner of Milliken Ave. and Vintage Dr., in the City of Rancho Cucamonga.

#### Surroundings

The surrounding area to the west, north and east consists of various tracts of homes. To the west of Milliken Ave. are homes which were built from 1989 to 1995 and to the east of Milliken Ave. are homes which were built in 1986 and 1987. To the south of the subject property will be the 210 Freeway.

#### Record Owner/Ownership History

The property is owned by APHRC24, LLC. They acquired this property by deed recorded December 28, 2000, Document No. 478903. The price was \$528,000 for the land in raw condition with an approved Tentative Tract Map for 24 residential lots.

#### Legal Description

The subject property is described as Lots 1 through 24 of Tract No. 15866. (Note: Lot 25 will be dedicated to GTE for a telephone exchange site, thus is not included.)

#### Assessor Data

The subject property comprises most of Assessor Parcel No. 0225-251-47. The assessed value for the overall parcel is \$965,538 for land and 0 for improvements. The tax rate area is 15-071, with a base tax rate of 1.0185. However, the total tax rate to future homeowners, including special taxes, is ±1.3%.

#### Land Area

The overall site contains 7.94 acres, per assessor.

#### Major Streets/Access

Milliken Ave. is a 134' dedicated right-of-way, 67' to centerline from the subject property. It is a major divided north-south arterial through this area, with six travel lanes and raised/landscaped center median with left turn pocket at Vintage Dr. Along the subject is curb and gutter, and there will be a wide landscaped parkway with sidewalk.

## PROPERTY DATA, Continuing

Vintage Dr. is an 85' dedicated right-of-way, 47' to centerline along the subject property. This is a minor or collector road which extends a short distance to the east and west of Milliken Ave. It is a wide two-lane street with curb parking, and along the subject is curb, gutter, and wide landscaped parkway with sidewalk.

### Utilities

All utilities have been installed in the in-tract streets. Water and sewer are provided by Cucamonga County Water District, electric is provided by Southern California Edison, gas is provided by Southern California Gas Company, and telephone is provided by General Telephone.

### Zoning/General Plan/Approvals

The zoning and general plan designate Low Residential which permits a density of 2 to 4 dwelling units per acre.

Tract No. 15866 with 25 lots was approved by the City and recorded on August 1, 2001. It has 24 residential lots which range in size from  $\pm 8,000$  s.f. to 10,600 s.f., or an average of  $\pm 9,000$  s.f., plus a lot at the south end of the tract which will be dedicated to GTE for a telephone exchange site. The 24 lots indicate a density of 3.02 lots per acre on 7.94 acres.

### Topography/Drainage

The overall site has a gradual slope down to the south, with some terracing between lots within the tract. Drainage is in gutters and public storm drain facilities within the tract. The property is not located within the floodplain.

### Soil/Geologic/Environmental Conditions

Soils and geologic reports have not been reviewed. Thus, it has been assumed that there are no soil, geologic or environmental conditions which would have an effect on the continuing development of the property with the 24 homes.

### Title Report

Policy No. 423580 GAM by First American Title Insurance Company, dated December 28, 2000, has been reviewed. Various easements were noted for drainage and utility purposes. However, it has been assumed that there are no pertinent exceptions to title which would have an effect on the valuation.

## PROPERTY DATA, Continuing

### Proposed Development/Status

The overall site is being developed with a tract of 24 homes called Rancho Vista II. The original Rancho Vista tract with the model homes is located on East Ave., just north of Base Line Rd., and is a subject property later in this report. As of current date, there are 23 homes under construction which are  $\pm 60\%$  completed, and 1 vacant lot in near finished condition on which construction was to start during the week of January 7.

The three floor plans are described as follows:

Plan One: 2,600 s.f., single story, with 3 bedrooms and den or 4 bedrooms, 3 baths, and 3-car tandem garage; expandable to 2,808 s.f. with optional 5<sup>th</sup> bedroom and 4<sup>th</sup> bath.

Plan Two: 3,074 s.f., two-story, with 4 bedrooms, 3 baths, and 3-car garage; up to 3,545 s.f. with options including bonus room, 5<sup>th</sup> bedroom, 4<sup>th</sup> bath, and teen room.

Plan Three: 3,516 s.f., two-story, with 3 bedrooms, den and loft or up to 5 bedrooms, 3 or 3½ baths (optional 4 or 4½ baths), and 4-car tandem garage; up to 4,444 s.f. with options including 6<sup>th</sup> bedroom, 5<sup>th</sup> bath, and bonus room.

As previously indicated, the lots are a minimum of  $\pm 8,000$  s.f., and an average size of  $\pm 9,000$  s.f. The current base pricing is \$349,900 to \$394,900. As of current date, 13 of the homes are in escrow, due to close upon completion of the homes in February and March.

### Highest and Best Use

The highest and best use is concluded to be as planned for the continued development of the tract of 24 homes.

## VALUATION

### Method of Analysis

For the vacant lot, considered as part of the larger tract, the Sales Comparison Approach is used to estimate the value of the lot as if in finished condition, less a minor deduction for the remaining cost to get to fully finished condition. This approach compares recent sales of similar residential land in the general area to the subject property, considering pertinent differences from the sales to the subject property.

For the homes under construction, the value is based on the finished lot value, less remaining costs to get to finished lot condition, plus an amount to reflect the approximate construction costs spent thus far.

## VALUATION, Continuing

### Analysis of 1 Vacant Lot

A search was made in this general area for recent sales of similar residential land or bulk residential lots. The Tabulation of Single-Family Residential Land Sales is in the Addenda section at the end of this report. The following discussion and analysis references the sales from that tabulation which are most pertinent to this subject property.

**Sale No. 1** is located in the southwest part of Rancho Cucamonga, just north of Ontario and the I-10 Freeway, in a mixed residential and industrial area. The seller was building homes nearby, but sold these lots off to Centex Homes. The lots are much smaller than the subject and the location is judged to be inferior, resulting in much lower-priced homes on this sale than on the subject property. Considering also the date of sale in October 2000, this sale supports a far lower limit for the subject at \$91,500 per finished lot.

**Sale No. 5** was the sale of the subject property to the current owner/builder. It took place in December 2000 and reflected a price of \$110,000 per finished lot. At that time, the projected home prices were in the low to high \$300,000's, and the actual base pricing now ranges from about \$350,000 to \$395,000, which is  $\pm 7-8\%$  higher on average. Overall, the sale of just over a year ago supports a firm lower limit for current date at \$110,000 per finished lot.

**Sale No. 6** is located in the east central part of Rancho Cucamonga, and is a vacant site which is being sold by the City. There are three pending bids, and a buyer is due to be selected by January 16. The sale would then close within about 3 months thereafter. These lots are much smaller than the subject, resulting in much smaller and lower-priced homes. Thus, the indication from the three bids reflecting  $\pm \$104,000$  to \$114,000 per finished lot supports a firm lower limit for the subject.

**Sale No. 7** is located adjacent to the south of Sale No. 6. The price had been negotiated in late 1999, and the buyer processed all approvals for the tract map. Similar to Sale No. 7, these lots are also much smaller than the subject, with smaller and lower-priced homes. Considering also the sale date of October 2000, the price of \$107,000 per finished lot supports a firm lower limit for the subject.

**Sale Nos. 8 through 12** are located in the master-planned community of Rancho Etiwanda, which is toward the easterly part of the north end of Rancho Cucamonga. Grading of these lots is mostly completed, and these land sales are due to close from late January through May. Development of this community will commence thereafter. The land slopes up to the north, resulting in some view potential to these lots, with the larger lots being located toward the northerly end of the community with the better views. In general, the location of this community with the view potential is considered to be slightly superior to the subject.

## VALUATION, Continuing

Considering the lot sizes, as well as the location, view potential and potential home prices, Sale Nos. 8 and 9 would support firm lower limits for the subject at \$105,000 and \$112,000 per finished lot. Sale No. 10 supports a closer but firm lower limit at \$118,000 per finished lot, Sale No. 11 supports a close indication at \$122,000 per finished lot and Sale No. 12 supports a firm upper limit at \$130,000 per finished lot.

**Sale No. 13** is the San Carmela-D.R. Horton subject property which is discussed next. Based on the much smaller lots and the sale date of January 2001, the indication at \$90,000 per finished lot is a far lower limit for the subject.

**Sale No. 15** is the Oakcrest at Etiwanda-Crestwood Corporation subject property which is located adjacent to the north of the Rancho Vista-American Pacific Homes subject property (Sale No. 16), and is discussed later. These are relatively larger lots at  $\pm 13,000$  s.f. minimum, but it is an average location for these larger lots. In addition, the tract wraps around several smaller and older homes which front on East Ave. These factors result in homes which are fairly similar in size and price to the adjacent Rancho Vista, in spite of the much larger lots. In addition, the purchase reflected raw land with no tract map approvals. Overall, the indication at \$110,000 per finished lot supports a lower limit for the subject.

**Sale No. 16** is the Rancho Vista-American Pacific Homes subject property which is discussed later. It is also the sister project to the subject property. Considering the sale date in September 2000, the price indication at \$96,000 per finished lot supports a far lower limit for the subject.

In summary, on a finished lot basis, the data supports far lower limits for the subject at \$90,000 to \$96,000, closer but firm lower limits at \$104,000 to \$114,000, a close lower limit at \$118,000, a close indication at \$122,000, and a firm upper limit at \$130,000.

In terms of a finished lot ratio (ratio of finished lot value to average base home price), the data indicates the overall range of 29% to 41%. Considering the subject in terms of the more desirable Rancho Cucamonga location, the price range of homes, and the status of development thus far, I have concluded on a ratio of 34-35%. Applied to the current average base price of  $\pm \$369,000$ , the indication is as follows:

$$\$369,000 \times .34-.35 = \$125,460 \text{ to } \$129,150/\text{finished lot}$$

I have concluded on a supportable value indication for the subject at \$124,000 per finished lot. Then, per information obtained from American Pacific Homes, there are remaining costs of about \$90,000 to \$100,000 to complete the final street lift and the improvements along Milliken Ave. This is equivalent to  $\pm \$4,000$  per lot for the 24 lots. Thus, I have concluded on a value of \$120,000 per lot for the as is condition.

## VALUATION, Continuing

### Analysis of 23 Homes Under Construction

For the 23 homes which are ±60% completed, the builder indicates that the total construction costs spent thus far, over and above the finished lot, are \$2,031,000, which is an average of \$88,304 per home. Considering the average home size of ±3,060 s.f., this would indicate an average of \$28.86 per s.f. Alternatively, considering total direct costs of ±\$50.00 per s.f. and ±60% completion, the indication is an allocation of \$30.00 per s.f. Applied to the average home size of ±3,060 s.f., this indicates an average of \$91,800 per home.

I have concluded on an average cost of \$88,000 per home, which is added to the estimated lot value of \$120,000 as previously discussed. This results in an average value allocation of \$208,000 for these 23 homes under construction.

### Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

23 homes under construction @ \$208,000 =	\$4,784,000
1 vacant lot @ \$120,000 =	<u>\$ 120,000</u>
	\$4,904,000

[THIS PAGE INTENTIONALLY LEFT BLANK]



SAN CARMELA



**D·R·HORTON®**

America's Confidence Builder

## SAN CARMELA - D.R. HORTON

### PROPERTY DATA

#### Location

This property is located at the northwest corner of Base Line Rd. and San Carmela Ct., in the City of Rancho Cucamonga.

#### Surroundings

To the west is a self-storage/RV storage facility and beyond is a newer tract of homes. To the north is an old railroad right-of-way, and beyond that are various tracts of homes within the Victoria planned community which were built in the mid-1980's. The closest homes are typically  $\pm 800$  to 1,300 s.f. in size and are on  $\pm 3,100$  to 4,500 s.f. lots. Farther north and east are larger homes on larger lots.

Adjacent to the east of the subject along Base Line Rd. is a vacant 6-acre future commercial site, and beyond that is a small retail center at the northwest corner with Victoria Park Ln. which includes a strip retail building and a gas station. To the east of the north portion of the subject site is a 124-unit apartment complex. Across Base Line Rd. to the south is the J. Filippi Winery facility which is surrounded by several hundred acres of undeveloped land, all of which is planned for future mixed-use development as part of Victoria planned community.

#### Record Owner/Ownership History

The property is owned by D.R. Horton Los Angeles Holding Company, Inc. They acquired this property by deed recorded January 11, 2001, Document No. 12437. The price was \$4,365,000 for the land in raw condition with final tract map approvals for 97 lots.

#### Legal Description

The subject property is described as Lots 1 through 97 of Tract No. 16128.

#### Assessor Data

The subject property comprises Assessor Parcel No. 0227-881-01, though minor lot line adjustments have been made to this overall parcel. The assessed value for the overall parcel is \$1,916,716 for land and 0 for improvements. The tax rate area is 15-082, with a base tax rate of 1.0185. However, the total tax rate to future homeowners, including special taxes, is 1.55%.

## **PROPERTY DATA, Continuing**

### **Land Area**

The overall site contains 20.81 acres, per assessor.

### **Major Streets/Access**

Base Line Rd. is a  $\pm 120'$  dedicated right-of-way, 60' to centerline from the subject property. It is a major divided east-west arterial through this area, currently four lanes but ultimately 6 lanes. Much widening work is taking place along the subject property, and there will be a wide landscaped parkway with sidewalk.

San Carmela Ct. is a 66' right-of-way per the assessor map, and is a two-lane cul-de-sac street which extends into the subject tract from Baseline Rd. It will also provide access to the vacant site to the east.

### **Utilities**

All utilities have been installed in the in-tract streets. Water and sewer are provided by Cucamonga County Water District, electric is provided by Southern California Edison, gas is provided by Southern California Gas Company, and telephone is provided by General Telephone.

### **Zoning/General Plan/Approvals**

The zoning designates Low Medium Residential which permits a density of 4 to 8 dwelling units per acre. The general plan designates Medium Residential which permits a density of 8 to 14 dwelling units per acre.

Tract No. 16128 with 97 residential lots received final City approval in January 2001. The lots are a minimum size of  $\pm 5,000$  s.f. and an average size of  $\pm 6,000$  s.f. The 97 lots indicate a density of 4.7 lots per acre on 20.81 acres.

### **Topography/Drainage**

The overall site has a gradual slope down to the south, and is several feet above grade of Base Line Rd. Drainage is in gutters and public storm drain facilities within the tract. The property is not located within the floodplain.

### **Soil/Geologic/Environmental Conditions**

Soils and geologic reports have not been reviewed. Thus, it has been assumed that there are no soil, geologic or environmental conditions which would have an effect on the continuing development of the property with the 97 homes.

## PROPERTY DATA, Continuing

### Title Report

A title report has not been provided for review on the subject property. Thus, it has been assumed that there are no pertinent exceptions to title which would have an effect on the valuation.

### Proposed Development/Status

The overall site is being developed with a tract of 97 homes called San Carmela. As of current date, the 3 model homes are complete and there are 43 homes under construction. Phase 1 consists of 13 homes which are ±50-60% completed, Phase 2 consists of 13 homes which are ±20-30% completed, and Phase 3 consists of 17 homes which are just in the foundation stage. The remaining 51 lots are in a nearly finished condition.

The three floor plans are described as follows:

Residence 1R: 2,545 s.f., two-story, with 4 bedrooms, loft, 3 baths and 3-car tandem garage; up to 2,630 s.f. with optional den and super family room.

Residence 2: 2,723 s.f., two-story, with 4 to 5 bedrooms, loft, 2½ to 3 baths, and 3-car garage; up to 2,902 s.f. with optional 5<sup>th</sup> bedroom and bonus room.

Residence 3: 3,192 s.f., two-story, with 5 to 6 bedrooms, 3 baths, and 3-car garage; up to 3,434 s.f. with options including 6<sup>th</sup> bedroom, loft, bonus room or den.

As previously indicated, the lots are a minimum of 5,000 s.f., and an average size of 6,000 s.f. The current base pricing is \$278,990, \$288,990 and \$305,990. As of current date there are 23 homes in escrow which are due to close in February (Phase 1) and May (Phase 2).

### Highest and Best Use

The highest and best use is concluded to be as planned for the continued development of the tract of 97 homes.

## VALUATION

### Method of Analysis

This is similar to the previous Rancho Vista II project. The completed-unsold homes are valued based on the current base pricing, as supported by the pending sales thus far, plus a minor increase for being the upgraded model homes, and less a discount to reflect being part of the bulk ownership of the builder.

## VALUATION, Continuing

### Analysis of 51 Vacant Lots

**Sale No. 1** is fairly similar to the subject in terms of the minimum lot sizes and potential home pricing. However, considering the date of sale in October 2000, the price indication at \$91,500 per finished lot supports a lower limit for the subject at current date.

**Sale No. 5**, the Rancho Vista II-American Pacific Homes subject property, consists of much larger lots with the potential for much higher-priced homes. This is more than offsetting to an upward time adjustment since the sale in January 2001, thus the indication at \$110,000 per finished lot is an upper limit for the subject.

**Sale No. 6** is fairly similar to the subject in terms of the minimum lot sizes and the price potential for homes. Thus, the current indication at \$104,000 to \$114,000 per finished lot supports a close indication for the subject.

**Sale No. 7** also consists of similar lot sizes with the potential for similar home pricing. While this sale took place in October 2000, the price of \$107,000 per finished lot was a fairly high price for 5,000 s.f. lots at that time, as evidenced by the 40% finished lot ratio. Thus, I have considered that minimal upward time adjustment is supportable, and the indication at \$107,000 per finished lot is a close indication for the subject.

**Sale No. 8** consists of larger lots at 6,000 s.f. minimum size, but the projected home pricing is similar to the subject. Thus, the indication at \$105,000 per finished lot tends to support a close indication for the subject.

**Sale No. 9** consists of much larger lots at 6,500 s.f. minimum size, and the projected home pricing is higher than the subject. Thus, the indication at \$112,000 per finished lot supports a close but firm upper limit for the subject.

**Sale No. 13** represents the January 2001 purchase of the subject property by D.R. Horton, and indicated a price of \$90,000 per finished lot. It is also noted that the price had been negotiated some time prior. At that time, the home prices were projected to be \$250,000 to \$350,000, and the current base pricing ranges from \$278,990 to \$305,990. Thus, the lower end is 12% higher than projected, and the upper end is likely more similar if considering premiums and upgrades. Overall, reflecting an upward time adjustment since a year ago, the price indication at \$90,000 per finished lot supports a firm lower limit at current date.

In summary, on a finished lot basis, the data supports firm lower limits for the subject at \$90,000 and \$91,500, close indications in the range of \$104,000 to \$114,000, and upper limits at \$110,000 and \$112,000.

## VALUATION, Continuing

In terms of a finished lot ratio, considering the factors as discussed for the previous subject property, as well as considering the lower-priced homes on this subject property, I have concluded on the range of 35-36%. Applied to the average base home price of ±\$291,000, the indication is as follows:

$$\$291,000 \times .35-.36 = \$101,850 \text{ to } \$104,760/\text{finished lot}$$

I have concluded on a supportable value indication for the subject at \$105,000 per finished lot. Then, I have used a minor deduction of \$2,000 per lot to reflect the remaining costs for final street lift and the improvements along Base Line Rd. Thus, the resulting conclusion is \$103,000 per lot for the 51 vacant lots.

### Analysis of 3 Completed-Unsold Homes

The current base pricing for these three floor plans is \$278,990, \$288,990 and \$305,990, or an average of \$291,300. This base pricing is supportable as evidenced by the 23 escrows on homes which are under construction in Phases 1 and 2. It is also supportable in comparison to new home pricing elsewhere in the general area. It is also noted that the actual prices for the 23 escrows range from \$273,160 to \$333,795, including premiums and upgrades, or an average of ±\$298,200, which is 2.4% above the average of the base prices.

Considering the significantly upgraded condition of the three model homes, an upward adjustment of at least 10-15% above base pricing could be made, reflecting an average of ±\$320,000 to \$335,000. However, I have concluded on a conservative average for these homes at \$300,000.

Then, a discount is appropriate to reflect the cost factors of holding costs, sales costs and profit for the builder to sell off these homes. The holding costs of property taxes and insurance would be less than 1%, sales costs of commissions and closing costs would be 3-4%, and profit would be ±8%. I have concluded on a total discount for these factors of 15%.

The result is an average value of \$255,000 which is applied to these 3 completed-unsold homes.

### Analysis of 43 Homes Under Construction

For the 13 homes which are 50-60% completed, I have considered estimated total direct costs of ±\$50.00 per s.f. and an average home size of ±2,800 s.f. This results in a cost allocation of about \$77,000 per home which is added to the estimated lot value of \$103,000, resulting in a total allocation of \$180,000 per home.

## VALUATION, Continuing

For the 13 homes which are 20-30% completed, the cost allocation is ±\$35,000 which is added to the lot value of \$103,000, resulting in a total allocation of \$138,000 per home.

For the 17 homes which are just underway in the foundation stage, I have allocated a lump sum of \$5,000 to the lot value of \$103,000, or a total allocation of \$108,000 to these homes.

### Conclusion of Value

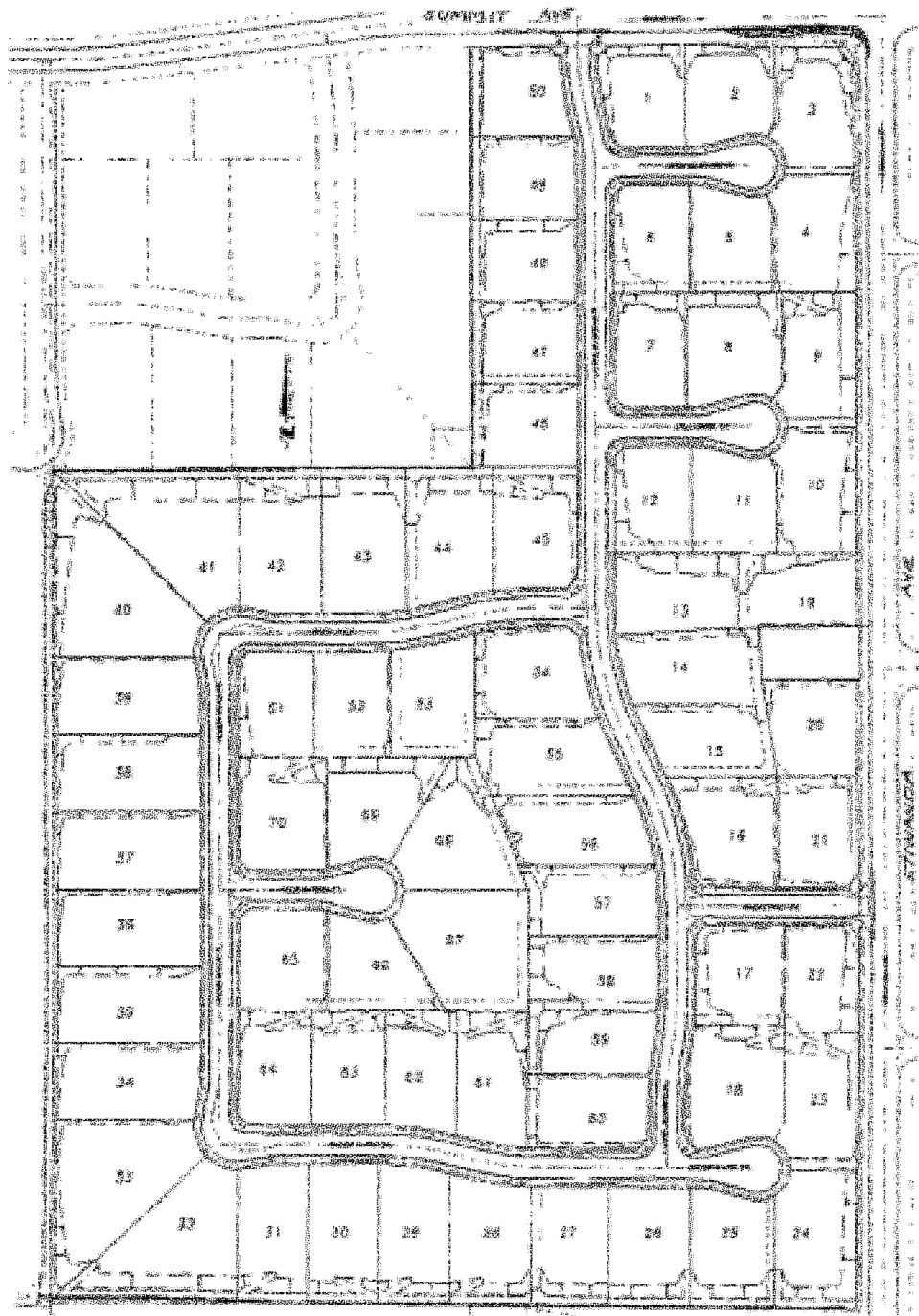
Based on the foregoing, the total value indication is calculated as follows:

3 completed-unsold homes @ \$255,000 =	\$ 765,000
13 homes under construction @ \$180,000 =	\$ 2,340,000
13 homes under construction @ \$138,000 =	\$ 1,794,000
17 homes under construction @ \$108,000 =	\$ 1,836,000
51 vacant lots @ \$103,000 =	<u>\$ 5,253,000</u>
	\$11,988,000

[THIS PAGE INTENTIONALLY LEFT BLANK]



# CARRIAGE ESTATES II



 SITE PLAN FOR TRACT NO. 16147

## **CARRIAGE ESTATES II – PACIFIC CREST COMMUNITIES**

### **PROPERTY DATA**

#### **Location**

This property is located at the southwest corner of Etiwanda Ave. and Summit Ave., in the City of Rancho Cucamonga.

#### **Surroundings**

To the west along Summit Ave. are several homes on large lots plus undeveloped acreage. Beyond that and adjacent to the west of the south portion of the subject site is the fairly new tract of Carriage Estates homes, which are  $\pm$ 3,500 to 4,400 s.f. homes on  $\pm$ 1/2-acre lots. To the north is mostly undeveloped land with some scattered homes on acreage lots. To the east are relatively large custom homes on  $\pm$ 1/2-acre lots, and to the south is vacant acreage extending south to the 210 Freeway.

#### **Record Owner/Ownership History**

The property is owned by Carriage Estates II, LLC, which is Pacific Crest Communities. They acquired this property from Lennar Homes by deed recorded August 3, 2001, Document No. 319522. The price was \$6,300,000 for the land in raw condition with an approved tentative tract map for 70 lots. Lennar Homes had assembled this property from four separate owners, with the purchases closing in March 2001, and a total purchase price of  $\pm$ \$4,000,000.

#### **Legal Description**

The subject property is described as Lots 1 through 70 of Tract No. 16147.

#### **Assessor Data**

The subject property comprises Assessor Parcel Nos. 0225-171-05,12,13,20,22&25. The total assessed value is \$856,095 for land and \$35,070 for improvements, or a total of \$891,165. The tax rate area is 15-022, with a base tax rate of 1.0185. However, the total tax rate to future homeowners, including special taxes, is assumed to be closer to 1.5%.

#### **Land Area**

The overall site contains 48.65 acres, per assessor.

## PROPERTY DATA, Continuing

### Major Streets/Access

Etiwanda Ave. is an 84' dedicated right-of-way, 40' to centerline from the subject property. It is a north-south secondary road with special design through this area, improved as a wide two-lane road with curb parking, and along the subject is rock-lined curbing and gutter, with a row of large eucalyptus trees.

Summit Ave. is a 66' dedicated right-of-way, a two-lane east-west collector street through this area. Along the subject property is curb and gutter.

### Utilities

All utilities are available to the site and will be installed in the in-tract streets. Water and sewer are provided by Cucamonga County Water District, electric is provided by Southern California Edison, gas is provided by Southern California Gas Company, and telephone is provided by General Telephone.

### Zoning/General Plan/Approvals

The zoning and general plan designate Very Low Residential which permits a density of less than 2 dwelling units per acre.

Tract No. 16147 has been processed through the City and received final approval in December for 70 residential lots, ±20,000 s.f. minimum size. The 70 lots indicate a density of 1.4 lots per acre on 48.65 acres.

### Topography/Drainage

The overall site has a gradual slope down to the south, and is mostly at grade of both streets but has been graded above the land to the south. Drainage will be in gutters and public storm drain facilities to be constructed within the tract. The property is not located within the floodplain.

### Soil/Geologic/Environmental Conditions

Soils and geologic reports have not been reviewed. Thus, it has been assumed that there are no soil, geologic or environmental conditions which would have an effect on the continuing development of the property with the 70 homes.

### Title Report

A title report has not been provided for review on the subject property. Thus, it has been assumed that there are no pertinent exceptions to title which would have an effect on the valuation.

## PROPERTY DATA, Continuing

### Proposed Development/Status

The overall site is planned to be developed with a tract of 70 homes called Carriage Estates II. As of current date, the grading is well underway with several lots nearing blue-top condition at the north end of the tract. The tract map is due to record in late January. Construction of the model homes is due to start in January and be completed in May, with construction of the first phase of 11 production homes to begin in February and be completed in June or July.

There will be five floor plans which will range from 3,466 s.f. to 5,000 s.f., with an option for up to 5,187 s.f., and the projected base pricing is from \$425,000 to \$499,900. As previously indicated, the lots are  $\pm$ 20,000 s.f. minimum size or an average size of nearer to 25,000 s.f.

### Highest and Best Use

The highest and best use is concluded to be as planned for the continued development of the 70-lot tract of homes.

## VALUATION

### Method of Analysis

This is similar to the previous subject properties. Based on the sales data, the value of the subject lots is first estimated as if in finished condition. Then, a deduction is made for the remaining costs to get the lots from as is condition to finished condition.

### Analysis of Finished Lot Value

**Sale No. 2** is located in the northwest part of Rancho Cucamonga, at the far north end at the base of the mountains with good views to the south. This was a purchase of 20,000 s.f. minimum lots in December 2000 by the same builder as on the subject property. At time of sale, there was an approved tentative tract map with a final map ready to record. In comparison to the subject, this sale is superior in terms of the location and view potential, the lower tax rate, and the potential for much higher-priced homes. Thus, the indication at \$217,000 per finished lot supports a far upper limit for the subject.

**Sale No. 3** is located to the southeast of Sale No. 1, not as far to the north end of Rancho Cucamonga but with some view potential. This was an assembly of two ownerships, the price was negotiated about a year before the closing, and the buyer processed the tentative tract map during escrow. In comparison to the subject, this sale is slightly superior in terms of the location, view potential and lower tax rate.

## VALUATION, Continuing

This results in the potential for the slightly higher-priced homes on this sale than on the subject. However, there could be an upward adjustment for time and to reflect the status of the land with no tract map approvals and need for assembly. Overall, the indication at \$170,000 per finished lot supports a close indication to close upper limit for the subject.

**Sale No. 4** is located nearby to the east of Sale No. 3, and just to the northwest of Chaffey Community College. This is a pending sale which is in escrow and due to close in March. It consists of 15 lots with a recorded tract map, 9 of which are owned by one party and 6 owned by a separate party. Several years ago the lots were rough graded, but the buyer will need to re-certify the grading and complete all in-tract improvements. The comparison to the subject is similar to that of Sale No. 3, though the planned homes are similar in price to the projected pricing of homes on the subject. However, this sale has the benefit of less land development time and risk due to the recorded tract map and the prior grading, being a ready-to-go project. Overall, the indication at \$186,760 per finished lot supports a firm upper limit for the subject.

**Sale No. 12** consists of the 8,000 s.f. minimum lots located in Rancho Etiwanda. These lots have an average size of 12,000 s.f. and various of the lots have view potential. However, these lots are much smaller than the subject, and the planned homes are also much smaller and lower-priced. Thus, the indication at \$130,000 per finished lot supports a far lower limit for the subject.

**Sale No. 14** represents the August 2001 purchase of the subject property by Pacific Crest Communities. Several sources had indicated that this sale reflected finished lots at \$180,000 to \$185,000. However, information provided by the owner, Pacific Crest Communities, indicates that the price for the raw land was \$90,000 per lot, plus budgeted costs and fees of \$70,786 per lot to get to finished lots, or an indication of \$160,786 per finished lot. This is considered to be a supportable indication for the subject property at current date.

**Sale No. 15** is the Oakcrest at Etiwanda-Crestwood Corporation subject property. These are relatively large lots at 13,000 s.f. minimum, but the location is inferior to the subject, and the planned homes are significantly smaller and lower-priced than the subject. Overall, this sale supports a far lower limit for the subject at \$110,000 per finished lot.

In summary, the data supports far lower limits at \$110,000 and \$130,000 per finished lot, a close indication at \$160,786 per finished lot, a close indication to close upper limit at \$170,000 per finished lot, and far upper limits at \$186,760 and \$217,000 per finished lot. Based on a finished lot ratio of 34-35% and the average projected base home price of ±\$462,500, the following indication results:

$$\$462,500 \times .34-.35 = \$157,250 \text{ to } \$161,875/\text{finished lot}$$

## VALUATION, Continuing

I have concluded on a value of \$161,000 per finished lot.

### Deduction for As Is Condition

Based on the information provided by Pacific Crest Communities, the total costs and fees to get from raw condition to finished lots is \$4,955,000 or \$70,786 per lot. As of January 1, 2002, approximately \$100,000 had been spent on the clearing and grading of the site. Thus, the remaining costs and fees are approximately \$4,855,000 or \$69,357 per lot.

### Conclusion of Value

Based on the foregoing, the value conclusion is calculated as follows:

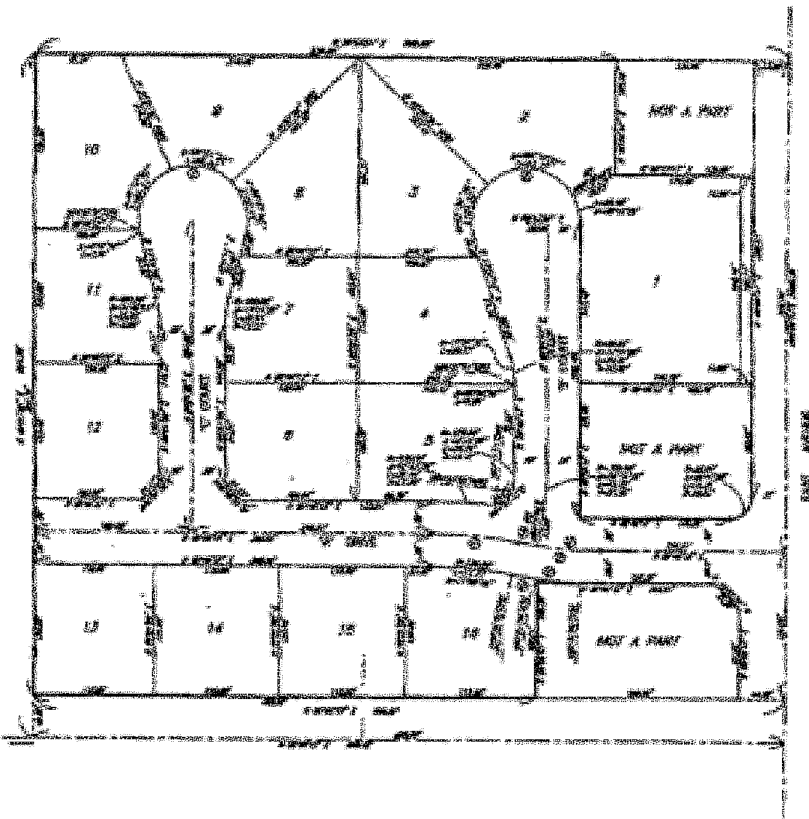
Value As if Finished Lots:	\$161,000/lot
Less Remaining Costs/Fees:	<u>- 69,357/lot</u>
Value, As Is Condition:	\$ 91,643/lot x 70 lots = \$6,415,010
	Rounded \$6,415,000

OAKCREST @ ETIWANDA

17 MAR 1988

TRACT NO. 16021

A PORTION OF LOT 8, IN BLOCK 97, PRELIMINARY MAP OF ETIWANDA COLONY LOTS, IN THE CITY OF RIVERSIDE CALIFORNIA, DURING SAN BEBENO COUNTY, STATE OF CALIFORNIA, AS PER PLAT RECORD IN BOOK 2 OF MAPS, PAGE 24, RECORDS OF SAID COUNTY.



Lot No.	Area (sq. ft.)	Area (sq. ft.)	Area (sq. ft.)	Area (sq. ft.)	Area (sq. ft.)	Area (sq. ft.)
10						
11						
12						
13						
14						
15						
16						

## OAKCREST AT ETIWANDA – CRESTWOOD CORP.

### PROPERTY DATA

#### Location

This property is located on the west side of East Ave., 660' south of Victoria St., in the City of Rancho Cucamonga.

#### Surroundings

To the west is mostly vacant land for some distance. To the north is mostly scattered houses on large lots or acreage. To the northeast is similar vacant land and scattered houses on large lots or acreage. Across East Ave. to the east and southeast, and across the former railroad right-of-way to the south is the newly developing tract of homes called Rancho Vista, discussed in greater detail as the next subject property. The subject property also wraps around three older homes on large lots which front on East Ave.

#### Record Owner/Ownership History

The property is owned by Crestwood Corporation. They acquired this property by deed recorded June 29, 2001, Document No. 256545. The price was \$750,000 for the land in raw condition without any tract map or approvals.

#### Legal Description

The subject property is described as Lot 8, Block K, Preliminary Map of Etiwanda Colony Lands, Book 2 Page 24 of Maps; excepting three parcels along the east side.

#### Assessor Data

The subject property comprises Assessor Parcel Nos. 0227-121-30&43. The total assessed value is \$674,780 for land and 0 for improvements. The tax rate area is 15-022, with a base tax rate of 1.0185. However, the total tax rate to future homeowners, including special taxes, is assumed to be closer to 1.4-1.6%.

#### Land Area

The overall site contains 7.93 acres, per assessor.

#### Major Streets/Access

East Ave. is an 88' right-of-way, 44' to centerline from the subject property. It is a north-south secondary road designated as a Special Boulevard through this area. It is currently a two-lane paved street which will be widened along the subject property



## **PROPERTY DATA, Continuing**

to accommodate four lanes, and will include curb, gutter and wide landscaped parkway with sidewalk along the subject.

### **Utilities**

All utilities are available to the site and will be installed in the in-tract streets. Water and sewer are provided by Cucamonga County Water District, electric is provided by Southern California Edison, gas is provided by Southern California Gas Company, and telephone is provided by General Telephone.

### **Zoning/General Plan/Approvals**

The zoning and general plan designate Low Residential which permits a density of 2 to 4 dwelling units per acre.

Tract No. 16021 is being processed through the City, is now an approved tentative tract map and is due to be approved as a final map and recorded in late January. It has 16 residential lots which range in size from 13,003 s.f. to 27,998 s.f., or an average of 15,395 s.f. The 16 lots indicate a density of 2.0 lots per acre on 7.93 acres.

### **Topography/Drainage**

The overall site is currently being graded, and has a gradual slope down to the south, and is mostly at grade of the street and surrounding land. Drainage will be in gutters and public storm drain facilities to be constructed within the tract. The property is not located within the floodplain.

### **Soil/Geologic/Environmental Conditions**

Soils and geologic reports have not been reviewed. Thus, it has been assumed that there are no soil, geologic or environmental conditions which would have an effect on the continuing development of the property with the 16 homes.

### **Title Report**

A Preliminary Report dated June 28, 2001 by Fidelity National Title Company has been reviewed which indicates an old right-of-way for water pipes and an easement for culvert drainpipe. However, it has been assumed that there are no pertinent exceptions to title which would have an effect on the valuation.

## PROPERTY DATA, Continuing

### Proposed Development/Status

The overall site is planned to be developed with a tract of 16 homes called Oakcrest at Etiwanda. The grading commenced in early December, and is in the early stage as of January 1. Construction is due to commence in the Spring.

The homes will range in size from 2,212 s.f. to 2,680 s.f., and the projected pricing is from ±\$290,000 to \$330,000. As previously indicated, the lots are ±13,000 s.f. minimum size, or an average size of just over 15,000 s.f.

### Highest and Best Use

The highest and best use is concluded to be as planned for the continued development of the 16-lot tract of homes.

## VALUATION

### Method of Analysis

This is similar to the previous Carriage Estates II subject property.

### Analysis of Finished Lot Value

Based on the previous analyses of Rancho Vista II, San Carmela and Carriage Estates II, and considering the location of the subject property, the impact by the adjacent homes which front on East Ave., and the price potential for homes, the data supports firm lower limits below \$100,000 per finished lot and firm upper limits above \$120,000 per finished lot and above. The sale of the subject last June (Sale No. 15) would tend to support a firm lower limit at current date of \$110,000 per finished lot. I have concluded on a supportable indication for the subject at over \$110,000 per finished lot but under \$120,000 per finished lot.

Based on the conservative pricing at an average of ±\$310,000 for the planned homes on these relatively large lots, I have used a finished lot ratio of 35-36%. This results in the following indication:

$$\$310,000 \times .35-.36 = \$108,500 \text{ to } \$111,600/\text{finished lot}$$

It is evident that the homes which are planned on these lots are relatively small and low-priced, given the lot sizes of 13,000 s.f. minimum. However, I have considered the planned homes in the value conclusion of \$112,000 per finished lot.

**VALUATION, Continuing**

**Deduction for As Is Condition**

Based on the information provided by Crestwood Corporation, the remaining costs and fees to get the land from as is condition to finished lots is ±\$56,000 per lot.

**Conclusion of Value**

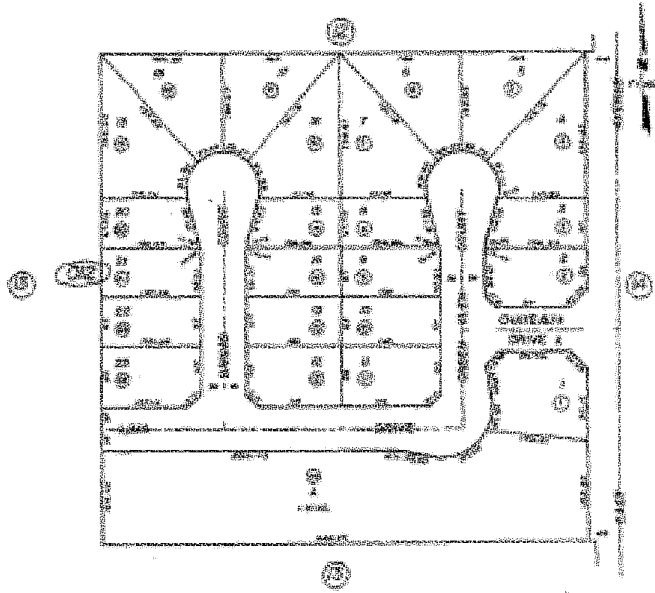
Based on the foregoing, the value conclusion is calculated as follows:

Value As If Finished Lots:	\$112,000/lot
Less Remaining Costs/Fees:	<u>- 56,000/lot</u>
Value, As Is Condition:	\$ 56,000/lot x 16 lots = \$896,000

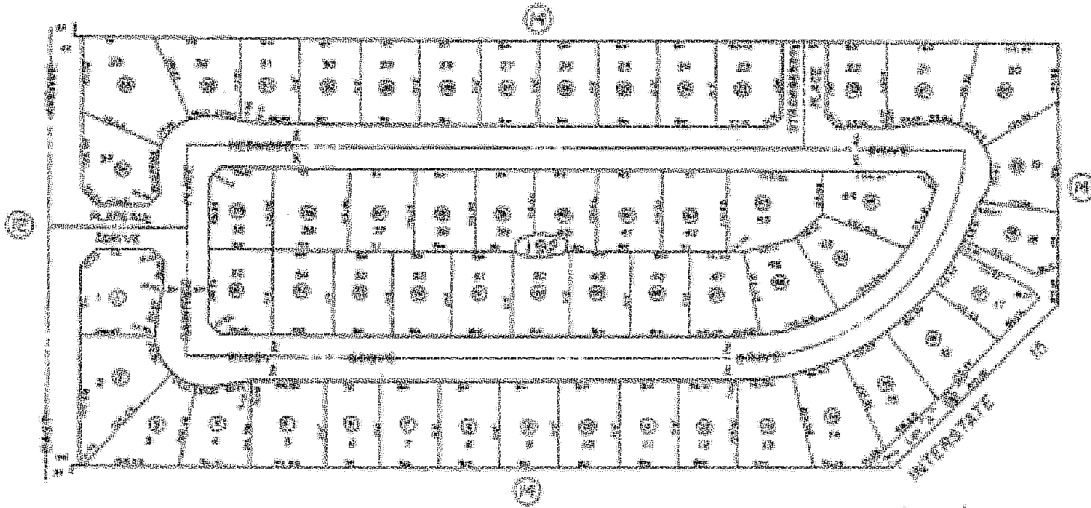
[THIS PAGE INTENTIONALLY LEFT BLANK]

# RANCHO VISTA

Rancho Del Mar, City  
Tax Map Area  
15000



SUTCLIFF DRIVE



P.O. BOX, Sec. 20,  
TIN, RSW

Assessor's Map  
Sect 222, Page 19  
San Bernardino County

4416 23821 000

## RANCHO VISTA – AMERICAN PACIFIC HOMES

### PROPERTY DATA

#### Location

This property is located on the west side of East Ave. at Chateau Dr. and on the east side of East Ave. at Plateau Dr., both sites being between Base Line Rd. and Victoria St., in the City of Rancho Cucamonga.

#### Surroundings

This is similar to Oakcrest at Etiwanda, with vacant land located to the south and the I-15 Freeway adjacent to the east of the east site.

#### Record Owner/Ownership History

Other than the completed-sold homes, the property is owned by APHRC78, LLC. They acquired this property by deed recorded September 29, 2000, Document No. 355984. The price was \$7,400,000 for the 78 lots with two recorded tract maps and in a near finished condition. The 19 completed-sold homes are owned by the various homeowners.

#### Legal Description

The overall subject property is described as Lots 1 through 23 of Tract No. 15912 (west tract) and Lots 1 through 55 of Tract No. 15911 (east tract).

#### Assessor Data

The overall subject property comprises Assessor Parcel Nos. 0227-012-01 through 23 (west tract) and 0227-192-01 through 55 (east tract). Assessed value information is not available. The tax rate area is 15-022, with a base tax rate of 1.0185. However, the total tax rate to the homeowners, including special taxes, is 1.4%.

#### Land Area

The west tract comprises ±10 acres, including a retention basin of 1.91 acres, and the east tract comprises 16.94 acres, per assessor.

#### Major Streets/Access

East Ave. was discussed for the previous Oakcrest at Etiwanda ownership.

## PROPERTY DATA, Continuing

### Utilities

All utilities have been installed in the in-tract streets. Water and sewer are provided by Cucamonga County Water District, electric is provided by Southern California Edison, gas is provided by Southern California Gas Company, and telephone is provided by General Telephone.

### Zoning/General Plan/Approvals

The zoning and general plan designate Low Medium Residential which permits a density of 4 to 8 dwelling units per acre.

Tract Nos. 15911 and 15912 are recorded maps for 55 and 23 lots, respectively. The minimum lot size is  $\pm 8,000$  s.f. and the average size is  $\pm 10,000$  to  $11,000$  s.f. The indicated density of the tracts is 3.2 and 2.3 lots per acre, respectively.

### Topography/Drainage

Both sites are fairly flat with gradual slopes down to the south. Drainage is in gutters and public storm drain facilities within the tract. Neither tract is located within the floodplain.

### Soil/Geologic/Environmental Conditions

Soils and geologic reports have not been reviewed. Thus, it has been assumed that there are no soil, geologic or environmental conditions which would have an effect on the continuing development of both tracts.

### Title Report

Title reports have not been provided for review on the subject property. Thus, it has been assumed that there are no pertinent exceptions to title which would have an effect on the valuation.

### Proposed Development/Status

This project is called Rancho Vista and will contain a total of 78 homes. The west tract contains 23 lots of which there are 13 completed-sold homes, 4 completed-unsold homes (including the 3 models), and 6 vacant lots in finished condition. The east tract, which will be gated, contains 55 lots, of which there are 6 completed-sold homes, 8 completed-unsold homes, 28 homes are under construction of which 14 are about 75% completed and 14 are in the early stage with footings and ground plumbing, and 13 vacant lots in a near finished condition.

## PROPERTY DATA, Continuing

The three floor plans are the same as previously described for Rancho Vista II. As previously indicated, the lots are a minimum of  $\pm 8,000$  s.f., and an average size of  $\pm 9,000$  s.f. The current base pricing is \$319,990, \$348,990 and \$363,990. As of January 1, 4 of the completed-unsold homes were in escrow and 5 were still available. In addition, 10 of the homes under construction were in escrow, and due to close in February or May/June, depending upon the phase and completion date.

### Highest and Best Use

The highest and best use is concluded to be as planned for the continued development of the 78 homes.

## VALUATION

### Method of Analysis

This is similar to the previous Rancho Vista II and San Carmela projects.

### Analysis of 19 Vacant Lots

The analysis is the same as for the Rancho Vista II project, resulting in a conclusion of \$124,000 per finished lot. Then, I have used a minor deduction of \$3,000 per lot to reflect the remaining costs for final street lift, improvements along East Ave. and the gate for the east neighborhood. Thus, the resulting conclusion is \$121,000 per lot for the 19 vacant lots.

### Analysis of 19 Completed-Sold Homes

As previously indicated, the current base pricing ranges from \$319,990 to \$363,990, or an average of  $\pm \$344,500$ . Information on 14 of the closed sales indicates a range of \$335,500 to \$415,000 or an average of  $\pm \$361,500$ , which is about 5% higher than the average of the base prices. This higher average reflects typical premiums and upgrades, though also it reflects slightly lower base pricing when the sales first took place in late 2000/early 2001. In addition, it is likely that these homes have been further upgraded since purchase with yard and interior improvements.

I have concluded on a conservative average for these completed-sold homes at \$360,000.

### Analysis of 12 Completed-Unsold Homes

The value of these homes is based on the conclusion of \$360,000, less the discount of 15% as previously discussed for the San Carmela project. This results in an average value of \$306,000 for these 12 homes.



## VALUATION, Continuing

### Analysis of 28 Homes Under Construction

For the 14 homes which are 75% completed, the builder indicates that the total construction costs spent thus far, over and above the finished lots, are \$1,491,000, which is an average of \$106,500 per home. Considering the average home size of  $\pm 3,060$  s.f., this would indicate an average of \$34.80 per s.f. Alternatively, considering total direct costs of  $\pm \$50.00$  per s.f. and  $\pm 75\%$  completion, the indication is an allocation of \$37.50 per s.f. Applied to the average home size of  $\pm 3,060$  s.f., this indicates an average of \$114,750 per home.

I have concluded on an average cost of \$106,000 per home, which is added to the estimated lot value of \$121,000 as previously discussed. This results in an average value allocation of \$227,000 for these 14 homes under construction.

For the 14 homes which are just underway in the foundation stage, the builder indicates that the total costs spent thus far are \$140,000 or \$10,000 per home. I have used this figure, and added to the lot value of \$121,000, the indication is an average of \$131,000 per home.

### Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

19 completed-sold homes @ \$360,000 =	\$ 6,840,000
12 completed-unsold homes @ \$306,000 =	\$ 3,672,000
14 homes under construction @ \$227,000 =	\$ 3,178,000
14 homes under construction @ \$121,000 =	\$ 1,694,000
19 vacant lots @ \$121,000 =	<u>\$ 2,299,000</u>
	\$17,683,000

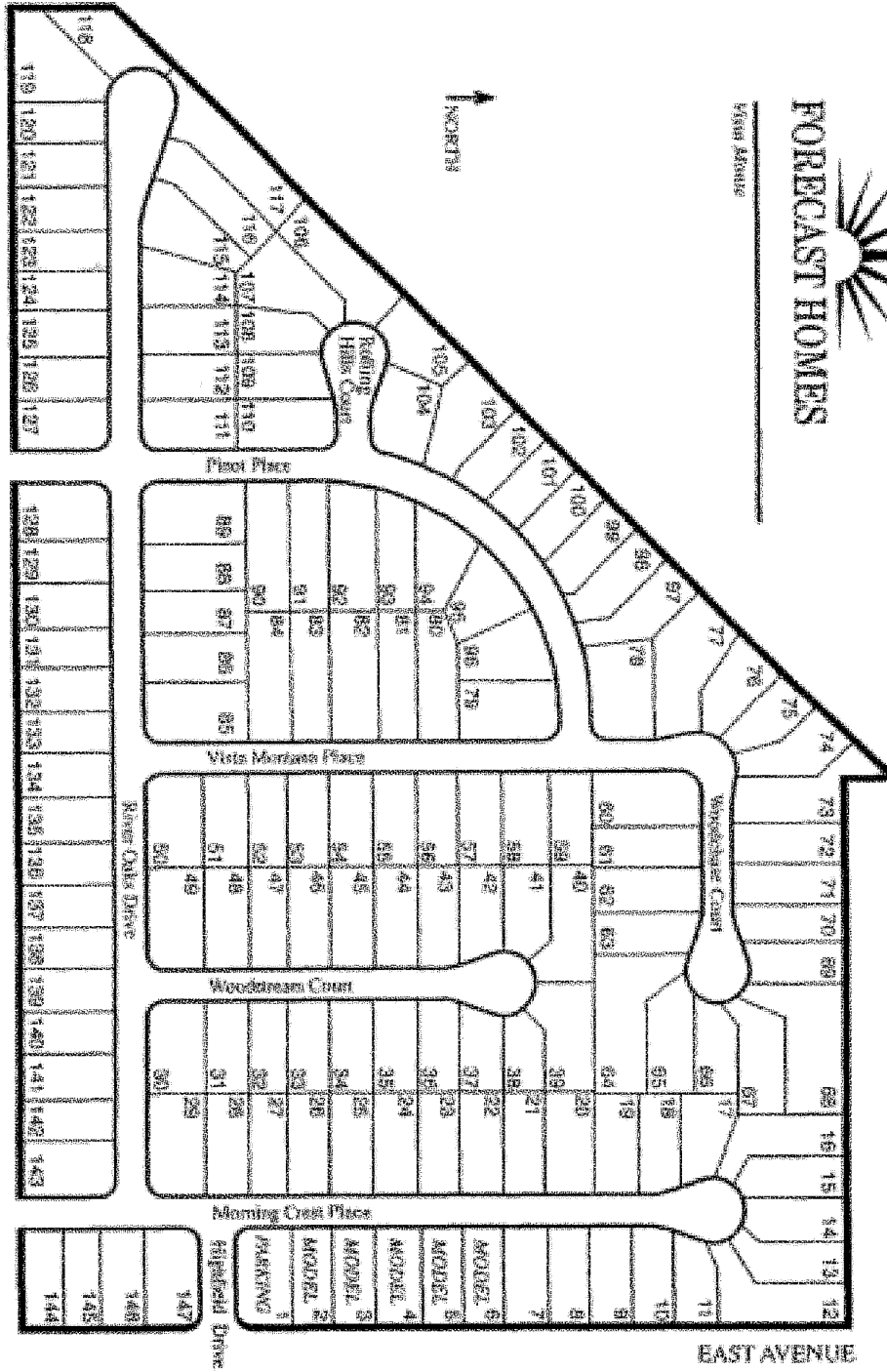
[THIS PAGE INTENTIONALLY LEFT BLANK]

# VISTA MONTE

FORECAST HOMES



VISTA AVENUE



## VISTA MONTE – THE FORECAST GROUP

### PROPERTY DATA

#### Location

This property is located on the west side of East Ave. at Highfield Dr. and opposite Day Canyon Dr., in the City of Rancho Cucamonga.

#### Surroundings

The I-15 Freeway angles from southwest to northeast along the westerly side of the subject tract. To the north is vacant land and then the freeway. Across East Ave. to the east are various tracts of relatively newer homes. To the southeast is a private school and then vacant land. To the south and southwest is vacant land and several scattered homes, and much of the vacant land is graded and planned for a future tract of homes.

#### Record Owner/Ownership History

Other than the completed-sold homes, the property is owned by The Forecast Group, L.P. The property was acquired by a related entity, Rancho Cucamonga Land Co., LLC, by deed recorded March 15, 2000, Document No. 88513. It was then deeded to The Forecast Group, L.P. by deed recorded May 23, 2001, Document No. 200954. The purchase price was not divulged, but was based on an estimate of \$67,000 per finished lot. The 58 completed-sold homes are owned by the various homeowners.

#### Legal Description

The overall subject property is described as Lots 1 through 147 of Tract No. 16105.

#### Assessor Data

The overall subject property was comprised of Assessor Parcel Nos. 1100-061-02, 03&04 and 1100-071-01, but the current parcel numbers are not available. The tax rate area is 15-022, with a base tax rate of 1.0185. However, the total tax rate to the homeowners, including special taxes, is  $\pm$ 1.4%.

#### Land Area

The overall tract comprises  $\pm$ 21 acres, per assessor.

#### Major Streets/Access

East Ave. has previously been discussed. It has primarily a two-lane paved road through this area, but has been fully widened along the subject property.

## **PROPERTY DATA, Continuing**

### **Utilities**

All utilities have been installed in the in-tract streets. Water and sewer are provided by Cucamonga County Water District, electric is provided by Southern California Edison, gas is provided by Southern California Gas Company, and telephone is provided by General Telephone.

### **Zoning/General Plan/Approvals**

The zoning designates Low Medium Residential which permits a density of 4 to 8 dwelling units per acre, and the general plan designates both Low Residential and Low-Medium Residential which permits a density of 2 to 4 and 4 to 8 dwelling units per acre, respectively.

Tract No. 16105 is a recorded map for 147 residential lots. The minimum lot size is  $\pm 5,000$  s.f. and the average size is  $\pm 6,000$  s.f. The indicated density of the tract is  $\pm 7.0$  lots per acre.

### **Topography/Drainage**

The overall site is fairly flat with a gradual slope down to the south. Drainage is in gutters and public storm drain facilities within the tract. The tract is not located within the floodplain.

### **Soil/Geologic/Environmental Conditions**

Soils and geologic reports have not been reviewed. Thus, it has been assumed that there are no soil, geologic or environmental conditions which would have an effect on the continuing development of both tracts.

### **Title Report**

A title report has not been provided for review on the subject property. Thus, it has been assumed that there are no pertinent exceptions to title which would have an effect on the valuation.

### **Proposed Development/Status**

This project is called Vista Monte and will contain a total of 147 homes. There are currently 58 completed-sold homes, 13 completed-unsold homes, 23 homes under construction, and 53 vacant lots which are in a finished condition. Of the homes under construction, there are 6 which are 90% completed, and 17 which are in the early stage with foundations and/or slabs completed.

## PROPERTY DATA, Continuing

There are five floor plans which are described as follows:

Plan 1: 1,897 s.f., 1-story, with 3 bedrooms, 2 baths, optional den at bedroom 3, covered patio, and 2-car garage.

Plan 2: 2,302 s.f., 2-story, with 3 bedrooms and loft, 2.5 baths, optional bedroom 4, and 2-car garage.

Plan 3: 2,380 s.f., 2-story, with 4 bedrooms and loft, 2.5 baths, optional bedroom 5, and 2-car garage.

Plan 4: 2,554 s.f., 2-story, with 4 bedrooms and loft, 3 baths, optional bedroom 5, and 2-car garage.

Plan 5: 2,740 s.f., 2-story, with 5 bedrooms, 3 baths, optional loft and den, and 2-car garage.

As previously indicated, the lots are a minimum of  $\pm 5,000$  s.f., and an average size of  $\pm 6,000$  s.f. The current base pricing is \$227,990, \$237,990, \$247,990, \$252,990 and \$258,990. As of January 1, 6 of the completed-unsold homes were in escrow, all 6 of the homes which were under construction and 90% completed were in escrow, and 8 of the homes in the early stage of construction were in escrow. Closing dates will be upon completion of the homes in late January through April.

### Highest and Best Use

The highest and best use is concluded to be as planned for the continued development of the 147 homes.

## VALUATION

### Method of Analysis

This is similar to the previous Rancho Vista II, San Carmela and Rancho Vista projects.

### Analysis of 53 Vacant Lots

The analysis is fairly similar to the San Carmela project. However, while these Vista Monte lots are similar as 5,000 s.f. minimum size, the average size of  $\pm 6,000$  s.f. is smaller than the average size of the San Carmela lots at  $\pm 7,000$  s.f. In addition, the location of the Vista Monte project is inferior, being along the freeway, and also being on the easterly of side of the freeway, adjacent to more identified with Fontana. This is evident by the pricing of the homes at \$228,000 to \$259,000 in contrast to the San Carmela pricing at \$279,000 to \$306,000. Thus, the analysis of the San Carmela project resulting in a conclusion of \$105,000 per finished lot supports a far upper limit for the subject.

## VALUATION, Continuing

Sale Nos. 17 through 25 are located in Fontana, to the east and northeast of the subject. These sales are of 4,500 s.f. to 7,200 s.f. minimum lots, and range in price from \$58,000 to \$68,000 per finished lot. Sale No. 22 sold in May 2001 at \$68,000 per finished lot and is currently available at a price of \$75,000 per finished lot. In comparison to the subject, all of these sales are inferior due to the location in Fontana. This is evidenced by the home pricing on these lots which is below the pricing of the subject homes, even for larger lots.

In summary, the sales data supports a firm lower limit for the subject at \$68,000 per finished lot and a firm upper limit at \$105,000 per finished lot. As previously indicated in the discussion of the ownership, the subject land sold to the current builder in March 2000 at a price reflecting \$67,000 per finished lot. At that time the land was in raw condition with no tract map. Thus, an upward time adjustment of at least 25-30% is necessary to the March 2000 sale price, which would result in a current indication at \$83,750 to \$87,100 per finished lot.

On the basis of a finished lot ratio, I have used the range of 35-36%, applied to the average base home price of ±\$245,000. This results in the following:

$$\$245,000 \times .35-.36 = \$85,750 \text{ to } \$88,200/\text{finished lot}$$

I have concluded on a supportable value indication for the subject at \$88,000 per finished lot. Then, I have used a minor deduction of \$1,000 per lot to reflect the minor remaining costs for final street lift, etc., resulting in a value of \$87,000 per lot for the 53 vacant lots.

### Analysis of 58 Completed-Sold Homes

As previously indicated, the current base pricing ranges from \$227,990 to \$258,990, or an average of ±\$245,000. Information on most of the 58 closed sales indicates the price range of \$210,050 to \$272,302 or an average of ±\$239,500. However, this reflects many sales which were negotiated in early to mid-2001, and the pricing has increased since that time. In contrast, sales which have been negotiated in November and December indicate an average of just over \$255,000. In addition, it is likely that the homes which are closed sales have been further upgraded since purchase with yard and interior improvements.

I have concluded on a conservative average for these completed-sold homes at \$250,000.

### Analysis of 13 Completed-Unsold Homes

The value of these homes is based on the conclusion of \$250,000, less the discount of 15% as previously discussed. This results in an average value of \$212,000 for these 13 homes.

## VALUATION, Continuing

### Analysis of 23 Homes Under Construction

For the 6 homes which are 90% completed, I have considered total direct costs of  $\pm$ \$50.00 per s.f., and an average home size of  $\pm$ 2,375 s.f. This indicates an allocation of  $\pm$ \$45.00 per s.f. or  $\pm$ \$107,000 per home. Added to the lot value of \$87,000, this results in an average of \$194,000 per home.

For the 17 homes which are in the slab and foundation stage, I have used a cost factor of \$10,000 per home. Added to the lot value of \$87,000, this results in an average of \$97,000 per home.

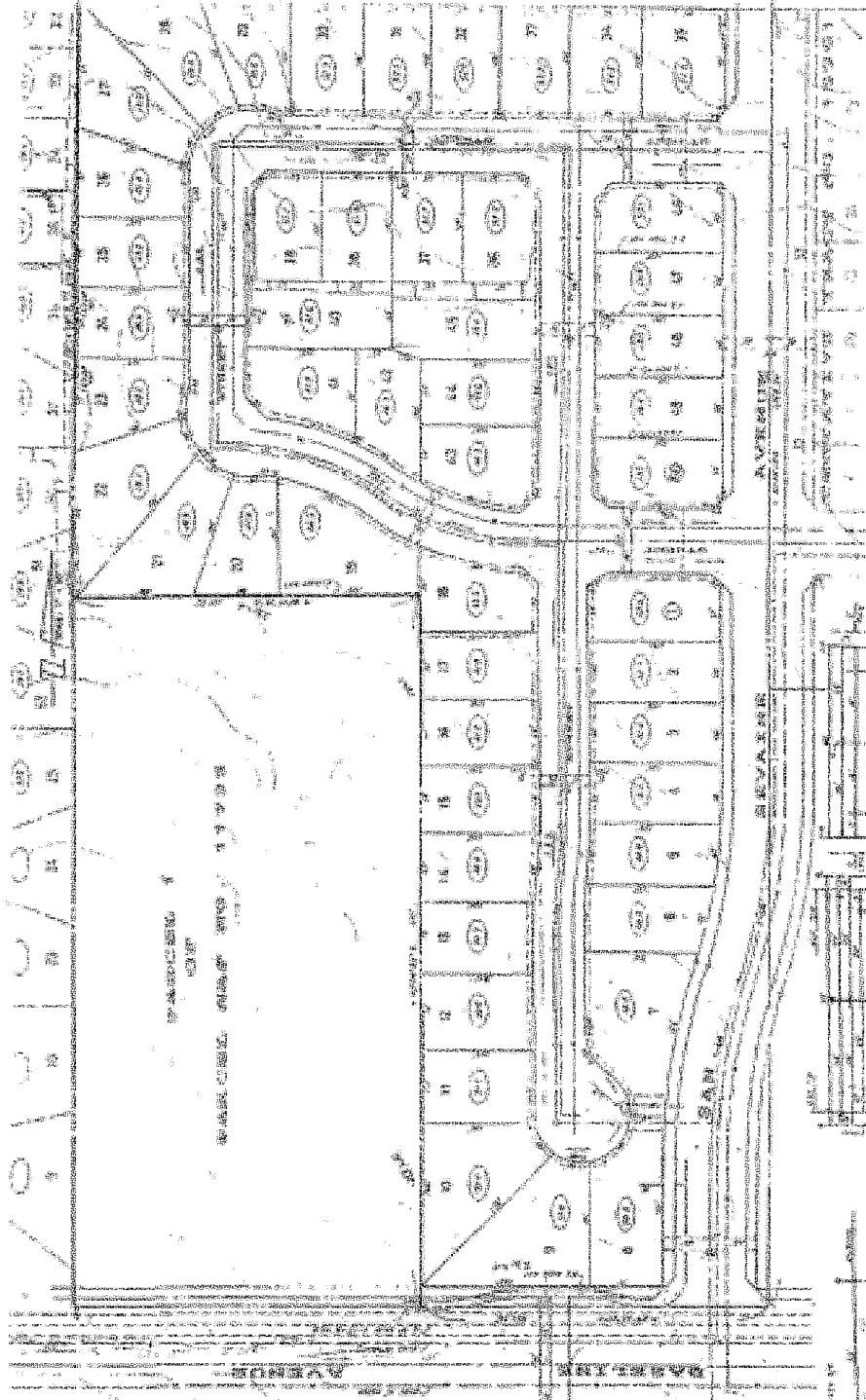
### Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

58 completed-sold homes @ \$250,000 =	\$14,500,000
13 completed-unsold homes @ \$212,000 =	\$ 2,756,000
6 homes under construction @ \$194,000 =	\$ 1,164,000
17 homes under construction @ \$97,000 =	\$ 1,649,000
53 vacant lots @ \$87,000 =	<u>\$ 4,611,000</u>
	\$24,680,000



# SONATA



## SONATA – CORMAN LEIGH COMMUNITIES

### PROPERTY DATA

#### Location

This property is located at the northwest corner of Baseline Ave. and future San Sevaine Rd., in the City of Fontana.

#### Surroundings

To the west is a vacant 5-acre parcel along Baseline Ave., then a relatively newer tract of homes to the west and north of the subject. To the east and northeast is mostly vacant land extending to Hemlock Ave., including the subject CenterStone project which is discussed next. Farther east is a tract of relatively newer homes. Across Baseline Ave. to the south/southwest is a large industrial facility, and to the southeast is a large tract of homes.

#### Record Owner/Ownership History

The property is owned by Fontana-Mountain View, L.P., which is an entity of Corman Leigh Communities. They acquired this property by deed recorded July 30, 2001, Document No. 311373. The price was \$1,020,000 for the land in raw condition with an approved tentative tract map.

#### Legal Description

The subject property is described as Lots 1 through 50 of Tentative Tract No. 15990.

#### Assessor Data

The subject property comprises Assessor Parcel Nos. 0228-101-26. The assessed value is \$427,330 for land and 0 for improvements. The tax rate area is 10-020, with a base tax rate of 1.0173. However, the total tax rate to future homeowners, including special taxes, is assumed to be ±1.5-1.7%.

#### Land Area

The overall site contains 13.95 acres, per assessor.

#### Major Streets/Access

Baseline Ave. is a 126' right-of-way, 66' to centerline from the subject property, a major east-west road through this area. It is currently a two-lane paved roadway along the subject, but it will require significant widening so as to be a six-lane roadway.

## **PROPERTY DATA, Continuing**

San Sevaine Rd. will be a 68' dedicated right-of-way, 34' to centerline. This will be a secondary or collector north-south street extending north from Baseline Ave. It does not currently exist, and will be constructed as part of the development of this and other tracts.

### **Utilities**

All utilities are available to the site and will be installed in the in-tract streets. Water is provided by Fontana Water Company, sewer is provided by the City of Fontana, electric is provided by Southern California Edison, gas is provided by Southern California Gas Company, and telephone is provided by Pacific Bell.

### **Zoning/General Plan/Approvals**

The zoning and general plan designate residential for the subject property. Tract No. 15990 is an approved tentative tract map, and is due to receive final map approval and be recorded in February. It has 50 residential lots which are  $\pm 7,200$  s.f. minimum size, or an average of  $\pm 8,200$  s.f. The 50 lots indicate a density of 3.6 lots per acre on 13.95 acres.

### **Topography/Drainage**

The overall site is currently being graded, and has a gradual slope down to the south, and is mostly at grade of the street and surrounding land. Drainage will be in gutters and public storm drain facilities to be constructed within the tract. The property is not located within the floodplain.

### **Soil/Geologic/Environmental Conditions**

Soils and geologic reports have not been reviewed. Thus, it has been assumed that there are no soil, geologic or environmental conditions which would have an effect on the continuing development of the property with the 50 homes.

### **Title Report**

A report dated July 30, 2001 by California Land Title Association has been reviewed which indicates various easements and documents. However, it has been assumed that there are no pertinent exceptions to title that would affect the valuation.

### **Proposed Development/Status**

The overall site is planned to be developed with a tract of 50 homes called Sonata. The grading just commenced in late December, and construction of the model homes is due to start in February.

## PROPERTY DATA, Continuing

There will be three floor plans at 1,649 s.f., 2,002 s.f. and 2,212 s.f. The projected base pricing is \$195,990, \$213,990 and \$221,990. As previously indicated, the lots are  $\pm 7,200$  s.f. minimum size with an average of  $\pm 8,200$  s.f.

### Highest and Best Use

The highest and best use is concluded to be as planned for the continued development of the tract of 50 homes.

## VALUATION

### Method of Analysis

This is the same as for previous subject properties.

### Analysis of Finished Lot Value

The sales located in Rancho Cucamonga, which have previously been discussed, support far upper limits for the subject at  $\pm \$90,000$  per lot and above, due to the superior location. The superior location of Rancho Cucamonga over Fontana is evident by the sales data, as well as the home pricing.

Sale Nos. 17 through 25 are located in nearby areas of Fontana, with Sale No. 23 being the July 2001 purchase of the subject property by Corman Leigh Communities. These 9 sales indicate the price range of \$58,000 to \$68,000 per finished lot, for 4,500 s.f. to 7,200 s.f. minimum size lots. Initially, it is evident that there is not a significant price difference due to the lot size. However, the low end of the range is indicated by sales of 4,500 s.f. and 5,000 s.f. lots, and this supports a firm lower limit for the subject.

The upper end of the range is indicated by the sales of 6,200 s.f. and 7,200 s.f. minimum lots. As an indication of the upward value trend over time, Sale No. 22 took place in May 2001 at the price of \$68,000 per finished lot, and it is now being marketed for sale at \$75,000 per finished lot. It is also noted that the sale of the subject property took place at \$62,400 per finished lot, which is on the lower end of the range for 7,200 s.f. minimum lots.

I have concluded that the sales data would support the upper end of the range of \$58,000 to \$68,000 per finished lot for the subject property, or a range of \$67,000 to \$68,000 per finished lot. In terms of a finished lot ratio, the data indicates the range of 29-34%, and I have used a range of 32-33% for the subject. Based on the average projected base pricing for the homes at  $\pm \$210,500$ , the following indication results:

$$\$210,500 \times .32-.33 = \$67,360 \text{ to } \$69,465/\text{finished lot}$$

## VALUATION, Continuing

I have concluded on a value of \$68,000 per finished lot.

### Deduction for As Is Condition

Based on the information provided by Corman Leigh Communities, the total costs and fees to get from raw condition to finished lots is \$42,000 per lot. As of January 1, they had spent approximately \$250,000 or \$5,000 per lot over and above the purchase of the raw land. Thus, the remaining costs and fees are approximately \$37,000 per lot.

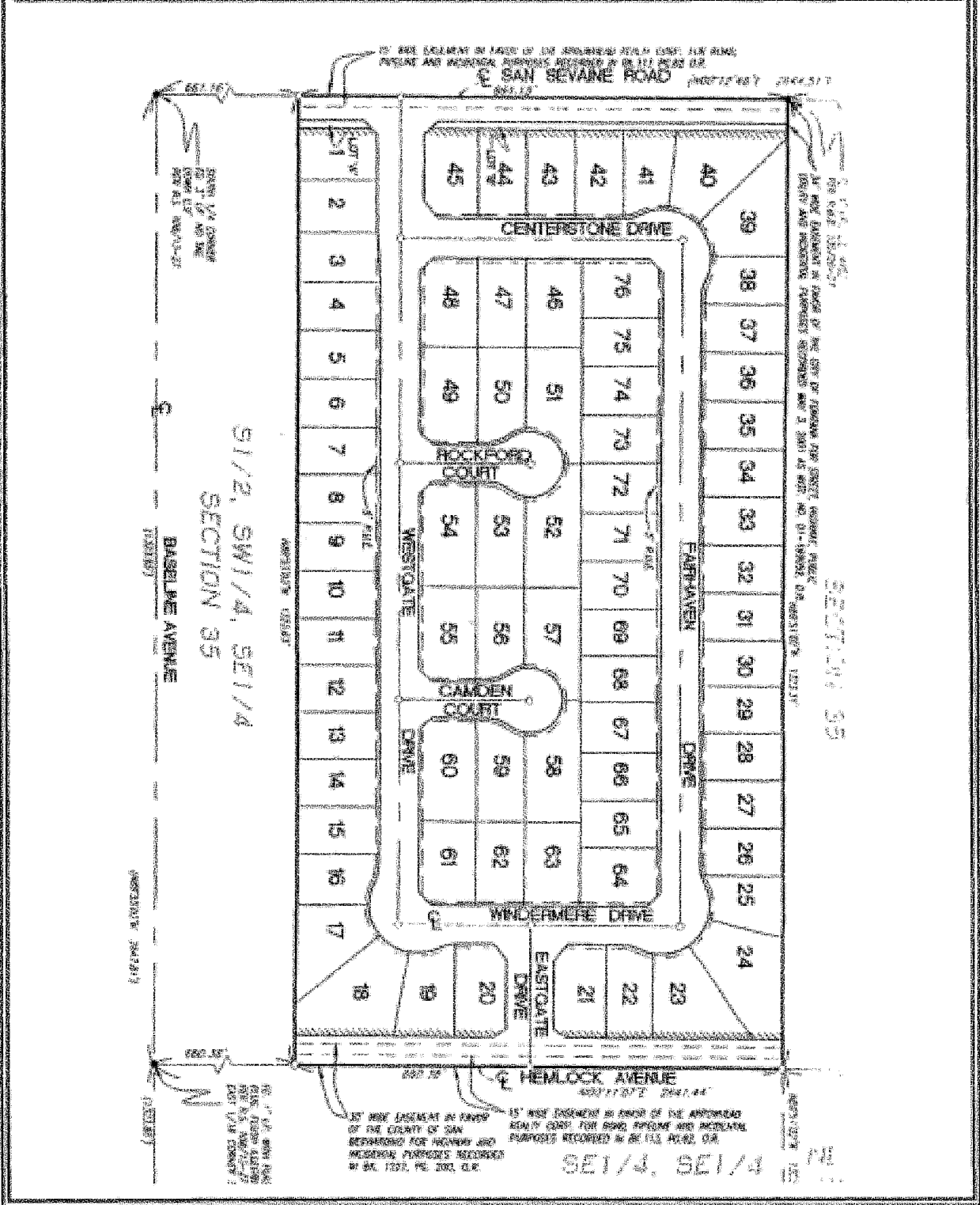
### Conclusion of Value

Based on the foregoing, the value conclusion is calculated as follows:

Value As If Finished Lots:	\$68,000/lot	
Less Remaining Costs/Fees:	<u>- 37,000/lot</u>	
Value, As Is Condition:	\$31,000/lot x 50 lots =	\$1,550,000

[THIS PAGE INTENTIONALLY LEFT BLANK]

# CENTERSTONE



## CENTERSTONE AT THE LANDING – CENTERSTONE COMMUNITIES

### PROPERTY DATA

#### Location

This property is located on the west side of Hemlock Ave., ±600' north of Baseline Ave., in the City of Fontana.

#### Surroundings

This is mostly the same as for the Sonata project previously discussed, which is located adjacent to the west of this property.

#### Record Owner/Ownership History

The property is owned by Fontana 76 Investors, LLC, which is an entity of CenterStone Communities. The property was purchased by CenterStone Development Company by deed recorded November 17, 2000, Document No. 422026, at a price of \$1,600,000. On May 30, 2001, Document No. 207321, CenterStone deeded the property to Fontana 76 Investors, LLC.

#### Legal Description

The subject property is described as Lots 1 through 76 of Tentative Tract No. 15961.

#### Assessor Data

The subject property comprises Assessor Parcel Nos. 0228-101-09. The assessed value is \$49,942 for land and 0 for improvements. The tax rate area is 10-020, with a base tax rate of 1.0173. However, the total tax rate to future homeowners, including special taxes, is assumed to be ±1.5-1.7%.

#### Land Area

The overall site contains 19.55 acres, per assessor.

#### Major Streets/Access

Hemlock Ave. will be an 82' right-of-way, 41' to centerline, a secondary north-south road through this area. It is currently a two-lane paved roadway along the subject, but it will require significant widening so as to be a four-lane roadway.

San Sevaine Rd. was discussed for the Sonata subject property, and a portion of it will be constructed as part of the development of this tract.



## **PROPERTY DATA, Continuing**

### **Utilities**

This is the same as for the adjacent Sonata subject property.

### **Zoning/General Plan/Approvals**

The zoning and general plan designate residential for the subject property. Tract No. 15961 is an approved tentative tract map, and is due to receive final map approval and be recorded in February. It has 76 residential lots which are  $\pm 7,200$  s.f. minimum and typical size. The 76 lots indicate a density of 3.9 lots per acre on 19.55 acres.

### **Topography/Drainage**

The overall site is fairly flat with a gradual slope down to the south. It is approximately grade of Hemlock Ave. and the surrounding properties. Drainage will be in gutters and public storm drain facilities to be constructed within the tract. The property is not located within the floodplain.

### **Soil/Geologic/Environmental Conditions**

Soils and geologic reports have not been reviewed. Thus, it has been assumed that there are no soil, geologic or environmental conditions which would have an effect on the continuing development of the property with the 76 homes.

### **Title Report**

A title report has not been reviewed on the subject property. Thus, it has been assumed that there are no pertinent exceptions to title which would have an effect on the valuation.

### **Proposed Development/Status**

The overall site is planned to be developed with a tract of 76 homes, tentatively to be called Centerstone at the Landing. Grading is due to start in the near future, and construction of the model homes is due to start in March or April.

The homes are planned to range in size from  $\pm 2,200$  s.f. to 2,700 s.f., and the projected pricing is  $\pm \$210,000$  to  $\$240,000$ . As previously indicated, the lots are  $\pm 7,200$  s.f. minimum and typical size.

## PROPERTY DATA, Continuing

### Highest and Best Use

The highest and best use is concluded to be as planned for the development of the tract of 76 homes.

## VALUATION

### Method of Analysis

This is the same as for previous subject properties.

### Analysis of Finished Lot Value

This is mostly the same as for the previous Sonata subject property. However, the location of this property being located away from Baseline Ave. is considered to be slightly superior. It is also noted that the recent sale of this property (Sale No. 24) took place in November 2000 at the indication of \$67,000 per finished lot. Thus, at least a minor upward time adjustment would be supportable. While the sales data supports the upper end of the range at \$68,000 per finished lot, the current listing of Sale No. 22, located nearby to the northeast of the subject, is at \$75,000 per finished lot.

In terms of a finished lot ratio, the range of 32-33% on an approximate average base home price of ±\$225,000 results in the following:

$$\$225,000 \times .32-.33 = \$72,000 \text{ to } \$74,250/\text{finished lot}$$

I have concluded on a value of \$70,000 per finished lot.

### Deduction for As Is Condition

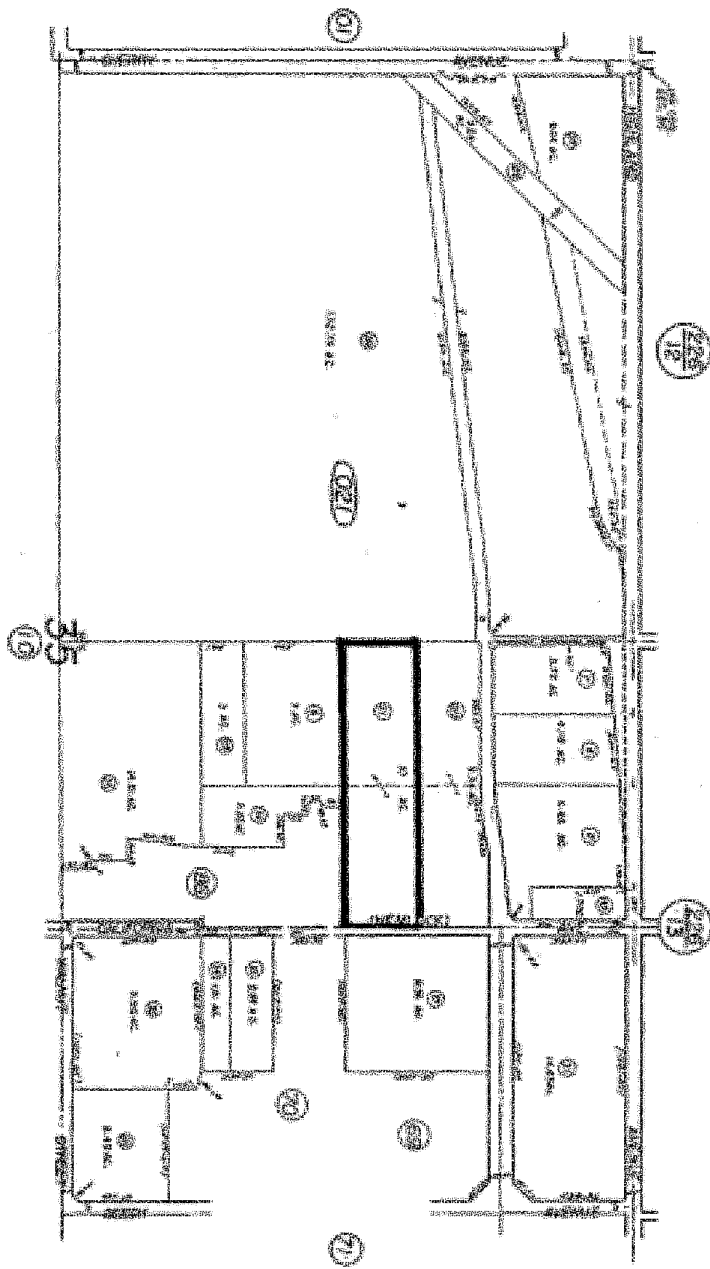
Based on the information provided by Allard Engineering, the engineering firm for CenterStone Communities, the estimated total costs and fees to get from the as is raw condition to finished lots is \$2,772,470 or \$36,480 per lot.

### Conclusion of Value

Based on the foregoing, the value conclusion is calculated as follows:

Value As If Finished Lots:	\$70,000/lot	
Less Remaining Costs/Fees:	- 36,480/lot	
Value, As Is Condition:	\$33,520/lot x 76 lots =	\$2,547,520
	Rounded	\$2,540,000

# MORNINGSIDE NORTH



N/2 SEC. 35, T14N, R9W, S22 & M.

FOURBORN CITY  
TOWN PLANNING  
11/20/20

2228-02

FOR A COMPLETE LIST OF  
MORNINGSIDE NORTH

ASSESSMENT, SEE  
PAGE 200 OF  
THE 2019 COUNTY

SEE 11/11/2019  
FOR A COMPLETE LIST OF  
MORNINGSIDE NORTH

## MORNINGSIDE NORTH

### PROPERTY DATA

#### Location

This property consists of a completed tract of homes which are mostly located on Preston Dr., between San Sevaine Rd. and Hemlock Ave., ±325' south of South Highland Ave., in the City of Fontana.

#### Surroundings

To the north and west is mostly undeveloped acreage. Adjacent to the south is a new tract of homes called Bellgrove Classics which is nearing build-out. To the east is undeveloped land and several homes on large lots, and to the southeast is an elementary school.

#### Record Owner/Ownership History

These 42 homes were built and sold by The Forecast Group, and are now owned by individual homeowners. The sales took place during the latter part of 2001.

#### Legal Description

The subject properties are described as Lots 1 through 42 of Tract No. 16078.

#### Assessor Data

The updated assessor information was not available on the subject properties. However, it was indicated that the tax rate to the homeowners, including special taxes, is ±1.7%.

#### Land Area

The overall site contained 10.0 acres, per assessor, prior to the subdivision to 42 lots.

#### Major Streets/Access

Hemlock Ave. and San Sevaine Rd. were previously discussed.

#### Utilities

This is the same as for the nearby Sonata subject property.

## PROPERTY DATA, Continuing

### Zoning/General Plan/Approvals

The zoning and general plan designate residential for the subject properties. Tract No. 16078 is a recorded tract map. The 42 lots are 7,200 s.f. minimum size, and indicate a density of 4.2 lots per acre on the 10.0 acre site.

### Topography/Drainage

The overall site is fairly flat with a gradual slope down to the south. It is approximately grade of the streets and surrounding properties. Drainage is in gutters and public storm drain facilities constructed within the tract. The properties are not located within the floodplain.

### Soil/Geologic/Environmental Conditions

Soils and geologic reports have not been reviewed. Thus, it has been assumed that there are no soil, geologic or environmental conditions which would have an effect on the valuation of the 42 homes.

### Title Report

A title report has not been reviewed on the subject properties. Thus, it has been assumed that there are no pertinent exceptions to title which would have an effect on the valuation.

### Description of Development

The overall site has been developed with a tract of 42 homes called Morningside North. This was an extension of the tract of Morningside North homes located east of Beech Ave., from Baseline Ave. to Walnut Ave. This land was purchased by the builder in March 2001, and the homes were built thereafter, with the closed sales taking place in September through November 2001.

There are five floor plans which are described as follows:

Plan 403 (The Dawn): 1,550 to 1,742 s.f., 1-story, with 3 bedrooms, 2 baths, and 2-car garage, with optional 3<sup>rd</sup> car garage or 2-car garage with bonus room.

Plan 404 (The Sunrise): 1,723 to 1,917 s.f., 1-story, with 3 bedrooms and den or 4 bedrooms, 2 baths, and 2-car garage, with optional 3<sup>rd</sup> car garage or 2-car garage with bonus room.

Plan 405 (The Aurora): 1,874 to 2,045 s.f., 1-story, with 3 bedrooms and den or 4 bedrooms, 2 baths, with optional 3<sup>rd</sup> car garage or 2-car garage with bonus room.

Plan 406 (The Daybreak): 2,119 s.f., 2-story, with 3 bedrooms and loft or master retreat, 2.5 baths, and 2-car garage.

## PROPERTY DATA, Continuing

The number of homes of each floor plan is 10 of Plan 403, 2 of Plan 404, 18 of Plan 405, and 12 of Plan 406. As previously indicated, the lots are a minimum of  $\pm 7,200$  s.f. The most recent base pricing had been from \$180,990 to \$195,990.

### Highest and Best Use

The highest and best use is concluded to be as improved.

## VALUATION

### Method of Analysis

This is the same as the valuation of completed-sold homes for various of the previous subject properties.

### Analysis of 42 Completed-Sold Homes

The base pricing for these homes had been \$180,990, \$186,990, \$192,990 and \$195,990. Considering the number of homes of each floor plan, the weighted average is  $\pm \$190,900$ . The builder indicated that the average amount of options over the entire tract was  $\pm \$2,300$  per home, and the average premium was  $\pm \$1,500$ . This results in an average actual sale price of \$194,700.

It is noted that the prices for the homes were likely negotiated last summer, thus there could be at least a minor upward time adjustment since then. In addition, it is likely that the homes have been further upgraded with yard and interior improvements since the purchase from the builder. The result is a probable average current value for these homes of well over \$194,700.

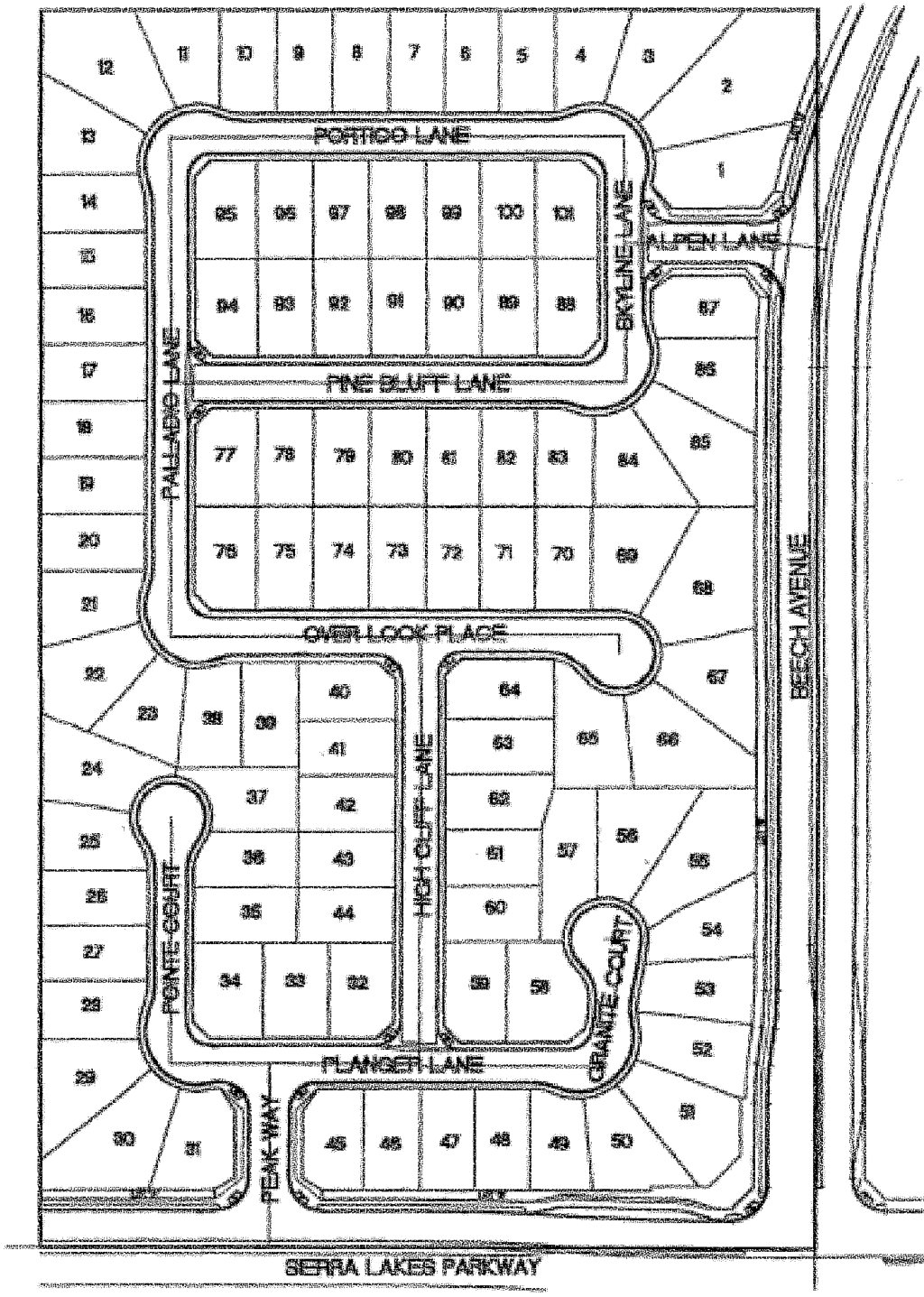
However, I have concluded on a conservative average for these completed-sold homes at \$195,000.

### Conclusion of Value

Based on the foregoing, the value conclusion is calculated as follows:

$$42 \text{ Completed-Sold Homes @ } \$195,000 = \$8,190,000$$

# VENTANA POINTE



## VENTANA POINTE – THE FORECAST GROUP

### PROPERTY DATA

#### Location

This property is located at the northwest corner of Beech Ave. and Sierra Lakes Pkwy., in the City of Fontana.

#### Surroundings

There is mostly undeveloped acreage surrounding the subject tract. Nearby to the south is the 210 Freeway and in the general area to the east are various scattered homes. Nearby to the north/northwest is the Summit Heights project by KB Home, which consists of four different tracts of homes, two of which are still be developed, plus some remaining vacant lots (including Sale No. 18). To the east and southeast of that, and adjacent to the east of the subject is Sale No. 19, a large vacant site which is planned for 479 homes by Centex Homes and Lennar Homes. Thus, the subject property is located in a newly developing area at the north end of Fontana.

#### Record Owner/Ownership History

The property is owned by The Forecast Group, L.P. The overall site was acquired from several different parties by deeds recorded June 22, 2001. The purchase price was ±\$1,858,000 or \$18,400 per lot for the raw land with an approved tentative tract map, and the finished lots were estimated at \$67,000 per lot.

#### Legal Description

The overall subject property is described as Lots 1 through 101 of Tract No. 16137.

#### Assessor Data

The overall subject property was comprised of Assessor Parcel Nos. 0226-134-03, 04&05, but the current parcel numbers are not available. The tax rate area is 10-021, with a base tax rate of 1.0173. However, the total tax rate to the homeowners, including special taxes, is ±1.3% to 1.4%.

#### Land Area

The overall tract comprises ±23.3 acres, per assessor.

#### Major Streets/Access

Beech Ave. will be dedicated 52' to centerline along the subject property, and will be a major north-south road through this area. It curves northeast from near the north



## **PROPERTY DATA, Continuing**

end of the subject tract. It is currently a four-lane paved road to the south of Sierra Lakes Pkwy. and extending under the 210 Freeway, but is only a graded roadway along the subject, requiring full construction.

Sierra Lakes Pkwy. will also be dedicated 52' to centerline along the subject property, and will be a major east-west road through this area. A two-lane paved roadway currently extends west of Beech Ave. and curves southerly, thus Sierra Lakes Pkwy. will require full construction along the subject.

### **Utilities**

All utilities are being extended to the tract and will be installed in the in-tract streets. Water is provided by Fontana Water Company, sewer is provided by the City of Fontana, electric is provided by Southern California Edison, gas is provided by Southern California Gas Company, and telephone is provided by Pacific Bell.

### **Zoning/General Plan/Approvals**

The zoning and general plan designate residential for the subject property. Tract No. 16137 is a recorded map for 101 residential lots. The minimum lot size is  $\pm 6,200$  s.f. and the average size is  $\pm 7,000$  s.f. The indicated density of the tract is  $\pm 4.3$  lots per acre.

### **Topography/Drainage**

The overall site is fairly flat with a gradual slope down to the south. Drainage will be in gutters and public storm drain facilities to be constructed within the tract. The tract is not located within the floodplain.

### **Soil/Geologic/Environmental Conditions**

Soils and geologic reports have not been reviewed. Thus, it has been assumed that there are no soil, geologic or environmental conditions which would have an effect on the continuing development of both tracts.

### **Title Report**

A title report has not been provided for review on the subject property. Thus, it has been assumed that there are no pertinent exceptions to title which would have an effect on the valuation.

## PROPERTY DATA, Continuing

### Proposed Development/Status

This project is called Ventana Pointe and will contain a total of 101 homes. There are currently 3 model homes under construction and  $\pm$ 50% completed, and 28 production homes under construction of which 10 have slabs completed and 18 are being formed for the foundations. The remaining 70 vacant lots are in a graded blue-top condition with utilities currently being installed.

There are three floor plans which are 2,511 s.f., 2,842 s.f. and 3,060 s.f. in size. The base pricing will be \$227,990, \$238,990 and \$249,990, but the sales office was not yet open as of January 1. The models are due to be completed by early February, and the first production homes are due to be completed by early April.

### Highest and Best Use

The highest and best use is concluded to be as planned for the continued development of the 101 homes.

## VALUATION

### Method of Analysis

This is similar to various of the previous subject properties.

### Analysis of 70 Vacant Lots

The analysis is fairly similar to the Sonata and Centerstone at the Landing projects. However, while these Ventana Pointe lots are slightly smaller at 6,200 s.f. minimum size, the location at the north end of Fontana is considered to be slightly superior. This is evidenced by the higher pricing of these homes than the pricing projected for Sonata and Centerstone at the Landing.

The sale of this property (Sale No. 20) in June 2001 at the indication of \$67,000 per finished lot supports a close lower limit at current date, considering at least a minor upward time adjustment. Sale No. 18 is located nearby to the north, and is a pending sale of 27 lots, 6,200 s.f. minimum size at the indication of \$68,000 per finished lot. However, these lots have limited desirability unless assembled with the adjacent lots owned by KB Home, thus the price could be on the conservative side.

Sale No. 19 is located adjacent to the east and extending to the northeast of the subject, and supports a far lower limit at  $\pm$ \$64,000 per finished lot, considering the bulk size of 506 lots. Lastly, the current asking price of \$75,000 per finished lot for

## VALUATION, Continuing

Sale No. 22 would tend to support an upper limit, as an asking price only and as slightly larger lots, though the location and potential price for homes is considered to be slightly inferior to the subject.

In summary, the sales data supports an indication for the subject at a minimum of 68,000 per finished lot, but an upper limit at \$75,000 per lot. On the basis of a finished lot ratio, I have used the range of 32-33%. Applied to the average base price of ±\$239,000. This results in the following:

$$\$239,000 \times .32-.33 = \$76,480 \text{ to } \$78,870/\text{finished lot}$$

It is evident that the relatively large size and relatively high pricing for the subject homes supports the superior location in contrast to the data located in the area to the south of the 210 Freeway. This results in the much higher lot value indications when based on the finished lot ratio, in contrast to the indications by the sale prices. However, it is also noted that these are the projected base prices for the subject homes, and not yet supported by actual sales.

In summary, I have concluded on a conservative value for the subject lots based on \$70,000 per finished lot. Then, based on information provided by The Forecast Group, a deduction of ±\$35,000 per lot is made to reflect the remaining costs to get all lots to a finished condition. This results in a value of \$35,000 per lot for the as is condition.

### Analysis of 31 Homes Under Construction

For the 3 homes which are ±50% completed, The Forecast Group indicates that ±\$166,500 has been spent as of January 1. This is an average of \$55,500 per home or \$19.82 per s.f. based on an average home size of ±2,800 s.f. Alternatively, I have considered total direct costs of ±\$50.00 per s.f., and the average home size of ±2,800 s.f. Based on ±50% completion, this indicates an allocation of \$25.00 per s.f., which is slightly higher than indicated by the builder. Thus, I have used a cost factor of \$55,000 per home and added this to the lot value of \$35,000, resulting in an average of \$90,000 per home for these 3 homes.

For the 10 homes which are in the slab stage, The Forecast Group indicates that ±\$8,500 per home has been spent. I have used a cost factor of \$8,000 per home and added this to the lot value of \$35,000, resulting in an average of \$43,000 per home.

For the 18 homes which are being formed for foundations, The Forecast Group indicates that ±\$2,500 per home has been spent. I have used a cost factor of \$2,000 per home and added this to the lot value of \$35,000, resulting in an average of \$37,000 per home.

## VALUATION, Continuing

### Conclusion of Value

Based on the foregoing, the total value indication is calculated as follows:

3 homes under construction @ \$90,000 =	\$ 270,000
10 homes under construction @ \$43,000 =	\$ 430,000
18 homes under construction @ \$37,000 =	\$ 666,000
70 vacant lots @ \$35,000 =	<u>\$2,450,000</u>
	\$3,816,000

[THIS PAGE INTENTIONALLY LEFT BLANK]

## **ADDENDA**

**TABULATION OF SINGLE-FAMILY RESIDENTIAL LAND SALES**

No.	Locating/Tracked Name	Seller/Buyer	Rec. Date	No. Lots	Min. Lot Size	Produce	Proceeds/Estimated Lts	Fin. Lot Ratio	Remarks
1	W/S Archbold, ±357' S/O 6", Rancho Cucamonga (Center at the Hawthornes)	California Homebuilding Group Center Homes	10/09	92	5,000	2,129-3,572 s.f. \$275,990-\$326,990	\$34,548 \$91,500	30%	Raw, mostly flat land with approved tentative tract map; 1.6% tax rate
2	W/S Anethyal, ±205' N/O Valley View, Rancho Cucamonga (Anethyal Estates)	Anethyal Holdings Ltd. Pacific Crest Communities	12/09	18	20,000	3,500-6,071 s.f. From \$450,000	\$124,000 \$217,000	42.5%	Raw, sloping land with approved tentative tract map; good views; 1.1% tax rate
3	158 Homosa, ±100' N/O Wilson, Rancho Cucamonga (tbl)	Major J's Ltd., et al. Bayport Homes II, LLC	9/01	41	20,000	3,200-4,300 s.f. \$483,000-\$565,000	\$58,000 \$170,000	31%	Raw, sloping land with approved tentative tract map; some views; 1.1% tax rate
4	SWC Haven & Hillside, Rancho Cucamonga (tbl)	Myoung Kim, et al. Prestige Homes	Pend.	15	20,000	3,150-3,960 s.f. \$430,000-\$480,000	\$113,000 \$186,750	45%	Recorded tract map and graded lots which need to be re-certified; some views
5	SBC Milliken & Village, Rancho Cucamonga (Rancho Vista II)	Ryaned Homes American Pacific Homes	12/00	24	8,000	2,000-3,116 s.f. Low to high- \$300,000's	\$22,000 \$110,000	31%	Raw, gently sloping land with approved tentative tract map; 1.5% tax rate
6	E/S Rochester, ±360' N/O Base Line, Rancho Cucamonga (tbl)	City of Rancho Cucamonga	Nega.	37-40	5,000	42,200-2,950 s.f. High-5200,000's	457,000 4504,000 to 4514,000	47-41%	Raw, gently sloping land with no approved tentative tract map; have 3 bids
7	NBC Base Line & Rochester, Rancho Cucamonga (North Hills)	Jeffrey L.S. Koo Richwood American Homes	10/00	77	5,000	2,516-2,885 s.f. \$261,000-\$279,000	\$45,584 \$107,000	46%	Raw, gently sloping land with approved tentative tract map; 1.6% tax rate
8	SWC Day Creek & Summit, Rancho Cucamonga (part of Rancho Elivanda)	Rancho Elivanda 683 LLC	Pend.	109	6,000	42,300-3,200 s.f. 4265,000-\$320,000	n/a \$160,000	36%	Blue-top lots; approved tentative tract map; some views; 1.8% tax rate
9	W/S Day Creek, N/O Bergan, Rancho Cucamonga (part of Rancho Elivanda)	Rancho Elivanda 683 LLC Lerner Homes	Pend.	113	6,500	42,500-3,500 s.f. 4297,000-\$350,000	n/a \$172,000	35%	Blue-top lots; approved tentative tract map; some views; 1.8% tax rate
10	SWC Day Creek & W/och, Rancho Cucamonga (part of Rancho Elivanda)	Rancho Elivanda 683 LLC MBK Homes	Pend.	106	7,000	42,700-3,700 s.f. 4315,000-\$370,000	n/a \$118,000	34%	Blue-top lots; approved tentative tract map; some views; 1.8% tax rate
11	SBC Day Creek & Wilson, Rancho Cucamonga (part of Rancho Elivanda)	Rancho Elivanda 683 LLC Sundara Pacific	Pend.	172	7,500	41,000-3,900 s.f. 4345,000-\$460,000	n/a \$122,000	33%	Blue-top lots; approved tentative tract map; some views; 1.5% tax rate
12	NWC Day Creek & Wilson, Rancho Cucamonga (part of Rancho Elivanda)	Rancho Elivanda 683 LLC Granite Homes	Pend.	102	8,000	41,200-3,200 s.f. 4360,000-\$435,000	n/a \$130,000	32%	Blue-top lots; approved tentative tract map; some views; 1.6% tax rate
13	NWC Base Line & Cornish, Rancho Cucamonga (San Carmela)	R.D. Apartments LLC D.R. Horton	1/01	97	5,000	2,545-3,192 s.f. \$258,000-\$350,000	\$45,000 \$90,000	37%	Raw, gently sloping land with final tract map; 1.5% tax rate

**TABLATION OF SINGLE-FAMILY RESIDENTIAL LAND SALES, Continuing**

No.	Location/Project Name	Seller/Buyer	Res. Date	No. Lots	Min. Lot Size	Product	Price/Lot Project/Fin. Lot	Fin. Lot Ratio	Remarks
14	SWC Elivanda & Summit, Rancho Cucamonga (Carrizo Estates II)	Leona Homes Pacific Crest Communities	8/01	79	20,000	3,466-5,008 s.f. \$425,000-\$500,000	\$50,000 \$168,786	35%	Raw, gently sloping land with approved tentative tract map; 4.5% tax rate
15	W/S East Ave., 6667 S/O Victoria, Rancho Cucamonga (Cabrera at Elivanda)	Fa W. Wang, et al Creative Corp.	6/01	16	13,000	2,212-2,680 s.f. \$290,000-\$310,000	\$45,875 \$110,000	33%	Raw, gently sloping land with no approved tentative tract map
16	N/O Base Line, both sides East Ave., Rancho Cucamonga (Rancho Vista)	Global Homes American Pacific Homes	9/00	78	8,000	3,690-3,516 s.f. \$299,000-\$332,000	\$34,872 \$46,950	30%	Lots in near finished condition recorded tract map; 1.4% tax rate
17	E/S West Liberty Pkwy at Casper Dr., Fontana (n/a)	Ben C. Anderson Inc. Chateau Homes	7/01	92	4,500	±1,800-2,300 s.f. n/a	\$54,310 \$38,263	n/a	Raw, mostly flat land with approved tentative tract map; 1.7% tax rate
18	W/S Beach at Durango Way, Fontana (n/a)	Centex Homes-Lesons Homes KB Home	Presd.	27	6,200	±2,200-3,000 s.f. \$320,000-\$250,000	\$33,000 \$68,000	±24%	Raw, mostly flat land with approved tentative tract map; 4.7% tax rate recorded at position of Sale No. 18
19	Beech to Lytle Creek, S/O Summit, Fontana (n/a)	Hartman-Johnson E.V. Centex Homes-Lesons Homes	9/01	306	6,200	n/a n/a	\$34,342 \$564,000	n/a	Raw, mostly flat land with approved tentative tract map; 4.7% tax rate
20	NWC Beach & Sierra Lakes Pkwy, Fontana (Veneta Point)	Thomas H. Evans, et al The Forecash Group	6/01	101	6,200	2,511-3,960 s.f. \$220,000-\$240,000	\$18,490 \$67,000	29%	Raw, mostly flat land with approved tentative tract map; 4.7% tax rate
21	W/S Hemlock, ±325' S/O South High- land, Fontana (Montevideo North)	LHC Alligator, L.L.C The Forecash Group	3/01	42	7,200	1,530-2,119 s.f. \$180,990-\$195,990	\$23,000 \$60,000	27%	Raw, mostly flat land with approved tentative tract map; 1.7% tax rate
22	SEC Hemlock & Walnut, Fontana (n/a)	L&L USA (Fontana Star) Mastroyiann	5/01	111	7,200	±2,000 s.f. average ±\$180,000-\$220,000	\$22,000 \$68,000	34%	Mostly flat land, now being graded, approved tent. tract map; 1.6% tax rate; raw area, at \$72,000/ea. lot
23	NWC Baseline & San Serrano, Fontana (Basista)	Rong Han, et al Cannon Leigh Communities	7/01	50	7,200	1,640-2,212 s.f. \$185,000-\$210,000	\$20,000 \$62,000	33%	Raw, mostly flat land with approved tentative tract map; 4.5-1.7% tax rate
24	W/S Hemlock, ±630' N/O Baseline, Fontana (Centurions at the Landing)	Rove Vacker Devcon Creative Development Co.	11/00	76	7,200	±2,600-3,800 s.f. ±\$190,000-\$220,000	\$21,000 \$67,000	33%	Raw, mostly flat land with approved tentative tract map; 4.5-1.7% tax rate
25	N/C Baseline & Birch, Fontana (Silver Ridge)	Trust 1605 LLC Crest Homes	1/01	221	5,000	1,744-2,212 s.f. \$171,000-\$204,000	\$28,843 \$45,500	31%	Raw, gently sloping land with approved tentative tract map; 1.95% area, tax rate



**TABULATION OF APARTMENT LAND SALES**

No.	Location/Project Name	Seller/Buyer	Res. Date	No. Units	Acres	Density	Price/Unit (\$/sq.ft.)	Remarks
1	MWC Milliken & Co., Rancho Cucamonga (Jefferson at Empire Lakes)	General Dynamics Properties Jefferson at Empire Lakes, LP	11/00	521	20.46	25.5	+\$129.56 +\$7.37	Vacant, mostly level land; price set early 1999; buyer obtained entitlements during escrow.
2	MS 4 <sup>th</sup> & 1,250' W/D Milliken, Rancho Cucamonga (Fairway Palms & Ironwood at Empire Lakes)	General Dynamics Properties Fairfield Financial LLC	7/01	496	23.34	21.3	\$21,774 \$10.62	Vacant, mostly level land, fronting along Empire Lakes Golf Course; to be two apt. complexes
3	SBC 4 <sup>th</sup> & Towner, Ontario (Centre Club Phase II)	Center Club Ontario, et al ERP Operating Ltd. Propdy.	11/00	160	44.44	22.5	+\$10,020 +\$10.24	Vacant, entitled land for 160-unit expansion of existing 317-unit complex; included phase and approvals; price is approx.
4	SWC Haven & 4 <sup>th</sup> , Ontario (r/s)	Richard K. Wagner, et al SBC B/Fourth and Haven, LLC	7/00	245	610.95	22.4	\$15,000 +\$7.70	Vacant, mostly level land; sold with entitlements pending
5	MS Brawanda, 5600' N/O Football, Rancho Cucamonga (r/s)	Lorraine Seabra The Forekast Group	Pend.	4220	15.99	14.0	+\$7,800 \$2.50	Vacant, mostly level land in raw condition; portion of 168-unit apartment site; negotiated several years ago
6	SBC Brawanda & Garcia, Rancho Cucamonga (Camino Real Apartments)	Rancho Cucamonga Land Co. SBC/Garcia, LLC	5/01	273	15.4	14.0	\$13,800 \$4.44	Vacant, mostly level land; sold as raw; buyer processed all approvals
7	SBC Football Bl. & Redwood, Unincorporated (Foothill area) (r/s)	n/a County of San Bernardino	10/00	68	6.13	11.1	\$17,333 \$3.15	Vacant, mostly level land; price set in late 1998; land was raw and buyer processed all approvals for senior housing
8	MS Chino Hills Pkwy opposite Frost, Chino Hills (r/s)	James A. Albano, et al MCI Properties Chino Hills LP	3/01	240	13.3	17.8	\$17,180 \$6.98	Vacant land with approved site plan in place

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

**PROFESSIONAL EXPERIENCE**

Real Estate Appraiser since 1976.

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

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

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

**PROFESSIONAL ORGANIZATIONS**

Member, Appraisal Institute; MAI designation obtained 1985

Affiliate Member, Pacific West Association of Realtors

**LICENSES**

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

**EDUCATION**

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

Appraisal Institute Courses:

Basic Appraisal Principles, Methods and Techniques

Capitalization Theory and Techniques

Urban Properties

Litigation Valuation

Standards of Professional Appraisal Practice

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

**COURT/TESTIMONY EXPERIENCE**

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

**TYPES OF PROPERTY APPRAISED**

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

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

## QUALIFICATIONS, Page 2

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

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

### CLIENT LIST

#### **Corporations:**

Aera Energy  
British Pacific Properties  
BSI Consultants  
Crown Central Petroleum  
Eastman Kodak Company  
Firestone Building Materials  
Foodmaker Realty Corp.  
Greyhound Lines  
Holiday Rambler Corp.  
International Baking Co.  
Johnson Controls  
Kampgrounds of America  
La Habra Products, Inc.

MCP Foods  
Merrill Lynch Relocation  
Orangeland RV Park  
Pacific Scientific  
Penhall International  
Pic 'N Save Stores  
Sargent-Fletcher Co.  
Shell-Western E&P  
Southern Distributors Corp.  
Southern California Edison  
The Home Depot  
Tooley and Company  
Wastewater Disposal Co.

#### **Developers:**

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

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

#### **Law Firms:**

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

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

## QUALIFICATIONS, Page 3

### Financial Institutions:

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

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

### Cities:

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

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

### Counties:

County of Orange

County of Riverside

### Other Governmental:

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

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

### School Districts:

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

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

### Churches/Church Organizations:

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

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

### Other:

Biola University  
Cedars-Sinai Medical Center

Garden Grove Boys' Club  
The Sheepfold

**APPENDIX C**

**FORM OF OPINION OF BOND COUNSEL**

[Closing Date]

Board of Trustees  
Etiwanda School District  
Etiwanda, California

Re: *\$7,080,000 Community Facilities District No. 8 of the Etiwanda School District, 2002 Special Tax Bonds*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Etiwanda School District taken in connection with the formation of the Community Facilities District No. 8 of the Etiwanda School District (the "District") and the authorization and issuance of the District's 2002 Special Tax Bonds in the aggregate principal amount of \$7,080,000 (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California) and Resolution No. 0102-28 adopted by the Board of Trustees of the Etiwanda School District on March 14, 2002, as supplemented by that certain Supplement to Resolution of Issuance (Resolution No. 0102-28) executed by the District as of March 1, 2002 (the foregoing resolution and supplement thereto being collectively referred to herein as the "Resolution of Issuance"). All capitalized terms not defined herein shall have the meanings set forth in the Resolution of Issuance.

The Bonds are dated the date of delivery and mature on the dates and in the amounts set forth in the Resolution of Issuance. The Bonds bear interest payable semiannually on each September 1 and March 1, commencing on September 1, 2002, at the rates per annum set forth in the Resolution of Issuance. The Bonds are registered Bonds in the form set forth in the Resolution of Issuance redeemable in the amounts, at the times and in the manner provided for in the Resolution of Issuance.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Resolution of Issuance, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion in appropriate cases; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Resolution of Issuance to levy Special Taxes for the payment of Administrative Expenses. The Bonds are limited obligations of the District but are not a debt of the Etiwanda School District, the County of San Bernardino, the State of California or any other political subdivision thereof within the meaning of any constitutional or

statutory limitation, and, except as to the Net Taxes (as defined in the Resolution of Issuance), neither the faith and credit nor the taxing power of the Etiwanda School District, the County of San Bernardino, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2) The Resolution of Issuance has been duly adopted by the Board of Trustees of the Etiwanda School District on behalf of the District. The Resolution of Issuance creates a valid pledge of, and the Bonds are secured by, the Net Taxes (as defined in the Resolution of Issuance) and the amounts on deposit in certain funds and accounts established under the Resolution of Issuance.

(3) Under existing statutes, regulations, rulings and judicial decisions, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to corporations, such interest will be included in the calculation of alternative minimum taxable income liability of such corporations. The foregoing opinion is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

(4) Interest on the Bonds is exempt from present State of California personal income taxes.

Except as expressly set forth in paragraphs (3) and (4) above, we express no opinion regarding any tax consequences arising with respect to the Bonds or the receipt of interest thereon.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the foregoing opinions and the exclusion of interest on the Bonds from gross income for federal income tax purposes may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or occur (or do not occur). The Resolution of Issuance and the Tax Certificate executed by the District with respect to the Bonds as of the date hereof permit certain action to be taken or omitted if a favorable opinion of Bond Counsel is provided with respect thereto. We express no opinion as to the exclusion from gross income of interest on the Bonds for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds, and purchaser of the Bonds should not assume that we have reviewed the Official Statement on their behalf.

Respectfully submitted,

## APPENDIX D

### GENERAL INFORMATION CONCERNING THE REGION

*The following information concerning the City of Fontana and the City of Rancho Cucamonga are presented as general background data. The Bonds are not an obligation of the City of Fontana, the City of Rancho Cucamonga, the County of San Bernardino, the State of California or any of its political subdivisions, and neither the City of Fontana, the City of Rancho Cucamonga, the County of San Bernardino, the State of California nor any of its political subdivisions is liable therefor.*

#### **City of Fontana**

**Location.** The City of Fontana (“Fontana”), encompassing approximately 35 square miles, is located 50 miles east of Los Angeles and 10 miles west of downtown San Bernardino. It is surrounded by Rancho Cucamonga and Ontario on the west, unincorporated Riverside County on the south and Rialto on the east. To the north, the San Gabriel Mountains rise majestically to over 10,000 feet.

**Government.** Fontana was incorporated in 1952, as a general law city operating under the council-manager form of government. It is governed by a five-member City Council, which includes a Mayor and four Council Members which are elected at large for four-year terms. The City Council appoints the City Manager and the City Attorney. The City Manager is responsible for the daily administration of the City’s affairs and for implementing Council policies, programs and decisions.

#### **City of Rancho Cucamonga**

**Location.** The City of Rancho Cucamonga (“Rancho Cucamonga”), encompassing approximately 37.5 square miles, is located 37 miles east of downtown Los Angeles and 15 miles west of downtown San Bernardino. It is surrounded by Upland on the west, Ontario on the south and Fontana on the east. To the north, the San Gabriel Mountains rise majestically to over 10,000 feet.

**Government.** Rancho Cucamonga was incorporated in November 30, 1977, as a general law city operating under the council-manager form of government. It is governed by a five-member City Council, which includes a Mayor who is elected at large for a four year term, and four Council Members are elected at large for staggered four year terms. The City Council appoints the City Manager and the City Attorney. The City Manager is responsible for the daily administration of the City’s affairs and for implementing Council policies, programs and decisions.

#### **Population Growth Trends**

The Riverside-San Bernardino area is often referred to as Southern California’s “Inland Empire”, a region home to an estimated 1,500,000 people. The population in Fontana increased 28.3% from 1997 to 2001 and the population in Rancho Cucamonga increased 13.1% from 1997 to 2001. The annual growth rate of southwest San Bernardino County, which includes Fontana and Rancho Cucamonga, has continued to increase at a rate faster than its neighbor, west Riverside County. Population growth in Fontana, Rancho Cucamonga and the County is shown on the following chart.

**CITY OF FONTANA, CITY RANCHO CUCAMONGA, AND COUNTY OF SAN BERNARDINO  
ANNUAL POPULATION ESTIMATES  
(As of January 1)**

Year	City of Fontana	City of Rancho Cucamonga	County of San Bernardino
1997	105,300	117,300	1,605,000
1998	108,200	119,100	1,631,500
1999	112,100	122,200	1,660,200
2000	129,800	128,100	1,726,800
2001	135,100	132,700	1,764,300

Note: Years 1997 through 1999 population estimates were calculated with 1990 U.S. Census data and Years 2000 and 2001 population estimates were calculated with 2000 U.S. Census data.

Source: State of California, Employment Development Department, *Historical City/County Population Estimates 1991-2000, with 1990 Census Counts and E-1 City/County Population Estimates, with Annual Percent Change, January 1, 2000 and 2001.*

**Effective Buying Income**

“Effective Buying Income” is defined as personal income less personal tax and non-tax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings, dividends paid by corporations, interest income from all sources and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), non-tax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for Fontana, Rancho Cucamonga, the County and the State for the period 1996 through 2000.



**FONTANA, RANCHO CUCAMONGA, SAN BERNARDINO COUNTY AND CALIFORNIA  
EFFECTIVE BUYING INCOME**

1996 through 2000  
(As of December 31)

	Effective Buying Income <sup>(2)</sup>	Per Capita Effective Buying Income	Median Household Effective Buying Income	Percent of Households over \$50,000
<b>1996</b>				
Fontana	\$ 1,150,605	\$ 10,273	\$ 33,033	21.6%
Rancho Cucamonga	1,826,995	14,817	42,452	37.3%
San Bernardino County	18,949,934	11,692	31,109	22.9%
California	492,516,991	15,068	35,216	31.7%
<b>1997</b>				
Fontana	\$ 1,114,229	\$ 10,581	\$ 33,957	25.0%
Rancho Cucamonga	1,801,998	15,258	43,696	39.3%
San Bernardino County	19,396,403	12,053	31,940	24.5%
California	524,439,600	15,797	36,483	33.5%
<b>1998</b>				
Fontana	\$ 1,178,846	\$ 10,756	\$ 34,218	23.8%
Rancho Cucamonga	1,906,609	15,488	44,353	40.4%
San Bernardino County	20,296,317	12,311	32,097	25.0%
California	551,999,317	16,299	37,091	34.6%
<b>1999</b>				
Fontana	\$ 1,336,219	\$ 11,440	\$ 36,323	28.1%
Rancho Cucamonga	2,026,150	16,941	44,760	41.5%
San Bernardino County	21,627,489	12,885	33,654	26.1%
California	590,376,663	17,245	39,492	38.3%
<b>2000</b>				
Fontana	\$ 1,631,079	\$ 12,319	\$ 39,245	33.5%
Rancho Cucamonga	2,275,146	18,304	47,085	45.8%
San Bernardino County	49,284,716	14,913	37,863	35.7%
California	652,190,262	19,081	44,464	44.3%

<sup>(1)</sup> Not comparable with prior years. Effective Buying Income is now based on money income (which does not take into account sale of property, taxes and social security paid, receipt of food stamps, etc.) versus personal income.

<sup>(2)</sup> Dollars in thousands.

Source: "Survey of Buying Power," Sales & Marketing Management Magazine dated 1997, 1998, 1999, 2000 and 2001

## **Employment**

All categories of skilled and professional personnel are part of the large labor pool presently living in the San Bernardino Valley, and working in the greater metropolitan area, including Los Angeles, Orange, Riverside and San Bernardino counties. The west San Bernardino Valley area, which includes Fontana and Rancho Cucamonga, is expected to experience the highest increase in the number of persons employed in San Bernardino County during the next decade.

Fontana and Rancho Cucamonga are included in the Riverside-San Bernardino Primary Metropolitan Statistical Area (PMSA) which comprises all of San Bernardino and Riverside Counties. The civilian labor force, employment and unemployment for the Riverside-San Bernardino PMSA is set forth below.

**CIVILIAN LABOR FORCE  
EMPLOYMENT AND UNEMPLOYMENT**

**Riverside-San Bernardino PMSA**

Year	Labor Force	Employment <sup>(1)</sup>	Unemployment <sup>(2)</sup>	Unemployment Rate <sup>(3)</sup>
1997	1,352,300	1,259,200	93,100	6.9%
1998	1,388,700	1,303,800	84,900	6.1%
1999 <sup>(4)</sup>	1,450,600	1,376,500	74,100	5.1%
2000 <sup>(4)</sup>	1,522,900	1,445,300	77,600	5.1%
2001	1,565,000	1,487,200	77,900	5.0%

**City of Fontana**

Year	Labor Force	Employment <sup>(1)</sup>	Unemployment <sup>(2)</sup>	Unemployment Rate <sup>(3)</sup>
1997	44,180	41,470	2,710	6.1%
1998	45,170	42,710	2,460	5.5%
1999 <sup>(4)</sup>	47,010	44,820	2,190	4.7%
2000 <sup>(4)</sup>	49,330	47,060	2,270	4.6%
2001	50,760	48,420	2,340	4.6%

**City of Rancho Cucamonga**

Year	Labor Force	Employment <sup>(1)</sup>	Unemployment <sup>(2)</sup>	Unemployment Rate <sup>(3)</sup>
1997	59,660	57,260	2,400	4.0%
1998	61,140	58,960	2,180	3.6%
1999 <sup>(4)</sup>	63,810	61,870	1,940	3.0%
2000 <sup>(4)</sup>	66,980	64,970	2,010	3.0%
2001	68,920	66,850	2,070	3.0%

<sup>(1)</sup> Includes persons involved in labor-management trade disputes.

<sup>(2)</sup> Includes all persons without jobs who are actively seeking work.

<sup>(3)</sup> The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

<sup>(4)</sup> Figures for 1999 and 2000 are currently being updated and are estimated to be available on March 15, 2002.

Source: California Employment Development Department, based on March 2000 benchmark.

The following table sets forth the annual average number of wage and salary employees, by industry, in Riverside and San Bernardino Counties.

**RIVERSIDE-SAN BERNARDINO PMSA  
ESTIMATED NUMBER OF WAGE AND SALARY WORKERS BY INDUSTRY  
(000's)**

Industry	1997	1998	1999	2000	2001
Total, All Industries	863.1	903.8	960.3	1,012.4	1,049.1
Total Agricultural	21.7	21.6	21.3	20.9	19.9
Total Non-Agricultural	841.4	882.2	938.9	991.5	1,029.1
Mining	1.2	1.0	1.0	1.0	1.2
Construction	52.1	60.8	70.2	78.3	86.6
Manufacturing	104.8	111.4	117.8	124.4	124.8
Trans. & Pub. Utilities	42.7	45.7	49.1	51.0	52.3
Wholesale & Retail Sales	217.9	223.2	233.7	246.8	257.7
Finance, Ins. & Real Estate	29.8	30.6	31.9	31.7	33.8
Services	221.5	234.9	251.5	266.8	272.1
Government	171.6	174.7	183.1	191.6	200.7

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.

Source: State of California, Employment Development Department, *Riverside-San Bernardino PMSA Annual Average Labor Force and Industry Employment, March 2001 Benchmark*.

The following table sets forth the top twenty-five employers located in the County:

**COUNTY OF SAN BERNARDINO  
TOP TWENTY-FIVE  
LARGEST EMPLOYERS**

Name	Type of Business or Entity	Number Employed
County of San Bernardino	local government	16,082
Marine Corps Air Ground Combat Center	military	12,664
Fort Irwin and the National Training Center	military	8,903
United Parcel Service	parcel delivery	6,902
Stater Bros. Markets	grocery retailer	6,500
Loma Linda University Medical Center	health care	5,916
San Bernardino City Unified School District	public education	5,500
Kaiser Permanente Medical Center, Fontana	health care	4,200
Wal-Mart Stores	retail department store chain	4,175
Loma Linda University	higher education	4,084
Fontana Unified School District	public education	4,000
Chino Valley Unified School District	public education	3,607
Verizon	telecommunications	3,500
Ontario-Montclair School District	public education	2,583
Sears, Roebuck and Co.	retailer	2,083
U.S. Marine Corps Logistics Base	military	2,073
Colton Joint Unified School District	public education	2,035
San Antonio Community Hospital	health care	2,026
California State University, San Bernardino	higher education	2,000
Patton State Hospital	forensic state hospital	2,000
California Institution for Men	correctional facility	1,800
Redlands Unified School District	public education	1,600
North American Medical Management	health care	1,570
San Manuel Indian Bingo & Casino	entertainment	1,500
Jerry L. Pettis Memorial VA Medical Center	government hospital	1,498

Source: The Business Press: *2001 Book of Lists, originally published on April 11, 2000.*

## Commercial and Retail Sales Activity

Over the past ten years, taxable transactions for retail stores have increased by approximately 69 percent; while total taxable transactions increased by approximately 54 percent. A one-time correction, administered by the State Board of Equalization, was the primary factor for the reduced activity level in Calendar Year 1997. A 5-year summary of taxable transactions in Fontana and Rancho Cucamonga, on a calendar year basis, are set forth below:

### CITY OF FONTANA VALUATION OF TAXABLE TRANSACTIONS (in thousands of dollars)

	Retail Stores		Total All Outlets	
	No. of Permits	Taxable Transactions	No. of Permits	Taxable Transactions
1995	803	\$ 520,195	2,783	\$ 721,401
1996	798	553,935	2,623	755,345
1997	838	529,388	2,630	723,629
1998	745	593,138	1,665	825,382
1999	837	699,612	1,758	928,400
2000	881	781,177	1,871	1,054,250

Source: California State Board of Equalization.

### CITY OF RANCHO CUCAMONGA VALUATION OF TAXABLE TRANSACTIONS (in thousands of dollars)

	Retail Stores		Total All Outlets	
	No. of Permits	Taxable Transactions	No. of Permits	Taxable Transactions
1995	797	\$ 527,810	2,709	\$ 769,615
1996	817	567,468	2,726	827,380
1997	866	616,633	2,708	906,286
1998	911	658,962	2,647	996,102
1999	981	765,570	2,664	1,111,610
2000	1,025	820,607	2,735	1,163,045

Source: California State Board of Equalization.

## Building Activity

Construction activity has dramatically increased over the past three years reflecting healthy general economic conditions. Details of this construction activity, on a calendar year basis, is set forth below.

Residential building activity for the past five calendar years for Fontana and Rancho Cucamonga are shown in the following four tables.

**CITY OF FONTANA  
NEW HOUSING UNITS BUILDING PERMITS**

	1997	1998	1999	2000	2001
Single Family Units	926	1,301	1,322	1,427	1,083
Multifamily Units	0	0	0	0	0
<b>Total Units</b>	<b>926</b>	<b>1,301</b>	<b>1,322</b>	<b>1,427</b>	<b>1,083</b>

Source: Construction Industry Research Board

**CITY OF FONTANA  
BUILDING PERMIT VALUATIONS**

	1997	1998	1999	2000	2001
<b>Residential</b>					
New Single Family	\$ 135,336,744	\$ 206,791,221	\$ 244,788,488	\$ 259,654,600	\$ 199,191,298
New Multifamily	0	0	0	0	0
Residential Alterations and Additions	1,694,264	1,586,628	4,074,413	2,962,000	3,128,586
<b>Total Residential</b>	<b>137,031,008</b>	<b>208,377,849</b>	<b>248,862,901</b>	<b>262,610,600</b>	<b>202,319,884</b>
<b>Nonresidential</b>					
New Commercial	\$ 166,140	\$ 2,201,520	\$ 3,144,742	\$ 10,490,000	\$ 14,911,841
New Industrial	39,409,407	8,832,417	64,986,258	65,777,300	10,994,784
New Other <sup>(1)</sup>	5,611,403	816,631	5,777,624	10,385,800	6,171,964
Alterations and Additions	11,311,065	8,130,516	12,019,349	11,146,000	7,173,277
<b>Total Non-Residential</b>	<b>56,518,015</b>	<b>20,481,084</b>	<b>85,847,973</b>	<b>98,393,400</b>	<b>39,251,866</b>
<b>Total All Building</b>	<b>\$ 193,549,023</b>	<b>\$ 228,858,933</b>	<b>\$ 334,710,874</b>	<b>\$ 361,010,000</b>	<b>\$ 241,571,750</b>

<sup>(1)</sup> Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.

Note: "Total All Building" is the sum of Residential and Nonresidential Building Permit Valuations. Totals may not add to sums because of independent rounding.

Source: Construction Industry Research Board

**CITY OF RANCHO CUCAMONGA  
NEW HOUSING UNITS BUILDING PERMITS**

	1997	1998	1999	2000	2001
Single Family Units	354	678	1,135	909	980
Multifamily Units	173	0	0	504	1,256
<b>Total Units</b>	<b>527</b>	<b>678</b>	<b>1,135</b>	<b>1,413</b>	<b>2,236</b>

Source: Construction Industry Research Board

**CITY OF RANCHO CUCAMONGA  
BUILDING PERMIT VALUATIONS**

	1997	1998	1999	2000	2001
<b>Residential</b>					
New Single Family	\$ 66,499,200	\$ 141,774,200	\$262,526,900	\$ 208,518,100	\$ 243,456,458
New Multifamily	10,770,200	0	0	31,166,700	96,688,919
Residential Alterations and Additions	12,670,900	7,730,700	6,851,900	7,431,500	7,438,891
<b>Total Residential</b>	<b>89,940,200</b>	<b>149,524,900</b>	<b>269,378,900</b>	<b>247,116,100</b>	<b>347,584,268</b>
<b>Nonresidential</b>					
New Commercial	\$ 8,906,200	\$ 7,082,700	\$ 30,475,500	\$ 12,110,700	\$ 10,424,467
New Industrial	18,589,100	18,064,300	7,592,300	67,099,000	55,653,755
New Other <sup>(1)</sup>	6,116,900	8,729,100	20,052,600	18,006,300	18,069,895
Alterations and Additions	15,528,800	12,424,200	22,751,600	19,407,700	15,109,667
<b>Total Non-Residential</b>	<b>49,141,000</b>	<b>46,300,300</b>	<b>50,871,800</b>	<b>116,624,200</b>	<b>99,257,784</b>
<b>Total All Building</b>	<b>\$ 139,081,200</b>	<b>\$ 195,825,200</b>	<b>\$350,250,700</b>	<b>\$ 363,740,300</b>	<b>\$ 446,842,052</b>

<sup>(1)</sup> Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.

Note: "Total All Building" is the sum of Residential and Nonresidential Building Permit Valuations. Totals may not add to sums because of independent rounding.

Source: Construction Industry Research Board.

### **Transportation**

Fontana and Rancho Cucamonga are strategically located in the hub of surface, rail and air transportation facilities. Union Pacific and Burlington Northern/Santa Fe rail lines provide rail service to Fontana. Switch yards and multi-modal terminals are located nearby.

Major interstate freeways and state highways provide direct access to Fontana and Rancho Cucamonga, making shipping and transportation to and from sea ports, NAFTA port of entry, and the rest of the nation highly dependable. Interstate 10 traverses the southern section of the Cities of Fontana and Rancho Cucamonga, Interstate 15 borders the western portion of Fontana and the eastern portion of Rancho Cucamonga, and Interstate 210, which is the extension of Route 30 currently under construction (completion expected in the year 2002), will ultimately link the San Bernardino Valley with the San Fernando Valley and traverses the northern portion of the Cities of Fontana and Rancho Cucamonga. State freeways 57, 60 and 91 are minutes from the Cities of Fontana and Rancho Cucamonga.

The Ontario International Airport, located minutes west of Fontana and Rancho Cucamonga, carries 6.7 million passengers per year. With the recent completion of its new terminal, it is able to handle approximately 9.5 million passengers annually. Ontario International Airport is the Western States Regional Terminal for United Parcel Service.

Transit services are provided by Metrolink commuter rail service to Los Angeles with connections to the numerous surrounding cities provided by Omnitrans bus service, Dial-a-Lift, Yellow Cab Company and Bell Cab Company.

### **Education**

Fontana is served by 42 public schools K-12 and 8 private schools and Rancho Cucamonga is served by 29 public schools K-12 and 12 private schools. A number of institutions of higher education, including: California Baptist College; California State Polytechnic University, Pomona; California State University, San Bernardino; Chaffey Community College District; the Claremont Colleges; Crafton Hills College; University of Redlands; University of California, Riverside; San Bernardino Valley College; and University of La Verne.

## APPENDIX E

### EXCERPTS FROM THE RESOLUTION OF ISSUANCE

#### Definitions.

Unless the context otherwise requires, the following terms will have the following meanings:

“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 \$40,000, which amount will escalate by 2% in each Bond Year, commencing in the Bond Year beginning on September 2, 2002, provided 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 Tax Holding Fund.

“Administrative Expenses” means the administrative costs with respect to the calculation and collection of the Special Taxes, or costs otherwise incurred by the School District staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation or the Rate and Method of Apportionment and the fees and expenses of the Fiscal Agent.

“Annual Debt Service” means the principal amount of any Outstanding Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds in such Bond Year, if the Bonds are retired as scheduled.

“Authorized Investments” means any of the following investments, if and to the extent the same are at the time legal for investment of the District’s funds (the Fiscal Agent is entitled to rely upon investment direction from the District and a certification such investment is an Authorized Investment):

- (a) Federal Securities;
- (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):
  - U.S. Export-Import Bank—Direct obligations or fully guaranteed certificates of beneficial ownership;
  - Farmers Home Administration—Certificates of beneficial ownership;
  - General Service Administration—Participation Certificates;
  - Government National Mortgage Association (GNMA or “Ginnie Mae”) GNMA—guaranteed mortgage-backed bonds, GNMA—guaranteed pass-through obligations;
  - U.S. Maritime Administration—Guaranteed Title XI financing;
  - 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;
  - Federal Housing Administration Debentures;



(c) Senior debt obligations rated “AAA” by Standard & Poor’s Ratings Group (Standard & Poor’s) and “Aaa” by Moody’s Investors Service, Inc. (Moody’s) issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;

(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 Standard & Poor’s of AAAm-G or better;

(e) Certificates of deposit secured at all times by collateral described in (a) and (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 or the Fiscal Agent and the Fiscal Agent on behalf of the Bond Owners 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;

(g) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “A-1+” by Standard & Poor’s and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase (i.e., ratings on holding companies are not considered as the rating of the bank);

(h) Commercial Paper rated, at the time of purchase, “Prime—1” by Moody’s and “A-1” or better by Standard & Poor’s;

(i) Repurchase agreements with financial institutions insured by the FDIC; or any broker-dealer with “retail customers” which falls under the jurisdiction of the Securities Investors Protection Corporation (SIPC); or a bank or other financial institution rated in the top two rating categories by two or more Rating Agencies; provided that: (a) the over-collateralization is at one hundred two percent (102%), computed weekly, consisting of such securities as described in the Resolution, items (a) through (c); (b) a third party custodian, the Fiscal Agent or the Federal Reserve Bank will have possession of such obligations; (c) the Fiscal Agent will have perfected a first priority security interest in such obligations; and (d) failure to maintain the requisite collateral percentage will require the Fiscal Agent to liquidate the collateral;

(j) County or State-administered pooled investment funds in which the District is statutorily permitted or required to invest to the extent that any amounts are deposited by the Fiscal Agent into such funds and the Fiscal Agent will have direct access to such fund;

(k) The local agency investment pool maintained by the San Bernardino County Treasurer’s Money Market Investment Pool to the extent deposits and withdrawals may be made directly by and in the name of the Fiscal Agent.

“Bond Counsel” means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature 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 Register” means the books which the Fiscal Agent will keep or cause to be kept on which the registration and transfer of the Bonds will be recorded.

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

“Bonds” means the Community Facilities District No. 8 of the Etiwanda School District, Series 2002 Special Tax Bonds, issued in the original principal amount of \$7,080,000.

“Bond Year” means the twelve (12) month period commencing on September 2 of each year and ending on September 1 of the following year, and for the first bond year commencing on the Delivery Date and ending on September 1, 2002.

“Business Day” means a day on which the Fiscal Agent is open for business.

“Certificate of the School District Superintendent” means a written certificate executed by the Superintendent of the School District, or his written designee.

“Code” means the Internal Revenue Code of 1986, together with any amendments thereto.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated April 9, 2002, by and between the Community Facilities District No. 8 of the Etiwanda School District, acting through the Board of Trustees of the Etiwanda School District as the legislative body, and Special District Financing & Administration, as dissemination agent under the Resolution.

“Corporate Trust Office” means the Corporate Trust Office of the Fiscal Agent at 550 South Hope Street, Suite 500, Los Angeles, California, 90071, provided, however for transfer, registration, exchange, payment and surrender of Bonds means care of the Corporate Trust Office of U.S. Bank, N.A. in St. Paul, Minnesota or such other office designated by the Fiscal Agent from time to time.

“Costs of Issuance” means the costs and expenses incurred in connection with the formation of the District and the issuance and sale of the Bonds, including the acceptance and initial annual fees and expenses of the Fiscal Agent, legal fees and expenses, costs of printing the Bonds and the preliminary and final Official Statements, fees of the appraiser and financial consultants and other fees and expenses set forth in a Certificate of the School District Superintendent, or his designee.

“Delivery Date” means the date on which the Bonds were issued and delivered to the Underwriter.

“Depository” means the securities depository acting as Depository under the Resolution.

“Developed Property” means all Taxable Property for which a building permit was issued as of June 1 preceding the Fiscal Year for which the Special Tax is being levied.

“Dissemination Agent” means Special District Financing & Administration, and any successor thereto.

“District” means the Community Facilities District No. 8 of the Etiwanda School District established pursuant to the Act and the Resolution of Formation.

“Federal Securities” means any of the following:

(1) Cash (insured at all time by the Federal Deposit Insurance Corporation (“FDIC”) or otherwise collateralized with obligations described in paragraph (2) below),

(2) Direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of the Treasury of the United States of America, or

(3) Obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

“Fiscal Agent” means U.S. Bank, N.A., and any successor thereto.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next following June 30.

“Gross Taxes” means the amount of all Special Taxes received by the District from the Treasurer, together with the net proceeds collected from the sale of property pursuant to the foreclosure provisions of the Supplement to Resolution No. 0102-28 for the delinquency of such Special Taxes and proceeds from any security for payment of Special Taxes taken in lieu of foreclosure after payment of administrative costs and attorney’s fees payable from such proceeds to the extent not previously paid as an Administrative Expense.

“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:

- (a) is in fact independent and not under the domination of the District;
- (b) does not have any substantial interest, direct or indirect, in the District; and
- (c) is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District.

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

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity on the Bonds by adding the following for each 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 the Bonds Outstanding in such Bond Year if the Bonds are retired as scheduled.

“Net Taxes” means Gross Taxes minus amounts applied to pay the Administrative Expense Requirement.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Resolution.

“Ordinance” means the Resolution and Ordinance No. 0001-61 adopted by the legislative body of the District on February 14, 2002, providing for the levying 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 the Resolution;
- (2) Bonds for payment or redemption of which monies will 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 will have been given as provided in the Resolution; and

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

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds the Bonds as a securities depository.

“Project” means those public facilities described in the Resolution of Formation which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by qualified electors within the District from time to time.

“Project Costs” means the amounts necessary to finance the Project, to create and replenish any necessary reserve funds, to pay the initial and annual costs associated with the Bonds, including, but not limited to, Fiscal Agent and other fees and expenses relating to the issuance of the Bonds and the formation of the District, and to pay any other “incidental expenses” of the District, as such term is defined in the Act.

“Rebatable Arbitrage” means the amount (determinable as of the last day of each fifth Bond Year and upon retirement of the Bonds) of arbitrage profits payable to the United States at all times and in the amounts specified in Section 148(f) of the Code and any applicable Regulations.

“Rebate Installment Date” means the last day of the fifth Bond Year and each succeeding fifth Bond Year and the date that the last Bond is discharged.

“Record Date” means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

“Regulations” means regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Sections 103 and 141 to 150 of the Code.

“Reserve Requirement” means, as of any date of calculation, an amount equal to the lowest of (1) ten percent (10%) of the original proceeds of the Bonds, or (2) Maximum Annual Debt Service, or (3) one hundred twenty-five percent (125%) of the average Annual Debt Service of the Outstanding Bonds.

“Resolution of Issuance” or “Resolution” means the Supplement to Resolution, together with Resolution No. 0102-28 of the District, approving the Supplement to Resolution, and any supplemental resolution approved pursuant to the Resolution.

“Resolution of Formation” means Resolution No. 0001-57 adopted by the Board of Trustees of the School District on June 28, 2001, pursuant to which the School District formed the District.

“School District” means the Etiwanda School District, Etiwanda, California.

“Sinking Fund Payment” means any annual sinking fund payment to retire any Bonds.

“Special Taxes” means the taxes authorized to be levied by the District in accordance with the Ordinance, the Resolution of Formation, the Act and the Rate and Method of Apportionment.

“Taxable Property” means the area within the boundaries of the District which is not exempt from application of the Special Tax by operation of law or the Rate and Method of Apportionment.

“Tax Certificate” means that certain Tax Certificate executed on the delivery date of the Bonds.

“Treasurer” means the Treasurer-Tax Collector of the County of San Bernardino.

“Underwriter” means Stone & Youngberg LLC.

“Undeveloped Property” means all Taxable Property within the District which is not classified as Developed Property.

#### Place and Form of Payment.

The Bonds will 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 will be payable upon presentation thereof at the corporate trust office of the Fiscal Agent in St. Paul, Minnesota. Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) such date of authentication is an Interest Payment Date in which event interest will be payable from such date of authentication, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication or (iii) the date of authentication is prior to the close of business on the first Record Date in which event interest will be payable from the dated date of such Bond; provided, however, that if at the time of authentication of such Bond, interest is in default, interest on that Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment on that Bond, interest on that Bond will be payable from its dated date. Interest on any Bond will be paid to the person whose name will appear in the Bond Register as the Owner of such Bond as of the close of business on the Record Date. Such interest will be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, to such Bondowner at his or her address as it appears on the Bond Register; provided however, that interest will be paid by wire transfer to an account in the continental United States of any Owner of at least \$1,000,000 of Bonds if such Owner will have so requested and furnished adequate instructions with respect thereto to the Fiscal Agent not later than the Record Date preceding the applicable Interest Payment Date.

#### Execution and Authentication.

The Bonds will be signed on behalf of the District by the manual or facsimile signature of the President of the Board of Trustees and by the manual or facsimile signature of the Clerk of the Board, or any duly appointed deputy clerk, in their capacity as officers of the District, and attested by the signature of the Clerk of the Board. In case any one or more of the officers who will have signed any of the Bonds will cease to be such officer before the Bonds so signed have been authenticated and delivered by the Fiscal Agent (including new Bonds delivered pursuant to the provisions of the Resolution with reference to the transfer and exchange of Bonds or to lost, stolen, destroyed or mutilated Bonds), such Bonds will nevertheless be valid and may be authenticated and delivered as provided in the Resolution, and may be issued as if the person who signed such Bonds had not ceased to hold such office.

Only such Bonds as will bear thereon such certificate of authentication in the form set forth in Attachment 1 hereto will be entitled to any right or benefit under the Resolution, and no Bond will be valid or obligatory for any purpose until such certificate of authentication will have been duly executed by the Fiscal Agent.

#### Bond Register.

The Fiscal Agent will keep or cause to be kept, at its corporate trust office, sufficient books for the registration and transfer of the Bonds which will be open to inspection by the District during all regular

business hours upon reasonable prior notice, and, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds as provided in the Resolution.

The District and the Fiscal Agent may treat the Owner of any Bond whose name appears on the Bond Register as the absolute Owner of that Bond for any and all purposes, and the District and the Fiscal Agent will not be affected by any notice to the contrary. The District and the Fiscal Agent may rely on the address of the Bondowner as it appears in the Bond Register for any and all purposes. It will be the duty of the Bondowner to give written notice to the Fiscal Agent of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

#### Registration of Exchange or Transfer.

The registration of any Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the corporate trust office of the Fiscal Agent, accompanied by delivery of written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney.

Bonds may be exchanged at the corporate trust office of the Fiscal Agent for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Fiscal Agent will not collect from the Owner any charge for any new Bond issued upon any exchange or transfer, but will require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds will be surrendered for registration of transfer or exchange, the District will execute and the Fiscal Agent will authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount.

The Fiscal Agent will not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

#### Mutilated, Lost, Destroyed or Stolen Bonds.

If any Bond will become mutilated, the District, at the expense of the Bondowner, will execute, and the Fiscal Agent will authenticate and deliver, a new Bond of like tenor, date and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent will be cancelled by the Fiscal Agent pursuant to the Resolution. If any Bond will be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to the Fiscal Agent and, if any indemnity satisfactory to the District and the Fiscal Agent will be given, the District, at the expense of the Bondowner, will execute and the Fiscal Agent will authenticate and deliver, a new Bond of like tenor and maturity, numbered and dated as such Fiscal Agent will determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. Any Bond issued in lieu of any Bond alleged to be mutilated, lost, destroyed or stolen, will be equally and proportionately entitled to the benefits thereof with all other Bonds issued under the Resolution. The Fiscal Agent will not treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed, authenticated and delivered under the Resolution or for the purpose of determining any percentage of Bonds Outstanding under the Resolution, but both the original and replacement Bond will be treated as one and the same. Notwithstanding any other provision of the Resolution, in lieu of delivering a new Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Fiscal Agent may make payment with respect to such Bonds upon receipt of indemnification satisfactory to the Fiscal Agent.

Validity of Bonds.

The validity of the authorization and issuance of the Bonds will not be affected in any way by any defect in any proceedings taken by the District for the financing of the Project, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and will not be dependent upon the completion of the financing of the Project or upon the performance by any person of his obligation with respect to the Project, and the recital contained in the Bonds that the same are issued pursuant to the Act and other applicable laws of the State will be conclusive evidence of their validity and of the regularity of their issuance.

Deposits to and Disbursements from Special Tax Fund.

The Treasurer will, no later than the last day of the month during which the Special Taxes are apportioned to the District, transfer the Special Taxes to the Fiscal Agent, however, no later than August 15 and February 15 of each Fiscal Year, the Treasurer, on behalf of the District, will transfer such amounts for deposit in the Special Tax Fund for the Bonds, to be held in trust by the Fiscal Agent in the Special Tax Fund. The Fiscal Agent will then transfer the money in the Special Tax Fund on the dates and in the amounts set forth in the Resolution, in the following order of priority, to:

- (1) The Administrative Expense Account of the Special Tax Fund the amount of the Administrative Expense Requirement;
- (2) The Interest Account of the Special Tax Fund;
- (3) The Principal Account of the Special Tax Fund;
- (4) The Redemption Account of the Special Tax Fund;
- (5) The Reserve Account of the Special Tax Fund;
- (6) The Administrative Expense Account of the Special Tax Fund the amount of Administrative Expenses in excess of the Administrative Expense Requirement:
- (7) Excess Investment Earnings Fund; and
- (8) The Special Tax Holding Fund.

At the maturity of the Bonds and, after all principal and interest then due on the Bonds then Outstanding has been paid or provided for, moneys in the Special Tax Fund and any accounts in the Resolution may be used by the District for any lawful purpose.

Administrative Expense Account of the Special Tax Fund.

The Fiscal Agent will withdraw from the Special Tax Fund and place in the Administrative Expense Account of the Special Tax Fund an amount equal to the Administrative Expense Requirement for that Bond Year. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments, provided that the maturity or maturities thereof will not exceed 30 days from the date of purchase. In the event Administrative Expenses exceed the Administrative Expense Requirement in any Bond Year, after all deposits required pursuant to the Resolution have been made for the then current Bond Year, the Fiscal Agent will transfer from the Special Tax Fund to the Administrative Expense Account of the Special Tax Fund the amount of Administrative Expenses in excess of the Administrative Expense Requirement, as directed in writing by the School District Superintendent.

Interest Account and Principal Account of the Special Tax Fund.

The principal or Sinking Fund Payment of, and interest on, the Bonds until maturity will be paid by the Fiscal Agent from amounts transferred to the Interest Account and the Principal Account of the Special Tax Fund. For the purpose of assuring that the payment of principal or Sinking Fund Payment of, and interest on, the Bonds will be made when due, after making the transfer required by the Resolution, at least one Business Day prior to each Interest Payment Date, the Fiscal Agent will make the following transfers first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of the Bonds, or otherwise, or to the extent that a transfer will be made from the Reserve Account to the Interest Account in accordance with the Resolution, the transfer from the Special Tax Fund need not be made:

(a) To the Interest Account, an amount such that the balance in the Interest Account (including the Capitalized Interest Subaccount therein) one (1) Business Day prior to each Interest Payment Date will be equal to the installment of interest due on the Bonds on said Interest Payment Date. Moneys in the Interest Account will be used for the payment of interest on the Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account one (1) Business Day prior to September 1 of each year commencing September 1, 2003, will equal the principal payment or Sinking Fund Payment of the Bonds due on such September 1. Moneys in the Principal Account will be used for the payment of the principal or Sinking Fund Payment of the Bonds as the same become due.

Redemption Account of the Special Tax Fund.

(a) After making the deposits to the Administrative Expense Account of the Special Tax Fund and the Interest Account and the Principal Account of the Special Tax Fund pursuant to the Resolution, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Resolution, the Fiscal Agent will transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal of and interest on the Bonds called for redemption, and the premiums payable as provided in the Resolution on the Bonds called for optional redemption one (1) Business Day prior to the redemption date; provided, however, that Net Taxes may be applied to optionally redeem Bonds only if following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(b) Moneys set aside in the Redemption Account will be used solely for the purpose of redeeming Bonds and will 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; provided, however, in lieu or partially in lieu of such call and redemption, upon receipt by the Fiscal Agent of written direction of the District to purchase Bonds, moneys deposited in the Redemption Account as set forth above may be used to purchase Outstanding Bonds in the manner provided in the Resolution. Purchases of Outstanding Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, or, in the case of purchases to be made from funds to be applied to a redemption pursuant to the Resolution, par plus accrued interest, plus premium, in the case of moneys set aside for an optional redemption. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account of the Special Tax Fund.

There will be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement.



Moneys in the Reserve Account will be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor and for the purpose of making any required transfer to the Excess Investment Earnings Fund pursuant to the Resolution upon written direction from the District; provided, however, amounts in the Reserve Account may be applied to pay the principal and interest due on any Bonds in the final Bond Year in which any Bonds are Outstanding. If the amounts in the Interest Account or the Principal Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Excess Investment Earnings Fund when required, the Fiscal Agent will withdraw from the Reserve Account for deposit in the Interest Account or the Principal Account of the Special Tax Fund or the Excess Investment Earnings Fund, as applicable, moneys necessary for such purposes. Following any transfer to the Interest Account or the Principal Account of the Special Tax Fund or to the Excess Investment Earnings Fund as described above, the District will then take the steps necessary to cause to be deposited to the Reserve Account the amount needed to replenish the Reserve Account to the Reserve Requirement by transferring such amount from the Special Tax Holding Fund or, if the District so elects, by including such amount in the next annual Special Tax levy to the extent of the permitted maximum Special Tax rates.

Notwithstanding anything to the contrary in the Resolution, whenever moneys are withdrawn from the Reserve Account, after making the required transfers to the Resolution, the Fiscal Agent will transfer to the Reserve Account from available moneys in the Special Tax Fund the amount needed to restore the amount of such account to the Reserve Requirement. Moneys in the Special Tax Fund will be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account or the Principal Account of the Special Tax Fund. In no event will amounts in the Reserve Account be used to pay fees or expenses of the Fiscal Agent or its counsel.

Notwithstanding any provision in the Resolution to the contrary, moneys in the Reserve Account in excess of the Reserve Requirement will be withdrawn from the Reserve Account on the Business Day before each Interest Payment Date and transferred to the Interest Account to be applied to the interest on the Bonds on the next Interest Payment Date.

#### Excess Investment Earnings Fund.

(a) The Fiscal Agent will establish and maintain a fund separate from any other fund established and maintained under the Resolution designated as the Excess Investment Earnings Fund. All money at any time deposited in the Excess Investment Earnings Fund will be held by the Fiscal Agent in trust, for payment to the United States. All amounts on deposit in the Excess Investment Earnings Fund will be governed by the Resolution 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.

#### Special Tax Holding Fund.

After making the transfers required by the Resolution, on the first Business Day after each September 1, the Fiscal Agent will transfer all remaining amounts in the Special Tax Fund to the Special Tax Holding Fund. Moneys deposited in the Special Tax Holding Fund may be transferred by the Fiscal Agent at the written direction of the District (i) to the Interest Account or the Principal Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, and interest on the Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor, (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement, (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay

Administrative Expenses, (iv) to the Acquisition and Construction Fund to pay Project Costs, or (v) to the District to be used for any other lawful purpose of the District.

The amounts in the Special Tax Holding Fund are not pledged to the repayment of the Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Special Tax Holding Fund to pay debt service on any Outstanding Bonds, the District will instruct in writing the Fiscal Agent to segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Special Tax Holding Fund will be invested in Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a Yield not in excess of the Yield on the Bonds, unless, in the opinion of Bond Counsel, investment at a higher Yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds then Outstanding.

#### Acquisition and Construction Fund.

(a) The moneys in the Acquisition and Construction Fund will be applied exclusively to pay the Project Costs and any Costs of Issuance for the Bonds. Amounts for Costs of Issuance will be disbursed by the Fiscal Agent from the Cost of Issuance Account as directed below. On the date which is six months following the Delivery Date, any amounts remaining in the Cost of Issuance Account will be transferred to the Administrative Expense Account of the Special Tax Fund.

Amounts for Project Costs or Costs of Issuance will be disbursed by the Fiscal Agent only upon receipt of a sequentially numbered written requisition, substantially in the form attached hereto as Attachment 2, from the School District Superintendent, or his designee, or such other person as is designated in writing to the Fiscal Agent by the legislative body of the District, stating that (1) the name of the person to whom payment is due, (2) the amount to be paid, (3) the purpose for which the obligation to be paid was incurred, and (4) 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) Upon the receipt of a Certificate of the School District Superintendent, or his designee, that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs or Costs of Issuance, the Fiscal Agent will transfer all or such specified portion of the moneys remaining on deposit in the Acquisition and Construction Fund to the Interest Account and any remaining amount to the Principal Account of the Special Tax Fund.

#### Investments.

Moneys held in any of the Funds and Accounts under the Resolution shall be invested by the Fiscal Agent at the written direction of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds and Accounts. Any loss resulting from such Authorized Investments shall be charged to the Fund or Account from which such investment was made, and any investment earnings on a Fund or Account shall be applied as follows: (i) investment earnings on all amounts deposited in the Acquisition and Construction Fund shall be deposited in the Acquisition and Construction Fund until the amounts therein are fully expended; provided, however, that earnings on amounts in the Cost of Issuance Account shall be deposited therein, (ii) investment earnings on all amounts in the Excess Investment Earnings Fund and the Special Tax Holding Fund shall be deposited in those respective Funds, (iii) investment earnings on all amounts deposited in the Reserve Account of the Special Tax Fund shall be used to satisfy the Reserve Requirement and any investment earnings not needed to satisfy the

Reserve Requirement shall be withdrawn from the Reserve Account one (1) Business Day before each Interest Payment Date and transferred to the Acquisition and Construction Fund until such Account is closed and, thereafter, to the Interest Account as provided in Section 3.7 hereof; (iv) investment earnings on all amounts deposited in the Capitalized Interest Subaccount of the Interest Account of the Special Tax Fund shall be withdrawn from the Capitalized Interest Subaccount one (1) Business Day before each Interest Payment Date and transferred to the Project Account of the Acquisition and Construction Fund until such Account is closed and, thereafter, to the Interest Account of the Special Tax Fund, and (v) all other investment earnings shall be deposited in the Interest Account of the Special Tax Fund. Moneys in the Funds and Accounts held under the Resolution may be invested by the Fiscal Agent, upon the written direction of the District, from time to time, in Authorized Investments which written direction shall be made in accordance with the following restrictions:

(a) Moneys in the Acquisition and Construction Fund will be invested in Authorized Investments which will by their terms mature, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund. Notwithstanding anything in the Resolution to the contrary, the proceeds of any Bonds remaining on deposit in the Acquisition and Construction Fund on the date which is three years following the date of issuance of the Bonds will be invested by the District only in Authorized Investments as provided in the Tax Certificate at the written direction of the District.

(b) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund will be invested only in Authorized Investments which will by their terms mature are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds as the same become due.

(c) One-half of the amount in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which mature not later than six (6) months from their date of purchase by the Fiscal Agent, and one-half of such amount will be invested in Authorized Investments which mature not more than two (2) years from the date of purchase by the Fiscal Agent; provided that such amounts may be invested in an investment agreement or a repurchase agreement so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Resolution; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds will mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds to which such amounts relate.

(d) Moneys in the Excess Investment Earnings Fund will be invested only in Authorized Investments of the type described in clause (a) of the definition in the Resolution which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to the Resolution.

The Fiscal Agent, at the direction of the District, will sell, or present for redemption, any obligations so purchased whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such funds, any such investments constituting a part of such Funds and Accounts will be valued at their cost. Notwithstanding anything in the Resolution to the contrary, the Fiscal Agent will not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Resolution.

The Fiscal Agent may act as depository, manager, sponsor or advisor with regard to any Authorized Investment under the Resolution. In the absence of written investment direction the Fiscal Agent will invest solely in Authorized Investments set forth in (d) of the definition thereof.

The District acknowledges that regulations of the Comptroller of the Currency grant the District the right to receive brokerage confirmations of security transactions to be effected by the Fiscal Agent under the

Resolution as they occur. The District specifically waives the right to receive such confirmations to the extent permitted by applicable law and agrees that it will instead receive periodic cash transaction statements which include detail for the investment transactions effected by the Fiscal Agent under the Resolution; provided, however, that the District retains its right to receive brokerage confirmation on any investment transaction requested by the District.

Warranty.

The District will preserve and protect the security pledged under the Resolution to the Bonds against all claims and demands of all persons.

Covenants.

So long as any of the Bonds issued under the Resolution are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Resolution (to be performed by the District or its proper officers, agents or employees), which covenants are necessary 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) Punctual Payment; Against Encumbrances. The District covenants that it will receive all Gross Taxes in trust and will immediately deposit the Gross Taxes with the Fiscal Agent, and the District will have no beneficial right or interest in the amounts so deposited except as provided by the Resolution. All such Gross Taxes will be disbursed, allocated and applied solely to the uses and purposes set forth in the Resolution, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the District. Notwithstanding the provisions of the Resolution, as set forth in the Resolution, the District will have the right to accept less than the minimum bid on any delinquent parcel, and is indemnified from legal claim for Owners of the Bonds, if the Board determines that the acceptance of less than the minimum bid or another action as described in the Resolution is in the best interest 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 Resolution, 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 Resolution to the extent Gross Taxes are available therefor, and that the payments into the Funds and Accounts created under the Resolution will be made, all in strict conformity with the terms of the Bonds and the Resolution, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Resolution and of the Bonds issued under the Resolution.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Gross Taxes, except as provided in the Resolution, and (except as set forth in the Resolution) will not issue any obligation or security having a lien or charge upon the Gross Taxes superior to or on a parity with the Bonds. Nothing in the Resolution will prevent the District from issuing or incurring indebtedness which is payable from a pledge of Special Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds.

(b) Levy and Collection of Special Tax. Subject to the maximum Special Tax rates, the District will comply with all requirements of the Act so as to assure the timely collection of the Special Taxes, including without limitation, the enforcement of delinquent Special Taxes.

On or before each June 1, commencing June 1, 2002, the Fiscal Agent will provide a written notice to the District stating the amounts then on deposit in the various funds and accounts established by the Resolution. The receipt of such notice by the District will in no way affect the obligations of the District under the following paragraphs. Upon receipt of a copy of such notice, the District will communicate with the Treasurer or other appropriate official of the County of San Bernardino to ascertain the relevant parcels on

which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year.

The District will retain an Independent Financial Consultant to assist in the levy of the Special Taxes each Fiscal Year, commencing Fiscal Year 2002-2003, in accordance with the Ordinance, such that the computation of the levy is complete before the final date on which the Treasurer of the County of San Bernardino will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the next secured tax roll. The first such levy for the District occurred in Fiscal Year 2001-2002. Upon the completion of the computation of the amounts of the levy, and approval by the legislative body of the District, the District will prepare or cause to be prepared, and will transmit to the Treasurer of the County of San Bernardino, such data as the Treasurer of the County of San Bernardino requires to include the levy of the Special Taxes on the next secured tax roll. The District will not permit the prepayment of Special Taxes.

The District will fix and levy the amount of Special Taxes within the District required for the payment of principal of and interest on Outstanding Bonds becoming due and payable during the ensuing year including any necessary replenishment or expenditure of the Reserve Account for the Bonds, an amount equal to the estimated Administrative Expenses and any additional amounts necessary for expenses incurred in connection with administration or enforcement of delinquent Special Taxes. The District further covenants that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds are Outstanding, including the initiation of proceedings under the Act to reduce the Maximum Special Tax rates (the "Maximum Rates") on then existing Developed Property below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Outstanding Bonds. For purposes of this covenant, Developed Property is as defined in the Rate and Method of Apportionment.

The District further covenants that in the event an ordinance is adopted by initiative pursuant to Section 3 of Article XIII C of the California Constitution, which purports to reduce or otherwise alter the Maximum Rates, it will commence and pursue legal action seeking to preserve its ability to comply with its covenant contained in the preceding paragraph.

The Special Taxes will be payable and collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property; provided, the legislative body of the District may provide for direct collection of the Special Taxes in certain circumstances.

The fees and expenses of the Independent Financial Consultant retained by the District to assist in computing the levy of the Special Taxes under the Resolution and any reconciliation of amounts levied to amount received, as well as the costs and expenses of the District (including a charge for District staff time) in conducting its duties under the Resolution, will be an Administrative Expense under the Resolution.

(c) Commence Foreclosure Proceedings. Pursuant to Section 53356.1 of the Act, the District by the Resolution covenants with and for the benefit of the owner of the Bonds that it will order, and cause to be commenced as provided in the resolution and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following two paragraphs.

On or about July 1st of each Fiscal Year, the Superintendent will compare the amount of Special Taxes theretofore levied in the District to the amount of Special Taxes theretofore received by the District, and:

(A) Individual Delinquencies. If the Superintendent determines that parcels under common ownership subject to the Special Tax in the District are delinquent in the payment of Special Taxes in the aggregate amount of \$5,000 or more, then the Superintendent will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings will be commenced by the District within 90 days of such determination.

(B) Aggregate Delinquencies. If the Superintendent determines that (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies under subsection (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, the District will notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and will commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

Special Taxes collected resulting as a result of a foreclosure proceeding will be deposited in the Special Tax Fund and only inure to the benefit of the Bonds in the manner provided in the Resolution.

(d) 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 any portion of the Project acquired or constructed by the District, or 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 then Outstanding; provided that nothing contained in the Resolution will require the District to make any such payments so long as the District in good faith will contest the validity of any such claims.

(e) 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 will 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 will at all times during business hours be subject to the inspection of the Fiscal Agent or of the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding or their representatives authorized in writing.

(f) Tax Covenants. Notwithstanding any other provision of the Resolution, 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 in the Resolution and incorporated by reference in the Resolution; 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.

(g) Continuing Disclosure Covenant. The District by the Resolution covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Agreement. Notwithstanding any other provision of the Resolution, failure of the District to comply with its obligations under the Continuing Disclosure Agreement will not be considered an event of default under the Resolution, and the sole remedy, in the event of any failure of the District to comply with the Continuing Disclosure Agreement will be an action to compel performance. Upon receipt of indemnification to its satisfaction, the Fiscal Agent will at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement), or the Owners of a majority in aggregate principal amount of Outstanding Bonds or any Bondowner or Beneficial Owner take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under the Resolution. For purposes of the Resolution, “Beneficial Owners” means any person with (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

(h) The District further covenants that in the event an ordinance is adopted by initiative pursuant to Section 3 of Article XIII C of the California Constitution, which purports to reduce or otherwise alter the maximum rates of Special Tax, the District will commence and pursue legal action seeking to reserve its ability to comply with its covenants described in the Resolution.

Supplemental Resolutions or Orders Not Requiring Bondowner Consent.

The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt resolutions or orders supplemental hereto for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Resolution which may be inconsistent with any other provision in the Resolution, or to make any other provision with respect to matters or questions arising under the Resolution or in any additional resolution or order, provided that such action is not materially adverse to the interest of the Bondowners;

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

(c) to modify, amend or supplement the Resolution in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued under the Resolution, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially adversely affect the interests of the Owners of the Bonds then Outstanding;

(d) 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 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 future Bond Year on the Bonds Outstanding as of the date of such amendment;

(e) to modify, alter, amend or supplement the Resolution in any other respect which is not materially adverse to the Bondowners; provided that any amendment or supplement to the Resolution which will affect the Fiscal Agent's duties or protections set forth under the Resolution will be effective only upon written consent of the Fiscal Agent; or

(f) to issue Parity Bonds in accordance with the Resolution.

Supplemental Resolutions or Orders Requiring Bondowner Consent.

Exclusive of the resolutions or orders supplemental hereto set forth in the Resolution, the Owners of not less than 60% in aggregate principal amount of the Bonds Outstanding will have the right to consent to and approve the adoption by the District of such resolutions or orders supplemental hereto as will 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 Resolution; provided, however, that nothing in the Resolution will 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 over any other Bond, (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such resolution or order, or (e) the creation of a pledge of or a lien upon or charge upon the Net Taxes superior to the pledge in the Resolution without the consent of the Owners of all Bonds then Outstanding.

If at any time the District will desire to adopt a resolution or order supplemental hereto, which pursuant to the terms of the Resolution will require the consent of the Bondowners, the District will so notify the Fiscal Agent and will deliver to the Fiscal Agent a copy of the proposed resolution or order. The Fiscal Agent will, at the expense of the District, cause notice of the proposed resolution or order to be mailed, by first class mail postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice will briefly set forth the nature of the proposed resolution or order and will state that a copy thereof is on file at the office of the Treasurer for inspection by all Bondowners. The failure of any Bondowners to receive such notice will not affect the validity of such resolution or order when consented to and approved by the Owners of not less than 60% in aggregate principal amount of the Bonds Outstanding as required by the Resolution. Whenever at any time within one year after the date of the first mailing of such notice, the Fiscal Agent will receive an instrument or instruments purporting to be executed by the Owners of not less than 60% in aggregate principal amount of the Bonds Outstanding, which instrument or instruments will refer to the proposed resolution or order described in such notice, and will specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Treasurer, such proposed resolution or order, when duly adopted by the District, will thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of 60% of the aggregate principal amount of the Bonds have consented to the adoption of any supplemental resolution or order, 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, will be disregarded and will be treated as though they were not Outstanding for the purpose of any such determination.



Upon the adoption of any resolution or order supplemental hereto and the receipt of consent to any such resolution or order from the Owners of not less than 60% in aggregate principal amount of the Outstanding Bonds in instances where such consent is required pursuant to the provisions of the Resolution, the Resolution will be, and will be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Resolution of the District and all Owners of Outstanding Bonds will thereafter be determined, exercised and enforced under the Resolution, subject in all respects to such modifications and amendments. The District will not amend or supplement the Resolution in any manner that will affect the Fiscal Agent's duties or protections provided under the Resolution without its prior written consent.

#### Notation of Bonds; Delivery of Amended Bonds.

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

#### Fiscal Agent.

U.S. Bank, N.A., having a corporate trust office in Los Angeles, California, is by the Resolution appointed Fiscal Agent for the District for the purpose of receiving all money which the District is required to deposit with the Fiscal Agent under the Resolution and to allocate, use and apply the same as provided in the Resolution. In the event that the District fails to deposit with the Fiscal Agent any amount due under the Resolution when due, the Fiscal Agent will provide telephonic notice to the District and will confirm the amount of such shortfall in writing.

The Fiscal Agent is by the Resolution authorized to and will mail by first class mail, postage prepaid, interest payments to the Bondowners, to select Bonds for redemption, and to maintain the Bond Register. The Fiscal Agent is by the Resolution authorized to pay the principal of and premium, if any, on the Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds presented to it for such purposes, to provide for the cancellation of Bonds all as provided in the Resolution, and to provide for the authentication of Bonds, and will perform all other duties assigned to or imposed on it as provided in the Resolution. The Fiscal Agent will keep accurate records of all funds administered by it and all Bonds paid, discharged and cancelled by it. The Fiscal Agent will deliver to the District a monthly accounting of the funds and accounts it holds under the Resolution; provided, however, that the Fiscal Agent will not be obligated to deliver such accounting for any fund or account that has a balance of zero. The Fiscal Agent may establish such funds and accounts as it deems necessary or appropriate to perform its obligations under the Resolution.

The Fiscal Agent is by the Resolution authorized to redeem the Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Fiscal Agent will cancel all Bonds upon payment thereof in accordance with the provisions of the Resolution.

The District will from time to time, subject to any agreement between the District and the Fiscal Agent then in force, pay to the Fiscal Agent compensation for its services, reimburse the Fiscal Agent for all its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties under the

Resolution, and indemnify and save the Fiscal Agent, its officers, directors, employees and agents, harmless against costs, claims, expenses and liabilities not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties under the Resolution. The obligations of the District under the Resolution will survive the discharge of the Bonds and the resignation or removal of the Fiscal Agent.

#### Removal of Fiscal Agent.

The District may at any time at its sole discretion remove the Fiscal Agent initially appointed, and any successor thereto, by delivering to the Fiscal Agent a written notice of its decision to remove the Fiscal Agent and may appoint a successor or successors thereto; provided that any such successor will be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. Any removal will become effective only upon acceptance of appointment by the successor Fiscal Agent. If any bank or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Resolution the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

#### Resignation of Fiscal Agent.

The Fiscal Agent may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice will be mailed to the Owners at their addresses appearing in the registration books in the office of the Fiscal Agent. Upon receiving such notice of resignation, the District will promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent will become effective only upon acceptance of appointment by the successor Fiscal Agent.

#### Liability of Fiscal Agent.

The recitals of fact and all promises, covenants and agreements contained in the Resolution and in the Bonds will be taken as statements, promises, covenants and agreements of the District, and the Fiscal Agent assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of the Resolution or of the Bonds, and will incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth in the Resolution, in the Bonds, or in the certificate of authentication assigned to or imposed upon the Fiscal Agent. The Fiscal Agent will be under no responsibility or duty with respect to the issuance of the Bonds for value. The Fiscal Agent will not be liable in connection with the performance of its duties under the Resolution, except for its own negligence or willful misconduct.

The Fiscal Agent will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Fiscal Agent may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered under the Resolution in good faith and in accordance therewith.

The Fiscal Agent will not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under the Resolution the Fiscal Agent will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be specifically prescribed in the Resolution)

may, in the absence of bad faith on the part of the Fiscal Agent, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate will be full warrant to the Fiscal Agent for any action taken or suffered under the provisions of the Resolution upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Fiscal Agent will have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

No provision of the Resolution or any other document related hereto will require the Fiscal Agent to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights under the Resolution.

The immunities extended to the Fiscal Agent also extend to its directors, officers, employees and agents.

#### Events of Default.

Any one or more of the following events will 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 will become due and payable, whether at maturity as expressed in the Resolution, by declaration or otherwise;

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

(c) Except as described in (a) or (b), default will be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Resolution, the Bonds, and such default will have continued for a period of thirty (30) days after the District will have been given notice in writing of such default by the Fiscal Agent or the Owners of twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds.

#### Remedies of Owners.

Following the occurrence of an event of default, any Owner will have the right for the equal benefit and protection of all Owners similarly situated:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Resolution;

(b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

Nothing in the Resolution, the Bonds will affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners thereof at the respective dates of maturity, as provided in the Resolution, 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 Resolution. The principal of the Bonds will not be subject to acceleration under the Resolution.

A waiver of any default or breach of duty or contract by any Owner will 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 will impair any such right or power or will be construed to be a waiver of any such default or an acquiescence in the Resolution, and every power and remedy conferred upon the Owners by the Act or by the Resolution may be enforced and exercised from time to time and as often as will 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 will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

No remedy in the Resolution conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy will be cumulative and will be in addition to every other remedy given under the Resolution 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 pursuant to the Resolution will be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then all available amounts will 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 will pay or cause to be paid, or there will 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 Resolution, then the Owner of such Bond will cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under the Resolution will thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds pursuant to the Resolution, the Fiscal Agent will execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent will, after payment of amounts payable to the Fiscal Agent under the Resolution, pay over or deliver to the District's general fund all money or securities held by it pursuant to the Resolution which are not required for the payment of the interest due on and the principal of such Bonds.

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

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond, as and when the same 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 (exclusive of the Administrative Expense Account), is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same will become due and payable; or

(c) by depositing with the Fiscal Agent, or another escrow bank appointed by the District, in trust, direct, noncallable Federal Securities, of the type defined the definition set forth in the Resolution, in which the District may lawfully invest its money, in such amount as an Independent Financial Consultant will

determine will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account), 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 will become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds will not have been surrendered for payment, all obligations of the District under the Resolution with respect to such Bond will 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 Resolution relating to compliance with the Code. Notice of such election will be filed with the Fiscal Agent not less than thirty (30) days prior to the proposed defeasance date. In connection with a defeasance under (b) or (c) above, there will be provided to the Fiscal Agent a certificate of a certified public accountant 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 all Outstanding Bonds to be defeased in accordance with the Resolution, as and when the same will 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 Resolution and any applicable supplemental resolution. Upon a defeasance, the Fiscal Agent, upon request of the District, will release the rights of the Owners of such Bonds which have been defeased under the Resolution 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 under the Resolution of all Outstanding Bonds, the Fiscal Agent will 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 when due. The Fiscal Agent will, 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.

## APPENDIX F

### COMMUNITY FACILITIES DISTRICT NO. 8 OF THE ETIWANDA SCHOOL DISTRICT 2002 SPECIAL TAX BONDS

#### CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by Community Facilities District No. 8 of the Etiwanda School District (the "Issuer") and Special District Financing & Administration, as dissemination agent, in connection with the issuance and delivery by the Issuer of the above-captioned bonds (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 0102-28, as supplemented by a Supplement to Resolution of Issuance dated as of March 1, 2002 (as so supplemented, the "Resolution of Issuance"). The Issuer covenants as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the Issuer, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

**SECTION 2. Definitions.** In addition to the definitions set forth in the Resolution of Issuance, 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 Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

*"Beneficial Owner"* shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income purposes.

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

*"Dissemination Agent"* shall mean, initially, Special District Financing & Administration, or any successor Dissemination Agent designated in writing by the Issuer which has filed with the then current Dissemination Agent 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 purpose of the Rule. Information with respect to the National Repositories as of a particular date is available on the Internet at [www.sec.gov/consumer/nrmsir.htm](http://www.sec.gov/consumer/nrmsir.htm).

*"Participating Underwriter"* shall mean 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.

“*Tax-exempt*” shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

SECTION 3. Provision of Annual Reports.

(a) Not later than January 30 immediately following the end of the Issuer’s fiscal year, commencing January 30, 2003, the Issuer shall, provide or shall cause the Dissemination Agent to provide, to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. 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 Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify each Repository or the Municipal Securities Rulemaking Board and the Dissemination Agent of a change in the fiscal year dates.

(b) In the event that the Dissemination Agent is an entity other than the Issuer, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a). The Issuer 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 Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Issuer is the Dissemination Agent and the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the Municipal Securities Rulemaking Board, the Repositories, if any, and the Participating Underwriter in substantially the form attached to this Disclosure Agreement as Exhibit A. If the Dissemination Agent is other than the Issuer and if the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository, in substantially the form attached as Exhibit A.

(d) 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; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer 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 Issuer's Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the School District for the most recent fiscal year of the Issuer then ended. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Resolution of Issuance. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to each Repository, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following information:

- (i) the principal amount of Bonds outstanding as of September 30 of each year;
- (ii) the balance in each fund under the Resolution of Issuance as of the September 30 preceding the filing of the Annual Report, including the Reserve Account and a statement of the Reserve Requirement;
- (iii) the information set forth in Table 3—Direct and Overlapping Debt and, until all lots in the District have been sold to individual homeowners, Table 11—Allocation of Special Taxes By Property Ownership, of the Official Statement of the Issuer relating to the Bonds;
- (iv) A summary of the Special Taxes levied on Undeveloped Property and Developed Property (as defined in the Rate and Method) within the District and the assessed value of such land, as shown on the assessment roll of the San Bernardino County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, substantially similar in format to Table 10—Value-to-Lien Ratios-Allocated By Property Owner of the Official Statement, until building permits have been issued for all lots in the District;
- (v) the number of building permits issued for property located in the District, until building permits have been issued for all lots in the District;
- (vi) any changes to the Rate and Method of Apportionment of the Special Tax approved or submitted to the electors for approval prior to the filing of the Annual Report;
- (vii) the status of any foreclosure actions being pursued by the District with respect to delinquent Special Taxes;
- (viii) the identity of any property owner whose delinquent special taxes represent more than 5% of the amount levied and the value-to-lien ratios of the applicable properties; and
- (ix) any information not already included under (i) through (vi) above that the Issuer is required to file in its annual report to the California Debt and Investment Advisory



Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended.

In addition to any of the information expressly required to be provide under paragraphs (a) or (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements set forth in clauses (i) to (xiii), in the light of the circumstances under which they were made, not misleading.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Issuer 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 Issuer 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 Issuer shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies,
- (2) non-payment related defaults,
- (3) unscheduled draws on the Reserve Account of the Special Tax Fund reflecting financial difficulties,
- (4) unscheduled draws on any credit enhancements reflecting financial difficulties,
- (5) substitution of credit or liquidity providers, or their failure to perform,
- (6) adverse tax opinions or events adversely affecting the Tax-Exempt status of the Bonds,
- (7) modifications to the rights of Bond Owners,
- (8) contingent or unscheduled redemption of any Bond,
- (9) defeasances.
- (10) any release, substitution, or sale of property securing repayment of the Bonds, and
- (11) rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Issuer has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws and if the Dissemination Agent is other than the

Issuer, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e).

(d) If the Issuer determines that the Listed Event would not be material under applicable federal securities laws and if the Dissemination Agent is other than the Issuer, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e) If the Issuer is acting as Dissemination Agent and determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository and the State Repository. If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository, and in either case, to each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution of Issuance. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (e) prior to the occurrence of such Listed Event.

(f) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Issuer and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Special District Financing and Administration. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer, and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Amendment may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have delivered to the Dissemination Agent an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer and the Participating Underwriter, to the same effect as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners, or such amendment shall have been approved by the Owners in the same manner as an amendment to the Resolution of Issuance, and (5) the

Issuer shall have delivered copies of such opinion and amendment to each Repository and the Participating Underwriter.

(b) This Disclosure Agreement also may be amended by written agreement of the parties upon obtaining consent of Owners in the same manner as provided in the Resolution of Issuance for amendments to the Resolution of Issuance with the consent of the Owners of the Bonds; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied.

(c) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report 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. Such comparison shall include a quantitative and, to the extent reasonably feasible, 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.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer 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 Issuer 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 Issuer shall have no obligation under this 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 Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution of Issuance, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent other than the Issuer shall be paid (i) compensation by the Issuer for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Issuer pursuant to this Disclosure Agreement. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination

Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. 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 14. Governing Law. This Disclosure Agreement shall be construed and governed in accordance with the laws of the State of California.

SECTION 15. Notices. Notices with respect to this Disclosure Agreement should be sent in writing to the following address: Superintendent, Etiwanda School District, Post Office Box 248, 6061 East Avenue, Etiwanda, California 91739.

Dated: April 9, 2002

COMMUNITY FACILITIES DISTRICT NO. 8 OF THE  
ETIWANDA SCHOOL DISTRICT

By: \_\_\_\_\_  
Its: Superintendent of the Etiwanda School District

SPECIAL DISTRICT FINANCING &  
ADMINISTRATION, as Dissemination Agent

By: \_\_\_\_\_  
Its: Authorized Officer

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Community Facilities District No. 8 of the Etiwanda School District  
Name of Bond Issue: Community Facilities District No. 8 of the Etiwanda School District 2002  
SPECIAL TAX BONDS  
Date of Issuance: April 9, 2002

NOTICE IS HEREBY GIVEN that Community Facilities District No. 8 of the Etiwanda School District (the "Issuer") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of April 9, 2002. [The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

\_\_\_\_\_  
as Dissemination Agent

cc: Etiwanda School District

## **CONTINUING DISCLOSURE AGREEMENT OF THE DEVELOPER**

This Continuing Disclosure Agreement (the "Disclosure Agreement") dated April 9, 2002 is executed and delivered by Carriage Estates II (the "Landowner"), on behalf of the Landowner and its Affiliates (as defined below) and Special District Financing & Administration as dissemination agent (the "Dissemination Agent"), in connection with the execution and delivery by Community Facilities District No. 8 of the Etiwanda School District (the "District") of \$7,080,000 aggregate principal amount of its Community Facilities District No. 8 of the Etiwanda School District 2002 Special Tax Bonds (the "Bonds"). The Bonds are being executed and delivered pursuant to Resolution No. 0102-28 of the Etiwanda School District and the Supplement to Resolution No. 0102-28 (collectively, the "Resolution of Issuance").

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the Landowner for the benefit of the Bondowners and Beneficial Owners and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). Pursuant to this Disclosure Agreement, the Landowner agrees to provide the information required to be provided by the Landowner hereunder at the time and in the manner required hereunder and as otherwise required to comply with the Rule as specified in a written opinion of counsel to the Participating Underwriter or a nationally recognized bond counsel. This Disclosure Agreement does not address additional undertakings, if any, by or with respect to persons other than the Landowner who may be considered obligated persons for purposes of the Rule, which additional undertakings, if any, may be required for the Participating Underwriter to comply with the Rule. Neither the Etiwanda School District nor the District is obligated to undertake any action under this Agreement and neither entity shall be liable in the event either the Landowner or its Affiliates fails to comply with any term hereof.

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

"Affiliate" shall mean, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially or as an agent, guardian or other fiduciary, twenty-five percent (25%) or more of any class of Equity Securities of such Person, (b) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person or (c) each of such Person's executive officers, directors, joint venturers and general partners; provided, however, that in no case shall the District be deemed to be an Affiliate of the Landowner for purposes of this Agreement. For the purpose of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

"Annual Report" shall mean any Annual Report provided by the Landowner on or prior to September 1 of each year pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Chief Financial Officer or his designee acting on behalf of the Landowner, or such other officer or employee as the Landowner shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean Special District Financing & Administration acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Landowner and which has filed with the Landowner and the Etiwanda School District (the "School District") a written acceptance of such designation.

“District” shall mean Community Facilities District No. 8 established by the Etiwanda School District.

“Equity Securities” of any Person shall mean (a) all common stock, preferred stock, participations, shares, general partnership interests or other equity interests in and of such person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30.

“Government Authority” shall mean any national, state or local government, any political subdivision thereof, any department, agency, authority or bureau of any of the foregoing, or any other Person exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Listed Event” 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.

“Official Statement” shall mean the Official Statement, dated March 26, 2002, relating to the Bonds.

“Parity Bonds” shall mean bonds of the District issued under the Agreement that are secured on a parity with the Bonds.

“Participating Underwriter” shall mean Stone & Youngberg, the original Underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Person” shall mean any natural person, corporation, partnership, firm, association, Government Authority or any other Person whether acting in an individual fiduciary, or other capacity.

“Repository” shall mean each National Repository and the 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.

“Semiannual Report” shall mean any report to be provided by the Landowner on or prior to March 1 of each year pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designed by the State 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 and Semi-annual Reports.

(a) The Landowner shall, or upon its receipt of the Annual Report the Dissemination Agent shall, not later than September 1 of each year, commencing September 1, 2002, provide to each Repository, the Participating Underwriter and the District an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. 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, if any, of the Landowner may be submitted separately from the balance of the

Annual Report and later than the date required for the filing of the Annual Report if they are not available by that date. In addition, the Landowner shall, or upon its receipt of the Semiannual Report the Dissemination Agent shall, not later than March 1 of each year, commencing March 1, 2003, provide to each Repository, the Participating Underwriter and the District a Semiannual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report and Semiannual Report to Repositories, the Landowner shall provide the Annual Report or the Semiannual Report, as applicable, to the Dissemination Agent or shall provide notification to the Dissemination Agent that the Landowner is preparing, or causing to be prepared, the Annual Report or the Semiannual Report, as applicable, and the date which the Annual Report or the Semiannual Report, as applicable, is expected to be available. If by such date, the Dissemination Agent has not received a copy of the Annual Report or the Semiannual Report, as applicable, or notification as described in the preceding sentence, the Dissemination Agent shall contact the Landowner to determine if the Landowner is in compliance with the requirements of this subsection (b).

(c) If the Dissemination Agent is unable to provide an Annual Report or Semiannual Report to Repositories by the date required in subsection (a) or to verify that an Annual Report or Semiannual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report and the Semiannual Report the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the Landowner and the School District certifying that the Annual Report or the Semiannual Report, as applicable, 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 Report and Semiannual Report.

(a) The Landowner's Annual Report and Semiannual Report shall contain or include by reference the information which is available as of the date of the Annual Report or the Semiannual Report, as applicable, which in each case shall not be more than 30 days prior to the filing of such Report relating to the following:

(i) An update to portions of the section in the Official Statement entitled "PROPERTY OWNERSHIP AND THE DEVELOPMENTS" (other than under the subcaption "- Appraised Value-to-Lien Ratio"), including an update of the information under the caption "Description of the Project" as it pertains to the Landowner's projects in the District and of Table 9 in the Official Statement, a discussion of the sources of funds to finance development of property owned by the Landowner and its Affiliates within the District, and whether any material defaults exist under any loan arrangement related to such financing, provided that in lieu of providing an update to Table 9, the Landowner may provide a description of any material changes in the financing plan or development costs of the Landowner and the causes or rationale for such changes by a written description;



(ii) A summary of Landowner's development activity within the District, including the number of parcels for which building permits have been issued and the square footage of improvements listed thereon, and as to property owned by the Landowner and its Affiliates, the number of parcels for which sales have closed, including the amount of land or number of units in each transaction, and in the case of a purchase of a parcel by an entity other than the purchaser of a residential unit, the name of the purchaser of the parcel;

(iii) Status of any major governmentally-imposed preconditions for commencement or continuation of development of the parcels owned by Landowner within the District;

(iv) Status of completion of the private improvements required for the development being undertaken by the Landowner and its Affiliates and any major legislative, administrative and judicial challenges known to the Landowner to or affecting the construction of the development or the time for construction of any public or private improvements to be made by the Landowner or any Affiliate within the District other than the public improvements described below (the "Landowner Improvements");

(v) Any significant amendments to land use entitlements with respect to parcels within the District that are known to the Landowner;

(vi) A statement as to whether or not the Landowner and Affiliates paid, prior to their becoming delinquent, all Special Taxes levied on the Landowner's and Affiliates' property and, if the Landowner or Affiliate is delinquent in the payment of such Special Taxes for its property, a statement specifying the amount of each such delinquency and describing any plans to resolve such delinquency;

(vii) In the Annual Report only, the audited financial statements of the Landowner, if any, for most recently completed fiscal year (which currently ends on each December 31), prepared in accordance with generally accepted accounting principles as promulgated to apply to private entities from time to time by the Financial Accounting Standards Board. If the Landowner has audited financial statements prepared and the audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements for the preceding year, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(viii) Any material changes in the information relating to the Landowner and/or the Development contained in the Official Statement under the caption "SPECIAL RISK FACTORS—Endangered Species" and "—Hazardous Substances";

(ix) Update the status of any previous reports described in Section 5 hereof; and

(x) Any changes in the legal structure or organization of the Landowner.

(b) In the event that as a result of subsequent amendment of the Rule, interpretive releases, no-action letters or other official guidance from the Securities and Exchange Commission or its staff, the information required to satisfy the Rule shall differ from the information described above, the Landowner shall provide to the Dissemination Agent such other information as is available to the Landowner and not otherwise readily available to the District.

(c) Any and all of the items listed above may be included by specific reference to other documents, including official statements of debt issues 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 Landowner 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 Landowner shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material under paragraphs (b) and (c):

(i) Failure to pay any real property taxes, special taxes or assessments levied within the District on a parcel owned by the Landowner or any Affiliate;

(ii) Damage to or destruction of any of the Landowner Improvements or the District Improvements which has a material adverse effect on the value of the parcels owned by the Landowner or any Affiliate;

(iii) Material default by the Landowner or any Affiliate on any loan with respect to the construction or permanent financing of the Landowner Improvements;

(iv) Material default by the Landowner or any Affiliate on any loan secured by property within the District owned by the Landowner or any Affiliate;

(v) Payment default by the Landowner or any Affiliate located in the United States on any loan of the Landowner or any Affiliate (whether or not such loan is secured by property within the District) which is beyond any applicable cure period in such loan;

(vi) The filing of any proceedings with respect to the Landowner or any Affiliate, in which the Landowner or any Affiliate, may be adjudicated as bankrupt or discharged from any or all of their respective debts or obligations or granted an extension of time to pay debts or a reorganization or readjustment of debts;

(vii) The filing of any lawsuit against the Landowner or any of its Affiliates located in the United States which, in the reasonable judgment of the Landowner, will adversely affect the completion of the Landowner Improvements or the development of parcels owned by the Landowner or its Affiliates within the District, or litigation which if decided against the Landowner, or any of its Affiliates, in the reasonable judgment of the Landowner, would materially adversely affect the financial condition of the Landowner or its Affiliates; and

(viii) Any conveyance by the Landowner of property to an entity that is not an Affiliate of such Landowner, the result of which conveyance is to cause the transferee to become bound by the obligations of the Landowner under this Disclosure Agreement pursuant to Section 12 hereof.

(b) Whenever the Landowner obtains knowledge of the occurrence of a Listed Event, the Landowner shall as soon as possible determine if such event would be material to the Bonds under applicable federal securities laws.

(c) If the Landowner determines that knowledge of the occurrence of a Listed Event would be material to the Bonds under applicable federal securities laws, the Landowner shall promptly

file a notice of such occurrence with the Dissemination Agent which shall then distribute such notice to the Municipal Securities Rulemaking Board and each State Repository, with a copy to the School District.

(d) The Landowner shall also give notice immediately upon the occurrence of any of the following events (to the extent the Landowner has actual knowledge thereof) in accordance with the procedures set forth in (c) above: (i) a sale or transfer of all or substantially all of the Landowner's assets, and (ii) a change in the identity of the managing member of the Landowner.

SECTION 6. Termination of Reporting Obligation. The Landowner's obligations under this Disclosure Agreement shall terminate upon the earliest of the following events:

(a) the legal defeasance, prior redemption or payment in full of all of the Bonds,

(b) if as of the date for filing the Annual Report or the Semi-Annual Report the Landowner and its Affiliates own property within the District which is responsible for less than ten percent (10%) of the Special Taxes levied in the Fiscal Year for which the Annual Report or the Semi-Annual Report is being prepared, or

(c) upon the delivery by the Landowner to the District of an opinion of nationally recognized bond counsel to the effect that the information required by this Disclosure Agreement is no longer required. Such opinion shall be based on information publicly provided by the Securities and Exchange Commission or a private letter ruling obtained by the Landowner or a private letter ruling obtained by a similar entity to the Landowner. If such termination occurs prior to the final maturity of the Bonds, the Landowner shall give notice of such termination in the same manner as for an Annual Report hereunder.

Upon the occurrence of any such termination or suspension prior to the final maturity of the Bonds, the Landowner shall give notice of such termination or suspension in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Landowner may from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the Landowner, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Landowner pursuant to this Disclosure Agreement.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Landowner may amend this Disclosure Agreement, 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, 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 Bonds, or the type of business conducted;

(b) This Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel addressed to the School District, the Trustee and the Participating Underwriter, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) The amendment or waiver either (i) is approved by the Bondowners in the same manner as provided in the Agreement for amendments to the Agreement with the consent of Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel addressed to the Authority and the Trustee, materially impair the interests of the Bondowners or Beneficial Owners of the Bonds; and

(d) The Landowner, or the Dissemination Agent, shall have delivered copies of the amendment and any opinions delivered under (b) and (c) above.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Landowner shall describe such amendment in the next Annual Report or Semiannual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Landowner. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given to the Municipal Securities Rulemaking Board, the State Repository, if any, and the Repositories; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison of financial data described in clause (ii) of the preceding sentence shall be provided at the time financial statements, if any, are filed under Section 4(a)(viii) hereof.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Landowner 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 Landowner 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 Landowner 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.

The Landowner acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Landowner, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Landowner under such laws.

SECTION 10. Default. In the event of a failure of the Landowner to comply with any provision of this Disclosure Agreement, any Participating Underwriter or any Bondowner or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Landowner 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 Resolution of Issuance, and the sole remedy under this Disclosure Agreement in the event of any failure of the Landowner to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement and the Landowner agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the

Landowner, the Participating Underwriter, Bondowners or Beneficial Owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon a direction from the Landowner or an opinion of nationally recognized bond counsel. The obligations of the Landowner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement.

The Dissemination Agent will not, without the Landowner's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of the Landowner and its controlling persons from all liability arising out of such claim, action or proceedings. If a claim, action or proceeding is settled with the consent of the Landowner or if there is a final judgment (other than a stipulated final judgment without the approval of the Landowner) for the plaintiff in any such claim, action or proceeding, with or without the consent of the Landowner, the Landowner agrees to indemnify and hold harmless the Dissemination Agent to the extent described herein.

**SECTION 12. Reporting Obligation of Landowner's Transferees; Covenant Running With Land.** The Landowner shall, in connection with any sale or transfer of ownership of land within the District to a person or entity other than an Affiliate which will result in the transferee or its Affiliates (which term shall include any successors and assigns of the Landowner) becoming responsible (i) for the payment of more than 10 percent of the Special Taxes levied on property within the District in the Fiscal Year following such transfer; and (ii) for the construction and/or installation of some or all of the Landowner Improvements, cause such transferee to enter into a disclosure agreement with terms substantially similar to the terms of this Disclosure Agreement, whereby such transferee agrees to be bound by the obligations of the Landowner under this Disclosure Agreement as an additional obligated party. Additionally, the Landowner shall, in connection with any sale or transfer of ownership of land within the District to a person or entity other than an Affiliate which will result in the transferee and its Affiliates becoming responsible for the payment of 10 percent or more of the Special Taxes levied on property within the District in the Fiscal Year following such transfer, but where the transferee is not responsible for the construction or installation of some or all of the Landowner Improvements, cause such transferee to enter into a disclosure agreement with terms substantially similar to the terms of this Disclosure Agreement, whereby such transferee agrees to provide its audited financial statements, if any, and, as to the property owned by it, the information of the type described in Section 4(a)(ii), (iii), (vi), (vii), (ix), (x) and (ix) and Section 5 of this Disclosure Agreement; provided that such transferee's obligations under such disclosure agreement shall terminate upon the land owned by the transferee and its Affiliates becoming responsible for the payment of less than 20 percent of the annual Special Taxes. The Landowner agrees that its obligations pursuant to this Disclosure Agreement shall be a covenant running with the land owned by the Landowner within the District such that its obligations pursuant to this Disclosure Agreement shall be binding upon all such transferees described above as though the obligations of the Landowner and such transferees were expressly set forth in the grant deeds whereby such transferees obtain title to or an estate in such land from the Landowner, provided that, in the event any transferee which meets the tests set forth in the first two sentences of this Section 12 fails to enter a disclosure agreement pursuant hereto, the Landowner agrees that it will continue to be obligated to provide all disclosures required pursuant to this Agreement with respect to such land within the District transferred to such transferee. The Landowner shall record a memorandum of this Agreement with the San Bernardino County Recorder's Office on the date of execution hereof.

**SECTION 13. Landowner as Independent Contractor.** In performing under this Disclosure Agreement, it is understood that the Landowner is an independent contractor and not an agent of the School District.

**SECTION 14. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 15. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Landowner, the District, the Dissemination Agent, the Participating Underwriter and Bondowners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 16. Governing Law. This Disclosure Agreement shall be construed and governed in accordance with the laws of the State of California.

Dated: April 9, 2002

CARRIAGE ESTATES II, LLC, a California limited liability company

By: Pacific Crest Communities, Inc., a California corporation, it's managing member

By: \_\_\_\_\_  
Phil Walsh, President

SPECIAL DISTRICT FINANCING & ADMINISTRATION as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of the Issuer: Community Facilities District No. 8

Name of Bond Issue: Community Facilities District No. 8 2002 Special Tax Bonds

Date of Issuance: April 9, 2002

NOTICE IS HEREBY GIVEN that \_\_\_\_\_ has not provided an [Annual Report or Semiannual Report] with respect to the above-named Bonds as required by the Continuing Disclosure Agreement of the Developer. [The Landowner anticipates that such [Annual Report or Semiannual Report] will be filed not later than \_\_\_\_\_, \_\_\_\_\_.]

Dated: \_\_\_\_\_

SPECIAL DISTRICT FINANCING &  
ADMINISTRATION as Dissemination Agent

cc: Etiwanda School District

## APPENDIX G

### BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (the “Bonds”). The 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 certificate will be issued for each maturity of the 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 (“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 both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 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 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners



will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity 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 any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 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 District or the Trustee, on 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 its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Bonds will be printed and delivered.

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