

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Community Facilities District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2012 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012 Bonds. See “CONCLUDING INFORMATION – Tax Exemption” herein.

STATE OF CALIFORNIA

COUNTY OF ORANGE

\$38,330,000

**BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY
COMMUNITY FACILITIES DISTRICT NO. 98-1
SPECIAL TAX BONDS
SERIES 2012**

Dated: Date of Delivery**Due: September 1, as shown on the inside cover page.**

The Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 Special Tax Bonds, Series 2012, in the aggregate principal amount of \$38,330,000 (the “Series 2012 Bonds”), are being issued by Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 (the “Community Facilities District”) pursuant to the Mello-Roos Community Facilities Act of 1982 and an Indenture, dated as of January 1, 2012 (the “Indenture”), by and between the Community Facilities District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), and will be secured as described herein. The Community Facilities District is located within the city limits of the City of Newport Beach and within the boundaries of the Newport-Mesa Unified School District in Orange County, California. Additional bonds (“Additional Bonds”) may be issued by the Community Facilities District on a parity with the Series 2012 Bonds solely for the purpose of refunding the Series 2012 Bonds or bonds issued to refund the Series 2012 Bonds, if any. The Series 2012 Bonds and any Additional Bonds are collectively referred to as the “Bonds.” See “SECURITY FOR THE SERIES 2012 BONDS” herein.

The Series 2012 Bonds are being issued to provide funds to (i) currently refund (together with other available funds) certain outstanding Prior Bonds (as defined herein), (ii) fund a reserve fund for the Series 2012 Bonds and (iii) pay the costs of issuing the Series 2012 Bonds. See “REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The Series 2012 Bonds will be dated their date of delivery and will bear interest at the rates per annum and will mature on the dates and in the principal amounts, all as set forth on the inside cover page hereof. Interest will be payable on March 1 and September 1 of each year, commencing on September 1, 2012 (each an “Interest Payment Date”). The Series 2012 Bonds are being issued in fully registered book-entry form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Purchasers will not receive certificates representing their interest in the Series 2012 Bonds. Individual purchases will be in denominations of \$5,000 and any integral multiple thereof. Payments of principal of, premium, if any, and interest on the Series 2012 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Series 2012 Bonds. See “THE SERIES 2012 BONDS – General” and APPENDIX F – “DTC BOOK-ENTRY ONLY SYSTEM” herein.

The Series 2012 Bonds are subject to redemption prior to maturity as described herein. See “THE SERIES 2012 BONDS – Redemption of the Series 2012 Bonds” herein.

The Series 2012 Bonds are special obligations of the Community Facilities District, payable solely from Net Special Tax Revenues and any other amounts pledged therefor under the Indenture, all as more fully described herein. See “SECURITY FOR THE SERIES 2012 BONDS” herein.

THE BONDS ARE NOT A DEBT OR LIABILITY OF THE BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY (THE “AUTHORITY”), THE STATE OF CALIFORNIA (THE “STATE”) OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE COMMUNITY FACILITIES DISTRICT, AND THEN ONLY TO THE LIMITED EXTENT DESCRIBED IN THE INDENTURE. THE BONDS ARE SPECIAL OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT, PAYABLE, AS PROVIDED IN THE INDENTURE, SOLELY FROM NET SPECIAL TAX REVENUES AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE), THE AUTHORITY, THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS.

Investment in the Series 2012 Bonds involves risks which may not be appropriate for some investors. See “CERTAIN RISK FACTORS” for a discussion on certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Series 2012 Bonds. This cover page contains information for quick reference only. It is not a complete summary of the Series 2012 Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2012 Bonds are offered when, as and if issued and delivered to the Underwriter, subject to the approval as to their validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, and for the Community Facilities District by its counsel, Parker & Covert LLP. It is anticipated that the Series 2012 Bonds will be available for delivery in book-entry form through the facilities of DTC on or about January 31, 2012.

STONE & YOUNGBERG
A DIVISION OF STIFEL NICOLAUS

MATURITY SCHEDULE

\$38,330,000
BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY
COMMUNITY FACILITIES DISTRICT NO. 98-1
SPECIAL TAX BONDS
SERIES 2012

Base CUSIP[†] 09820M

\$31,080,000 Serial Bonds

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP Number[†]
2012	\$ 595,000	2.00%	0.95%	AQ3
2013	1,380,000	2.00	1.70	AR1
2014	1,465,000	2.25	2.20	AS9
2015	1,555,000	3.00	2.65	AT7
2016	1,660,000	3.00	2.90	AU4
2017	1,775,000	3.00	3.14	AV2
2018	1,890,000	3.25	3.44	AW0
2019	2,015,000	4.00	3.68	AX8
2020	2,165,000	4.00	3.90	AY6
2021	2,320,000	4.00	4.08	AZ3
2022	2,480,000	4.00	4.26	BA7
2023	2,645,000	4.25	4.45	BB5
2024	2,335,000	4.50	4.64	BC3
2024	500,000	5.00	4.64*	BF6
2025	3,040,000	5.00	4.80*	BD1
2026	3,260,000	5.00	4.88*	BE9

\$7,250,000 5.00% Term Bonds due September 1, 2028 Priced to Yield 5.00% CUSIP No.[†] 09820M BG4

[†] CUSIP data included here is subject to Copyright by the American Bankers Association. CUSIP data included herein is provided by the Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. and is provided for convenience of reference only. None of the Community Facilities District, the Authority, the Financial Advisor or the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

* Priced to optional redemption date of March 1, 2022.

**BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY
ORANGE COUNTY, CALIFORNIA**

Governing Board

Tracy McCraner, City of Newport Beach – President
Jeffrey C. Hubbard, Ed.D., Newport-Mesa Unified School District – Member
Mr. Tim Marsh, Newport-Mesa Unified School District – Alternate
Mr. Dan Matusiewicz, City of Newport Beach – Alternate

Administration

Mr. Paul H. Reed, Newport-Mesa Unified School District – Secretary

SPECIAL SERVICES

Counsel to the Community Facilities District

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Tustin, California

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Financial Advisor

Fieldman, Rolapp & Associates
Irvine, California

Community Facilities District Administrator

Scott Associates
Long Beach, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

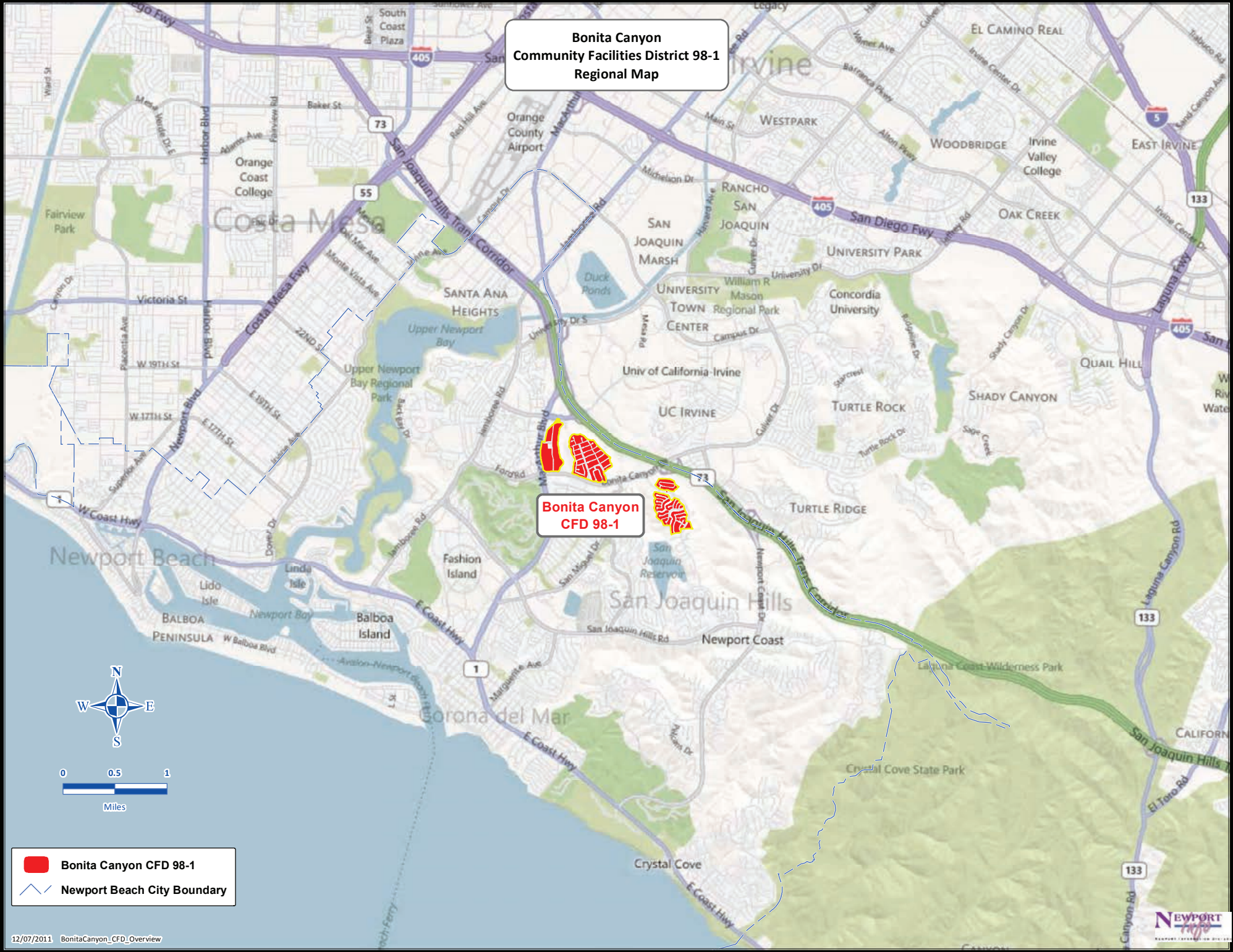
Escrow Bank

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

Verification Agent

Causey Demgen & Moore Inc.
Denver, Colorado

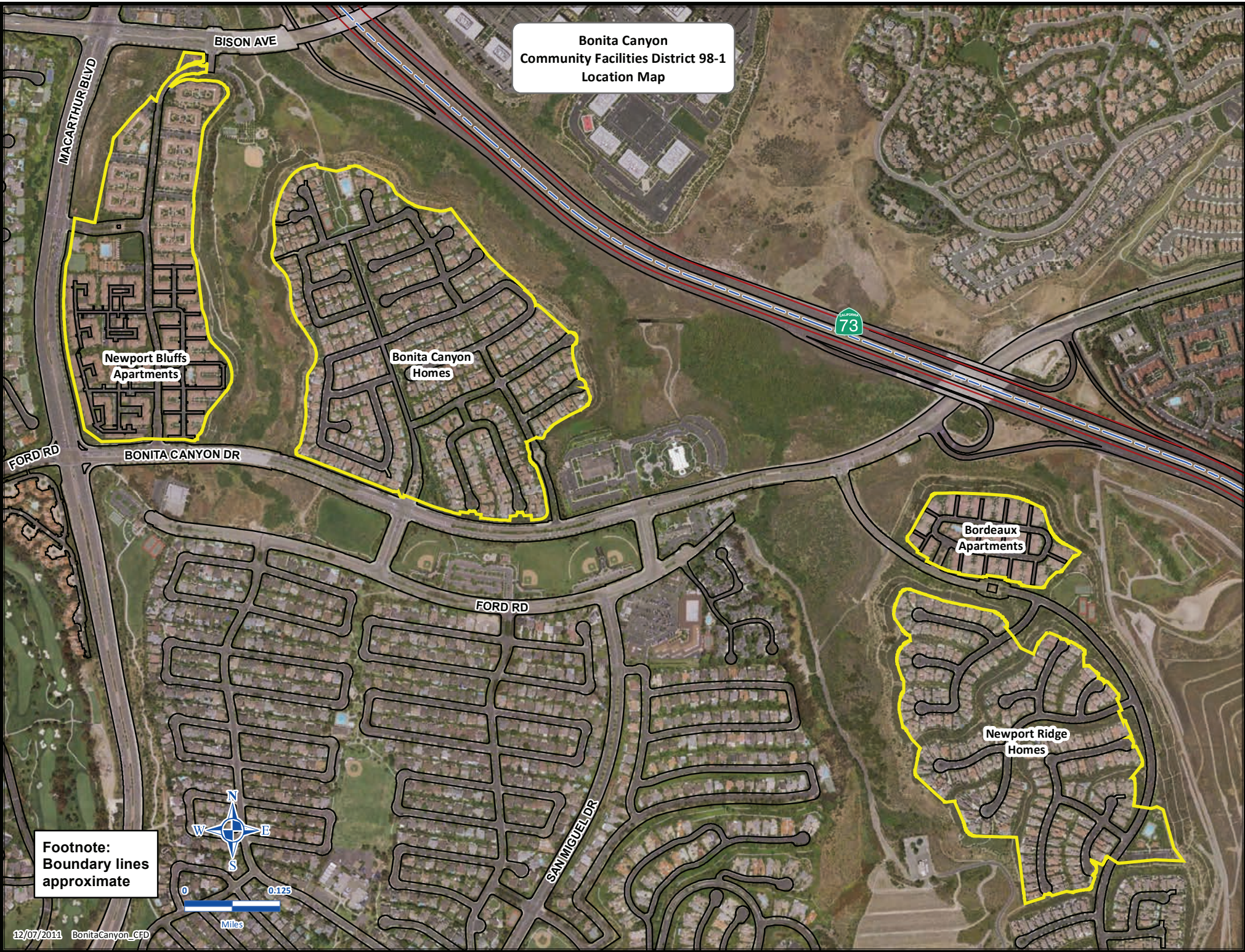
**Bonita Canyon
Community Facilities District 98-1
Regional Map**



**Bonita Canyon
CFD 98-1**

-  **Bonita Canyon CFD 98-1**
-  **Newport Beach City Boundary**

Bonita Canyon
Community Facilities District 98-1
Location Map



Newport Bluffs
Apartments

Bonita Canyon
Homes

Bordeaux
Apartments

Newport Ridge
Homes

Footnote:
Boundary lines
approximate

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No dealer, broker, salesperson or other person has been authorized by the Community Facilities District or the Underwriter to give any information or to make any representations with respect to the Community Facilities District or the Series 2012 Bonds other than the information contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Community Facilities District 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 Series 2012 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 of the Series 2012 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 a representation of facts.

Certain of the information set forth herein has been obtained from sources which the Community Facilities District and the Underwriter believe to be reliable, but such information is not guaranteed as to accuracy or completeness.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as 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.

All summaries of the Indenture or other documents are made subject to the complete provisions thereof 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 Community Facilities District for further information in connection therewith. This Official Statement is submitted in connection with the sale of the Series 2012 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

This Official Statement contains forward-looking statements within the meaning of the Federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions, projections and general economic conditions. Such words as expects, intends, plans, believes, estimates, anticipates or variations of such words or similar expressions are intended to identify forward-looking statements and include, but are not limited to, statements under the captions "SECURITY FOR THE SERIES 2012 BONDS" and "THE COMMUNITY FACILITIES DISTRICT" and elsewhere in this Official Statement. The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. 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. No assurance is given that actual results will meet the Authority's or the Community Facilities District's forecasts in any way, regardless of the level of optimism communicated in the information. The Community Facilities District and the Authority assume no obligation to provide public updates of forward-looking statements.

In connection with the offering of the Series 2012 Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Series 2012 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Series 2012 Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page hereof and such public offering prices may be changed from time to time by the Underwriter.

OFFICIAL STATEMENT

\$38,330,000

**BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY
COMMUNITY FACILITIES DISTRICT NO. 98-1
SPECIAL TAX BONDS
SERIES 2012**

INTRODUCTION

The purpose of this Official Statement, including the cover page, the inside cover page and the Appendices, is to provide certain information in connection with the issuance and sale by Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 (the “Community Facilities District”) of its Special Tax Bonds, Series 2012, issued in the aggregate principal amount of \$38,330,000 (the “Series 2012 Bonds”). The Series 2012 Bonds are being issued pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982 (the “Act”) and the Indenture, dated as of January 1, 2012 (the “Indenture”), by and between the Community Facilities District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). Capitalized terms not defined elsewhere in this Official Statement have the meanings assigned to such terms in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – DEFINITIONS.”

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, the inside cover page and Appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of the Series 2012 Bonds to potential investors is made only by means of the entire Official Statement.

The Series 2012 Bonds are being issued to (i) currently refund (together with other available funds) the Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 Special Tax Bonds, Series 1998 (the “Prior Bonds”), (ii) fund a reserve fund for the Series 2012 Bonds and (iii) pay the costs of issuing the Series 2012 Bonds.

Pursuant to the Act, the qualified electors of the Community Facilities District approved the levy of a special tax (the “Special Tax”) within the boundaries of the Community Facilities District. The Series 2012 Bonds are payable solely from Net Special Tax Revenues and any other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund. The Net Special Tax Revenues consist of the proceeds of the Special Taxes (less amounts required to pay Administrative Expenses) received by or on behalf of the Community Facilities District resulting from the levy of the Special Tax on certain property within the Community Facilities District. Under the terms of the Rate and Method of Apportionment of Special Taxes for Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 (the “Rate and Method”), all of the real property in the Community Facilities District, unless exempted by law or by the provision of the Rate and Method shall be taxed for the purposes, to the extent and in the manner set forth in the Indenture and the Rate and Method. As defined in the Indenture, the term “Net Special Tax Revenues” means Special Tax Revenues, less amounts required to pay Administrative Expenses. See “SECURITY FOR THE SERIES 2012 BONDS” and APPENDIX A – “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

The taxable parcels in the Community Facilities District include a total of 489 existing single family residential and rental dwelling units (consisting of 477 single family residences and two apartment

complexes consisting of 1,249 completed apartment units), currently subject to the levy of the Special Taxes. See “INTRODUCTION – The Community Facilities District.” No estimates are available for the appraised market value of the property in the Community Facilities District. The gross assessed valuation of the property in the Community Facilities District for Fiscal Year 2011-12 is \$792,475,720.

Additional bonds (“Additional Bonds”) may be issued by the Community Facilities District on a parity with the Series 2012 Bonds solely for the purpose of refunding the Series 2012 Bonds or bonds issued to refund the Series 2012 Bonds, if any. The Series 2012 Bonds and any Additional Bonds are collectively referred to herein as the “Bonds.” See “SECURITY FOR THE SERIES 2012 BONDS – Additional Indebtedness” herein.

The Bonds are special obligations of the Community Facilities District, payable, as provided in the Indenture, solely from and secured by Net Special Tax Revenues and the other assets pledged therefor under the Indenture, to the extent provided therein. Neither the faith and credit nor the taxing power of the Community Facilities District (except to the limited extent set forth in the Indenture), the Bonita Canyon Public Facilities Financing Authority (the “Authority”) or the State of California (the “State”), or any political subdivision thereof, is pledged to the payment of the Bonds. See “SECURITY FOR THE SERIES 2012 BONDS.”

Material Changes Since Preliminary Official Statement

In addition to pricing information, related value-to-lien information and terms for redemption, this Official Statement, as compared to the Preliminary Official Statement dated December 20, 2011 (the “Preliminary Official Statement”), includes corrected tax disclosure with respect to the inclusion of interest on the Series 2012 Bonds in adjusted current earnings when calculating corporate alternative minimum taxable income. The Preliminary Official Statement erroneously stated that interest on the Series 2012 Bonds is not included in adjusted current earnings when calculating corporate alternative minimum taxable income. See “CONCLUDING INFORMATION – Tax Exemption” and APPENDIX E – “PROPOSED FORM OF OPINION OF BOND COUNSEL.”

The Community Facilities District

The Community Facilities District is located within the city limits of the City of Newport Beach (the “City”) and within the boundaries of the Newport-Mesa Unified School District (“NMUSD”). The Community Facilities District consists, as of the date hereof, of approximately 365 gross acres (consisting of 134.77 net taxable acres) located south of the San Joaquin Hills Transportation Corridor at the intersection of MacArthur Boulevard and Bonita Canyon Drive in west-central Orange County. By the end of 2004, all taxable parcels in the Community Facilities District were under the ownerships of 477 individual homeowners and The Irvine Company, which owns or has a controlling interest in two apartment complexes.

The 2011-12 Special Tax levy includes the Special Tax for 489 parcels (477 single family residences and two apartment complexes sited on 12 parcels) currently on the tax rolls. The Special Tax levy for Fiscal Year 2011-12 is \$3,147,788, or 72.4% of the Maximum Special Tax. See “THE COMMUNITY FACILITIES DISTRICT – Debt Service Coverage.”

Further Information

Brief descriptions of the Series 2012 Bonds, the Indenture, the Continuing Disclosure Agreement to be delivered by the Community Facilities District (the “Continuing Disclosure Agreement”), the security for the Series 2012 Bonds, the Community Facilities District and certain other information are

included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Series 2012 Bonds, the Indenture, the Continuing Disclosure Agreement and other documents.

Copies of such documents may be obtained from the Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1, c/o Newport-Mesa Unified School District, 2985 Bear Street, Suite A, Costa Mesa, California 92626, Attention: Deputy Superintendent, Business Services.

REFUNDING PLAN

The Prior Bonds are outstanding in the aggregate principal amount of \$39,555,000. The Community Facilities District will deposit a portion of the proceeds of the Series 2012 Bonds, together with other funds of the Community Facilities District, in an irrevocable escrow fund (the “Escrow Fund”) to refund, on a current refunding basis, the Prior Bonds on March 1, 2012 (the “Redemption Date”). See “ESTIMATED SOURCES AND USES OF FUNDS.” The Escrow Fund will be established by the Community Facilities District with The Bank of New York Mellon Trust Company, N.A., as escrow bank (the “Escrow Bank”), pursuant to an Escrow Agreement, dated as of January 1, 2012, by and between the Escrow Bank and the Community Facilities District. Amounts so deposited in the Escrow Fund will be applied to purchase certain federal securities, in an aggregate amount which, together with the interest to be derived therefrom, will be sufficient, without reinvestment, to refund the Prior Bonds on the Redemption Date at a redemption price equal to 100% of the principal amount of the Prior Bonds being so redeemed, together with interest on the Prior Bonds on the Redemption Date. The sufficiency of such amounts to pay the redemption price of the Prior Bonds on March 1, 2012, will be verified by Causey Demgen & Moore Inc. (the “Verification Agent”), an independent firm of certified public accountants. See “ESTIMATED SOURCES AND USES OF FUNDS.”

The monies held under the Escrow Agreement are pledged to the payment of the Prior Bonds to be paid upon the redemption thereof and neither the principal of nor the interest thereon will be available for the payment of the Series 2012 Bonds.

THE SERIES 2012 BONDS

Authority for Issuance

The Series 2012 Bonds are authorized to be issued by the Community Facilities District under and subject to the terms of the Act and the Indenture.

General

The Series 2012 Bonds will be issued in fully registered form only, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2012 Bonds. Ownership interests in the Series 2012 Bonds may be purchased in book-entry form only, in denominations of \$5,000 and any integral multiple thereof. So long as DTC is acting as securities depository for the Series 2012 Bonds, payments of principal of, premium, if any, and interest on the Series 2012 Bonds will be made directly to DTC. See APPENDIX F – “DTC BOOK-ENTRY ONLY SYSTEM.”

The Series 2012 Bonds will be dated their date of delivery and will bear interest payable on their respective Interest Payment Dates at the rates per annum and will mature on the dates and in the principal amounts, all as set forth on the inside cover page hereof. The term “Interest Payment Dates” means March 1 and September 1 of each year, commencing on September 1, 2012.

The Series 2012 Bonds will mature and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) as set forth on the inside cover page hereof. Interest on the Series 2012 Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Series 2012 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event interest thereon will be payable from such Interest Payment Date, (ii) a Series 2012 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or (iii) interest on any Series 2012 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has previously been paid or duly provided for. Interest will be paid in lawful money of the United States on each Interest Payment Date. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Series 2012 Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. Notwithstanding the foregoing, interest on any Series 2012 Bond which is not punctually paid or duly provided for on any Interest Payment Date will, if and to the extent that amounts subsequently become available therefor, be paid on a payment date established by the Trustee to the Person in whose name the ownership of such Series 2012 Bond is registered on the Registration Books at the close of business on a special record date to be established by the Trustee for the payment of such defaulted interest, notice of which will be given to such Owner not less than ten days prior to such special record date.

The principal of the Series 2012 Bonds will be payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption, as applicable, at the principal corporate trust office (the “Trust Office”) of the Trustee in Los Angeles, California. Principal of and premium, if any, and interest on the Series 2012 Bonds will be paid in lawful money of the United States of America; provided, however, that so long as DTC or its nominee is the registered owner of the Series 2012 Bonds, interest payments will be made as described in APPENDIX F – “DTC BOOK-ENTRY ONLY SYSTEM.”

Redemption of the Series 2012 Bonds

Optional Redemption. The Series 2012 Bonds will be subject to optional redemption, in whole, or in part, in Authorized Denominations, on any Interest Payment Date on or after September 1, 2012, from any source of available funds, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Series 2012 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

Redemption Dates	Redemption Price
September 1, 2012 through September 1, 2019	103%
March 1, 2020 and September 1, 2020	102
March 1, 2021 and September 1, 2021	101
March 1, 2022 and thereafter	100

The Community Facilities District will give the Trustee written notice of its intention to redeem Series 2012 Bonds pursuant to the Indenture not less than 45 days prior to the applicable redemption date, unless a later date is agreed to by the Trustee.

Mandatory Redemption from Special Tax Prepayments. The Series 2012 Bonds will be subject to mandatory redemption, in whole or in part, on any Interest Payment Date on or after September 1, 2012, from and to the extent of any prepayment of Special Taxes, at the following respective redemption prices (expressed as percentages of the principal amount of the Series 2012 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

Redemption Dates	Redemption Price
September 1, 2012 through September 1, 2019	103%
March 1, 2020 and September 1, 2020	102
March 1, 2021 and September 1, 2021	101
March 1, 2022 and thereafter	100

Notice of Redemption

So long as DTC is acting as securities depository for the Series 2012 Bonds, notice of redemption, containing the information required by the Indenture, will be mailed by first class mail, postage prepaid, by the Trustee to DTC (not to the Beneficial Owners of any Series 2012 Bonds designated for redemption) at least 30 days but not more than 60 days prior to the redemption date. The actual receipt by DTC (or any Owner of a Series 2012 Bond in the event that the book-entry only system is discontinued) of such notice of redemption is not a condition precedent to redemption, and neither the failure to receive any notice so mailed, nor any defect in such notice, shall affect the validity of the proceedings for the redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

Such notice will state the date of the notice, the redemption date, the redemption place and the Redemption Price and will designate the CUSIP numbers, if any, the Bond numbers and the maturity or maturities of the Bonds to be redeemed (except in the event of redemption of all of the Bonds of such maturity or maturities in whole), and will require that such Bonds be then surrendered at the Office of the Trustee for redemption at the Redemption Price, giving notice also that further interest on such Bonds will not accrue from and after the date fixed for redemption. With respect to any notice of any optional redemption of Bonds of a Series, unless at the time such notice is given the Bonds to be redeemed will be deemed to have been paid within the meaning of the Indenture, such notice will state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the Redemption Price of, and accrued interest on, the Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Community Facilities District will not be required to redeem such Bonds. In the event a notice of redemption of Bonds contains such a condition and such moneys are not so received, the redemption of Bonds as described in the conditional notice of redemption will not be made and the Trustee will, within a reasonable time after the date on which such redemption was to occur, give notice to the Persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there will be no redemption of Bonds pursuant to such notice of redemption.

Selection of Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee will select the Bonds to be redeemed from all Bonds not previously called for redemption (a) with respect to any optional redemption of Bonds of a Series, among maturities of Bonds of such Series as directed in a Written Request of the Community Facilities District, (b) with respect to any redemption from Special Tax prepayments in accordance with the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued, among maturities of all Series of

Bonds on a pro rata basis as nearly as practicable, and (c) with respect to any other redemption of Additional Bonds, among maturities as provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued, and by lot among Bonds of the same Series with the same maturity in any manner which the Trustee in its sole discretion will deem appropriate and fair. For purposes of such selection, all Bonds will be deemed to be comprised of separate denominations of \$5,000 and any integral multiple thereof and such separate denominations will be treated as separate Bonds which may be separately redeemed.

Partial Redemption of Bonds

Upon surrender of any Bonds redeemed in part only, the Community Facilities District will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Community Facilities District, a new Bond or Bonds of the same Series in denominations of \$5,000 and any integral multiple thereof in an aggregate principal amount equal to the unredeemed portion of the Bonds surrendered.

Effect of Notice of Redemption

Notice having been mailed as aforesaid, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, having been set aside with the Trustee, the Bonds will become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds will be paid at the Redemption Price thereof, together with interest accrued and unpaid to said date.

If, on said date fixed for redemption, moneys for the Redemption Price of all the Bonds to be redeemed, together with interest to said date, will be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof will have been mailed as aforesaid and not canceled, then, from and after said date, interest on said Bonds will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds will be held in trust for the account of the Owners of the Bonds so to be redeemed without liability to such Owners for interest thereon.

All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of the Indenture will be canceled upon surrender thereof and destroyed.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series 2012 Bonds and other available moneys are set forth in the following table:

Sources of Funds

Principal Amount of Series 2012 Bonds	\$38,330,000.00
Net Original Issue Premium	6,761.90
Funds on Hand ⁽¹⁾	<u>5,944,803.15</u>
Total Sources	<u>\$44,281,565.05</u>

Uses of Funds

Deposit to Escrow Fund	\$40,616,765.63
Deposit to Reserve Fund ⁽²⁾	3,150,000.00
Deposit to Administrative Expense Fund	23,208.00
Deposit to Costs of Issuance Fund ⁽³⁾	<u>491,591.42</u>
Total Uses	<u>\$44,281,565.05</u>

⁽¹⁾ Includes balance on deposit in the Prior Bonds Reserve Fund and 2011-12 special tax payments on deposit.

⁽²⁾ Amount deposited equals the Reserve Requirement.

⁽³⁾ Includes legal, financial advisor, underwriter's discount, printing, and other miscellaneous costs of issuance relating to the Series 2012 Bonds.

THE SERIES 2012 BONDS DEBT SERVICE REQUIREMENTS

The debt service requirements with respect to the Series 2012 Bonds are set forth below:

Year Ending September 1	Principal	Interest	Total Debt Service
2012	\$ 595,000.00	\$ 915,959.79	\$ 1,510,959.79
2013	1,380,000.00	1,550,875.00	2,930,875.00
2014	1,465,000.00	1,523,275.00	2,988,275.00
2015	1,555,000.00	1,490,312.50	3,045,312.50
2016	1,660,000.00	1,443,662.50	3,103,662.50
2017	1,775,000.00	1,393,862.50	3,168,862.50
2018	1,890,000.00	1,340,612.50	3,230,612.50
2019	2,015,000.00	1,279,187.50	3,294,187.50
2020	2,165,000.00	1,198,587.50	3,363,587.50
2021	2,320,000.00	1,111,987.50	3,431,987.50
2022	2,480,000.00	1,019,187.50	3,499,187.50
2023	2,645,000.00	919,987.50	3,564,987.50
2024	2,835,000.00	807,575.00	3,642,575.00
2025	3,040,000.00	677,500.00	3,717,500.00
2026	3,260,000.00	525,500.00	3,785,500.00
2027	3,500,000.00	362,500.00	3,862,500.00
2028	3,750,000.00	187,500.00	3,937,500.00
Total	\$38,330,000.00	\$17,748,072.29	\$56,078,072.29

SECURITY FOR THE SERIES 2012 BONDS

General

The Series 2012 Bonds are payable from and secured solely by all of the Net Special Tax Revenues and any other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund established under the Indenture, which amounts consist primarily of a portion of the annual Special Taxes to be levied and collected on the real property within the Community Facilities District subject to the Special Taxes and the proceeds, if any, from the sale of such property for delinquency of such Special Taxes to the extent described in the Indenture. See “– The Teeter Plan” for further information regarding the collection and distribution of delinquent Special Taxes.

THE BONDS ARE NOT A DEBT OR LIABILITY OF THE AUTHORITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE COMMUNITY FACILITIES DISTRICT, AND THEN ONLY TO THE LIMITED EXTENT DESCRIBED IN THE INDENTURE. THE BONDS ARE SPECIAL OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT, PAYABLE, AS PROVIDED IN THE INDENTURE, SOLELY FROM NET SPECIAL TAX REVENUES AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE), THE AUTHORITY, THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS.

The Series 2012 Bonds are not rated. Certain risk factors should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Series 2012 Bonds. See “CERTAIN RISK FACTORS” herein.

Special Tax Fund

In accordance with the Indenture, the Trustee will establish and maintain a separate fund designated the “Special Tax Fund.” Except as otherwise provided in the Indenture, all Special Tax Revenues received by the Community Facilities District are deposited into the Special Tax Fund. “Special Tax Revenues” are defined under the Indenture to mean “the proceeds of the Special Taxes received by or on behalf of the Community Facilities District, including any prepayments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, which will be limited to the amount of said lien and interest and penalties thereon.” Amounts in the Special Tax Fund may be used to pay the Administrative Expenses, upon submission of a request of the Community Facilities District, which may be incurred in the administration of the Community Facilities District and the Bonds, including, but not limited to (a) the administrative and legal costs of levying and collecting the Special Tax (including costs incurred in connection with any appeals relating thereto and litigation expenses incurred in connection with the collection of such Special Tax), (b) the fees, costs and indemnifications due the Trustee, (c) the costs incurred with on-going disclosure in connection with the Bonds, (d) the costs incurred in connection with the disclosure of the Special Tax to property owners and potential purchasers of property, (e) the amounts required to calculate and pay arbitrage rebate payments to the federal government, and (f) an allocable share of the salaries of the staff of the Authority, or of any member thereof, providing services on behalf of the Community Facilities District directly related to the foregoing and a proportionate amount of general administrative overhead of the Authority, or of any member thereof, related thereto. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

As provided in the Indenture, in order to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the Community Facilities District will pledge to the Owners, and grant thereto a lien on and a security interest in, all of the Net Special Tax Revenues and any other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund; such pledge will constitute a first lien on and security interest in such assets in accordance with the Indenture.

No later than ten Business Days after the receipt by the Community Facilities District of any Special Tax Revenues, the Community Facilities District will transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund; provided, however, that with respect to any such Special Tax Revenues that represent prepaid Special Taxes that are to be applied to the redemption of Bonds in accordance with the terms of the Indenture (i) said prepaid Special Taxes shall be identified as such in a Written Certificate of the Community Facilities District delivered to the Trustee at the time such prepaid Special Taxes are transferred to the Trustee, (ii) the portion of such prepaid Special Taxes to be applied to the Redemption Price of the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Redemption Fund, and (iii) the portion of such prepaid Special Taxes to be applied to the payment of interest on the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Bond Fund. Upon receipt of a Written Request of the Community Facilities District, the Trustee shall withdraw from the Special Tax Fund and transfer to the Administrative Expense Fund the amount specified in such Written Request of the Community Facilities District as the amount necessary to be transferred thereto in order to have sufficient amounts available therein to pay Administrative Expenses.

On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer to the Administrative Expense Fund, the Trustee will withdraw from the Special Tax Fund and transfer, first, to the Bond Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Bond Fund to be equal to the principal and interest due on the Bonds on such Interest Payment Date and, second, to the Reserve Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

The amount of Special Taxes the Community Facilities District may levy in any year is strictly limited by the maximum rates approved by the qualified electors within the Community Facilities District. See “– Rate and Method of Apportionment” and APPENDIX A – “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” In addition and pursuant to the Act, under no circumstances will the special tax levied in any fiscal year against any parcel be increased as a consequence of delinquency or default by the owner or owners of any other parcel or parcels within a community facilities district by more than 10% above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. For purposes of this paragraph, a parcel will be considered used for private residential purposes not later than the date on which an occupancy permit for private residential use is issued. As provided in the Rate and Method, under no circumstances may the Special Tax on one Parcel in the Community Facilities District be increased by more than ten percent (10%) as a consequence of delinquency or default in payment of the Special Tax levied on another Parcel or Parcels in the Community Facilities District.

Reserve Fund

The Indenture provides that a Reserve Fund must be maintained for the Bonds in an amount equal to the Reserve Requirement. “Reserve Requirement” is defined under the Indenture to mean, as of the date of any calculation, 80% of Maximum Annual Debt Service. Amounts in or credited to the Reserve Fund are to be used solely for the purpose of making transfers to the Bond Fund for the Bonds in the

event of any deficiency of the amount then required for payment of the principal of, premium, if any, and interest on such Bonds. The Reserve Fund will be initially funded in an amount equal to the Reserve Requirement as of the date of delivery of the Series 2012 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS.” See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Reserve Fund.”

Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Trustee will, upon receipt of a Written Request of the Community Facilities District, transfer the amount in the Reserve Fund to the Bond Fund or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all of the Outstanding Bonds. If, as a result of the scheduled payment of principal of or interest on the Bonds, the Reserve Requirement is reduced, the Trustee will transfer an amount equal to the amount of such reduction to the Bond Fund.

The Special Taxes

The Community Facilities District has covenanted in the Indenture to comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes. Prior to August 1 of each year, the Community Facilities District will ascertain from the County Assessor 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 Community Facilities District will effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 10, or otherwise such that the computation of the levy is complete before the final date on which the County Auditor will accept the transmission of the Special Tax amounts for the parcels within the Community Facilities District for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Community Facilities District will prepare or cause to be prepared, and will transmit to the County Auditor, such data as the County Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

The Community Facilities District will fix and levy the amount of Special Taxes within the Community Facilities District in each Fiscal Year in accordance with the Rate and Method and, subject to the limitations in the Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield Special Tax Revenues in the amount required for (i) the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the Bond Year commencing in such Fiscal Year, (ii) any necessary replenishment of the Reserve Fund, and (iii) the payment of Administrative Expenses estimated to be paid from such Special Tax Revenues, taking into account the balances in the funds and accounts established under the Indenture.

The Special Taxes imposed by the Community Facilities District are customarily billed with *ad valorem* property taxes and collected by the County of Orange (the “County”), 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 time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the *ad valorem* taxes on real property. No assurance can be given that the foregoing amount will in fact be collected in any given year due to a variety of factors, including the limitation imposed by the maximum Special Tax rates. See “– The Teeter Plan” and “CERTAIN RISK FACTORS – Right to Vote on Taxes Act” below.

Although the Special Taxes will be levied against, and constitute a lien against, taxable parcels within the Community Facilities District, they do not constitute a personal indebtedness of the respective

property owners. There is no assurance that the property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so.

Rate and Method of Apportionment

The Community Facilities District is legally authorized and has covenanted to cause the levy of the Special Taxes in an amount determined according to the Rate and Method, which the Governing Board of the Authority, acting as the legislative body of the Community Facilities District, and the qualified electors of the Community Facilities District, have approved. The Rate and Method apportions the total amount of Special Taxes to be collected among the taxable parcels in the Community Facilities District as more particularly described in APPENDIX A hereto. The full text of the Rate and Method is set forth in APPENDIX A hereto.

As provided in the Rate and Method, a Special Tax will be levied and collected within the Community Facilities District each Fiscal Year in an amount determined by the Governing Board in accordance with the Rate and Method. All of the property in the Community Facilities District, unless exempted by law or by the provisions of Section E of the Rate and Method, will be taxed for the purposes, to the extent, and in the manner therein provided. The Governing Board has the power and is obligated to cause the levy and collection of the Special Tax in an amount determined according to a formula which the Governing Board and the electors have approved. The formula apportions the Special Tax each year among the parcels in the District, except parcels exempt from the Special Tax. See "APPENDIX A – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX." Subject to the Maximum Special Tax which may be levied, the governing Board will levy in each Fiscal Year the Special Tax described in Ordinance No. 98-01 of the Authority in an amount sufficient to yield the required "debt service." The term "debt service" includes, but is not limited to, amounts needed to pay the principal of and the interest on the Bonds, amounts to pay the administrative cost of issuing and servicing the Bonds, deposits required to be made to the Reserve Fund, and amounts necessary to levy and collect the Special Tax.

Although the Special Tax constitutes a lien on taxed parcels within the Community Facilities District, the Special Tax does not constitute a personal indebtedness of the owners of property within the Community Facilities District. Moreover, other liens for taxes and assessments already exist on the property located within the Community Facilities District and others could come into existence in the future. See "THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt." There is no assurance that the property owners will be financially able to pay the annual Special Tax or that they will pay the Special Tax even if financially able to do so. See "CERTAIN RISK FACTORS."

Additional Indebtedness

Additional Bonds payable from Net Special Tax Revenues on a parity with the Series 2012 Bonds may be issued by the Community Facilities District solely for the purpose of refunding the Series 2012 Bonds or bonds issued to refund the Series 2012 Bonds, if any. As a condition to the issuance of Additional Bonds, the Indenture provides that Annual Debt Service in each Bond Year, calculated for all Bonds to be Outstanding after the issuance of such Additional Bonds, will be less than or equal to Annual Debt Service in such Bond Year, calculated for all Bonds Outstanding immediately prior to the issuance of such Additional Bonds. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Additional Bonds."

Existing Liens

The property within the Community Facilities District is subject to assessment liens and special taxes imposed by other taxing entities, the boundaries of which overlap the Community Facilities District. The lien for the Special Taxes is co-equal to the lien for the community facilities districts, assessment districts and the lien for general property taxes. See “THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt.” The Community Facilities District is unaware of any present or contemplated community facilities district, assessment district or improvement district that includes property within the Community Facilities District other than as set forth in herein. See “THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt.”

Covenant for Superior Court Foreclosure

In the event of a delinquency in the payment of any installment of Special Taxes, the Community Facilities District is authorized by the Act to order institution of an action in the Superior Court of the State to foreclose any lien therefor. In such action the real property subject to the Special Taxes may be sold at a judicial foreclosure sale. Such judicial foreclosure proceedings are not mandatory. The Community Facilities District is a participant in the County’s Teeter Plan, which is an alternative method for the distribution of secured property taxes to local agencies. See “– The Teeter Plan” below. So long as the Community Facilities District remains a participant in the County’s Teeter Plan and is paid under the Teeter Plan for all Special Taxes levied, the proceeds of any foreclosure sale will be paid to the County’s Teeter Plan and not to the Community Facilities District.

The Community Facilities District has covenanted under the Indenture that it will determine or cause to be determined, no later than August 15 of each year, whether or not any owners of property within the Community Facilities District are delinquent in the payment of Special Taxes and, if such delinquencies exist, the Community Facilities District will order and cause to be commenced no later than October 1, and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due; provided, however, that the Community Facilities District will not be required to order the commencement of foreclosure proceedings if (a) the total Special Tax delinquency in the Community Facilities District for such Fiscal Year is less than 5% of the total Special Tax levied in such Fiscal Year, and (b) the amount then on deposit in the Reserve Fund is equal to the Reserve Requirement. Notwithstanding the foregoing, if the Community Facilities District determines that any single property owner in the Community Facilities District is delinquent in excess of \$10,000 in the payment of the Special Tax, then the Community Facilities District will diligently institute, prosecute and pursue foreclosure proceedings against such property owner.

There is no assurance that the property within the Community Facilities District can be sold for the assessed values described herein, or for a price sufficient to pay the principal of and interest on, the Series 2012 Bonds in the event of a default in payment of Special Taxes by the current or future landowners within the Community Facilities District. See “CERTAIN RISK FACTORS – Land Values” herein.

Prompt commencement of foreclosure proceedings may not, in and of itself, result in a timely or complete resolution of the arrearage. In the event of delinquencies in the payment of Special Taxes, there could be a default or a delay in payments of debt service on the Series 2012 Bonds pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of foreclosure sale proceeds, if any.

The ability of the Community Facilities District to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the obligee in the event the

property is owned by or in receivership of the Federal Deposit Insurance Corporation. See “CERTAIN RISK FACTORS – Bankruptcy,” “– Billing of Special Taxes” and “– Payments by FDIC and Other Governmental Agencies.”

No assurances can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the Community Facilities District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (i.e., a property owner) has 120 days from the date of service of the Notice of Levy in which to redeem the property to be sold, which period may be shortened to 20 days for parcels other than those on which a dwelling unit for not more than four persons is located. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made (Section 701.680 of the California Code of Civil Procedure). The constitutionality of the aforementioned legislation, which repealed a former one-year redemption period, has not been tested; there can be no assurance that, if tested, such legislation will be upheld.

The Teeter Plan

In 1949, the California Legislature enacted an alternative method for the distribution of secured property taxes to local agencies. This method, known as the Teeter Plan, is now set forth in Sections 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of the Teeter Plan by a county board of supervisors, local agencies for which the county acts as “bank” and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While a county benefits from the penalties associated with these delinquent taxes when they are paid, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of a county generally must elect to do so by July 15 of the fiscal year in which it is to apply. The Orange County Board of Supervisors adopted the Teeter Plan on June 29, 1993, and has elected to include in its Teeter Plan special taxes levied in certain community facilities districts, including the Community Facilities District, on the secured roll.

Once adopted, a county’s Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. See “CERTAIN RISK FACTORS – Teeter Plan Termination.” The County has never discontinued the Teeter Plan with respect to any levying agency.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of special taxes and assessments (if a county has elected to include assessments), 100% of the special tax delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the special tax. After the initial distribution,

each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a *pro rata* adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

To the extent that the County's Teeter Plan continues in existence and is carried out as adopted, the County's Teeter Plan may help protect the Owners of the Series 2012 Bonds from the risk of delinquencies in Special Taxes.

THE AUTHORITY

The Authority was established pursuant to the provisions of Section 6500 *et seq.* of the California Government Code and a joint exercise of powers agreement, dated as of December 9, 1997, among the City of Newport Beach, the Irvine Unified School District and NMUSD and currently consists of the City of Newport Beach and NMUSD. As a result of the change in boundaries of the Community Facilities District, the Irvine Unified School District formally withdrew as a member of the Authority. The Authority was established for the purpose of acquiring and financing public school, public park, and public street improvements. The governing board of the Authority consists of two members from each of the City of Newport Beach and NMUSD. The governing boards of the City of Newport Beach and NMUSD designate their respective members; however, at the election of each governing board, the city manager or superintendent, as appropriate, may designate the respective members. The Authority has no staff or employees.

THE COMMUNITY FACILITIES DISTRICT

General

The Community Facilities District is located within the city limits of the City of Newport Beach (the "City") and within the boundaries of the NMUSD in Orange County, California. The Community Facilities District consists of approximately 365 gross acres (including 134.77 net taxable acres) located to the north and south of Bonita Canyon Drive, between MacArthur Boulevard (on the west) and the San Joaquin Hills Transportation Corridor (on the east) in west-central Orange County. The District consists of two separate development areas, referred to as Bonita Canyon and Newport Ridge, with a total of 477 single family homes and 1,249 apartment units. See the Regional Map and CFD Location Map preceding the Table of Contents of this Official Statement for visual representation of the land within the Community Facilities District and the surrounding area.

The area referred to as Bonita Canyon contains approximately 211 gross acres (92 net taxable acres) and is located north of Bonita Canyon Road near MacArthur Boulevard. This area is currently developed with 1,052 apartment units (Newport Bluffs) and 287 single family homes. Newport Bluff apartments were built in two phases starting in March 1999 with completion in December 2000, and are owned by The Irvine Company as the managing member of Newport Bluffs, LLC. The single family homes which range in size from 2,651 to 3,867 square feet were built in phases from March 1998 to May 2000 by the merchant builders Standard Pacific, Taylor Woodrow Homes and California Pacific Homes. As of January 1, 2001 all 287 homes in Bonita Canyon were sold to individual owners.

The area referred to as Newport Ridge contains approximately 154 gross acres (43.28 net taxable acres) and is located south of Bonita Canyon Road near the San Joaquin Hills Transportation Corridor. The area is developed with 197 apartment units (Bordeaux Apartments) and 190 single family homes. The Bordeaux Apartments were built during the 2001-02 fiscal year and are owned by The Irvine Company. The single family homes which range in size from 2,651 to 3,867 square feet were under construction from September 2000 to September 2003 by the merchant builders Brookfield and Lennar.

For the Fiscal Year 2003-04 year, all single family homes and apartment units were Developed as defined in the Rate and Method (building permits were issued) and as of January 1, 2004, the lien date for the Fiscal Year 2004-05 special tax levy, all 477 single family homes had been conveyed to individual owners.

Summary of Community Facilities District Proceedings

Pursuant to the Act, on March 18, 1998, the Governing Board commenced proceedings to establish the Community Facilities District by adopting a resolution stating its intention to establish the Community Facilities District and to authorize the levy of special taxes within the boundaries of the Community Facilities District and a separate resolution stating its intention to have the Community Facilities District incur a bonded indebtedness in an amount not to exceed \$45,000,000.

Following public hearings conducted pursuant to the provisions of the Act, on March 18, 1998, the Governing Board adopted a resolution establishing the Community Facilities District and approving the Rate and Method. On the same date, the Governing Board also adopted a resolution determining the necessity to have the Community Facilities District incur up to \$45,000,000 of bonded indebtedness. Both resolutions called for a special election to submit propositions to authorize the levy of the Special Tax and incurring of the bonded indebtedness to the qualified electors of the Community Facilities District.

At a special election held on March 18, 1998, the owners of the property within the boundaries of the Community Facilities District, being The Irvine Company, voted to incur bonded indebtedness in the maximum aggregate principal amount of \$45,000,000 and approved the Rate and Method to pay the principal of, premium, if any, and interest on all bonds issued by the Community Facilities District. See "APPENDIX A – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX." A notice of the Special Tax levy was recorded on April 1, 1998 with the County Recorder.

The Community Facilities District is a legally constituted governmental entity established pursuant to the Act for the sole purpose of financing public facilities. Pursuant to the Act, the Governing Board of the Authority is the legislative body of the Community Facilities District.

Assessed Values

No estimates are available for the appraised market value of the property in the Community Facilities District. The gross assessed valuation of the property in the Community Facilities District for Fiscal Year 2011-12 is \$792,475,720, which is approximately (a) 20.7 times the sum of the principal amount of the Series 2012 Bonds and (b) 17.0 times the sum of the principal amount of the Series 2012 Bonds plus the amount of all the other indebtedness payable from taxes or special assessments allocable thereto, as set forth in Table 4. This gross assessed valuation may not be representative of the actual market value of property in the Community Facilities District because Article XIII A of the California Constitution limits any increase in assessed value to no more than 2% a year unless a property is sold or transferred. See "CERTAIN RISK FACTORS – Property Values." As a consequence, assessed values

are typically less than actual market values unless the property has recently changed ownership or has been reassessed.

The Fiscal Year 2011-12 assessed valuation of the taxable parcels within the Community Facilities District is \$792,475,720. The following tables show the historical assessed valuation for taxable property in the Community Facilities District for Fiscal Year 2003-04 (the first Fiscal Year in which construction was completed on the residences and apartment complexes subject to the Special Tax) through 2011-12 and the historical growth rate for taxable property in the Community Facilities District for Fiscal Years 2003-04 through 2011-12.

Table 1
Community Facilities District No. 98-1
Historical Assessed Valuation
for Taxable Parcels

Fiscal Year	Assessed Value of 477 Single Family Homes	% Increase	Assessed Value of 1,249 Apartment Units	% Increase	Total Assessed Value	% Increase
2003-04	\$451,449,785		\$145,628,354		\$597,078,139	
2004-05	505,660,777	12.0%	148,347,230	1.9%	654,008,007	9.5%
2005-06	540,013,176	6.8	151,314,168	2.0	691,327,344	5.7
2006-07	569,548,591	5.5	154,340,446	2.0	723,889,037	4.7
2007-08	600,963,390	5.5	157,427,249	2.0	758,390,639	4.8
2008-09	620,314,698	3.2	160,575,788	2.0	780,890,486	3.0
2009-10	620,463,000	0.0	163,787,298	2.0	784,250,298	0.4
2010-11	612,481,560	-1.3	163,399,110	-0.2	775,880,670	-1.1
2011-12	627,846,220	2.5	164,629,500	0.8	792,475,720	2.1

Source: Scott Associates.

Special Tax Levies and Delinquencies

Special taxes were first levied in Fiscal Year 1998-99, before the Prior Bonds were issued, in an aggregate amount of \$465,696, with each of the then 132 developed single family parcels being levied at the Maximum Special Tax of \$3,528. (Developed parcels are those for which a building permit was issued by June 1 of the previous fiscal year). The Prior Bonds were issued December 22, 1998, which required the Fiscal Year 1999-2000 special tax to be levied at an amount sufficient to cover debt service on the Prior Bonds plus administrative expenses. Therefore, the 1999-2000 special tax was levied at 100% of the then current Maximum Special Tax rates for 814 Developed units (275 single family homes and 539 apartment units) and at 14% of the Maximum Special Tax rate for 126 acres of undeveloped property. Starting with the Fiscal Year 2000-01 special tax levy, sufficient revenue was generated by levying the special tax only on developed parcels at rates of approximately 98% of the then current Maximum Special Tax down to approximately 74% of the then current Maximum Special Tax rates for the Fiscal Year 2003-04 when all taxable parcels were Developed. The following table sets forth the Special Tax levies and delinquencies for Fiscal Years 2003-04 through 2011-12 on property within the Community Facilities District. See, also "SECURITY FOR THE SERIES 2012 BONDS – The Teeter Plan."

Table 2
Community Facilities District No. 98-1
Delinquent Special Tax Chart ⁽¹⁾

Fiscal Year	Aggregate Special Tax Levy	Total Special Taxes Paid	Amount Delinquent as of June 30th of the Fiscal Year Levied	Number of Delinquent Parcels as of June 30th of the Fiscal Year Levied	Percent of Special Taxes Delinquent as of June 30th of the Fiscal Year Levied	Special Taxes Remaining Delinquent as of November 1, 2011 ⁽²⁾
2003-04	\$2,756,739	\$2,745,153	\$11,586	5	0.42%	0
2004-05	2,781,092	2,772,326	8,766	6	0.32	0
2005-06	2,820,079	2,814,153	5,926	4	0.21	0
2006-07	2,853,936	2,841,941	11,995	6	0.42	0
2007-08	2,908,227	2,892,949	15,278	7	0.53	0
2008-09	2,966,247	2,930,406	35,841	13	1.21	\$3,117
2009-10	3,025,485	3,000,054	25,431	8	0.84	3,179
2010-11	3,086,087	3,073,117	12,970	5	0.42	1,621
2011-12	3,147,788	N/A	N/A	N/A	N/A	N/A

⁽¹⁾ During each Fiscal Year above, 489 parcels were levied the Special Tax. Delinquent parcels are composed solely of single-family homes owned by individual owners.

⁽²⁾ One property owner is delinquent for Fiscal Years 2008-09 and 2009-10 and is on the County installment payment plan. An additional property owner is delinquent for Fiscal Year 2010-11.

Source: Scott Associates.

Special Tax Levy

The 2011-12 Special Tax has been levied on all taxable parcels in the Community Facilities District. The following Table 3 presents the Special Tax levy by ownership of all taxable property and the percent of Special Taxes levied for the 2011-12 tax year.

Table 3
Community Facilities District No. 98-1
Series 2012 Bonds
Special Tax Levy by Ownership

Property Owner	Acres	Units	2011-12 Special Tax ⁽¹⁾	Percent of 2011-12 Special Tax
Newport Bluffs, LLC (Irvine Co.)	38.49	1,052	\$1,322,511	42.0%
The Irvine Company	9.23	197	247,657	7.9
477 Individual Owners	87.05	477	1,577,620	50.1
Total	134.77	1,726	\$3,147,788	100.0%

⁽¹⁾ Currently levied at 72.4% of the Maximum Special Tax as discussed herein.
Source: Scott Associates.

Direct and Overlapping Debt

Contained within the Community Facilities District are numerous overlapping local agencies providing public services. Some of such local agencies have outstanding bonds issued in the form of general obligation, special tax and special assessment bonds. Additional indebtedness could be authorized by other public agencies at any time.

Estimated Debt

Direct and overlapping bonded indebtedness as of November 1, 2011 is shown in the following table compiled by California Municipal Statistics, Inc. The Community Facilities District has not independently verified the information in the table and makes no representations as to completeness or accuracy.

**Table 4
Direct and Overlapping Debt
for Taxable Parcels in the
Community Facilities District No. 98-1**

2011-12 Assessed Valuation of Taxable Parcels: \$792,475,720

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 11/1/11</u>
Metropolitan Water District of Southern California	0.044%	\$ 99,147
Newport Mesa Unified School District	1.619	4,031,881
Irvine Ranch Water District Improvement District No. 161	11.034	1,285,862
Irvine Ranch Water District Improvement District No. 261	10.635	2,771,032
Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1	100.000	38,330,000⁽¹⁾
TOTAL DIRECT AND OVERLAPPING TAX ASSESSMENT DEBT		\$46,517,922
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	0.210%	\$ 552,338
Orange County Pension Obligations	0.210	99,803
Orange County Board of Education Certificates of Participation	0.210	39,900
Municipal Water District of Orange County Water Facilities Corporation	0.249	30,241
City of Newport Beach Certificates of Participation	2.069	2,584,595
Irvine Ranch Water District Certificates of Participation	1.141	928,774
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$ 4,235,651
Less: MWDOC Water Facilities Corporation (100% supported by revenue funds)		30,241
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$ 4,205,410
 GROSS COMBINED TOTAL DEBT ⁽²⁾		 \$50,753,573 ⁽²⁾
NET COMBINED TOTAL DEBT		\$50,723,332

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

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

Ratios to 2011-12 Assessed Valuation:

Direct Debt (\$38,330,000)	4.84%
Total Direct and Overlapping Tax and Assessment Debt	5.87%
Gross Combined Total Debt	6.40%
Net Combined Total Debt	6.40%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

Source: California Municipal Statistics, Inc.

Estimated Value-to-Lien Ratios

The values, direct and overlapping debt and total tax burden on property vary among parcels within the Community Facilities District. The \$38,330,000 principal amount of Series 2012 Bonds constitutes direct debt for the property in the Community Facilities District. As set forth in Table 4, as of November 1, 2011, there was approximately \$8,187,922 of other indebtedness payable from taxes or special assessments applicable to property in the Community Facilities District. Thus, as of November 1, 2011, the estimated direct and overlapping debt allocable to the property in the Community Facilities District, assuming the Series 2012 Bonds were issued as of such date, was approximately \$46,517,922.

The assessed valuation of the taxable parcels in the Community Facilities District for Fiscal Year 2011-12 is \$792,475,720, which is approximately (a) 20.7 times the principal amount of the Series 2012 Bonds, and (b) 17.0 times the sum of the principal amount of the Series 2012 Bonds plus the amount of

all the other indebtedness payable from taxes or special assessments allocable thereto, as set forth in Table 4.

The foregoing value-to-lien ratios represent estimated averages for the taxable parcels in the Community Facilities District only; the actual ratios for individual parcels of land may vary significantly.

No assurance can be given that any of the foregoing value-to-lien ratios will be maintained during the period of time that the Series 2012 Bonds are Outstanding. The Community Facilities District has no control over future property values or 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, is on a parity with the Special Taxes. See “CERTAIN RISK FACTORS – Property Values” and “– Value-to-Lien Ratios.”

Value-to-Lien Analysis

As noted herein, the 2011-12 Special Tax levy was levied upon the 489 parcels (477 single family residences and two apartment complexes sited on 12 parcels) currently on the tax rolls. The Special Tax levy for Fiscal Year 2011-12 is \$3,147,788, or 72.4% of the Maximum Special Tax. See “THE COMMUNITY FACILITIES DISTRICT – Debt Service Coverage.”

The value of the taxable parcels in the Community Facilities District is significant because in the event of a delinquency in the payment of Special Taxes the Community Facilities District may foreclose only against delinquent parcels. Tables 5 and 6 below set forth the estimated value-to-lien ratios for the taxable parcels in the Community Facilities District based upon the land ownership status and the values as of the January 1, 2011 lien date. The assessed value of the taxable parcels in the Community Facilities District as of the January 1, 2011 lien date is \$792,475,720. The estimated value-to-lien ratio for taxable parcels within the Community Facilities District based upon the principal amount of the Series 2012 Bonds, and the direct and overlapping debt allocable to property in the Community Facilities District reported as of November 1, 2011, as detailed in Table 4 herein, and the assessed value to lien is 17.0 to 1.

The table below shows the value-to-lien ratios for taxable property in the Community Facilities District.

Table 5
Community Facilities District No. 98-1
Series 2012 Bonds
Value-to-Lien Ratios⁽¹⁾

	2011 Assessed VTL	Acres	Units	2011-12 Special Tax	Percent of 2011-12 Special Tax	2011-12 Land Value ⁽²⁾	2011-12 Improvement Value ⁽²⁾	2011-12 Assessed Value ⁽²⁾	CFD Lien ⁽⁶⁾
⁽³⁾	Equal to 3.5:1	0.18	1	\$ 3,307	0.1%	\$ 53,237	\$ 87,461	\$ 140,698	\$ 40,273
⁽⁴⁾	Equal to 8.4:1	38.49	1,052	1,322,511	42.0	7,248,112	128,550,931	135,799,043	16,104,090
⁽⁵⁾	Equal to 9.6:1	9.23	197	247,657	7.9	755,255	28,075,202	28,830,457	3,015,689
⁽³⁾	Between 8.1 – 9.9:1	0.53	3	9,922	0.3	396,072	654,693	1,050,765	120,819
	Between 10.0 – 14.9:1	0.29	2	6,615	0.2	519,908	485,254	1,005,162	80,546
	Between 15.0 – 19.9:1	2.79	18	59,533	1.9	7,633,204	5,934,146	13,567,350	724,914
	Greater than 20.0:1	83.26	453	1,498,243	47.6	364,098,998	247,983,247	612,082,245	18,243,669
	Totals	134.77	1,726	\$3,147,788	100.00%	\$380,704,786	\$411,770,934	\$792,475,720	\$38,330,000

⁽¹⁾ Excludes overlapping bonded indebtedness as shown in Table 4 herein which, if included, would reduce these ratios.

⁽²⁾ Assessed values as of the January 1, 2011 lien date.

⁽³⁾ Single Family Homes where the 2011-12 Assessed Value is limited under Proposition 60 or Proposition 90.

⁽⁴⁾ Newport Bluff Apartments owned by Newport Bluffs, LLC (the managing member of which is The Irvine Company).

⁽⁵⁾ Bordeaux Apartments owned by The Irvine Company.

⁽⁶⁾ CFD Lien is associated with the Series 2012 Bonds being issued in the amount of \$38,330,000.

Source: Scott Associates.

Table 6
Community Facilities District No. 98-1
Series 2012 Bonds
Special Tax Levy by Ownership and Value-to-Lien Ratios

Property Owner	Acres	Units	2011-12 Special Tax ⁽¹⁾	Percent of 2011-12 Special Tax	2011-12 Land Value ⁽²⁾	2011-12 Improvement Value ⁽²⁾	2011-12 Assessed Value ⁽²⁾	CFD Lien⁽³⁾	VTL Ratio ⁽⁴⁾
Newport Bluffs, LLC (Irvine Co.)	38.49	1,052	\$1,322,511	42.0%	\$ 7,248,112	\$128,550,931	\$135,799,043	\$16,104,090	8.4:1
The Irvine Company	9.23	197	247,657	7.9	755,255	28,075,202	28,830,457	3,015,689	9.6:1
477 Individual Owners	87.05	477	1,577,620	50.1	372,701,419	255,144,801	627,846,220	19,210,221	32.7:1
Total	134.77	1,726	\$3,147,788	100.0%	\$380,704,786	\$411,770,934	\$792,475,720	\$38,330,000	20.7:1

⁽¹⁾ Currently levied at 72.4% of the Maximum Special Tax as discussed herein.

⁽²⁾ Assessed values as of the January 1, 2011 lien date.

⁽³⁾ CFD Lien is associated with the Series 2012 Bonds being issued in the amount of \$38,330,000.

⁽⁴⁾ Excludes overlapping bonded indebtedness as shown in Table 4 herein which, if included, would reduce these ratios.

Source: Scott Associates.

Debt Service Coverage

The Rate and Method provides for the levy of a Maximum Special Tax representing the total amount of Special Tax that would be levied if the maximum Special Tax were levied against each parcel in each year. In recent years, the Special Tax levy has been approximately 72% of the Maximum Special Tax. The actual amount of Special Tax that will be levied against each parcel in each year will be determined in accordance with the Rate and Method, and the aggregate amount of Special Tax that will be levied in each year will be equal to the lesser of the Debt Service Requirement and the total Maximum Special Tax for such year. See “APPENDIX A – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX – Method of Apportionment of Special Tax.”

The Special Tax on any property is limited to an increase of 10% for delinquencies under Section 53321 of the Act as applied to the Community Facilities District. That section provides that under no circumstances will the special tax levied in any fiscal year against any parcel used for private residential purposes be increased as a consequence of delinquency or default by the owner or owners of any other parcel or parcels within the community facilities district by more than 10% above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. See “CERTAIN RISK FACTORS – Insufficiency of Special Taxes” herein.

CERTAIN RISK FACTORS

The purchase of the Series 2012 Bonds involves certain investment risks. 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 Series 2012 Bonds. The 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 Series 2012 Bonds, and this Official Statement should be read in its entirety for the purpose of making an informed investment decision.

Risks of Real Estate Secured Investments Generally

The Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (a) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the Community Facilities District, the supply of or demand for competitive properties in such area, and the market value of homes or institutional facilities and/or sites in the event of sale or foreclosure, (b) changes in real estate tax rates, governmental rules (including, without limitation, zoning laws) and fiscal policies, and (c) natural disasters (including, without limitation, earthquakes, fires and floods), which may result in uninsured losses.

Maximum Special Tax Rates

Within the limits of the Rate and Method, the Governing Board may adjust the Special Tax levied on all property within the Community Facilities District to provide the amount required each year to pay Annual Debt Service and to replenish the Reserve Fund to an amount equal to the Reserve Requirement. However, the amount of the Special Tax that may be levied against particular categories of property within the Community Facilities District is subject to the maximum tax rates set forth in the Rate and Method. In the event of significant Special Tax delinquencies, there is no assurance that said maximum tax rates would be sufficient to pay the amounts required to be paid by the Indenture. See “SECURITY FOR THE SERIES 2012 BONDS – The Special Taxes” and “APPENDIX A – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

Concentration of Ownership

The Community Facilities District contains a concentration of ownership. The Irvine Company as owner or managing member of the 1,052-unit Newport Bluff Apartments and the 197-unit Bordeaux Apartments is responsible for approximately 50% of annual Special Tax payments.

The timely payment of a substantial portion of the debt service on the Series 2012 Bonds depends upon Special Taxes attributable to the Newport Bluff Apartments and the Bordeaux Apartments, and the willingness and ability of Newport Bluffs, LLC or The Irvine Company to pay the Special Tax installments when due. Economic conditions may affect the willingness of Newport Bluffs, LLC or The Irvine Company or any other property owners, to pay Special Tax installments on property and there is no assurance that any owner will pay such Special Tax installments even if financially able to do so.

Exempt Properties

The Rate and Method provides that the Governing Board shall not levy a Special Tax on either (a) the first 44 acres of land within the Community Facilities District to become Property Owners Association Property or (b) the first 51 acres of land within the Community Facilities District to become Public Property, provided that if the total area within the Community Facilities District is increased after its formation, each of the foregoing amounts will be increased by the same percentage as the percentage by which the total area within the Community Facilities District is increased, and provided further that each of the foregoing amount; may be increased at the discretion of the Governing Board if the Governing Board determines that the total Maximum Special Tax that may be levied in each Fiscal Year on all the Assessor's Parcels within the Community Facilities District that will remain Taxable Property will be at least 1.1 times the Debt Service Requirement for such Fiscal Year.

In addition, the Act provides that properties or entities of the State, federal or local government are exempt from the Special Tax; provided, however, that property within the Community Facilities District acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. The Act further provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment. The constitutionality and operation of these provisions of the Act have not been tested. In particular, insofar as the Act requires payment of the Special Tax by a federal entity acquiring property within the Community Facilities District, it may be unconstitutional.

If for any reason property within the Community Facilities District becomes exempt from taxation by reason of its status as Public Property or Property Owners Association Property, or by reason of its ownership by a nontaxable entity such as the federal government or another public agency, subject to the limitation of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within the Community Facilities 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 timely payment of the Special Tax.

Parity Taxes and Special Assessments

The Special Tax and any penalties thereon will constitute a lien against the lots and parcels of land on which such Special Tax will be annually imposed until it is 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 such are imposed upon the same property. The Special Tax has priority over all existing and future private liens imposed on the property. The Community

Facilities District has no control over the ability of other entities and districts to issue indebtedness secured by special taxes or assessments levied on all or a portion of the property within the Community Facilities District. Any such special taxes or assessments will be on a parity with the Special Tax. See “THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt.”

Insufficiency of Special Taxes

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel in the Community Facilities District will be based on classification, either as Multifamily Residential Property, Non-Residential Developed Property, Property Owners Association Property, Public Property, Single Family Attached, Single Family Detached - High Density and Single Family Detached - Low Density or Undeveloped Property, and in the case of Developed Property, assigned to a Developed Property Classification, in each case based upon the Land Use Designation for each Parcel. See “SECURITY FOR THE SERIES 2012 BONDS – Rate and Method of Apportionment.” The collection of the Special Taxes will be dependent on the willingness and ability of the owners of property to pay Special Taxes when due. See “SECURITY FOR THE SERIES 2012 BONDS – The Special Taxes.”

The Act provides that if any property within the Community Facilities District (the taxable parcels in the Community Facilities District herein) not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Taxes 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 operative effect of these provisions have not been tested in the courts. If for any reason property subject to the Special Tax becomes exempt from taxation by reason of ownership by a nontaxable entity such as the federal government, or another public agency, subject to the limitation of the maximum Special Tax rates, the Special Taxes will be reallocated to the then remaining properties within the Community Facilities District. This would result in the owners of such properties paying a greater amount of the Special Tax and could have an adverse effect on the timely payment of the Special Tax.

Pursuant to Section 53321 of the Act as applied to the Community Facilities District, under no circumstances will the special tax levied in any fiscal year against any parcel used for private residential purposes be increased as a consequence of delinquency or default by the owner or owners of any other parcel or parcels within the Community Facilities District by more than 10% above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. For such purposes, a parcel will be considered used for private residential purposes not later than the date on which an occupancy permit for private residential use is issued. The application of this limitation to a parcel containing an apartment unit remains subject to clarification by act of the legislature or the courts.

The Bonds are Special Obligations of the Community Facilities District

The Bonds are special obligations of the Community Facilities District, payable, as provided in the Indenture, solely from Net Special Tax Revenues and any other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund. Funds for the payment of the principal of, premium, if any, and interest on the Series 2012 Bonds are derived from Special Taxes levied in the Community Facilities District. The Special Taxes could be insufficient to pay the principal of, premium, if any, and interest on the Series 2012 Bonds, due to non-payment of such annual Special Taxes or insufficient proceeds received from the sales of taxable parcels in the Community Facilities District due to delinquencies. The Community Facilities District’s obligation with respect to delinquent Special Taxes is limited to the institution of judicial foreclosure proceedings under certain circumstances with respect to parcels for

which Special Taxes are delinquent. See “SECURITY FOR THE SERIES 2012 BONDS – Covenant for Superior Court Foreclosure.”

The Special Taxes Are Not Personal Obligations of the Property Owners

The obligation to pay Special Taxes levied within the Community Facilities District does not constitute a personal obligation of the current or subsequent owners of the property in the Community Facilities District. Enforcement of payment obligations by the Community Facilities District is limited to judicial foreclosure in the Orange County Superior Court. See “SECURITY FOR THE SERIES 2012 BONDS – Covenant for Superior Court Foreclosure.” There is no assurance that any current or subsequent owner of a parcel subject to Special Taxes will be able to pay the Special Taxes, or that such owner will choose to pay such Special Taxes, even though financially able to do so.

Land Values

The value of the taxable parcels in the Community Facilities District is a critical factor in determining the investment quality of the Series 2012 Bonds. If a property owner is delinquent in the payment of Special Taxes, the Community Facilities 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 may adversely impact the security underlying the Special Taxes. See “THE COMMUNITY FACILITIES DISTRICT – Value-to-Lien Analysis” herein.

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the Orange County Assessor, generally not to exceed an increase of more than 2% per fiscal year. No assurance can be given that a parcel could actually be sold for its assessed value.

Prospective purchasers of the Series 2012 Bonds should not assume that the taxable parcels in the Community Facilities District could be sold for the assessed amount at a foreclosure sale for delinquent Special Taxes.

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 “SECURITY FOR THE SERIES 2012 BONDS – The Special Taxes.” As noted herein, the Community Facilities District is a participant in the County’s Teeter Plan, which is an alternative method for the distribution of secured property taxes to local agencies. So long as the Community Facilities District remains a participant in the County’s Teeter Plan and is paid under the Teeter Plan for all Special Taxes levied, the proceeds of any foreclosure sale will be paid to the County’s Teeter Plan and not to the Community Facilities District.

Special Tax Delinquencies

The Special Taxes are billed to the properties within the Community Facilities District on the *ad valorem* property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments. For so long as the County continues on the Teeter Plan, the County is obligated to pay the Community Facilities District 100% of the amount of the Special Taxes actually levied in the Community Facilities District, regardless of any delinquencies. However, the County is required to terminate the

Teeter Plan if two-thirds of the participants so petition the Board of Supervisors and may discontinue the Teeter Plan as to the Community Facilities District if its delinquency rate exceeds 3%. See “– Teeter Plan Termination” and “SECURITY FOR THE SERIES 2012 BONDS – The Teeter Plan” and “THE COMMUNITY FACILITIES DISTRICT – Special Tax Levies and Delinquencies.”

Significant delinquencies in the payment of annual Special Tax installments, or delays in the prosecution of foreclosure proceedings to collect such Special Taxes, could result in a default in the payment of the debt service on the Series 2012 Bonds. See “SECURITY FOR THE SERIES 2012 BONDS – Covenant for Superior Court Foreclosure,” for a discussion of the provisions that apply, and the procedures that the Community Facilities District is obligated to follow, in the event of delinquencies in the payment of Special Taxes. See “– Bankruptcy” and “– Payments by FDIC and Other Governmental Agencies” below, for a discussion of the limitations on the Community Facilities District’s ability to foreclose on the lien of the Special Taxes in certain circumstances and the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes.

Teeter Plan Termination

In 1993, the County implemented its Teeter Plan as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including the Community Facilities District, with full tax and assessment levies instead of actual tax and assessment collections. In return, the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County’s Teeter Plan may help protect Owners from the risk of delinquencies in the payment of Special Taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to the Community Facilities District would eliminate such protection from delinquent Special Taxes. See “SECURITY FOR THE SERIES 2012 BONDS – The Teeter Plan.”

Property Values

The value of taxable parcels in the Community Facilities District is an important factor in evaluating the investment quality of the Series 2012 Bonds. In the event that a property owner defaults in the payment of an installment of Special Taxes, the Community Facilities District’s only remedy is to judicially foreclose on that property. Prospective purchasers of the Series 2012 Bonds should not assume that the property within the Community Facilities District could be sold for the assessed values described herein at a foreclosure sale for delinquent Special Taxes or for an amount adequate to pay delinquent Special Taxes. See “THE COMMUNITY FACILITIES DISTRICT – Assessed Values.” In addition to the foregoing, property values are not evenly distributed throughout the Community Facilities District. This disparity of values across the Community Facilities District is significant because, in the event of nonpayment of Special Taxes, the Community Facilities District’s only remedy is to foreclose against the delinquent parcel. See “SECURITY FOR THE SERIES 2012 BONDS.”

The assessed values for the property within the Community Facilities District are the property values determined by the County Assessor for property tax purposes. Such assessed value determinations may be subject to appeal by property owners. Assessment appeals are filed with the County Assessment Appeals Board for a hearing and resolution. At the time of filing, applicants are required to estimate an opinion of value. The resolution of an appeal may result in a reduction to the County Assessor’s original taxable value and a tax refund to the applicant/property owner. Although such a result would not reduce the Special Tax levy on the property, any reduction in the assessed taxable values of property within the Community Facilities District would have an adverse impact on the value-to-lien ratios discussed herein

and could lessen the ability or willingness of the owners of such property to pay their Special Taxes. Moreover, assessed values do not necessarily represent the current market value for any parcel.

Article XIII A of the California Constitution allows the “full cash value” of properties to be increased at a rate not to exceed 2% per year to account for inflation. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new “base year value” for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place. Any reduction in the assessed values of property in the Community Facilities District would have an adverse impact in the value-to-lien ratios described herein.

Bankruptcy

The payment of Special Taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent Special Tax may be limited by bankruptcy, insolvency or other laws generally affecting creditor’s rights or by the laws of the State relating to judicial foreclosure.

The various legal opinions to be delivered concurrently with the delivery of the Series 2012 Bonds (including Bond Counsel’s approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien would then be treated as an unsecured claim by the court. Further, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Such a delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Series 2012 Bonds and the possibility of delinquent tax installments not being paid in full. The prosecution of foreclosure proceedings could also be delayed for other reasons, including crowded court calendars and procedural delaying tactics.

Disclosures to Future Purchasers

The Community Facilities District has recorded a Notice of Special Tax Lien in the Office of the County Recorder of the County. 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 obligation for Special Taxes in the purchase of property within the Community Facilities District or the lending of money thereon. Failure to disclose the existence of the Special Taxes or the full amount of the *pro rata* share of debt on the real property in the Community Facilities District may affect the willingness and ability of future owners of taxable parcels in the Community Facilities District to pay the Special Taxes when due.

Billing of Special Taxes

A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn can lead to problems in the collection of the special tax. In some community facilities districts the

taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and the bonds issued by the community facilities district.

Under provisions of the Act, the Special Taxes are billed to the properties within the Community Facilities District which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See "SECURITY FOR THE SERIES 2012 BONDS – Covenant for Superior Court Foreclosure," for a discussion of the provisions which apply, and procedures which the Community Facilities District is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

Payments by FDIC and Other Governmental Agencies

The ability of the Community Facilities District to collect interest and penalties specified by the Act and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to parcels in which the Federal Deposit Insurance Corporation (the "FDIC"), or other federal government entities such as Fannie Mae or Freddie Mac, has or obtains an interest.

In the case of the FDIC, in the event that any financial institution making a loan which is secured by parcels is taken over by the FDIC and the applicable Special Tax is not paid, the remedies available to the Community Facilities District may be constrained. The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that taxes other than ad valorem taxes which are secured by a valid lien in effect before the FDIC acquired an interest in a property will be paid unless the FDIC determines that abandonment of its interests is appropriate. The Policy Statement provides that the FDIC generally will not pay installments of non-ad valorem taxes which are levied after the time the FDIC acquires its fee interest, nor will the FDIC recognize the validity of any lien to secure payment except in certain cases where the Resolution Trust Corporation had an interest in property on or prior to December 31, 1995. Moreover, the Policy Statement provides that, with respect to parcels on which the FDIC holds a mortgage lien, the FDIC will not permit its lien to be foreclosed out by a taxing authority without its specific consent, nor will the FDIC pay or recognize liens for any penalties, fines or similar claims imposed for the non payment of taxes.

The FDIC has taken a position similar to that expressed in the Policy Statement in legal proceedings brought against Orange County, California, in United States Bankruptcy Court and in Federal District Court. The Bankruptcy Court issued a ruling in favor of the FDIC on certain of such claims. Orange County appealed that ruling, and the FDIC cross-appealed. On August 28, 2001, the Ninth Circuit Court of Appeals issued a ruling favorable to the FDIC except with respect to the payment of pre-receivership liens based upon delinquent property tax.

The Community Facilities District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to parcels 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 would prevent or delay the foreclosure sale. In the case of Fannie Mae and Freddie Mac, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or in the event a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes

may be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution, in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the Community Facilities District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest.

The Community Facilities District's remedies may also be limited in the case of delinquent Special Taxes with respect to parcels in which other federal agencies (such as the Internal Revenue Service and the Drug Enforcement Administration) have or obtain an interest.

The Community Facilities District is unable to predict what effect the FDIC's application of the Policy Statement would have in the event of a delinquency on a parcel within the Community Facilities District in which the FDIC has an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the Bonds should assume that the Community Facilities District will be unable to foreclose on any parcel owned by the FDIC. As of January 1, 2011, no property in the Community Facilities District was owned by the FDIC.

Cumulative Burden of Parity Taxes and Special Assessments

The Special Taxes constitute a lien against the parcels of land on which they have been levied. Such lien is on a parity with all special taxes 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 Community Facilities District does not have control over the ability of other entities to issue indebtedness secured by *ad valorem* taxes, special taxes or assessments payable from all or a portion of the property within the Community Facilities District. In addition, the owners of property within the Community Facilities District may, without the consent or knowledge of the Community Facilities District, petition other public agencies to issue public indebtedness secured by *ad valorem* taxes, special taxes or assessments. Any such special taxes may have a lien on such property on a parity with the lien of the Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT— Direct and Overlapping Debt."

Lack of Rating and Secondary Market for the Series 2012 Bonds

The Series 2012 Bonds have not received any credit rating by any recognized rating agency. The absence of any such rating could adversely affect the ability of holders to sell the Series 2012 Bonds or the price at which the Series 2012 Bonds can be sold. It is not anticipated, and no assurance can be given that a secondary market for the Series 2012 Bonds will develop following the completion of the offering of the Series 2012 Bonds.

Hazardous Substances

The market value of the property in the Community Facilities District is subject to diminution upon the future release or discovery thereon of a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions 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 “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) had anything to do with creating or handling the hazardous substance. The effect therefore, should any of the parcels be affected by a hazardous substance, would be to reduce the marketability and value 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 Community Facilities District has not independently verified, and is not aware, that any owner (or operator) of any of the parcels within the Community Facilities 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 Community Facilities District is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the taxable parcels in the Community Facilities District resulting from the existence, currently, 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 adversely affect the value of a parcel and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

Natural Disasters

The Community Facilities District, like all California communities, may be subject to unpredictable seismic activity, fires due to the vegetation and topography, or flooding in the wake of fires or in the event of unseasonable rainfall.

There is no evidence that a ground surface rupture will occur in the event of an earthquake, but there is significant potential for destructive ground-shaking during the occurrence of a major seismic event. Known active faults that could cause significant ground shaking in the Community Facilities District include, but are not limited to, the San Andreas Fault and the Newport Beach/Inglewood Fault. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the Community Facilities District.

The occurrence of seismic activity, fires or flooding in or around the Community Facilities District could result in substantial damage to properties in the Community Facilities District which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Special Taxes when due.

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, premium, if any, and interest on the Series 2012 Bonds or to preserve the tax-exempt status of the Series 2012 Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Series 2012 Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Series 2012 Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. 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.

Right to Vote on Taxes Act

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" was approved by the voters of the State on November 5, 1996 ("Proposition 218"). Proposition 218 added Article XIIC ("Article XIIC") and Article XIID to the California Constitution, and contain a number of provisions affecting the ability of local agencies to levy and collect both existing and future taxes, assessments, fees and charges.

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. Although the matter is not free from doubt, it is likely that the exercise by the voters of the initiative power referred to in Article XIIC to reduce or terminate a Special Tax is subject to the same restrictions as are applicable to the Governing Board of the Authority, as the legislative body for the Community Facilities District, pursuant to the Act. Accordingly, although the matter is not free from doubt, it is likely that Article XIIC 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 Series 2012 Bonds.

It may be possible, however, for voters or the Community Facilities District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Series 2012 Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Series 2012 Bonds.

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 "CERTAIN RISK FACTORS – Limitations on Remedies."

Loss of Tax Exemption

As discussed under the caption “CONCLUDING INFORMATION – Tax Exemption,” interest on the Series 2012 Bonds could become includable in gross income for federal income taxation purposes retroactive to the date the Series 2012 Bonds were issued as a result of a failure of the Community Facilities District to comply with certain provisions of the Internal Revenue Code of 1986. Should such an event of taxability occur, the Series 2012 Bonds are not subject to redemption and will remain outstanding until maturity.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Series 2012 Bonds will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the Series 2012 Bonds might be affected as a result of such an audit of the Series 2012 Bonds (or by an audit of similar bonds or securities).

CONCLUDING INFORMATION

Tax Exemption

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the Community Facilities District (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2012 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is included herein as APPENDIX E.

To the extent the issue price of any maturity of the Series 2012 Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2012 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2012 Bonds is the first price at which a substantial amount of such maturity of the Series 2012 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2012 Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption or payment on maturity) of such Bonds. Beneficial Owners of the Series 2012 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2012 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Series 2012 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2012 Bonds. The Community Facilities District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2012 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2012 Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Series 2012 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series 2012 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2012 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012 Bonds, may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2012 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Series 2012 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Series 2012 Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2012 Bonds. Prospective purchasers of the Series 2012 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the Series 2012 Bonds for federal income tax purposes. It is not binding on the Internal Revenue

Service (“IRS”) or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Community Facilities District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Community Facilities District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel’s engagement with respect to the Series 2012 Bonds ends with the issuance of the Series 2012 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Community Facilities District or the Beneficial Owners regarding the tax-exempt status of the Series 2012 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Community Facilities District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Community Facilities District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2012 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2012 Bonds, and may cause the Community Facilities District or the Beneficial Owners to incur significant expense.

Legal Opinions

The validity of the Series 2012 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. See APPENDIX E – “PROPOSED FORM OF OPINION OF BOND COUNSEL.” Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, and for the Community Facilities District by its counsel, Parker & Covert LLP. Other professional services have been performed by Scott Associates, Long Beach, California, as Special Tax Consultant.

Continuing Disclosure

The Community Facilities District has covenanted for the benefit of the Owners and beneficial owners of the Series 2012 Bonds to provide certain financial information and operating data relating to the Series 2012 Bonds, the Community Facilities District, the Special Tax delinquency rate for the Community Facilities District and the status of foreclosure proceedings, if any, relating to Special Tax delinquencies (the “Annual Report”), on or before each April 1, commencing with the Annual Report for the 2010-11 fiscal year, and to provide notice of the occurrence of certain enumerated events, if material. The Annual Report will be filed by The Bank of New York Mellon Trust Company, N.A., as dissemination agent (the “Dissemination Agent”) on behalf of the Community Facilities District through the Electronic Municipal Market Access (EMMA) website of the MSRB, or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to S.E.C. Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”). The notices of material events will be filed by the Dissemination Agent on behalf of the Community Facilities District with the EMMA website of the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in the form of Continuing Disclosure Agreement contained in APPENDIX D – “FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12. The Community Facilities District has not failed to comply in all material respects with any undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events.

Verification of Mathematical Computations

Causey Demgen & Moore Inc. (the “Verification Agent”), an independent firm of certified public accountants, will deliver to the Authority its reports indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Authority and its representatives. Included in the scope of its examination will be a verification of the mathematical accuracy of the mathematical computations of the adequacy of the federal securities deposited with the Escrow Agent to pay the interest, principal and redemption price coming due on the Prior Bonds on their redemption date as described in “REFUNDING PLAN.”

Underwriting

The Series 2012 Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the “Underwriter”). Pursuant to a Bond Purchase Agreement between Underwriter and the Community Facilities District (the “Purchase Agreement”), the Underwriter has agreed to purchase all of the Series 2012 Bonds for an aggregate purchase price of \$38,049,286.90, which represents the par amount of the Series 2012 Bonds, plus net original issue premium of \$6,761.90, and less an Underwriter’s discount of \$287,475.00. The Purchase Agreement provides that the Underwriter will purchase all of the Series 2012 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

Financial Interests

The fees of Bond Counsel, Disclosure Counsel, Underwriter’s Counsel, the Community Facilities District Administrator and the Financial Advisor are contingent upon issuance of the Series 2012 Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Series 2012 Bonds.

No Litigation

No litigation is pending or, to the best knowledge of the Community Facilities District, threatened, concerning the validity of the Series 2012 Bonds and a certificate of the Community Facilities District to that effect will be furnished to the Underwriter at the time of the original delivery of the Series 2012 Bonds. The Community Facilities District is not aware of any litigation pending or threatened which questions the existence of the Community Facilities District or contests the authority of the Community Facilities District to levy and collect the Special Taxes or to issue the Series 2012 Bonds.

No Ratings

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

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APPENDIX A

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

RATE AND METHOD OF APPORTIONMENT FOR BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY COMMUNITY FACILITIES DISTRICT NO. 98-1

A Special Tax (the “Special Tax”) shall be levied and collected in Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 (the “District”) each Fiscal Year, commencing in Fiscal Year 1998-99, in an amount determined by the Governing Board of the Bonita Canyon Public Facilities Financing Authority, or its designee, as described below.

A. Definitions

The terms hereinafter set forth have the following meanings:

“Act” means the Mello-Roos Community Facilities Act of 1982, as it may be amended from time to time.

“Administrative Expenses” means any reasonably necessary or appropriate expenses incurred by the Authority in the administration of the District and the Bonds, including but not limited to the net administrative and legal costs of levying and collecting the Special Tax, remarketing, credit enhancement and liquidity facility fees, and calculating and paying arbitrage rebate payments to the federal government.

“Assessor’s Parcel” means a lot or parcel with an assigned Assessor’s Parcel number shown in an Assessor’s Parcel Map.

“Assessor’s Parcel Map” means an official map of the County Assessor of the County of Orange designating parcels by Assessor’s Parcel numbers.

“Authority” means the Bonita Canyon Public Facilities Financing Authority, or any successor thereto.

“Average Lot Size” means the quotient obtained by dividing the total square footage of all single family residential lots within the boundaries of a final subdivision map by the number of such single family residential lots, all as determined by the Tax Administrator.

“Bond Year” means, with respect to each issue of Bonds, the period that commences on the date on which such Bonds are issued and, subsequent to such issuance, on each September 2, and ends on the following September 1.

“Bonds” means bonds, notes or other evidences of indebtedness issued by or on behalf of the District pursuant to the Act that are payable from Special Taxes.

“County Property” means all Taxable Property that is not Newport Beach Property, whether or not such property is located in an unincorporated portion of the County of Orange.

“Debt Service Requirement” means for each Fiscal Year the sum of (a) the principal of and interest on Bonds coming due in the Bond Year which ends in the next subsequent Fiscal Year, except to

the extent such principal or interest is expected to be paid from proceeds from the sale of Bonds or other amounts then available in the applicable debt service fund for such purpose, (b) the amount of the Special Tax levied but unpaid during the Fiscal Year immediately preceding the Fiscal Year for which the Debt

Service Requirement is being determined, (c) the sum of all deposits then required to be made into any reserve fund established with respect to any Bonds, and (d) the Administrative Expenses which the District reasonably estimates it will incur through the end of the Bond Year referred to in clause (a) and will not have other revenues available for the payment thereof.

“Developed Property” means, for any Fiscal Year, all Taxable Property for which a building permit was issued prior to the commencement of such Fiscal Year or, if the Governing Board determines that the efficient levy and collection of the Special Tax so requires, all Taxable Property for which a building permit was issued prior to the June 1 preceding the commencement of such Fiscal Year.

“Developed Property Classification” shall mean Multifamily Residential Property, Non-Residential Developed Property, Property Owners Association Property, Public Property, Single Family Attached, Single Family Detached - High Density and Single Family Detached - Low Density.

“District” means Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1, as formed by the Authority pursuant to the Act and as the boundaries thereof may be amended from time to time.

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

“Governing Board” means the Governing Board of the Authority, acting as the legislative body of the District, or its designee.

“Irvine Mitigation Agreement” means the Implementation Agreement Concerning School Facilities for a Portion of Planning Area 26 (Bonita Canyon), by and between the Irvine Unified School District and The Irvine Company, as the same may be amended from time to time.

“Maximum Special Tax” means the highest Special Tax, determined in accordance with Sections C and H, that can be levied by the Governing Board on an Assessor’s Parcel in any Fiscal Year.

“Multifamily Residential Property” means each Assessor’s Parcel that is Developed Property, the building permit applicable to which permits the construction of more than one dwelling unit, other than a condominium unit; provided that Multifamily Residential Property shall not include any Assessor’s Parcel which is Public Property.

“Newport Beach Property” means all Taxable Property within the corporate boundaries of the City of Newport Beach, California, at the time any action described herein is taken or any determination called for herein is made.

“Newport Beach Property Special Tax Obligation” means, for any Fiscal Year, the product obtained by multiplying the Debt Service Requirement for such Fiscal Year by the Non-School Expenditures Portion.

“Newport-Mesa Mitigation Agreement” means the Bonita Canyon Boundary Adjustment and School Impact Mitigation Agreement, effective as of October 28, 1997, by between the Newport-Mesa Unified School District and The Irvine Company, as the same may be amended from time to time.

“No Additional Bonds Date” means the earlier of (a) the date on which the Governing Board adopts a resolution declaring that no additional Bonds of the District will be issued (other than Bonds to be issued for the purpose of refunding Bonds) or (b) the date on which the aggregate principal amount of Bonds issued by or on behalf of the District equals the principal amount of Bonds authorized to be so issued.

“Non-Residential Developed Property” means each Assessor’s Parcel that is Developed Property other than Multi-Family Residential Property, Property Owners Association Property, Public Property and Single Family Residential Property.

“Non-School Expenditures Portion” means a fraction, the numerator of which is the aggregate amount of Bond proceeds theretofore expended or encumbered for the purchase, construction, expansion, improvement, or rehabilitation of Non-School Improvements and the denominator of which is the sum of (a) the aggregate amount of Bond proceeds expended or encumbered for the purchase, construction, expansion, improvement, or rehabilitation of all real and other tangible property with a useful life of at least five years and (b) the aggregate amount of Bond proceeds not expended or encumbered for such purposes.

“Non-School Improvements” means real and other tangible property with a useful life of at least five years, other than such property described in (a) the Irvine Mitigation Agreement or (b) the Newport-Mesa Mitigation Agreement.

“Parcel Area” means the square footage of an Assessor’s Parcel determined by the Tax Administrator from the subdivision map or parcel map creating such Assessor’s Parcel.

“Property Owners Association Property” means each Assessor’s Parcel which is owned by a property owners association or which the Tax Administrator determines from the subdivision map or parcel map creating such Assessor’s Parcel is intended to be so owned.

“Proportionately” means, with respect to Developed Property, that the ratio of the actual Special Tax levy to the Maximum Special Tax is as equal as possible (subject to the limitations contained in Section 53321 of the Act) for all Assessor’s Parcels that are Developed Property and, with respect to Undeveloped Property, means that the ratio of the actual Special Tax levy to the Maximum Special Tax is as equal as possible (subject to the limitations contained in Section 53321 of the Act) for all Assessor’s Parcels that are Undeveloped Property.

“Public Property” means any property within the boundaries of the District that is (a) owned by or dedicated to the federal government, the State of California, the Authority, the Irvine Unified School District, the Newport-Mesa Unified School District, the City of Newport Beach or any other public agency, provided that any leasehold or other possessory interest in such property (which leasehold or other possessory interest is not owned by a public agency) shall not be considered Public Property or (b) determined by the Tax Administrator to be subject to public utility easements or easements for other public purposes to such an extent that it would be impractical to use such property for any substantial purpose other than the purpose or purposes set forth in the easement.

“Single Family Attached” means each Assessor’s Parcel that is Single Family Residential Property, the building permit applicable to which permits the construction of one single family dwelling or condominium unit that is or may be attached to another single family dwelling.

“Single Family Detached - High Density” means each Assessor’s Parcel that is Single Family Residential Property, the building permit applicable to which permits the construction of one single

family dwelling and which property was created by a final subdivision map in which the Average Lot Size is less than 4,300 square feet.

“Single Family Detached - Low Density” means each Assessor’s Parcel that is Single Family Residential Property, the building permit applicable to which permits the construction of one single family dwelling and which property was created by a final subdivision map in which the Average Lot Size is 4,300 square feet or more.

“Single Family Residential Property” means each Assessor’s Parcel, the building permit applicable to which permits the construction of one single family dwelling unit (either detached or attached) or a condominium unit; provided that Single Family Residential Property shall not include any Assessor’s Parcel which is Property Owners Association Property or Public Property.

“Special Tax” means the Special Tax, if any, to be levied in each Fiscal Year on each Assessor’s Parcel within the District pursuant to this Rate and Method of Apportionment.

“Tax Administrator” means such person or firm as may from time to time be authorized and directed by the Governing Board to undertake the duties of the Tax Administrator hereunder.

“Taxable Property” means all of the Assessor’s Parcels within the boundaries of the District that are not exempt from the Special Tax pursuant to law or Section E below.

“Undeveloped Property” means for any Fiscal Year all Taxable Property that is not classified as Developed Property for such Fiscal Year.

B. Determinations as to Location and Type of Property and Non-School Expenditure Portion

Prior to the levy of the Special Tax pursuant to Section C below, the Tax Administrator shall make the following determinations, classifications and assignments:

All Taxable Property within the District shall be (a) determined to be either Newport Beach Property or County Property (b) classified as Developed Property or Undeveloped Property and (c) in the case of Developed Property, assigned to a Developed Property Classification, in each case based upon the status of property within the District as of the July 1 of the Fiscal Year in which the Special Tax is to be levied; and

The Non-School Expenditure Portion shall be determined, based upon the amount of Bond proceeds expended or encumbered as of the July 1 of the Fiscal Year in which the Special Tax is to be levied.

C. Maximum Special Tax Rates

The Maximum Special Tax shall be determined pursuant to this Section C, provided that the Maximum Special Tax for an Assessor’s Parcel shall be reduced to reflect a prepayment of the Special Tax applicable thereto as provided for in Section H.

For Fiscal Year 1998-99, the Maximum Special Tax for an Assessor’s Parcel of Taxable Property shall be the amount indicated in the following table for the applicable Developed Property Classification if the Assessor’s Parcel is Developed Property or the amount indicated therein for Undeveloped Property if the Assessor’s Parcel is Undeveloped Property.

Developed Property

<i>Developed Property Classification</i>	<i>Maximum Special Tax</i>
Multifamily Residential Property	\$1,341 per unit
Non-Residential Developed Property	\$18,330 per acre of Parcel Area
Property Owners Association Property	\$18,330 per acre of Parcel Area
Public Property	\$18,330 per acre of Parcel Area
Single Family Attached	\$1,443 per unit
Single Family Detached - High Density	\$2,526 per unit
Single Family Detached - Low Density	\$3,528 per unit

Undeveloped Property

\$18,330 per acre of Parcel Area

For each Fiscal Year subsequent to Fiscal Year 1998-99, the Maximum Special Tax for each Developed Property Classification and for Undeveloped Property shall be 102% of the amount of the applicable Maximum Special Tax for the preceding Fiscal Year.

D. Method of Apportionment of Special Tax

For each Fiscal Year, commencing with Fiscal Year 1998-99 until the earlier of (i) the date following the issuance of Bonds on which there are no Bonds outstanding, or (ii) June 30, 2038, the Governing Board shall levy the Special Tax as follows:

Prior to the No Additional Bonds Date,

First: the Special Tax shall be levied on each Assessor's Parcel of Developed Property that is Newport Beach Property at a rate equal to its Maximum Special Tax for such Fiscal Year;

Second: to the extent additional money is needed in order to cause the total Special Tax being levied on Newport Beach Property to equal the Newport Beach Property Special Tax Obligation, the Special Tax shall be levied Proportionately on all Undeveloped Property that is Newport Beach Property, provided, however, that in no event shall the amount of the Special Tax so levied exceed the Maximum Special Tax;

Third: the Special Tax shall be levied on each Assessor's Parcel of Developed Property that is County Property at a rate equal to its Maximum Special Tax for such Fiscal Year; and

Fourth: to the extent additional money is needed in order to equal the Debt Service Requirement for such Fiscal Year in excess of the Newport Beach Property Special Tax Obligation, the Special Tax shall be levied Proportionately (taking into account, for the purpose of determining proportionality, the Special Tax levied pursuant to the second step above on Undeveloped Property that is Newport Beach Property) on all Undeveloped Property, provided, however, that in no event shall the amount of the Special Tax so levied exceed the Maximum Special Tax.

Subsequent to the No Additional Bonds Date,

First: the Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property that is Newport Beach Property such that the total thereof will equal the Newport Beach Property Special Tax Obligation, provided, however, that in no event shall the amount of the Special Tax so levied exceed the Maximum Special Tax;

Second: to the extent additional money is needed in order to cause the total amount of the Special Tax levied on Newport Beach Property in such Fiscal Year to equal the Newport Beach Property Special Tax Obligation, the Special Tax shall be levied Proportionately on all Undeveloped Property that is Newport Beach Property, provided, however, that in no event shall the amount of the Special Tax so levied exceed the Maximum Special Tax;

Third: to the extent additional money is needed in order to equal the Debt Service Requirement for such Fiscal Year in excess of the Newport Beach Property Special Tax Obligation, the Special Tax shall be levied Proportionately (taking into consideration, for the purpose of determining proportionality, the Special Tax levied pursuant to the first step above on Developed Property that is Newport Beach Property) on all Developed Property, provided, however, that in no event shall the amount of the Special Tax so levied exceed the Maximum Special Tax; and

Fourth: to the extent additional money is needed in order to equal the Debt Service Requirement for such Fiscal Year in excess of the Newport Beach Property Special Tax Obligation, the Special Tax shall be levied Proportionately (taking into consideration, for the purpose of determining proportionality, the Special Tax levied pursuant to the second step above on Undeveloped Property that is Newport Beach Property) on all Undeveloped Property, provided, however, that in no event shall the amount of the Special Tax so levied exceed the Maximum Special Tax.

E. Exemptions

The Governing Board shall not levy a Special Tax on either (a) the first 44 acres of land within the District to become Property Owners Association Property, or (b) the first 51 acres of land within the District to become Public Property, provided that if the total area within the District is increased after its formation, each of the foregoing amounts shall be increased by the same percentage as the percentage by which the total area within the District is increased, and provided further that each of the foregoing amounts may be increased at the discretion of the Governing Board if the Governing Board determines that the total Maximum Special Tax that may be levied in each Fiscal Year on all the Assessor's Parcels within the District that will remain Taxable Property will be at least 1.1 times the Debt Service Requirement for such Fiscal Year.

F. Appeals

Any landowner or resident responsible for the payment of the Special Tax who feels that the amount of the Special Tax is in error may file a notice with the District appealing the amount of the Special Tax; provided, however, that the filing of a notice of does not relieve such landowner or resident of the obligation to pay in full the actual Special Tax levied. A representative of the District will then review the appeal and, if necessary, meet with the applicant. If the findings of the District representative verify that the amount of the Special Tax should be modified or changed, then, as appropriate, the Special Tax levy shall be corrected, or if the amount has been paid, then it shall be refunded from available Special Taxes levied and collected in the following Fiscal Year.

G. Manner of Collection

The Special Tax will be collected in the same manner and at the same time as ordinary ad valorem property taxes, provided, however, the District 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 on delinquent parcels as permitted by the Act.

H. Prepayment of Special Tax

The owner of any Assessor's Parcel as to which no Special Tax is delinquent may prepay the Special Tax applicable to such Assessor's Parcel in whole by paying (a) the present value of the remaining payments of the Special Tax (computed assuming that the Maximum Special Tax will be paid as long as any Bond is outstanding and using a discount rate equal to the highest interest rate borne by any Bond then outstanding or, if no Bond has been issued, computed assuming that the Maximum Special Tax will be paid through Fiscal Year 2037-38 and using a discount rate equal to 7% per year), plus (b) if any Bonds have been issued, interest at the applicable Bond interest rate to the next date on which Bonds may be optionally redeemed on the product of the amount calculated pursuant to clause (a) times a fraction the numerator of which is the principal amount of such Bonds and the denominator of which is the total principal amount of Bonds authorized to be issued (said product, the "Bond Redemption Amount"), plus (c) any redemption premium that will be required to be paid in connection with the redemption of Bonds in an aggregate principal amount not exceeding the Bond Redemption Amount, (d) an administrative fee as determined by the Tax Administrator to cover any costs relating to the discharge of the Special Tax obligation and the redemption of Bonds, less (e) the lesser of (i) the product of the balance then on deposit in any Bond reserve fund times a fraction the numerator of which is the Maximum Special Tax applicable to such Assessor's Parcel and the denominator of which is the total Maximum Special Tax that may be levied on all the Assessor's Parcels within the District, or (ii) the maximum amount which, if withdrawn from such Bond reserve fund would cause the balance remaining on deposit therein to equal the amount required to be maintained therein under the terms of the documents pursuant to which the Bonds were issued, and less (f) the interest earnings to be generated by the investment of the foregoing until applied to the redemption of Bonds, all ((a) through (f)) as determined by the Tax Administrator.

The Owner of any Assessor's Parcel as to which no Special Tax is delinquent may discharge the Special Tax applicable to such Assessor's Parcel in part by paying a portion (in increments of \$5,000) of the amount described in clause (a) above, plus the respective amounts relative thereto described in clauses (b) through (e) above. From and after the Authority's receipt of any such partial prepayment the Maximum Special Tax applicable to such Assessor's Parcel shall be the product of the Maximum Special Tax which would have otherwise been applicable thereto times a fraction the numerator of which is the specific amount paid in lieu of the amount described in clause (a) above and the denominator of which is the amount described in said clause (a).

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APPENDIX B

**GENERAL ECONOMIC DATA REGARDING THE
CITY OF NEWPORT BEACH AND THE COUNTY OF ORANGE**

THE FOLLOWING DATA HAS BEEN PROVIDED AS GENERAL BACKGROUND INFORMATION ONLY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE SERIES 2012 BONDS.

ALTHOUGH REASONABLE EFFORTS HAVE BEEN MADE TO INCLUDE UP-TO-DATE INFORMATION HEREIN, MUCH OF THE INFORMATION IS NOT CURRENT. IT SHOULD NOT BE ASSUMED THAT THE TRENDS INDICATED BY THE FOLLOWING DATA WOULD CONTINUE BEYOND THE SPECIFIC PERIODS REFLECTED HEREIN.

Population

The following table provides a historical summary of population in the last nine years in the City of Newport Beach (the “City”), Orange County (the “County”), and the State of California (the “State”).

**CITY OF NEWPORT BEACH — ORANGE COUNTY — STATE OF CALIFORNIA
POPULATION GROWTH COMPARISON**

Year	Newport Beach	Orange County	State of California
2001	71,286	2,871,926	34,256,789
2002	72,082	2,902,207	34,725,516
2003	80,661	2,927,118	35,163,609
2004	81,327	2,948,135	35,570,847
2005	81,678	2,956,847	35,869,173
2006	81,821	2,956,334	36,116,202
2007	82,212	2,960,659	36,399,676
2008	82,720	2,974,321	36,704,735
2009	84,595	2,990,805	36,966,713
2010	85,093	3,008,855	37,223,900

Source: State Department of Finance.

Employment

The California Employment Development Department compiles monthly data on the status of employment for the County labor market (employment figures for the City are not reported separately). The following table summarizes employment in the County over the past five years.

ORANGE COUNTY METROPOLITAN STATISTICAL AREA Estimated Number of Wage and Salary Workers by Industry

ANNUAL AVERAGE 2006 – 2010 (in thousands)

Industry	2006	2007	2008	2009	2010
Total Farm	5.3	5.0	4.6	3.8	3.8
Mining	0.6	0.6	0.6	0.5	0.5
Construction	106.6	103.1	91.2	74.2	67.1
Manufacturing:					
Nondurable Goods	54.7	54.2	51.5	45.7	44.1
Durable Goods	128.0	126.2	122.5	109.1	106.2
Transportation and Public Utilities	272.8	277.0	271.6	249.5	244.2
Wholesale Trade	83.7	86.9	86.7	79.4	77.4
Retail Trade	160.8	161.2	155.6	142.3	140.1
Finance, Insurance and Real Estate	138.2	127.7	113.1	105.1	103.6
Professional and Business Services	274.5	273.3	266.6	240.2	242.8
Educational and Health Services	137.7	142.6	150.7	152.1	156.0
Leisure & Hospitality	169.6	172.9	176.4	169.1	168.7
Government	156.7	159.4	160.8	156.6	152.5
Total	1,524.3	1,520.5	1,486.2	1,375.9	1,356.7

⁽¹⁾ Totals may not add due to independent rounding.

Source: California Employment Development Department.

The following table summarizes the labor force, employment and unemployment figures over the period 2006 through 2010 for the City, the County, and the State.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
Yearly Average for Years 2006 through 2010
(Amounts in 000's)

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
2006				
City of Newport Beach	45,200	44,300	900	2.1%
Orange County	1,601,800	1,547,300	54,400	3.4
California	17,686,700	16,821,300	865,400	4.9
2007				
City of Newport Beach	45,400	44,300	1,100	2.4%
Orange County	1,609,400	1,547,000	62,400	3.9
California	17,928,700	16,970,200	958,500	5.3
2008				
City of Newport Beach	45,300	43,900	1,500	3.3%
Orange County	1,617,200	4,532,300	84,900	5.3
California	18,191,000	16,883,400	1,307,600	7.2
2009				
City of Newport Beach	43,900	41,500	2,400	5.6%
Orange County	1,588,700	1,447,700	141,000	8.9
California	18,204,200	16,141,500	2,062,700	11.3
2010				
City of Newport Beach	43,600	40,900	2,600	6.0%
Orange County	1,580,900	1,429,700	151,200	9.6
California	18,176,200	15,916,300	2,259,900	12.4

Source: California Employment Development Department.

Industry

Some of the largest employers in the City are shown below:

MAJOR PRIVATE SECTOR EMPLOYERS IN THE CITY OF NEWPORT BEACH As of May 2009

<u>Company</u>	<u>Product/Service</u>	<u>Employees</u>
Hoag Memorial Hospital – Presbyterian	Hospital	4,284
Headway Corporate Resources	Staffing Agency	2,500
James R. Glidewell Dental Ceramics	Medical Laboratories	2,470
Jazz Semiconductor	Semiconductor Manufacturer	716
Pacific Investment Management	Investment Advisors	500
Newport Beach Marriott Hotel & Spa	Hotel	485
Fletcher Jones Motorcars	Auto Dealership	456
Conexant Systems Inc.	Electronics	448
Mindspeed Technologies, Inc.	Semiconductor Manufacturer	427
Bloomingdale's Inc.	Department Store	300

Source: Newport Beach Chamber of Commerce.

Personal Income

Personal income information is not available for the Community Facilities District. However, residents of the City have a per capita income level above the levels of the County, the State and the nation as a whole. The following table summarizes the total effective buying income for the City, the County, the State and the nation over the period 2004 through 2009:

PERSONAL INCOME For the Years 2004 through 2009

Year and Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2004		
City of Newport Beach	\$ 3,711,863	\$ 66,512
Orange County	63,712,940	50,755
California	674,721,020	42,924
United States	5,466,880,008	38,201
2005		
City of Newport Beach	\$ 3,962,363	\$ 68,253
Orange County	66,473,235	51,823
California	705,108,410	43,915
United States	5,692,909,567	39,324
2006		
City of Newport Beach	\$ _ ⁽¹⁾	\$ _ ⁽¹⁾
Orange County	67,941,889	53,099
California	720,798,122	44,681
United States	5,894,664,154	40,529
2007		
City of Newport Beach	\$ _ ⁽¹⁾	\$ _ ⁽¹⁾
Orange County	71,826,783	55,370
California	764,120,982	46,275
United States	6,107,093,057	41,255
2008		
City of Newport Beach	\$ 4,320,402	\$ 79,736
Orange County	77,614,985	58,727
California	814,894,437	48,203
United States	6,300,794,040	41,792
2009		
City of Newport Beach	\$ 4,339,272	\$ 80,522
Orange County	78,347,277	58,979
California	832,531,445	48,952
United States	6,443,994,426	42,303

⁽¹⁾ Data not available.

Source: For 2004, 2005 and 2009: Sales & Marketing Management, Survey of Buying Power; for 2006 through 2008: Trade Dimensions International, Inc. – Demographics USA.

Commercial Activity

Retail trade comprises an important part of the City's economy. Retail centers include Fashion Island, a premier open-air regional shopping center, Balboa Island, Lido Marina Village and Cannery Village. Additional retail centers are available at South Coast Plaza, located in Costa Mesa, the Spectrum, located in Irvine, and Laguna Hills Mall, in Laguna Hills.

Taxable Transactions

The following tables show the annual volume of permits and taxable transactions within the City and the County from 2005 through 2009.

CITY OF NEWPORT BEACH Taxable Sales (\$000's)

<u>Year</u>	<u>Number of Permits</u>	<u>Taxable Transactions</u>
2005	4,498	\$ 2,358,641
2006	4,482	2,572,821
2007	4,459	2,648,351
2008	4,288	2,404,864
2009	3,990	2,126,848

Source: State Board of Equalization.

COUNTY OF ORANGE Taxable Sales (\$000's)

<u>Year</u>	<u>Number of Permits</u>	<u>Taxable Transactions</u>
2005	102,858	\$55,063,246
2006	102,539	57,202,747
2007	99,088	57,293,471
2008	97,612	53,606,829
2009	90,231	45,712,784

Source: State Board of Equalization.

Building Permit Activity

The following tables show building permit activity within the City and the County from 2006 through 2010:

CITY OF NEWPORT BEACH BUILDING PERMIT VALUATION 2006 THROUGH 2010⁽¹⁾

	2006	2007	2008	2009	2010
Valuation					
Residential					
Single Family	\$ 82,967,310	\$ 68,054,930	\$ 81,504,056	\$ 44,246,031	\$ 44,809,238
Multiple	7,450,000	11,283,560	9,791,756	3,287,177	2,741,000
Alter. & Additions	5,680,626	58,058,723	49,507,192	38,080,919	61,189,507
Total	<u>\$147,222,936</u>	<u>\$137,397,213</u>	<u>\$140,803,004</u>	<u>\$ 85,614,127</u>	<u>\$108,739,745</u>
Number of Units					
Single Family	126	107	90	66	53
Multiple Family	34	40	38	6	10
Total	<u>160</u>	<u>147</u>	<u>128</u>	<u>72</u>	<u>63</u>

⁽¹⁾ Totals may not add due to independent rounding.
Source: Construction Industry Research Board.

COUNTY OF ORANGE BUILDING PERMIT VALUATIONS 2006 THROUGH 2010⁽¹⁾

	2006	2007	2008	2009	2010
Valuation (000's)					
Residential					
Single Family	\$ 1,084,049	\$ 709,396	\$ 475,738	\$437,831	\$ 492,530
Multiple	718,077	638,458	203,619	109,753	208,047
Alter. & Additions	514,822	444,416	358,356	307,609	328,830
Total	<u>\$2,316,948</u>	<u>\$1,792,270</u>	<u>\$1,037,713</u>	<u>\$855,193</u>	<u>\$1,029,407</u>
Number of Units					
Single Family	3,735	2,182	1,295	1,376	1,553
Multiple Family	4,636	4,890	1,864	824	1,538
Total	<u>8,371</u>	<u>7,072</u>	<u>3,159</u>	<u>2,200</u>	<u>3,091</u>

⁽¹⁾ Totals may not add due to independent rounding.
Source: Construction Industry Research Board.

Agriculture

A large portion of land around the City in the County is currently in agricultural use, with approximately 14,000 acres under irrigation. Major crops include livestock-grazing, citrus and avocado groves, and row crops, including tomatoes, corn, cauliflower, asparagus, celery and strawberries.

Transportation

The City's transportation network includes access to the San Diego Interstate (I-405) and the Santa Ana Interstate (I-5) via State Highway 73 (a portion of which is a toll road) and State Highway 55. Bus service is provided by Greyhound and Orange County Transit Authority buses, which connect the City with other County cities and the Los Angeles metropolitan area. Amtrak provides rail service with stations located at Santa Ana, Irvine and Anaheim.

Orange County's John Wayne Airport serves commercial airlines as well as private aircraft. It is the nation's seventh busiest airport in takeoffs and landings of commercial and general aviation.

Education

Public elementary and secondary education in the City is provided by the Newport-Mesa Unified School District. The University of California at Irvine, which has an enrollment of nearly 28,000 students, is located in the adjacent City of Irvine.

Recreation

The City has numerous recreation facilities. Major recreational attractions within the city limits include the Newport Harbor, offering sightseeing, cruises, fishing and shopping, the Balboa Pavilion, the Balboa Fun Zone, the Newport Theater Arts Center, three museums, three golf courses, numerous beaches, a four-branch public library, and public gardens. Camping is available at the Newport Dunes Resort, a 100-acre waterfront park that has 400 hookups for recreational vehicles and campers. The nearby Upper Newport Bay Ecological Reserve encompasses 752-acres of coastal wetlands with thousands of birds and many ecologically-oriented recreational activities.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive, and reference should be made to the Indenture for a full and complete statement of their provisions.

Definitions

The terms defined under this caption shall for purposes of the summary of the Indenture have the meanings defined below.

“Act” means the Mello-Roos Community Facilities Act of 1982, constituting Sections 53311 et seq. of the California Government Code.

“Additional Bonds” means Bonds other than Series 2012 Bonds issued under the Indenture in accordance with the provisions thereof.

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

“Administrative Expenses” means any reasonably necessary or appropriate expenses incurred in the administration of the Community Facilities District and the Bonds, including, but not limited to (a) the administrative and legal costs of levying and collecting the Special Tax (including costs incurred in connection with any appeals relating thereto and litigation expenses incurred in connection with the collection of such Special Tax), (b) the fees, costs and indemnifications due the Trustee, (c) the costs incurred with on-going disclosure in connection with the Bonds, (d) the costs incurred in connection with the disclosure of the Special Tax to property owners and potential purchasers of property, (e) the amounts required to calculate and pay arbitrage rebate payments to the federal government, and (f) an allocable share of the salaries of the staff of the Authority, or of any member thereof, providing services on behalf of the Community Facilities District directly related to the foregoing and a proportionate amount of general administrative overhead of the Authority, or of any member thereof, related thereto.

“Annual Debt Service” means, for each Bond Year, the sum of (a) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled (including by reason of mandatory sinking fund redemptions), and (b) the principal amount of the Outstanding Bonds due in such Bond Year (including by reason of mandatory sinking fund redemptions).

“Auditor” means the auditor of the County of Orange.

“Authority” means the Bonita Canyon Public Facilities Financing Authority, a joint exercise of powers authority organized and existing under the laws of the State, and any successor thereto.

“Authorized Denominations” means (a) with respect to the Series 2012 Bonds, \$5,000 and any integral multiple thereof, and (b) with respect to each Series of Additional Bonds, the authorized denominations for such Series of Additional Bonds specified in the Supplemental Indenture pursuant to which such Additional Bonds are issued.

“Authorized Representative” means, with respect to the Community Facilities District, the President and the Secretary of the Authority, and any other Person designated as an Authorized Representative of the Community Facilities District in a Written Certificate of the Community Facilities District filed with the Trustee.

“Beneficial Owners” means those Persons for which the Participants have caused the Depository to hold Book-Entry Bonds.

“Bond Counsel” means a firm of nationally recognized bond counsel selected by the Community Facilities District.

“Bond Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Bond Year” means each twelve-month period beginning on September 2 in each year and extending to the next succeeding September 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date and end on September 1, 2012.

“Bonds” means the Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 Special Tax Bonds issued under the Indenture, and includes the Series 2012 Bonds and any Additional Bonds.

“Book-Entry Bonds” means the Bonds of a Series registered in the name of the Depository, or the Nominee thereof, as the registered owner thereof pursuant to the terms and provisions of the Indenture.

“Business Day” means a day which is not (a) a Saturday, Sunday or legal holiday in the State, (b) a day on which banking institutions in the State, or in any state in which the Office of the Trustee is located, are required or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed.

“Cede & Co.” means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to a Series of Book-Entry Bonds.

“Closing Date” means the date upon which the Series 2012 Bonds are delivered to the Original Purchaser, being January 31, 2012.

“Code” means the Internal Revenue Code of 1986.

“Community Facilities District” means Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1, a community facilities district organized and existing under the laws of the State, and any successor thereto.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of January 1, 2012, by and between the Authority and the Trustee, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Community Facilities District relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s first annual administrative fee, fees, charges and disbursements of attorneys, financial advisors, accounting firms,

consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, any premium for a bond insurance policy securing payment of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

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

“Defeasance Securities” means (a) non-callable direct obligations of the United States of America (“United States Treasury Obligations”), and (b) evidences of ownership of proportionate interests in future interest and principal payments on United States Treasury Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying United States Treasury Obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

“Depository” means DTC, and its successors as securities depository for any Series of Book-Entry Bonds, including any such successor appointed pursuant to the Indenture.

“DTC” means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York.

“Escrow Agreement” means the Escrow Agreement, dated as of January 1, 2012, by and between the Community Facilities District and the Escrow Bank, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Escrow Bank” means The Bank of New York Mellon Trust Company, N.A., a banking corporation organized and existing under the laws of the State, as escrow bank under the Escrow Agreement, and any successor thereto.

“Event of Default” means any event or circumstance specified in the Indenture.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Community Facilities District.

“Governing Board” means the Governing Board of the Authority.

“Indenture” means the Indenture, dated as of January 1, 2012, by and between the Community Facilities District and The Bank of New York Mellon Trust Company, N.A., as Trustee, as originally executed and as it may be amended or supplemented from time to time by any Supplemental Indenture.

“Independent Consultant” means any consultant or firm of such consultants selected by the Community Facilities District and who, or each of whom (a) is generally recognized to be qualified in the financial consulting field, (b) is in fact independent and not under the control of the Community Facilities District, the Authority or any member of the Authority, (c) does not have any substantial interest, direct or indirect, with or in the Community Facilities District, the Authority or any member of the Authority, or any owner of real property in the Community Facilities District, or any real property in the Community Facilities District, and (d) is not connected with the Community Facilities District, the Authority or any member of the Authority, as an officer or employee thereof, but who may be regularly retained to make reports to the Community Facilities District, the Authority or any member of the Authority.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing September 1, 2012.

“Letter of Representations” means the Letter of Representations from the Community Facilities District to the Depository, in which the Community Facilities District makes certain representations with respect to issues of its securities for deposit by the Depository.

“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year, including the Bond Year the calculation is made.

“Moody’s” means Moody’s Investors Service, Inc., a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Community Facilities District.

“Net Special Tax Revenues” means Special Tax Revenues, less amounts required to pay Administrative Expenses.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

“Office of the Trustee” means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as may be specified to the Community Facilities District by the Trustee in writing.

“Ordinance” means any ordinance adopted by the Governing Board levying the Special Taxes.

“Original Purchaser” means the original purchaser of the Series 2012 Bonds from the Community Facilities District.

“Outstanding” means, when used as of any particular time with reference to Bonds, subject to the provisions of the Indenture, all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation, (b) Bonds with respect to which all liability of the Community Facilities District shall have been discharged in accordance with the Indenture, and (c) Bonds in lieu of which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Owner” means, with respect to a Bond, the Person in whose name such Bond is registered on the Registration Books.

“Participant” means any entity which is recognized as a participant by DTC in the book-entry system of maintaining records with respect to Book-Entry Bonds.

“Participating Underwriter” has the meaning ascribed to such term in the Continuing Disclosure Agreement.

“Permitted Investments” means the following, to the extent that such securities are otherwise eligible legal investments of the Community Facilities District:

(1) Direct general obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America);

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Federal Financing Bank;

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System;

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase; (ratings on holding companies are not considered as the rating of the bank);

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including a fund for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services;

(7) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(a) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(b) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and
(ii) which escrow is sufficient, as verified by a nationally recognized independent certified public

accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal obligations rated “Aaa/AAA” or general obligations of states with a rating of “A2/A” or higher by both Moody’s and S&P;

(9) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “Aa3” by Moody’s and “AA-” by S&P; provided, that, by the terms of the investment agreement:

(a) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice;

(b) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks *pari passu* with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

(c) the Trustee or the Community Facilities District receive the opinion of domestic counsel that such investment agreement is legal, valid and binding and enforceable against the provider in accordance with its terms and of foreign counsel (if applicable);

(d) the investment agreement shall provide that if during its term (i) the provider’s rating by either Moody’s or S&P falls below “Aa3” or “AA-,” respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (A) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider’s books) to the Trustee or a holder of the collateral, collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to Moody’s and S&P to maintain an “A” rating in an “A” rated structured financing (with a market value approach); or (B) repay the principal of and accrued but unpaid interest, on the investment, and (ii) the provider’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A3” or “A-,” respectively, the provider must, at the direction of the Community Facilities District or the Trustee, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Trustee;

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

(f) the investment agreement must provide that if during its term (i) the provider shall default in its payment obligations, the provider’s obligations under the investment agreement shall, at the direction of the Community Facilities District or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the

Trustee, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc., the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee.

"Person" means an individual, corporation, limited liability company, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Prior Bonds" means the Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 Special Tax Bonds, Series 1998, issued pursuant to the Prior Indenture.

"Prior Indenture" means the Indenture, dated as of December 1, 1998, by and between the Community Facilities District and Dai-Ichi Kangyo Bank of California, as trustee.

"Prior Trustee" means The Bank of New York Mellon Trust Company, N.A., as successor trustee under the Prior Indenture.

"Rate and Method" means the rate and method of apportionment of the Special Taxes approved by the qualified electors of the Community Facilities District.

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

"Rebate Requirement" has the meaning ascribed to such term in the Tax Certificate.

"Record Date" means, with respect to interest payable on any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

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

"Redemption Price" means the aggregate amount of principal of and premium, if any, on the Bonds upon the redemption thereof pursuant to the Indenture.

"Registration Books" means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

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

"Reserve Requirement" means, as of the date of any calculation, 80% of Maximum Annual Debt Service.

"Resolution of Formation" means Resolution No. 98-04, adopted by the Governing Board on March 18, 1998.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under the laws of the State of New York, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer

perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Community Facilities District.

“Series” means the initial series of Bonds executed, authenticated and delivered on the date of initial issuance of the Bonds and identified pursuant to the Indenture as the Series 2012 Bonds, and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

“Series 2012 Bonds” means the Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 Special Tax Bonds, Series 2012, issued under the Indenture.

“Special Tax Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Special Tax Revenues” means the proceeds of the Special Taxes received by or on behalf of the Community Facilities District, including any prepayments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, which shall be limited to the amount of said lien and interest and penalties thereon.

“Special Taxes” means the special taxes levied within the Community Facilities District pursuant to the Act, the Ordinance and the Indenture.

“State” means the State of California.

“Supplemental Indenture” means any supplemental indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Certificate” means the Tax Certificate executed by the Community Facilities District at the time of issuance of the Series 2012 Bonds relating to the requirements of Section 148 of the Code, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States of America, or any successor thereto as Trustee under the Indenture, substituted in its place as provided in the Indenture.

“Verification Report” means, with respect to the deemed payment of Bonds pursuant to the Indenture, a report of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Defeasance Securities and cash, if any, deposited in connection with such deemed payment satisfy the requirements thereof.

“Written Certificate” and “Written Request” of the Community Facilities District mean, respectively, a written certificate or written request signed in the name of the Community Facilities District by an Authorized Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

The Bonds

Transfer and Exchange of Bonds. Any Bond may be transferred upon the Registration Books by the Person in whose name it is registered, in person or by such Person’s duly authorized attorney, upon

surrender of such Bond to the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds shall be so surrendered for transfer, the Community Facilities District shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds of the same Series and maturity in a like aggregate principal amount, in any Authorized Denomination. The Trustee shall require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of the same Series and maturity of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be obligated to make any transfer or exchange of Bonds of a Series pursuant to the provisions of the Indenture summarized under this caption during the period established by the Trustee for the selection of Bonds of such Series for redemption, or with respect to any Bonds of such Series selected for redemption.

Book-Entry System. (a) Prior to the issuance of a Series of Bonds, the Community Facilities District may provide that such Series of Bonds shall initially be issued as Book-Entry Bonds, and in such event, the Bonds of such Series for each maturity date shall be in the form of a separate single fully-registered Bond (which may be typewritten). Upon initial issuance, the ownership of each such Bond of such Series shall be registered in the Registration Books in the name of the Nominee, as nominee of the Depository. The Series 2012 Bonds shall initially be issued as Book-Entry Bonds.

Payment of principal of, and interest and premium, if any, on, any Book-Entry Bond registered in the name of the Nominee shall be made on the applicable payment date by wire transfer of New York clearing house or equivalent next day funds or by wire transfer of same day funds to the account of the Nominee. Such payments shall be made to the Nominee at the address which is, on the Record Date, shown for the Nominee in the Registration Books.

(b) With respect to Book-Entry Bonds, the Community Facilities District and the Trustee shall have no responsibility or obligation to any Participant or to any Person on behalf of which such a Participant holds an interest in such Book-Entry Bonds. Without limiting the immediately preceding sentence, the Community Facilities District and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Participant with respect to any ownership interest in Book-Entry Bonds, (ii) the delivery to any Participant or any other Person, other than an Owner as shown in the Registration Books, of any notice with respect to Book-Entry Bonds, including any notice of redemption, (iii) the selection by the Depository and its Participants of the beneficial interests in Book-Entry Bonds of a maturity to be redeemed in the event such Book-Entry Bonds are redeemed in part, (iv) the payment to any Participant or any other Person, other than an Owner as shown in the Registration Books, of any amount with respect to principal of, or premium, if any, or interest on Book-Entry Bonds, or (v) any consent given or other action taken by the Depository as Owner.

(c) The Community Facilities District and the Trustee may treat and consider the Person in whose name each Book-Entry Bond is registered in the Registration Books as the absolute Owner of such Book-Entry Bond for the purpose of payment of principal of, and premium, if any, and interest on such Bond, for the purpose of selecting any Bonds, or portions thereof, to be redeemed, for the purpose of giving notices of redemption and other matters with respect to such Book-Entry Bond, for the purpose of registering transfers with respect to such Book-Entry Bond, for the purpose of obtaining any consent or other action to be taken by Owners and for all other purposes whatsoever, and the Community Facilities District and the Trustee shall not be affected by any notice to the contrary.

(d) In the event of a redemption of all or a portion of a Book-Entry Bond, the Depository, in its discretion (i) may request the Trustee to authenticate and deliver a new Book-Entry Bond, or (ii) if the Depository is the sole Owner of such Book-Entry Bond, shall make an appropriate notation on the Book-Entry Bond indicating the date and amounts of the reduction in principal thereof resulting from such redemption, except in the case of final payment, in which case such Book-Entry Bond must be presented to the Trustee prior to payment.

(e) The Trustee shall pay all principal of, and premium, if any, and interest on the Book-Entry Bonds only to or “upon the order of” (as that term is used in the Uniform Commercial Code as adopted in the State) the respective Owner, as shown in the Registration Books, or such Owner’s respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the obligations with respect to payment of principal of, and premium, if any, and interest on the Book-Entry Bonds to the extent of the sum or sums so paid. No Person other than an Owner, as shown in the Registration Books, shall receive an authenticated Book-Entry Bond. Upon delivery by the Depository to the Owners, the Community Facilities District and the Trustee of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture shall refer to such nominee of the Depository.

(f) In order to qualify the Book-Entry Bonds for the Depository’s book-entry system, the Community Facilities District shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the Community Facilities District or the Trustee any obligation whatsoever with respect to Persons having interests in such Book-Entry Bonds other than the Owners, as shown on the Registration Books. Such Letter of Representations may provide the time, form, content and manner of transmission, of notices to the Depository. In addition to the execution and delivery of a Letter of Representations by the Community Facilities District, the Community Facilities District and the Trustee shall take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify Book-Entry Bonds for the Depository’s book-entry program.

(g) In the event the Community Facilities District determines that it is in the best interests of the Beneficial Owners that they be able to obtain certificated Bonds and that such Bonds should therefore be made available, and notifies the Depository and the Trustee of such determination, the Depository will notify the Participants of the availability through the Depository of certificated Bonds. In such event, the Trustee shall transfer and exchange certificated Bonds as requested by the Depository and any other Owners in appropriate amounts. In the event (i) the Depository determines not to continue to act as securities depository for Book-Entry Bonds, or (ii) the Depository shall no longer so act and gives notice to the Trustee of such determination, then the Community Facilities District shall discontinue the Book-Entry system with the Depository. If the Community Facilities District determines to replace the Depository with another qualified securities depository, the Community Facilities District shall prepare or direct the preparation of a new single, separate, fully registered Bond of the appropriate Series for each maturity date of such Book-Entry Bonds, registered in the name of such successor or substitute qualified securities depository or its nominee. If the Community Facilities District fails to identify another qualified securities depository to replace the Depository, then the Book-Entry Bonds shall no longer be restricted to being registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Bonds shall designate, in accordance with the provisions of the Indenture. Whenever the Depository requests the Community Facilities District to do so, the Community Facilities District shall cooperate with the Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Book-Entry Bonds to any Participant having Book-Entry Bonds credited to its account with the Depository, and (ii) to

arrange for another securities depository to maintain custody of certificates evidencing the Book-Entry Bonds.

(h) Notwithstanding any other provision of the Indenture to the contrary, if the Depository is the sole Owner of the Bonds of a Series, so long as any Book-Entry Bond of such Series is registered in the name of the Nominee, all payments of principal of, and premium, if any, and interest on such Book-Entry Bond and all notices with respect to such Book-Entry Bond shall be made and given, respectively, as provided in the Letter of Representations or as otherwise instructed by the Depository.

(i) In connection with any notice or other communication to be provided to Owners pursuant to the Indenture by the Community Facilities District or the Trustee, with respect to any consent or other action to be taken by Owners of Book-Entry Bonds, the Trustee shall establish a record date for such consent or other action and give the Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Community Facilities District, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of the same Series and maturity in a like principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order of, the Community Facilities District. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence and indemnity satisfactory to the Trustee shall be given, the Community Facilities District, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of the same Series and maturity in a like aggregate principal amount in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been selected for redemption, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof). The Community Facilities District may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued under this paragraph and of the expenses which may be incurred by the Community Facilities District and the Trustee. Any Bond of a Series issued under the provisions of this paragraph in lieu of any Bond of such Series alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Community Facilities District whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of the Indenture with all other Bonds of such Series secured by the Indenture.

Temporary Bonds. The Bonds of a Series may be issued in temporary form exchangeable for definitive Bonds of such Series when ready for delivery. Any temporary Bonds may be printed, lithographed or typewritten, shall be of such Authorized Denominations as may be determined by the Community Facilities District, shall be in fully-registered form without coupons and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond shall be executed by the Community Facilities District and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Community Facilities District issues temporary Bonds of a Series it shall execute and deliver definitive Bonds of such Series as promptly thereafter as practicable, and thereupon the temporary Bonds of such Series may be surrendered, for cancellation, at the Office of the Trustee and the Trustee shall authenticate and deliver in exchange for such temporary Bonds, an equal aggregate principal amount of definitive Bonds of such Series and maturities in Authorized Denominations. Until so exchanged, the temporary Bonds of such Series shall be entitled to the same benefits under the Indenture as definitive Bonds of such Series authenticated and delivered under the Indenture.

Additional Bonds

Conditions for the Issuance of Additional Bonds. The Community Facilities District may at any time issue one or more Series of Additional Bonds (in addition to the Series 2012 Bonds) payable from Net Special Tax Revenues as provided in the Indenture on a parity with all other Bonds theretofore issued under the Indenture, but only subject to the following conditions, which are conditions precedent to the issuance of such Additional Bonds:

(a) upon the issuance of such Additional Bonds, no Event of Default shall have occurred and be continuing under the Indenture;

(b) the issuance of such Additional Bonds shall have been authorized under and pursuant to the Act and under and pursuant to the Indenture and shall have been provided for by a Supplemental Indenture which shall specify the following:

(i) the purposes for which the proceeds of such Additional Bonds are to be applied, which purposes may only include one or more of (A) providing funds to refund any Bonds previously issued under the Indenture, (B) providing funds to pay Costs of Issuance incurred in connection with the issuance of such Additional Bonds, and (C) providing funds to make any deposit to the Reserve Fund required pursuant to paragraph (viii) below;

(ii) the principal amount and designation of such Series of Additional Bonds and the interest rate to be borne by each maturity of such Additional Bonds;

(iii) that such Additional Bonds shall be payable as to interest on the Interest Payment Dates, except that the first installment of interest may be payable on either March 1 or September 1 and shall be for a period of not longer than twelve months;

(iv) the date, the maturity date or dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, however, that each such maturity date and date on which a mandatory sinking fund redemption is to be made shall be a September 1 and, provided, further, that serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, shall be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates;

(v) the Authorized Denominations of such Additional Bonds;

(vi) the redemption premiums and terms, if any, for such Additional Bonds;

(vii) the form of such Additional Bonds;

(viii) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Fund; provided, however, that the amount on deposit in the Reserve Fund at the time that such Additional Bonds become Outstanding shall be at least equal to the Reserve Requirement; and

(ix) such other provisions that are appropriate or necessary and are not inconsistent with the provisions of the Indenture;

(c) Annual Debt Service in each Bond Year, calculated for all Bonds that will be Outstanding after the issuance of such Additional Bonds, will be less than or equal to Annual Debt Service in such Bond Year, calculated for all Bonds which are Outstanding immediately prior to the issuance of such Additional Bonds.

Nothing contained in the Indenture shall limit the issuance of any special tax bonds payable from Special Taxes if, after the issuance and delivery of such special tax bonds, none of the Bonds theretofore issued under the Indenture will be Outstanding.

Procedure for the Issuance of Additional Bonds. At any time after the sale of any Additional Bonds in accordance with the Act, such Additional Bonds shall be executed by the Community Facilities District for issuance under the Indenture and shall be delivered to the Trustee and thereupon shall be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

(a) a certified copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(b) a Written Request of the Community Facilities District as to the delivery of such Additional Bonds;

(c) a Written Certificate of the Community Facilities District stating that the conditions precedent to the issuance of such Additional Bonds specified in the provisions of the Indenture as described under the caption "Issuance of Series 2012 Bonds; Application of Proceeds; Additional Bonds – Conditions for the Issuance of Additional Bonds" have been satisfied;

(d) an opinion of Bond Counsel substantially to the effect that (i) the Indenture and all Supplemental Indentures have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the Community Facilities District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State), (ii) such Additional Bonds constitute valid and binding special obligations of the Community Facilities District and are enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State), and (iii) the issuance of such Additional Bonds, in and of itself, will not adversely affect the exclusion of interest on the Bonds Outstanding prior to the issuance of such Additional Bonds from gross income for federal income tax purposes;

(e) the proceeds of the sale of such Additional Bonds; and

(f) such further documents or money as are required by the provisions of the Indenture or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Bonds.

Additional Bonds. So long as any of the Bonds remain Outstanding, the Community Facilities District shall not issue any Additional Bonds or obligations payable from Special Tax Revenues, except pursuant to the provisions of the Indenture.

Security for Bonds; Funds and Accounts Established Under the Indenture

Pledge. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, in order to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act, the Community Facilities District pledges to the Owners, and grants thereto a lien on and a security interest in, all of the Net Special Tax Revenues and any other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund. Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the Community Facilities District, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Indenture, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

Special Tax Fund. (a) The Trustee shall establish and maintain a separate fund designated the "Special Tax Fund." As soon as practicable after the receipt by the Community Facilities District of any Special Tax Revenues, but in any event no later than the date ten Business Days prior to the Interest Payment Date after such receipt, the Community Facilities District shall transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund; provided, however, that with respect to any such Special Tax Revenues that represent prepaid Special Taxes (i) said prepaid Special Taxes shall be identified as such in a Written Certificate of the Community Facilities District delivered to the Trustee at the time such prepaid Special Taxes are transferred to the Trustee, (ii) the portion of such prepaid Special Taxes that is to be applied to the Redemption Price of the Bonds shall be identified in such Written Certificate of the Community Facilities District, shall be deposited by the Trustee in the Redemption Fund and shall be applied to the redemption of Bonds pursuant to the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued, and (iii) the portion of such prepaid Special Taxes that is to be applied to the payment of interest on the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District, shall be deposited by the Trustee in the Bond Fund and shall be applied to the payment of such interest.

(b) Upon receipt of a Written Request of the Community Facilities District, the Trustee shall withdraw from the Special Tax Fund and transfer to the Administrative Expense Fund the amount specified in such Written Request of the Community Facilities District as the amount necessary to be transferred thereto in order to have sufficient amounts available therein to pay Administrative Expenses.

(c) On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer to the Administrative Expense Fund, the Trustee shall withdraw from the Special Tax Fund and transfer, first, to the Bond Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Bond Fund to be equal to the principal and interest due on the Bonds on such Interest Payment Date, and, second, to the Reserve Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement. Upon the receipt of such amounts from the Community Facilities District, the Trustee shall make such transfers in said order of priority.

Bond Fund. (a) The Trustee shall establish and maintain a separate fund designated the "Bond Fund." The Trustee shall deposit in the Bond Fund from time to time the amounts required to be deposited therein pursuant to the Indenture. There shall additionally be deposited in the Bond Fund the portion, if any, of the proceeds of the sale of Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) In the event that, on the Business Day prior to an Interest Payment Date, amounts in the Bond Fund are insufficient to pay the principal, if any, of and interest on the Bonds due and payable on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds, the Trustee shall withdraw from the Reserve Fund, to the extent of any funds therein, the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Bond Fund.

(c) On each Interest Payment Date, the Trustee shall withdraw from the Bond Fund for payment to the Owners of the Bonds the principal, if any, of and interest on the Bonds then due and payable, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds.

Administrative Expense Fund. The Trustee shall establish and maintain a special fund designated the “Administrative Expense Fund.” The Trustee shall deposit in the Administrative Expense Fund the amounts transferred from the Special Tax Fund and required to be deposited therein pursuant to the Indenture.

The moneys in the Administrative Expense Fund shall be used and withdrawn by the Trustee from time to time to pay the Administrative Expenses upon submission of a Written Request of the Community Facilities District stating (a) the Person to whom payment is to be made, (b) the amount to be paid, (c) the purpose for which the obligation was incurred and that such purpose constitutes an Administrative Expense, (d) that such payment is a proper charge against the Administrative Expense Fund, and (e) that such amounts have not been the subject of a prior disbursement from the Administrative Expense Fund; in each case together with a statement or invoice for each amount requested thereunder.

Reserve Fund. (a) The Trustee shall establish and maintain a special fund designated the “Reserve Fund.” On the Closing Date, the Trustee shall deposit in the Reserve Fund the amount specified in the provisions of the Indenture as described under the caption “Delivery of Series 2012 Bonds; Application of Amounts; Additional Bonds – Application of Amounts.” The Trustee shall deposit in the Reserve Fund from time to time the amounts required to be deposited therein pursuant to the Indenture. There shall additionally be deposited in the Reserve Fund, in connection with the issuance of Additional Bonds, the amount required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) Except as otherwise provided in the provisions of the Indenture summarized under this caption, all amounts deposited in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of (i) making transfers to the Bond Fund in accordance with the provisions of the Indenture in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of and interest on the Bonds, and (ii) redeeming Bonds in accordance with the provisions of the Indenture summarized under this caption.

(c) Whenever Bonds are to be optionally redeemed or redeemed from Special Tax prepayments, a proportionate share, determined as provided below, of the amount on deposit in the Reserve Fund shall, on the date on which amounts to redeem such Bonds are deposited in the Redemption Fund or otherwise deposited with the Trustee pursuant to the provisions of the Indenture as described under the caption “Defeasance – Bonds Deemed To Have Been Paid,” be transferred by the Trustee from the Reserve Fund to the Redemption Fund or to such deposit held by the Trustee and shall be applied to the redemption of said Bonds; provided, however, that such amount shall be so transferred only if and to the extent that the amount remaining on deposit in the Reserve Fund will be at least equal to the Reserve Requirement (excluding from the calculation thereof said Bonds to be redeemed). Such proportionate share shall be equal to the largest integral multiple of the minimum Authorized Denomination for said

Bonds that is not larger than the amount equal to the product of (i) the amount on deposit in the Reserve Fund on the date of such transfer, times (ii) a fraction, the numerator of which is the principal amount of Bonds to be so redeemed and the denominator of which is the principal amount of Bonds to be Outstanding on the day prior to the date on which such Bonds are to be so redeemed.

(d) Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Trustee shall, upon receipt of a Written Request of the Community Facilities District, transfer the amount in the Reserve Fund to the Bond Fund or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all of the Outstanding Bonds.

(e) If as a result of the scheduled payment of principal of or interest on the Outstanding Bonds, the Reserve Requirement is reduced, the Trustee shall transfer to the Bond Fund an amount equal to the amount by which the amount on deposit in the Reserve Fund exceeds such reduced Reserve Requirement.

Redemption Fund. (a) The Trustee shall establish and maintain a special fund designated the “Redemption Fund.” As soon as practicable after the receipt by the Community Facilities District of prepaid Special Taxes, but in any event not later than the date ten Business Days after such receipt, the Community Facilities District shall transfer such prepaid Special Taxes to the Trustee for deposit in the Redemption Fund. Additionally, the Trustee shall deposit in the Redemption Fund amounts received from the Community Facilities District in connection with the Community Facilities District’s exercise of its rights to optionally redeem Series 2012 Bonds pursuant to the Indenture and any other amounts required to be deposited therein pursuant to the Indenture or pursuant to any Supplemental Indenture.

(b) Amounts in the Redemption Fund shall be disbursed therefrom for the payment of the Redemption Price of Series 2012 Bonds redeemed pursuant to the Indenture and to pay the Redemption Price of Additional Bonds redeemed under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

Rebate Fund. (a) The Trustee shall establish and maintain a special fund designated the “Rebate Fund.” There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate, as specified in a Written Request of the Community Facilities District. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to the provisions of the Indenture as described under the caption “Defeasance” or anything to the contrary contained in the Indenture, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by the provisions summarized under this caption and by the Tax Certificate (which is incorporated in the Indenture by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Community Facilities District, and shall have no liability or responsibility to enforce compliance by the Community Facilities District with the terms of the Tax Certificate. The Trustee may conclusively rely upon the Community Facilities District’s determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Community Facilities District’s calculations.

(b) Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described under this caption, shall, upon receipt by the Trustee of a Written Request of the Community Facilities District, be withdrawn by the Trustee and remitted to the Community Facilities District.

Costs of Issuance Fund. (a) The Trustee shall establish and maintain a separate fund designated the “Costs of Issuance Fund.” On the Closing Date, the Trustee shall deposit in the Costs of Issuance Fund the amount required to be deposited therein pursuant to the Indenture. There shall additionally be deposited in the Cost of Issuance Fund the portion, if any, of the proceeds of the sale of any Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the Community Facilities District stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred, (iv) that such payment is a proper charge against the Costs of Issuance Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Costs of Issuance Fund, in each case together with a statement or invoice for each amount requested thereunder. On the last Business Day that is no later than six months after the Closing Date, the Trustee shall transfer any amount remaining in the Costs of Issuance Fund to the Bond Fund and, upon making such transfer, the Costs of Issuance Fund shall be closed.

(c) If the Costs of Issuance Fund has been closed in accordance with the provisions of the Indenture, the Costs of Issuance Fund shall be reopened and reestablished by the Trustee in connection with the issuance of any Additional Bonds, if so provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued.

Investment of Moneys. (a) Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture held by the Trustee shall be invested by the Trustee solely in Permitted Investments, as directed in a Written Request of the Community Facilities District received by the Trustee no later than two Business Days prior to the making of such investment. Moneys in all such funds and accounts shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture; provided, however, that Permitted Investments in which moneys in the Reserve Fund are so invested shall mature no later than the earlier of five years from the date of investment or the final maturity date of the Bonds and, provided, further, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Fund may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final maturity date of the Bonds. Absent a timely Written Request of the Community Facilities District with respect to the investment of moneys in any of the funds or accounts established pursuant to the Indenture held by the Trustee, the Trustee shall invest such moneys in Permitted Investments described in paragraph (6) of the definition thereof.

(b) Subject to the provisions of the Indenture related to the Rebate Fund, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture (other than the Reserve Fund) shall be retained therein. Subject to the provisions of the Indenture related to the Rebate Fund, all interest, profits or other income received from the investment of moneys in the Reserve Fund shall be deposited in the Bond Fund; provided, however, that, notwithstanding the foregoing, any such transfer shall be made only if and to the extent that, after such transfer, the amount on deposit in the Reserve Fund is at least equal to the Reserve Requirement.

(c) Permitted Investments acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. For the purpose of determining the amount in any fund or account, all Permitted Investments credited to such fund shall be valued by the Trustee at the market value thereof, such valuation to be performed not less frequently than semiannually on or before each February 15 and August 15.

(d) The Trustee may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the Community Facilities District, the Trustee shall sell or present for redemption any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments are credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to provisions of the Indenture summarized under this caption. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

(e) The Community Facilities District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Community Facilities District the right to receive brokerage confirmations of security transactions as they occur, the Community Facilities District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee shall furnish the Community Facilities District periodic cash transaction statements, which shall include detail for all investment transactions made by the Trustee under the Indenture.

Certain Covenants under the Indenture

Collection of Special Tax Revenues. (a) The Community Facilities District shall comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes.

(b) Prior to August 1 of each year, the Community Facilities District shall ascertain from the Orange County Assessor 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 Community Facilities District shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 10, or otherwise such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within the Community Facilities District for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Community Facilities District shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires in order to include the levy of the Special Taxes on the next real property tax roll.

(c) The Community Facilities District shall fix and levy the amount of Special Taxes within the Community Facilities District in each Fiscal Year in accordance with the Rate and Method and, subject to the limitations in the Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield Special Tax Revenues in the amount required for (i) the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the Bond Year commencing in such Fiscal Year, (ii) any necessary replenishment of the Reserve Fund, and (iii) the payment of Administrative Expenses estimated to be paid from such Special Tax Revenues, taking into account the balances in the funds and accounts established under the Indenture.

(d) The Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable (or in such other manner as the Governing Board shall determine, including direct billing of the affected property owners), and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property.

Foreclosure. Pursuant to Section 53356.1 of the Act, the Community Facilities District covenants with and for the benefit of the Owners that it will determine or cause to be determined, no later than

August 15 of each year, whether or not any owners of property within the Community Facilities District are delinquent in the payment of Special Taxes and, if such delinquencies exist, the Community Facilities District will order and cause to be commenced no later than October 1, and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due; provided, however, that the Community Facilities District shall not be required to order the commencement of foreclosure proceedings if (a) the total Special Tax delinquency in the Community Facilities District for such Fiscal Year is less than 5% of the total Special Tax levied in such Fiscal Year, and (b) the amount then on deposit in the Reserve Fund is equal to the Reserve Requirement. Notwithstanding the foregoing, if the Community Facilities District determines that any single property owner in the Community Facilities District is delinquent in excess of \$10,000 in the payment of the Special Tax, then the Community Facilities District shall diligently institute, prosecute and pursue foreclosure proceedings against such property owner.

Compliance with Act. The Community Facilities District shall comply with all applicable provisions of the Act.

Punctual Payment. The Community Facilities District shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Special Tax Revenues and other assets pledged for such payment as provided in the Indenture and received by the Community Facilities District or the Trustee.

Extension of Payment of Bonds. The Community Facilities District shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this paragraph shall be deemed to limit the right of the Community Facilities District to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances; Defense of Pledge. The Community Facilities District shall not create, or permit the creation of, any pledge of, lien on, security interest in or charge or other encumbrance upon the assets pledged under the Indenture, except as permitted by the Indenture. The Community Facilities District shall at all times, to the extent permitted by law, defend, preserve and protect said pledge of such assets, and the lien thereon and security interest therein created by the Indenture, against all claims and demands of all Persons whomsoever.

Continuing Disclosure. Each of the Community Facilities District and the Trustee shall comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to it. Notwithstanding any other provision of the Indenture, failure of the Community Facilities District or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Series 2012 Bonds, and upon receipt of indemnification reasonably satisfactory to the Trustee, shall) or any Owner or Beneficial Owner of the Series 2012 Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Tax Covenants. (a) The Community Facilities District shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Series 2012 Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Community Facilities District shall comply with the requirements of the Tax Certificate, which is incorporated in the Indenture as if fully set forth in the Indenture. This covenant shall survive payment in full or defeasance of the Series 2012 Bonds.

(b) In the event that at any time the Community Facilities District is of the opinion that for purposes of the provisions of the Indenture summarized under this caption it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Indenture, the Community Facilities District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of the Indenture summarized under this caption, if the Community Facilities District shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under the provisions of the Indenture summarized under this caption is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series 2012 Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the provisions of the Indenture summarized under this caption and of the Tax Certificate, and the covenants under the Indenture shall be deemed to be modified to that extent.

Non-Cash Payments of Special Taxes. The Community Facilities District and the Trustee shall comply with and carry out all of the provisions of the District Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the Community Facilities District or the Trustee to comply with the District Continuing Disclosure Agreement shall not be considered an Event of Default; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Series 2012 Bonds, and upon indemnification of the Trustee to its reasonable satisfaction, shall) or any holder or beneficial owner of the Series 2012 Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Non-Cash Payments of Special Taxes. The Community Facilities District shall not authorize owners of taxable parcels within the Community Facilities District to satisfy Special Tax obligations by the tender of Bonds unless the Community Facilities District shall have first obtained a report of an Independent Consultant certifying that doing so would not result in the Community Facilities District having insufficient Special Tax Revenues to pay the principal of and interest on all Outstanding Bonds when due.

Reduction in Special Taxes. The Community Facilities District shall not initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Bonds. If an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Bonds, the Community Facilities District shall, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Bonds.

Accounting Records. The Community Facilities District shall keep or cause to be kept appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Special Taxes, which records shall be available for inspection by the Trustee at reasonable hours and under reasonable conditions.

State Reporting. If at any time the Trustee fails to pay principal or interest due on any scheduled payment date for the Bonds, or if funds are withdrawn from the Reserve Fund to pay principal or interest on the Bonds, the Trustee shall notify the Community Facilities District in writing of such failure or withdrawal, and the Community Facilities District shall notify the California Debt and Investment Advisory Commission of such failure or withdrawal within ten days of the failure to make such payment or the date of such withdrawal.

Annual Reports to the California Debt and Investment Advisory Commission. Not later than October 30 of each year, commencing October 30, 2012 and continuing until the October 30 following the final maturity of the Bonds, the Community Facilities District shall supply to the California Debt and Investment Advisory Commission the information required to be provided thereto pursuant to Section 53359.5(b) of the Act. Such information shall be made available to any Owner upon written request to the Community Facilities District accompanied by a fee determined by the Community Facilities District to pay the costs of the Community Facilities District in connection therewith. The Community Facilities District shall in no event be liable to any Owner or any other person or entity in connection with any error in any such information.

Further Assurances. The Community Facilities District shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the rights and benefits provided in the Indenture.

Events of Default and Remedies under the Indenture

Events of Default. The following events shall be Events of Default:

(a) failure to pay any installment of principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise;

(b) failure to pay any installment of interest on any Bonds when and as the same shall become due and payable;

(c) failure by the Community Facilities District to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such failure shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Community Facilities District by the Trustee, or to the Community Facilities District and the Trustee by the Owners of not less than 5% in aggregate principal amount of the Bonds at the time Outstanding; provided, however, that, if in the reasonable opinion of the Community Facilities District the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Community Facilities District within such 30 day period and the Community Facilities District shall thereafter diligently and in good faith cure such failure in a reasonable period of time; or

(d) the commencement by the Community Facilities District or the Authority of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

Foreclosure. If an Event of Default shall occur under the provisions of the Indenture summarized by paragraph (a) or paragraph (b) under the heading "Events of Default" then, and in each and every such case during the continuance of such Event of Default, the Trustee may, or at the written direction of the

Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding and upon being indemnified to its satisfaction therefor, shall, commence foreclosure against any parcels of land in the Community Facilities District with delinquent Special Taxes, as provided in Section 53356.1 of the Act.

Other Remedies. If an Event of Default shall have occurred and be continuing, the Trustee shall have the right:

(a) by mandamus, suit, action or proceeding, to compel the Community Facilities District and its officers, agents or employees to perform each and every term, provision and covenant contained in the Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the Community Facilities District and the fulfillment of all duties imposed upon it by the Indenture and the Act;

(b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the rights of the Trustee or the Owners; or

(c) by suit, action or proceeding in any court of competent jurisdiction, to require the Community Facilities District and its officers and employees to account as if it and they were the trustees of an express trust.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

Application of Net Special Tax Revenues After Default. If an Event of Default shall occur and be continuing, all Net Special Tax Revenues and any other funds thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) to the payment of the principal and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

First: to the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: to the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably,

according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference.

(c) any remaining funds shall be transferred by the Trustee to the Special Tax Fund.

Power of Trustee to Enforce. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of the Indenture.

Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee; provided, however, that such direction shall not be otherwise than in accordance the provisions of the Indenture, the Act and other applicable law and, provided, further, that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction.

Limitation on Owners' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bond, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default, (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name, (c) such Owner or said Owners shall have tendered to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners shall have any right in any manner whatever by such Owner's or Owners' action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners, or to enforce any right under the Bonds, the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners, subject to the provisions of the Indenture.

Absolute Obligation. Nothing in the Indenture or the Bonds contained shall affect or impair the obligation of the Community Facilities District, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Net Special Tax Revenues and other assets in the Indenture pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or

shall have been determined adversely to the Trustee or the Owners, then in every such case the Community Facilities District, the Trustee and the Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Community Facilities District, the Trustee and the Owners shall continue as though no such proceedings had been taken.

No Waiver of Default. No delay or omission of the Trustee or of any Owner to exercise any right or power arising upon the occurrence of any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the Owners may be exercised from time to time and as often as may be deemed expedient.

Trustee

Duties and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Qualifications; Removal and Resignation; Successors. (a) The Trustee initially a party to the Indenture and any successor thereto shall at all times be a trust company, national banking association or bank having trust powers in good standing in or incorporated under the laws of the United States or any state thereof, having (or if such trust company, national banking association or bank is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by a federal or state agency. If such trust company, national banking association or bank publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this paragraph the combined capital and surplus of such trust company, national banking association or bank shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) The Community Facilities District may, by an instrument in writing, upon at least 30 days' notice to the Trustee, remove the Trustee initially a party to the Indenture and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Indenture and any successor thereto if (i) at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing), or (ii) the Trustee shall cease to be eligible in accordance with paragraph (a) above, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee.

(c) The Trustee may at any time resign by giving written notice of such resignation by first-class mail, postage prepaid, to the Community Facilities District, and to the Owners at the respective addresses shown on the Registration Books. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the paragraph (a) above, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture described under this caption.

(d) Upon removal or resignation of the Trustee, the Community Facilities District shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that any successor Trustee shall be qualified as provided in the Indenture as described in paragraph (a) above. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following notice of removal or notice of resignation as aforesaid, the removed or resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice, if any, as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Community Facilities District and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the Community Facilities District or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Indenture set forth. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the successor Trustee shall, within 15 days after such acceptance, mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Indenture to the Owners at the addresses shown on the Registration Books.

(e) Any trust company, national banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, national banking association or bank resulting from any merger, conversion or consolidation to which it shall be a party or any trust company, national banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such trust company, national banking association or bank shall be eligible under the paragraph (a) above, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. (a) The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the Community Facilities District, and the Trustee shall not assume responsibility for the correctness of the same or incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds.

(b) The Trustee makes no representations as to the validity or sufficiency of the Indenture or of any Bonds, or in respect of the security afforded by the Indenture and the Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to the issuance of the Bonds for value, the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee, or the application of any moneys paid to the Community Facilities District or others in accordance with the Indenture.

(c) The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct.

(d) No provision of the Indenture or any other document related to the Indenture shall require the Trustee to risk or advance its own funds.

(e) The Trustee may execute any of its powers or duties under the Indenture through attorneys, agents or receivers and shall not be answerable for the actions of such attorneys, agents or receivers if selected by it with reasonable care.

(f) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(g) The immunities and protections extended to the Trustee also extend to its directors, officers, employees and agents.

(h) Before taking action under the provisions of the Indenture under the captions “Events of Default and Remedies” and “Trustee” or upon the direction of the Owners, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur.

(i) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(j) The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

(k) The Trustee shall 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.

(l) The Trustee shall not be liable for the failure to take any action required to be taken by it under the Indenture if and to the extent that the Trustee’s taking such action is prevented by reason of an act of God, terrorism, war, riot, strike, fire, flood, earthquake, epidemic or other, similar occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care.

(m) The Trustee shall not be deemed to have knowledge of an Event of Default under the Indenture unless it has actual knowledge thereof.

Right to Rely on Documents and Opinions. (a) The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Whenever in the administration of the duties imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a

Written Certificate of the Community Facilities District, and such Written Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Written Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

(c) The Trustee may consult with counsel, who may be counsel to the Community Facilities District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject during business hours and upon reasonable notice to the inspection of the Community Facilities District, the Owners and their agents and representatives duly authorized in writing.

Supplemental Indentures

Supplemental Indentures. (a) The Indenture and the rights and obligations of the Community Facilities District, the Trustee and the Owners under the Indenture may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Community Facilities District and the Trustee may enter into when there are filed with the Trustee the written consents of the Owners of a majority of the aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the provisions of the Indenture as described under the caption “Miscellaneous – Disqualified Bonds.” No such modification or amendment shall (i) extend the fixed maturity of any Bond, reduce the amount of principal thereof or the rate of interest thereon, extend the time of payment thereof or alter the redemption provisions thereof, without the consent of the Owner of each Bond so affected, (ii) permit any pledge of, or the creation of any lien on, security interest in or charge or other encumbrance upon the assets pledged under the Indenture prior to or on a parity with the pledge contained in, and the lien and security interest created by, the Indenture or deprive the Owners of the pledge contained in, and the lien and security interest created by, the Indenture, except as expressly provided in the Indenture, without the consent of the Owners of all of the Bonds then Outstanding, or (iii) modify or amend the provisions of the Indenture summarized under this caption without the prior written consent of the Owners of all Bonds then Outstanding.

(b) The Indenture and the rights and obligations of the Community Facilities District, the Trustee and the Owners under the Indenture may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Community Facilities District and the Trustee may enter into without the consent of any Owners for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Community Facilities District in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Community Facilities District in the Indenture;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture, provided that such modification or amendment does not materially adversely affect the rights or interests of the Owners under the Indenture;

(iii) to provide for the issuance of one or more Series of Additional Bonds, and to provide the terms and conditions under which such Series of Additional Bonds may be issued,

subject to and in accordance with the provisions of the Indenture as described under the caption “Delivery of Series 2012 Bonds; Application of Amounts; Additional Bonds;”

(iv) to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect;

(v) to cause interest on the Bonds to be excludable from gross income for purposes of federal income taxation by the United States of America; and

(vi) in any other respect whatsoever as the Community Facilities District may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the rights or interests of the Owners under the Indenture.

(c) Promptly after the execution by the Community Facilities District and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the Community Facilities District), by first-class mail, postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the provisions of the Indenture as described under the caption “Supplemental Indentures,” the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Community Facilities District, the Trustee and the Owners shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the effective date of any Supplemental Indenture pursuant to the provisions of the Indenture as described under the caption “Supplemental Indentures” may and, if the Community Facilities District so determines, shall bear a notation by endorsement or otherwise in form approved by the Community Facilities District and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such effective date and presentation of such Bond for such purpose at the Office of the Trustee a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Community Facilities District and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Community Facilities District and authenticated by the Trustee and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such effective date, and presentation of such Bond for such purpose at the Office of the Trustee, such a new Bond in equal principal amount of the same Series, interest rate and maturity shall be exchanged for such Owner’s Bond so surrendered.

Amendment of Particular Bonds. The provisions of the Indenture as described under the caption “Supplemental Indentures” shall not prevent any Owner from accepting any amendment or modification as to any particular Bond owned by it, provided that due notation thereof is made on such Bond.

Defeasance

Discharge of Indenture. (a) If the Community Facilities District shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the principal thereof and the interest

and premium, if any, thereon at the times and in the manner stipulated therein, then the Owners shall cease to be entitled to the pledge of the Net Special Tax Revenues and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the Community Facilities District under the Indenture shall thereupon cease, terminate and become void and the Indenture shall be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Community Facilities District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Community Facilities District all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of and interest and premium, if any, on the Bonds.

(b) Subject to the provisions of paragraph (a) above, when any Bond shall have been paid and if, at the time of such payment, the Community Facilities District shall have kept, performed and observed all of the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by it or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bond and such Bond shall cease to be entitled to the pledge of the Net Special Tax Revenues and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the Community Facilities District under the Indenture shall cease, terminate, become void and be completely discharged and satisfied as to such Bond.

(c) Notwithstanding the discharge and satisfaction of the Indenture or the discharge and satisfaction of the Indenture in respect of any Bond, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee and the Owners of such Bond, and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of and interest and premium, if any, on such Bond, and to pay to the Owner of such Bond the funds so held by the Trustee as and when such payment becomes due.

Bonds Deemed To Have Been Paid. (a) If moneys shall have been set aside and held by the Trustee for the payment or redemption of any Bond and the payment of the interest thereon to the maturity or redemption date thereof, such Bond shall be deemed to have been paid within the meaning and with the effect provided in the provisions of the Indenture as described under the caption "Defeasance – Discharge of Indenture." Any Outstanding Bond shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the provisions of the Indenture as described under the caption "Defeasance – Discharge of Indenture" if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Community Facilities District shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture as described under the caption "Redemption of Bonds – Notice of Redemption," notice of redemption of such Bond on said redemption date, said notice to be given in accordance with the provisions of the Indenture as described under the caption "Redemption of Bonds – Notice of Redemption," (ii) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient, or (B) Defeasance Securities, the principal of and the interest on which when due, and without any reinvestment thereof, together with the money, if any, deposited therewith, will provide moneys which shall be sufficient to pay when due the interest to become due on such Bond on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and premium, if any, on such Bond, and (iii) in the event such Bond is not by its terms subject to redemption within the next succeeding 60 days, the Community Facilities District shall have given the Trustee, in form satisfactory to it, irrevocable instructions to mail as soon as practicable, a notice to the Owner of such Bond that the deposit required by clause (ii) above has been made with the Trustee and that such Bond is deemed to have been paid in accordance with the provisions of the

Indenture summarized under this caption and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and premium, if any, on such Bond.

(b) No Bond shall be deemed to have been paid pursuant to clause (ii) of paragraph (a) above unless the Community Facilities District shall have caused to be delivered to the Community Facilities District and the Trustee and (i) an executed copy of a Verification Report with respect to such deemed payment, addressed to the Community Facilities District and the Trustee, in form and in substance acceptable to the Community Facilities District and the Trustee, (ii) a copy of the escrow agreement entered into in connection with the deposit pursuant to clause (ii)(B) of paragraph (a) above resulting in such deemed payment, which escrow agreement shall be in form and in substance acceptable to the Community Facilities District and the Trustee and which escrow agreement shall provide that no substitution of Defeasance Securities shall be permitted except with other Defeasance Securities and upon delivery of a new Verification Report and no reinvestment of Defeasance Securities shall be permitted except as contemplated by the original Verification Report or upon delivery of a new Verification Report, and (iii) a copy of an opinion of Bond Counsel, dated the date of such deemed payment and addressed to the Community Facilities District and the Trustee, in form and in substance acceptable to the Community Facilities District and the Trustee, to the effect that such Bond has been paid within the meaning and with the effect expressed in the Indenture, the Indenture has been discharged in respect of such Bond and all agreements, covenants and other obligations of the Community Facilities District under the Indenture as to such Bond have ceased, terminated, become void and been completely discharged and satisfied.

Unclaimed Moneys. Any moneys held by the Trustee in trust for the payment and discharge of the principal of, or premium or interest on, any Bond which remain unclaimed for two years after the date when such principal, premium or interest has become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when such principal, premium or interest become payable, shall be repaid by the Trustee to the Community Facilities District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owner of such Bond shall look only to the Community Facilities District for the payment of such principal, premium or interest.

Miscellaneous

Limitation of Rights. Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Trustee, the Community Facilities District and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained, and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Trustee, the Community Facilities District and the Owners of the Bonds.

Destruction of Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Community Facilities District of any Bonds, the Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds.

Evidence of Rights of Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Owners in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the Community Facilities District if made in the manner provided in this paragraph.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Community Facilities District in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Community Facilities District, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Community Facilities District or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this paragraph if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Community Facilities District or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the unclaimed moneys provisions of the Indenture but without any liability for interest thereon.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with prudent corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the Bonds and the rights of every Owner thereof. The Trustee may establish any such additional funds or accounts as it deems necessary to perform its obligations under the Indenture.

Business Days. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Indenture shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Indenture and, unless otherwise specifically provided in the Indenture, no interest shall accrue for the period from and after such nominal date.

Waiver of Personal Liability. No member, officer, agent or employee of the Community Facilities District or the Authority, or any member thereof, shall be individually or personally liable for

the payment of the principal of or premium or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing in the Indenture contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by any applicable provision of law or by the Indenture.

Conflict with Act. In the event of any conflict between any provision of the Indenture and any provision of the Act, the provision of the Act shall prevail over the provision of the Indenture.

Conclusive Evidence of Regularity. Bonds issued pursuant to the Indenture shall constitute evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the Special Taxes.

Governing Laws. The Indenture shall be governed by and construed in accordance with the laws of the State.

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”), dated as of January 1, 2012, is by and between the BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY COMMUNITY FACILITIES DISTRICT NO. 98-1, a community facilities district organized and existing under and by virtue of the laws of the State of California (the “Community Facilities District”), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association organized and existing under the laws of the United States of America, as Trustee (the “Trustee”).

WITNESSETH:

WHEREAS, pursuant to the Indenture, dated as of January 1, 2012 (the “Indenture”), by and between the Community Facilities District and the Trustee, the Community Facilities District has issued the Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 Special Tax Bonds, Series 2012 (the “Series 2012 Bonds”), in the aggregate principal amount of \$38,330,000; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the Community Facilities District and the Trustee for the benefit of the holders and beneficial owners of the Series 2012 Bonds and in order to assist the underwriters of the Series 2012 Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

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

Section 1. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes of this Disclosure Agreement have the meanings herein specified. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture.

“Annual Report” means any Annual Report provided by the Community Facilities District pursuant to, and as described in, Sections 2 and 3 hereof.

“Annual Report Date” means the date in each year that is the first day of the month following the eighth month after the end of the Community Facilities District’s fiscal year, which date, as of the date of this Disclosure Agreement, is March 1.

“Authority” means the Bonita Canyon Public Facilities Financing Authority.

“Community Facilities District” means Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1, a community facilities district organized and existing under the laws of the State, and any successor thereto.

“Disclosure Representative” means the Secretary of the Authority, or his or her designee, or such other person as the Community Facilities District shall designate in writing to the Trustee from time to time.

“Dissemination Agent” means the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Community Facilities District and which has filed with the Trustee a written acceptance of such designation.

“Indenture” means the Indenture, dated as of January 1, 2012, by and between the Community Facilities District and The Bank of New York Mellon Trust Company, N.A., as originally executed and as it may be amended or supplemented from time to time in accordance with its terms.

“Listed Events” means any of the events listed in subsection (a) or subsection (b) of Section 4 hereof.

“MSRB” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” means the Official Statement, dated January 4, 2012, relating to the Series 2012 Bonds.

“Participating Underwriter” means any of the original underwriters of the Series 2012 Bonds required to comply with the Rule in connection with the offering of the Series 2012 Bonds.

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

“Trustee” means The Bank of New York Mellon Trust Company, N.A., as Trustee under the Indenture, or any successor thereto as Trustee thereunder, substituted in its place as provided therein.

Section 2. Provision of Annual Reports. (a) The Community Facilities District shall, or shall cause the Dissemination Agent to, provide to the MSRB an Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Annual Report Date, commencing with the report for the 2010-11 Fiscal Year. The Annual Report may include by reference other information as provided in Section 3 hereof; provided, however, that the audited financial statements of the Community Facilities District, if any, may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Community Facilities District’s fiscal year changes, it shall, or it shall instruct the Dissemination Agent to, give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to the date specified in subsection (a) of this Section for the providing of the Annual Report to the MSRB, the Community Facilities District shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Community Facilities District and the Dissemination Agent to determine if the Community Facilities District is in compliance with the first sentence of this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a) of this Section, the Trustee shall, in a timely manner, send a notice to the MSRB in substantially the form attached as Exhibit A.

- (d) The Dissemination Agent shall:
 - (i) provide any Annual Report received by it to the MSRB, as provided herein; and
 - (ii) file a report with the Community Facilities District and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided to the MSRB.

Section 3. Content of Annual Reports. The Community Facilities District's Annual Report shall contain or incorporate by reference the following:

(a) The Community Facilities District's audited financial statements, if any, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Community Facilities District's audited financial statements, if any, are not available by the time the Annual Report is required to be filed pursuant to subsection (a) of Section 2 hereof, the Annual Report shall contain unaudited financial statements, in a format similar to that used for the Community Facilities District's audited financial statements, and the audited financial statements, if any, shall be filed in the same manner as the Annual Report when they become available.

(b) The following information:

(i) The principal amount of Series 2012 Bonds Outstanding and the principal amount of Bonds Outstanding as of the December 31 next preceding the Annual Report Date.

(ii) The balance in the Reserve Fund, and a statement of the Reserve Requirement as of the December 31 next preceding the Annual Report Date.

(iii) The aggregate assessed value of all parcels within the Community Facilities District on which the Special Taxes are levied in each property classification under the Rate and Method, as shown on the assessment roll of the Orange County Assessor last equalized prior to the December 31 next preceding the Annual Report Date, the number of units in each property classification under the Rate and Method for the then current fiscal year, and a statement of assessed value-to-lien ratios therefor, either by individual parcel or by categories (e.g. "below 3:1", "3:1 to 4:1" etc.).

(iv) The Special Tax delinquency rate for all parcels within the Community Facilities District on which the Special Taxes are levied, as shown on the assessment roll of the Orange County Assessor last equalized prior to the December 31 next preceding the Annual Report Date, the number of parcels within the Community Facilities District on which the Special Taxes are levied and which are delinquent in payment of Special Taxes, as shown on the assessment roll of the Orange County Assessor last equalized prior to the December 31 next preceding the Annual Report Date, the amount of each delinquency, the length of time delinquent and the date on which foreclosure was commenced, or similar information pertaining to delinquencies deemed appropriate by the Community Facilities District; provided, however, that parcels with aggregate delinquencies of \$5,000 or less (excluding penalties and interest) may be grouped together and such information may be provided by category.

(v) The status of foreclosure proceedings for any parcels within the Community Facilities District on which the Special Taxes are levied and a summary of the results of any foreclosure sales as of the December 31 next preceding the Annual Report Date.

(vi) The identity of any property owner representing more than 5% of the annual Special Tax levy who is delinquent in payment of such Special Taxes, as shown on the assessment roll of the Orange County Assessor last equalized prior to the December 31 next preceding the Annual Report Date.

(vii) A land ownership summary listing property owners responsible for more than 1% of the annual Special Tax levy, as shown on the assessment roll of the Orange County Assessor last equalized prior to the December 31 next preceding the Annual Report Date, a summary of the Special Taxes levied on the property within the Community Facilities District owned by such property owners, and the assessed value of such property, as shown on such assessment roll; provided, however, that if more than ten property owners are each responsible for more than 1% of such Special Tax levy, such information need only be provided for the ten property owners responsible for the greatest portion of such Special Tax levy.

(viii) Whether or not the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds, the "Teeter Plan", is in effect with respect to the Community Facilities District for the then current fiscal year.

(c) In addition to any of the information expressly required to be provided under the preceding paragraphs (a) and (b), the Community Facilities District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Community Facilities District or related public entities, which have been made available to the public on the MSRB's website. The Community Facilities District shall clearly identify each such other document so included by reference.

Section 4. Reporting of Significant Events. (a) Pursuant to the provisions of this Section, the Community Facilities District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2012 Bonds in a timely manner not later than ten business days after the occurrence of the event:

- (i) Principal and interest payment delinquencies.
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (iv) Substitution of credit or liquidity providers, or their failure to perform.
- (v) Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB).
- (vi) Tender offers.
- (vii) Defeasances.
- (viii) Rating changes.
- (ix) Bankruptcy, insolvency, receivership or similar event of the Community Facilities District.

For purposes of the event identified in paragraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section, the Community Facilities District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2012 Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

(i) Unless described in paragraph (v) of subsection (a) of this Section, adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2012 Bonds or other material events affecting the tax status of the Series 2012 Bonds.

(ii) Modifications to rights of holders of the Series 2012 Bonds.

(iii) Optional, unscheduled or contingent Series 2012 Bond calls.

(iv) Release, substitution, or sale of property securing repayment of the Series 2012 Bonds.

(v) Non-payment related defaults.

(vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(vii) Appointment of a successor or additional Trustee or the change of name of a Trustee.

(c) The Trustee shall, within one business day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative and inform such person of the event:

(d) Whenever the Community Facilities District obtains knowledge of the occurrence of a Listed Event described in subsection (b) of this Section, the Community Facilities District shall determine if such event would be material under applicable Federal securities law.

(e) Whenever the Community Facilities District obtains knowledge of the occurrence of a Listed Event described in subsection (a) of this Section, or determines that knowledge of a Listed Event described in subsection (b) of this Section would be material under applicable Federal securities law, the Community Facilities District shall, or shall cause the Dissemination Agent to, file a notice of the occurrence of such Listed Event with the MSRB, within ten business days of such occurrence.

(f) Notwithstanding the foregoing, notice of Listed Events described in paragraph (vii) of subsection (a) of this Section and (iii) of subsection (a) of this Section need not be given any earlier than the notice (if any) of the underlying event is given to holders of affected Series 2012 Bonds pursuant to the Indenture.

Section 5. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The Community Facilities District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2012 Bonds. If such termination occurs prior to the final maturity of the Series 2012 Bonds, the Community Facilities District shall give notice of such termination in a filing with the MSRB.

Section 7. Dissemination Agent. The Community Facilities District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 30 days' written notice to the Community Facilities District and the Trustee. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Community Facilities District in a timely manner and in a form suitable for filing. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Community Facilities District and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Community Facilities District; provided, however, that the Trustee shall not be obligated to enter into any amendment increasing or affecting its duties or obligations), 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 subsection (a) of Section 2 hereof, Section 3 hereof or subsection (a) or (b) of Section 4 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2012 Bonds, or the type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Series 2012 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by Owners of the Series 2012 Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of Owners or Beneficial Owners of the Series 2012 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Community Facilities District shall describe such amendment or waiver in the next Annual 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 Community Facilities District. 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 in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made shall 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.

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

Section 10. Default. In the event of a failure of the Community Facilities District, the Trustee or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% of the aggregate principal amount of Outstanding Series 2012 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Trustee), or any Owner or Beneficial Owner of the Series 2012 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Community Facilities District, the Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Community Facilities District, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. Neither the Trustee nor the Dissemination Agent shall be responsible for the form or content of any Annual Report or notice of Listed Event. The Dissemination Agent shall receive reasonable compensation for its services provided under this Disclosure Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement. To the extent permitted by law, the Community Facilities District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, and which are not due to its negligence or its willful misconduct. The obligations of the Community Facilities District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2012 Bonds.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Trustee, the Dissemination Agent, the Participating Underwriter and the Owners and Beneficial Owners from time to time of the Series 2012 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.

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

BONITA CANYON PUBLIC FACILITIES
FINANCING AUTHORITY COMMUNITY
FACILITIES DISTRICT NO. 98-1

By: _____
Authorized Signatory

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., AS TRUSTEE

By: _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1

Name of Bond Issue: Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 Special Tax Bonds, Series 2012

Date of Issuance: January 31, 2012

NOTICE IS HEREBY GIVEN that Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 (the "Community Facilities District") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of January 1, 2012, by and among the Community Facilities District and The Bank of New York Mellon Trust Company, N.A., as Trustee. [The Community Facilities District anticipates that the Annual Report will be filed by _____, 20__.]

Dated: _____

The Bank of New York Mellon Trust Company,
N.A., as Trustee, on behalf of the Bonita Canyon
Public Facilities Financing Authority
Community Facilities District No. 98-1

cc: Bonita Canyon Public Facilities
Financing Authority Community
Facilities District No. 98-1

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Series 2012 Bonds, Orrick, Herrington & Sutcliffe LLP proposes to render its final approving opinion with respect to the Series 2012 Bonds in substantially the following form:

[Date of Delivery]

Community Facilities District No. 98-1
of the Bonita Canyon Public Facilities Financing Authority
Irvine, California

Bonita Canyon Public Facilities Financing Authority
Community Facilities District No. 98-1
Special Tax Bonds, Series 2012
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 (the “Community Facilities District”) in connection with the issuance by the Community Facilities District of its Bonita Canyon Public Facilities Financing Authority Community Facilities District No. 98-1 Special Tax Bonds, Series 2012 (the “Bonds”), in the aggregate principal amount of \$38,330,000, pursuant to the Indenture, dated as of January 1, 2012 (the “Indenture”), by and between the Community Facilities District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the Community Facilities District, dated the date hereof (the “Tax Certificate”), opinions of counsel to the Community Facilities District and the Trustee, certificates of the Community Facilities District, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Community Facilities District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and

agreements contained in the Indenture and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against governmental entities such as the Community Facilities District in the State of California. We express no opinion with respect to any indemnification, contribution, arbitration, judicial reference, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the plans, specifications, maps, financial report or other engineering or financial details of the proceedings, or upon the Rate and Method or the validity of the Special Tax levied upon any individual parcel. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special obligations of the Community Facilities District, payable, as provided in the Indenture, solely from Net Special Tax Revenues and the other assets pledged therefor under the Indenture.

2. The Indenture has been duly executed and delivered by, and constitutes a valid and binding obligation of the Community Facilities District. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Indenture creates a valid pledge of, lien on and security interest in all of the amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

APPENDIX F

DTC BOOK-ENTRY ONLY SYSTEM

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Series 2012 Bonds, payment of principal of, premium, if any, and interest on the Series 2012 Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Series 2012 Bonds, and other related transactions by and between DTC, Participants and Beneficial Owners, is based on information furnished by DTC which the Community Facilities District believes to be reliable, but the Community Facilities District does not take responsibility for the completeness or accuracy thereof. The Community Facilities District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of principal, premium, if any, and interest with respect to the Series 2012 Bonds or (b) certificates representing ownership interests in or other confirmation of ownership interests in the Series 2012 Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2012 Bonds. The Series 2012 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for the Series 2012 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com; provided that nothing contained in such websites is incorporated into this Official Statement.

Purchases of Series 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2012 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 Series 2012 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2012 Bonds, except in the event that use of the book-entry system for the Series 2012 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2012 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 Series 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012 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 Series 2012 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2012 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of Series 2012 Bonds may wish to ascertain that the nominee holding the Series 2012 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 Series 2012 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2012 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Community Facilities District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2012 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Community Facilities District or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Community Facilities 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 Community Facilities District or 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.

The Community Facilities District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

NONE OF THE COMMUNITY FACILITIES DISTRICT, THE AUTHORITY OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF SERIES 2012 BONDS FOR REDEMPTION.

DTC (or a successor securities depository) may discontinue providing its services as securities depository with respect to the Series 2012 Bonds at any time by giving reasonable notice to the Community Facilities District. The Community Facilities District, in its sole discretion and without the consent of any other person, may terminate the services of DTC (or a successor securities depository) with respect to the Series 2012 Bonds. The Community Facilities District and the Authority undertake no obligation to investigate matters that would enable the Community Facilities District and the Authority to make such a determination. In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply.

THE COMMUNITY FACILITIES DISTRICT, THE AUTHORITY AND THE UNDERWRITER CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL, INTEREST OR PREMIUM, IF ANY, WITH RESPECT TO THE SERIES 2012 BONDS PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR WILL DISTRIBUTE ANY REDEMPTION NOTICES OR OTHER NOTICES, TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE COMMUNITY FACILITIES DISTRICT, THE AUTHORITY AND THE UNDERWRITER ARE NOT RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANT TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE SERIES 2012 BONDS OR AN ERROR OR DELAY RELATING THERETO.

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

THE TRUSTEE, AS LONG AS A BOOK-ENTRY-ONLY SYSTEM IS USED FOR THE SERIES 2012 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO CEDE & CO., OR ITS SUCCESSOR AS DTC'S PARTNERSHIP NOMINEE. ANY FAILURE OF CEDE & CO., OR ITS SUCCESSOR AS DTC'S PARTNERSHIP NOMINEE TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2012 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272