

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 28, 2016

NEW ISSUE– FULL BOOK-ENTRY ONLY

RATINGS: Insured Rating: S&P: AA
Underlying Rating S&P: “BBB+”
(See “RATINGS” herein)

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 2016 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 2016 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 amount, accrual or receipt of interest on, the 2016 Bonds. See “LEGAL MATTERS – Tax Exemption” herein.

\$32,600,000*

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) SPECIAL TAX REFUNDING BONDS, SERIES 2016

Dated: Date of Delivery

Due: September 1, as shown below

Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Special Tax Refunding Bonds, Series 2016 (the “2016 Bonds”) are being issued under the Mello-Roos Community Facilities Act of 1982 (the “Act”) and the Indenture, dated as of July 1, 2016 (the “Indenture”), by and between Community Facilities District No. 90-2 of the Capistrano Unified School District Community Facilities District No. 90-2 (Talega) (the “Community Facilities District”) and U.S. Bank National Association, as trustee (the “Trustee”).

The 2016 Bonds are payable from proceeds of an annual Special Tax being levied on and collected from certain property within the Community Facilities District pursuant to the Amended and Restated Rate and Method of Apportionment of Special Taxes Capistrano Unified School District Community Facilities District No. 90-2 (Talega) (the “Amended and Restated Rate and Method”) approved by the qualified electors of the Community Facilities District and by the Board of Trustees of the Capistrano Unified School District (the “School District”), acting as the legislative body of the Community Facilities District (the “Board”). The 2016 Bonds are secured by a first pledge of the Net Special Tax Revenues (as defined herein) and the moneys on deposit in certain funds held under the Indenture.

The 2016 Bonds are being issued (i) to refund the outstanding Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2006 Special Tax Refunding Bonds originally issued in the principal amount of \$44,980,000 (the “Prior Bonds”), (ii) to acquire a debt service reserve insurance policy in an amount equal to the Reserve Requirement (as defined herein), and (iii) to pay the costs of issuing the 2016 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Interest on the 2016 Bonds is payable on March 1, 2017, and semiannually thereafter on each March 1 and September 1. The 2016 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The 2016 Bonds, when delivered, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for the 2016 Bonds as described herein under “THE 2016 BONDS – Book-Entry and DTC.”

The 2016 Bonds are subject to optional redemption, mandatory redemption from prepayment of Special Taxes and mandatory sinking fund redemption as described herein. See “THE 2016 BONDS – Redemption.”*

The scheduled payment of principal of and interest on the 2016 Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the 2016 Bonds by Build America Mutual Assurance Company. See “BOND INSURANCE” herein.



THE 2016 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2016 BONDS, ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OF CALIFORNIA (THE “STATE”) OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE 2016 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2016 BONDS. OTHER THAN THE SPECIAL TAXES LEVIED PURSUANT TO THE AMENDED AND RESTATED RATE AND METHOD, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2016 BONDS. THE 2016 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES LEVIED PURSUANT TO THE AMENDED AND RESTATED RATE AND METHOD, AS MORE FULLY DESCRIBED HEREIN.

This cover page contains certain information for general reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the 2016 Bonds involves risks which may not be appropriate for some investors. See “BONDOWNERS’ RISKS” herein for a discussion of risk factors that should be considered in evaluating the investment quality of the 2016 Bonds.

The 2016 Bonds are offered when, as and if issued by the Community Facilities District and received by the Underwriter, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe, Los Angeles, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the School District and the Community Facilities District by Dennis Woliver Kelley, A Professional Corporation, San Diego, California, and by James F. Anderson Law Firm, A Professional Corporation, Laguna Hills, California, Disclosure Counsel. It is anticipated that the 2016 Bonds, in book-entry form, will be available for delivery through the facilities of DTC on or about July 28, 2016.

Dated: _____, 2016

* Preliminary, subject to change.

MATURITY SCHEDULE

\$32,600,000*

**COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE
CABRILLO UNIFIED SCHOOL DISTRICT (TALEGA)
SPECIAL TAX REFUNDING BONDS, SERIES 2016**

Base CUSIP® No. † 139708

Maturity (September 1)	Principal Amount*	Interest Rate	Yield	CUSIP® No.†	Maturity (September 1)	Principal Amount*	Interest Rate	Yield	CUSIP® No.†
2017	\$1,230,000	%	%		2025	\$2,140,000	%	%	
2018	1,400,000				2026	2,265,000			
2019	1,495,000				2027	2,410,000			
2020	1,595,000				2028	2,550,000			
2021	1,695,000				2029	2,705,000			
2022	1,800,000				2030	2,860,000			
2023	1,905,000				2031	3,045,000			
2024	2,020,000				2032	1,485,000			

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP® data is provided by CUSIP Global Services (CGS) which is managed on behalf of the American Bankers Association by S&P Capital IQ. CUSIP® data is not intended to create a database and does not serve in any way as a substitute for the CUSIP® Service Bureau. CUSIP® numbers are provided for convenience of reference only. The Community Facilities District, the School District and the Underwriter take no responsibility for the accuracy of such numbers.

CAPISTRANO UNIFIED SCHOOL DISTRICT

BOARD OF TRUSTEES

Amy Hanacek, *President*
Jim Reardon, *Vice President*
Martha McNicholas, *Clerk of the Board*
John M. Alpay, *Member*
Lynn Hatton-Hodson, *Member*
Gila Jones, *Member*
Dr. Gary Pritchard, *Member*

SUPERINTENDENT

Kirsten M. Vital, *Superintendent*
Clark Hampton, *Deputy Superintendent, Business & Support Services*

PROFESSIONAL SERVICES

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

COMMUNITY FACILITIES DISTRICT & SCHOOL DISTRICT SPECIAL COUNSEL

Dannis Woliver Kelley, A Professional Corporation,
San Diego, California

DISCLOSURE COUNSEL

James F. Anderson Law Firm, A Professional Corporation
Laguna Hills, California

FINANCIAL ADVISOR

Government Financial Strategies inc.
Sacramento, California

SPECIAL TAX CONSULTANT & CFD ADMINISTRATOR

David Taussig & Associates, Inc.
Newport Beach, California

TRUSTEE

U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT

American Municipal Tax-Exempt
Compliance Corporation
Avon, Connecticut

Ross & Company, PLLC
Louisville, Kentucky

GENERAL INFORMATION ABOUT THE OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the 2016 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2016 Bonds. All information for investors regarding the Community Facilities District and the 2016 Bonds is contained in this Official Statement. While the School District maintains an internet website for various purposes, none of the information on this website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the 2016 Bonds or any other bonds or obligations of the School District.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Community Facilities District in any press release and in any oral statement made with the approval of an authorized officer of the Community Facilities District or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend," and similar expressions identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Community Facilities District or any other entity described or referenced herein since the date hereof. The Community Facilities District does not plan to issue any updates or revision to the forward-looking statements set forth in this Official Statement.

Authorized Information. No dealer, broker, salesperson or other person has been authorized by the Community Facilities District to give any information or to make any representations in connection with the offer or sale of the 2016 Bonds other than those 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 2016 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Involvement of Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Community Facilities District or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Bond Insurer. Build America Mutual Assurance Company ("BAM") makes no representation regarding the 2016 Bonds or the advisability of investing in the 2016 Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE" and APPENDIX G – "Specimen Municipal Bond Insurance Policy."

Stabilization of Prices. In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the 2016 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 2016 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE 2016 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2016 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

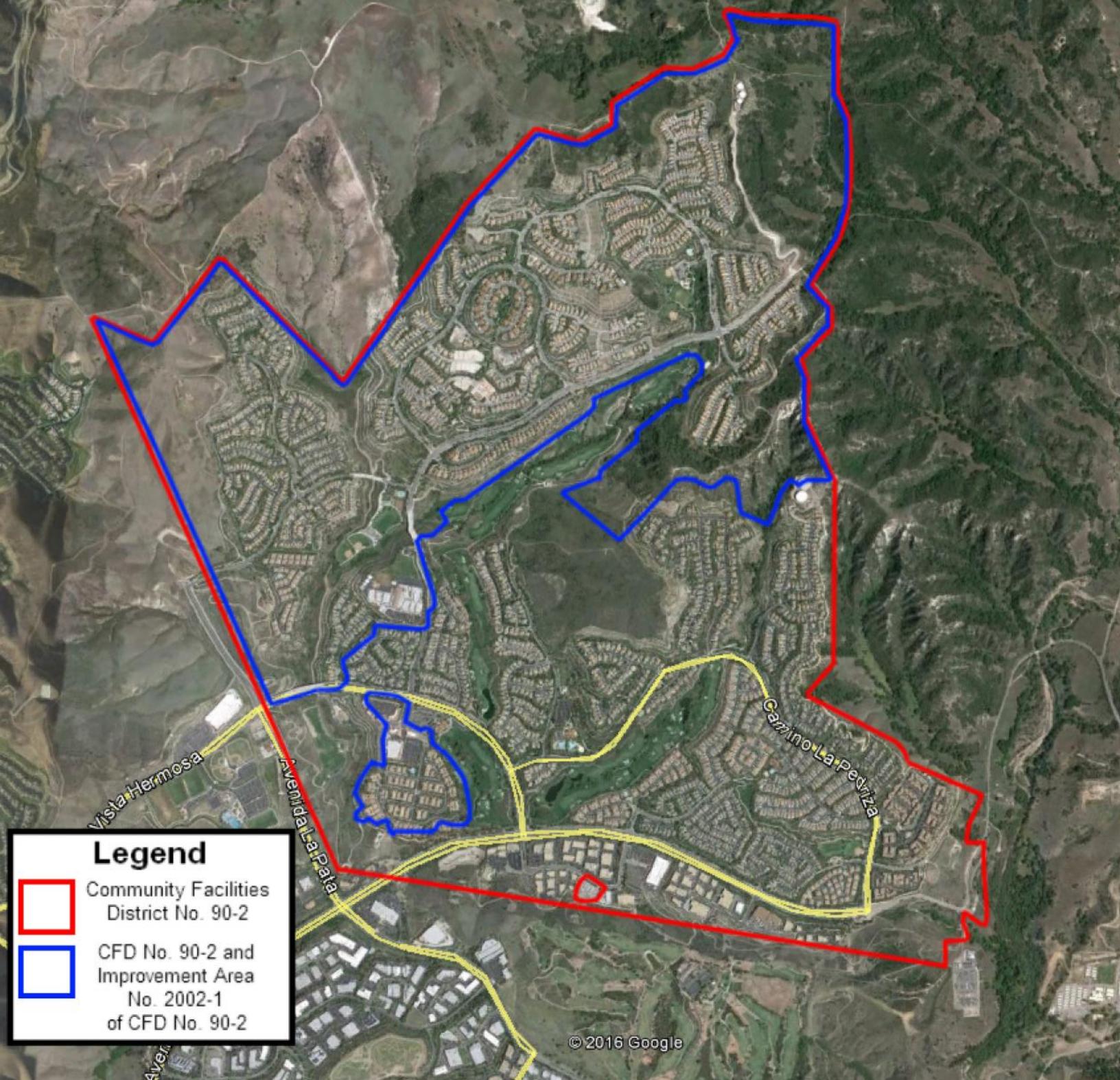
TABLE OF CONTENTS

INTRODUCTION	1	Risks of Real Estate Secured Investments	
General.....	1	Generally	40
The School District	1	Bond Insurance Risk Factors	41
The Community Facilities District.....	2	Economic Uncertainty	42
Sources of Payment for the 2016 Bonds	3	State Budget.....	42
Bond Insurance Policy	4	Special Taxes Are Not Personal Obligations..	42
Other Matters Related to Bond Insurance	5	The 2016 Bonds Are Limited Obligations	
Tax Exemption.....	5	of the Community Facilities District.....	42
Risk Factors Associated with Purchasing		Assessed Values.....	42
the 2016 Bonds.....	5	Value-to-Lien Ratios	43
Forward Looking Statements	5	Burden of Parity Liens, Taxes and Other	
Professionals Involved in the Offering.....	5	Special Assessments on the Taxable	
Other Information.....	6	Property	43
CONTINUING DISCLOSURE.....	6	Disclosure to Future Purchasers	44
THE REFUNDING PLAN	7	Special Tax Delinquencies.....	44
ESTIMATED SOURCES AND USES OF		Insufficiency of the Special Tax	44
FUND.....	8	Exempt Properties.....	46
THE 2016 BONDS	9	Depletion of Reserve Fund	46
Authority for Issuance.....	9	Discontinuance of Advancement of the	
General Provisions	9	Special Tax	46
Debt Service Schedule	10	Potential Delay and Limitations in	
Estimated Debt Service Coverage.....	11	Foreclosure Proceedings	47
Redemption	12	Bankruptcy and Foreclosure Delay.....	48
Registration, Transfer and Exchange	14	Payments by FDIC, Fannie Mae, Freddie	
Book-Entry and DTC	14	Mac and Other Federal Agencies.....	50
SECURITY FOR THE 2016 BONDS	15	Factors Affecting Parcel Values and	
General.....	15	Aggregate Value	51
Special Taxes	15	No Acceleration Provisions	53
Amended and Restated Rate and Method	16	Community Facilities District Formation	53
Special Tax Levy.....	19	Billing of Special Taxes.....	53
Proceeds of Foreclosure Sales.....	20	Inability to Collect Special Taxes	54
Special Tax Fund.....	21	Right to Vote on Taxes Act	54
Bond Fund.....	22	Ballot Initiatives and Legislative Measures	56
Redemption Fund.....	22	Limited Secondary Market	57
Reserve Fund.....	22	Loss of Tax Exemption.....	57
Administrative Expense Fund	24	IRS Audit of Tax-Exempt Bond Issues	57
Surplus Fund	24	Impact of Legislative Proposals,	
Investment of Moneys in Funds.....	24	Clarifications of the Code and Court	
Payment of Rebate Obligation	24	Decisions on Tax Exemption	57
Parity Bonds for Refunding Purposes Only	24	Backup Withholding	58
Special Taxes Are Within Teeter Plan	25	Limitations on Remedies	58
BOND INSURANCE	25	VERIFICATION OF MATHEMATICAL	
Bond Insurance Policy	25	COMPUTATIONS.....	58
Build America Mutual Assurance Company.....	25	LEGAL MATTERS	58
THE COMMUNITY FACILITIES DISTRICT	27	Legal Opinion	58
General Information	27	Tax Exemption.....	59
Authority for Issuance.....	27	Absence of Litigation	61
Special Tax Collections.....	29	No General Obligation of School District or	
Value-to-Lien Ratios.....	30	Community Facilities District.....	61
Direct and Overlapping Debt	34	RATINGS.....	61
Overlapping Direct Assessments	40	UNDERWRITING.....	62
BONDOWNERS' RISKS.....	40	PROFESSIONAL FEES.....	62
		MISCELLANEOUS	62

APPENDIX A – General Information About the Capistrano Unified School District.....	A-1
APPENDIX B – Amended and Restated Rate and Method of Apportionment of Special Taxes Capistrano Unified School District Community Facilities District No. 90-2 (Talega)	B-1
APPENDIX C – Summary of Certain Provisions of the Indenture.....	C-1
APPENDIX D – Form of Continuing Disclosure Certificate.....	D-1
APPENDIX E – Form of Opinion of Bond Counsel.....	E-1
APPENDIX F – Book-Entry System.....	F-1
APPENDIX G – Specimen Municipal Bond Insurance Policy	G-1
APPENDIX H – Capistrano Unified School District – Community Facilities Districts Financial and Performance Audit.....	H-1

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**Capistrano Unified School District
Community Facilities District No. 90-2
(Talega)**



OFFICIAL STATEMENT

\$32,600,000*

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) SPECIAL TAX REFUNDING BONDS, SERIES 2016

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2016 Bonds to potential investors is made only by means of the entire Official Statement.

General

This Official Statement, including the cover page and appendices hereto, is provided to furnish information regarding the Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Special Tax Refunding Bonds, Series 2016 (the “2016 Bonds”).

The 2016 Bonds are issued pursuant to the Act (as defined below) and the Indenture, dated as of July 1, 2016 (the “Indenture”), by and between Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the “Community Facilities District”) and U.S. Bank National Association, as trustee (the “Trustee”). See “THE 2016 BONDS – Authority for Issuance” herein.

Capitalized terms used herein but not defined shall have the meanings given them in the Indenture or APPENDIX C – “Summary of Certain Provisions of the Indenture.”

The School District

The Capistrano Unified School District (the “School District”) is a political subdivision of the State of California (the “State”) and is governed by a seven-member Board of Trustees (the “Board”). Founded in 1965, the School District encompasses 195 square miles in seven cities and a portion of the unincorporated area of Orange County (the “County”). The jurisdiction of the School District includes all or part of the cities of San Clemente, Dana Point, San Juan Capistrano, Laguna Niguel, Aliso Viejo, Mission Viejo and Rancho Santa Margarita, and the communities of Las Flores, Coto de Caza, Dove Canyon, Ladera Ranch, Sendero/Rancho Mission Viejo and Wagon Wheel.

The School District provides kindergarten through 12th grade public education to more than 49,000 students on 55 campuses. The School District’s second period report (P-2, the period from July 1 to April 15) of average daily attendance (“ADA”), computed in accordance with State law for the 2015-16 academic year, is estimated at 47,226. The estimated population within the School District’s boundaries was approximately 358,800 based on United States census figures for 2014. The School District reported 49,120 students enrolled at the California Basic Educational Data System (“CBEDS”) for Fiscal Year 2015-16. See APPENDIX A – “General Information About the Capistrano Unified School District” herein.

* Preliminary, subject to change.

The Community Facilities District

The Community Facilities District is a community facilities district first established by the Board in 1990 pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the California Government Code, the “Act”). Pursuant to the Act, the seven members of the Board serve as the legislative body of the Community Facilities District (the “Legislative Body”) by virtue of their election to the Board.

The Community Facilities District consists of approximately 2,176 gross acres of land located in the City of San Clemente, California (the “City”), in the southwesterly portion of the School District and in the southwesterly portion of Orange County. The land within the Community Facilities District is part of the approximately 3,510-acre Talega Valley Planned Development (the “Talega Project”). The Community Facilities District is located entirely within the School District. See “THE COMMUNITY FACILITIES DISTRICT” below.

Pursuant to the Act, the Board, acting as the Legislative Body of the Community Facilities District, adopted the necessary resolutions stating its intent to establish the Community Facilities District, to authorize the levy of Special Taxes on taxable property within the boundaries of the Community Facilities District and to have the Community Facilities District incur bonded indebtedness. Following a public hearing conducted pursuant to the provisions of the Act, the Board adopted resolutions establishing the Community Facilities District, determining to incur bonded indebtedness and calling special elections to submit the authorization of the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the Community Facilities District. On June 19, 1990, at an election held pursuant to the Act, the landowner which comprised the qualifying elector within the Community Facilities District authorized the Community Facilities District to incur bonded indebtedness in an aggregate principal amount not to exceed \$10,000,000 and approved the rate and method of apportionment of Special Taxes within the Community Facilities District (the “Special Taxes”) to pay the principal of and interest on the bonds of the Community Facilities District.

On April 26, 1999, the Board, acting as the Legislative Body of the Community Facilities District, adopted a resolution commencing proceedings pursuant to the Act to increase the amount of the authorized bonded indebtedness and to amend the rate and method of apportionment of special tax for the Community Facilities District. On June 14, 1999, at a special election held pursuant to the Act, the owners of the property within the boundaries of the Community Facilities District, who were the qualified voters, authorized the Community Facilities District to incur a bonded indebtedness in an amount not to exceed \$50,000,000 (the “Authorization”) and approved an amended and restated rate and method of apportionment of the Special Taxes to be levied to pay the principal of, and interest on, such bonded indebtedness. See “SECURITY FOR THE 2016 BONDS – Special Taxes” herein. The rate and method of apportionment of special tax, as amended, is set forth in APPENDIX B hereto (the “Amended and Restated Rate and Method”). The Board acts as the legislative body of the Community Facilities District. See “SECURITY FOR THE 2016 BONDS – Special Taxes – *Amended and Restated Rate and Method of Apportionment of Special Taxes*” and APPENDIX B – “Amended and Restated Rate and Method of Apportionment of Special Taxes.” The 2016 Bonds are being issued for the purpose of refunding the Community Facilities District’s Prior Bonds. See “THE REFUNDING PLAN.”

In 2002, the Board conducted proceedings pursuant to the Act to designate portions of then-undeveloped property in the Community Facilities District as Improvement Area No. 2002-1 (“Improvement Area No. 2002-1”). Improvement Area No. 2002-1 consists of approximately 1,090 acres. The bonds issued by the Community Facilities District with respect to the Improvement Area No. 2002-1 are not being refunded by the 2016 Bonds. Special taxes levied by the Community Facilities District with respect to Improvement Area No. 2002-1 are not available to pay debt service on the 2016 Bonds.

The Community Facilities District has covenanted in the Indenture to issue Parity Bonds (as defined herein), if any, for refunding purposes only. See “SECURITY FOR THE 2016 BONDS – Parity Bonds for Refunding Purposes Only.”

The 2016 Bonds are being authorized pursuant to a resolution adopted by the Legislative Body on May 11, 2016 (the “Resolution”) and the Indenture.

Once duly established, a community facilities district is a legally constituted governmental entity established for the purpose of financing specific facilities and services within defined boundaries. Subject to approval by a two-thirds vote of the qualified voters within a community facilities district and compliance with the provisions of the Act, a community facilities district may issue bonds and may levy and collect special taxes to repay such bonded indebtedness, including interest thereon.

The Community Facilities District levies an annual special tax (the “Special Tax,” as defined below) on Developed Property (and Undeveloped Property, if necessary) as set forth in the Amended and Restated Rate and Method. See “SECURITY FOR THE 2016 BONDS – Amended and Restated Rate and Method.” Annual Special Taxes will be levied on Taxable Property within the Community Facilities District. The 2016 Bonds are secured by and payable from the Special Tax levied pursuant to the Amended and Restated Rate and Method.

See “THE COMMUNITY FACILITIES DISTRICT” for a description of the Community Facilities District and the development in the Community Facilities District.

Sources of Payment for the 2016 Bonds

The 2016 Bonds are secured by and payable from a first pledge of “Net Special Tax Revenues,” which is defined in the Indenture as Special Tax Revenues, less amounts required to pay Administrative Expenses. “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 will be limited to the amount of said lien and interest and penalties thereon. See “SECURITY FOR THE 2016 BONDS –Special Tax Fund.”

“Special Taxes” are defined in the Indenture as the special taxes described in the Amended and Restated Rate and Method as “Special Tax A” levied within the Community Facilities District pursuant to the Act, the Ordinance and the Indenture.

Pursuant to the Act, the Amended and Restated Rate and Method, the Resolution of Formation (as defined herein) and the Indenture, so long as the 2016 Bonds are outstanding, the Community Facilities District will annually ascertain the parcels on which the Special Taxes are to be levied in the following Fiscal Year, taking into account any subdivisions of parcels during the applicable Fiscal Year. The Community Facilities District will effect the levy of the Special Taxes in accordance with the Amended and Restated Rate and Method and the Act each Fiscal Year so that the computation of such levy is complete and transmitted to the Auditor of the County before the final date on which the Auditor of the County will accept the transmission of the Special Taxes for the parcels within the Community Facilities District for inclusion on the next real property tax roll. See “SECURITY FOR THE 2016 BONDS – Special Taxes” herein.

The Amended and Restated Rate and Method exempts from the Special Tax all property owned by the State, the federal government and local governments, as well as certain other properties, subject to certain limitations. See “SECURITY FOR THE 2016 BONDS – Amended and Restated Rate and Method” and “BONDOWNERS’ RISKS – Exempt Properties.”

The 2016 Bonds and Parity Bonds are also secured by a first pledge of all moneys deposited in the Reserve Fund. See “SECURITY FOR THE 2016 BONDS.”

The Indenture defines the Reserve Requirement, with respect to the 2016 Bonds and any Parity Bonds, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the 2016 Bonds and any Parity Bonds (excluding 2016 Bonds and Parity Bonds refunded with the proceeds of subsequently issued Parity Bonds), (b) the largest Annual Debt Service for any Bond Year, including the Bond Year the calculation is made (“Maximum Annual Debt Service”), or (c) 125% of the Average Annual Debt Service for all Bond Years, including the Bond Year in which the calculation is made. The ability of the Legislative Body to increase the annual Special Taxes levied to replenish the Reserve Fund is subject to the limitation imposed by Section 53321 of the Act and the Amended and Restated Rate and Method which provide that the Special Tax levied against any Assessor’s Parcel of Residential Property for which an occupancy permit for private residential use has been issued may not be increased by more than 10% as a consequence of delinquency or default by the owner of any other parcel or parcels within the Community Facilities District. The moneys in the Reserve Fund will only be used for payment of principal of, interest and any redemption premium on the 2016 Bonds and any Parity Bonds, and at the direction of the Community Facilities District, for payment of rebate obligations related to the 2016 Bonds and any Parity Bonds. See “SECURITY FOR THE 2016 BONDS –Special Tax Levy” and “ – Reserve Fund.”

The Community Facilities District has also covenanted in the Indenture to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Special Taxes. For a more detailed description of the foreclosure covenant see “SECURITY FOR THE 2016 BONDS – Proceeds of Foreclosure Sales.”

THE 2016 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2016 BONDS, ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE 2016 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2016 BONDS. OTHER THAN THE SPECIAL TAXES LEVIED PURSUANT TO THE AMENDED AND RESTATED RATE AND METHOD, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2016 BONDS. THE 2016 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM SPECIAL TAXES LEVIED PURSUANT TO THE AMENDED AND RESTATED RATE AND METHOD, AS MORE FULLY DESCRIBED HEREIN.

Bond Insurance Policy

Concurrently with the issuance of the 2016 Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the 2016 Bonds (the “Policy”). See “BOND INSURANCE” below. The Policy guarantees the scheduled payment of principal of and interest on the 2016 Bonds when due as set forth in the form of the Policy included as APPENDIX G – “Specimen Municipal Bond Insurance Policy.”

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Other Matters Related to Bond Insurance

In the event of a default in the payment of principal of or interest on the 2016 Bonds, when all or some becomes due, any Beneficial Owner of a Bond may have a claim under the Policy. The Policy does not insure against redemption premium, if any, with respect to the 2016 Bonds. In the event that BAM is unable to make payment of principal of or interest on the 2016 Bonds as such payments become due under such a Policy, the 2016 Bonds will be payable solely as otherwise described herein. In the event that BAM becomes obligated to make payments on the 2016 Bonds, no assurance can be given that such event would not adversely affect the market price of the 2016 Bonds or the marketability (liquidity) of the 2016 Bonds.

Tax Exemption

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the 2016 Bonds will not be includable in gross income for federal income tax purposes, although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the 2016 Bonds will be exempt from State personal income taxes. See “**LEGAL MATTERS – Tax Exemption**” herein.

Risk Factors Associated with Purchasing the 2016 Bonds

Investment in the 2016 Bonds involves risks that may not be appropriate for some investors. See the section of this Official Statement entitled “**BONDOWNERS’ RISKS**” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the 2016 Bonds.

Forward Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as a “plan,” “expect,” “estimate,” “project,” “budget,” “anticipate” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the caption “**THE COMMUNITY FACILITIES DISTRICT**” herein.

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

Professionals Involved in the Offering

U.S. Bank National Association, Los Angeles, California, will serve as the Trustee for the 2016 Bonds and will perform the functions required of it under the Indenture for the payment of the principal of and interest and any premium on the 2016 Bonds and all activities related to the redemption of the 2016 Bonds. Orrick, Herrington & Sutcliffe, Los Angeles, California, is serving as Bond Counsel to the

Community Facilities District. Dannis Woliver Kelley, A Professional Corporation, San Diego, California, is serving as special counsel to the School District. James F. Anderson Law Firm, A Professional Corporation, Laguna Hills, California, is acting as Disclosure Counsel.

Government Financial Strategies inc., Sacramento, California, acted as Financial Advisor to the School District and the Community Facilities District and is serving as Dissemination Agent to the Community Facilities District, and David Taussig & Associates, Inc., Newport Beach, California, acted as Special Tax Consultant and CFD Administrator to the Community Facilities District.

Except for some Special Tax Consultant fees to be paid from Special Taxes, payment of the fees and expenses of Bond Counsel, Disclosure Counsel, the Special Tax Consultant and the Trustee is contingent upon the sale and delivery of the 2016 Bonds.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the 2016 Bonds, certain sections of the Indenture, security for the 2016 Bonds, risk factors, the Community Facilities District, the School District and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the 2016 Bonds, the Indenture, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the 2016 Bonds, the Indenture, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Deputy Superintendent, Business & Support Services of the Capistrano Unified School District, 33122 Valle Road, San Juan Capistrano, California 92675. There may be a charge for copying, mailing and handling of any documents.

CONTINUING DISCLOSURE

The Community Facilities District. The Community Facilities District has covenanted for the benefit of the holders and Beneficial Owners of the 2016 Bonds to provide certain financial information and operating data relating to the School District and the Community Facilities District (the "Community Facilities District Annual Report"), by not later than nine months after the end of each Fiscal Year, commencing with the report for the 2015-16 Fiscal Year (which is due no later than March 31, 2017), and to provide notices of the occurrence of certain enumerated events. The Community Facilities District Annual Report will either be filed by the Community Facilities District or Government Financial Strategies inc., as Dissemination Agent on behalf of the Community Facilities District, with the Municipal Securities Rulemaking Board (the "MSRB") through the Electronic Municipal Market Access System (the "EMMA System"), in an electronic format and accompanied by identifying information as prescribed by the MSRB, with a copy to the Trustee. Any notice of the occurrence of certain enumerated events will be filed by the Community Facilities District, or the Dissemination Agent on behalf of the Community Facilities District, with the MSRB through the EMMA System. The specific nature of the information to be contained in the Annual Report or the notices is set forth in APPENDIX D – "Form of Continuing Disclosure Certificate." The covenants of the Community Facilities District in the Continuing Disclosure Certificate have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). A default under the Continuing Disclosure Certificate will not, in itself, constitute an event of default under the Indenture, and the sole remedy under the Continuing Disclosure Certificate in the event of any failure of the Community Facilities District or the Dissemination Agent to comply with the Continuing Disclosure Certificate will be an action to compel performance.

Prior Disclosure Compliance by the Community Facilities District. The Community Facilities District is the obligated person under the Continuing Disclosure Certificate. A five-year review of compliance with disclosure undertakings for filings required by the Community Facilities District in connection with the prior undertakings under the Rule, indicates audited financial statements were filed late in 2012 and 2013 and a notice of a rating change with respect to the Community Facilities District's Improvement Area No. 2002-1 special tax bonds was not filed within 10 business days. The Community Facilities District has developed procedures to ensure that future annual reports and notices of listed events are filed in a timely manner. As of the date of this Official Statement, all required filings have been made in connection with the prior undertakings.

Prior Disclosure Compliance by the School District and Other Community Facilities Districts. The School District and other community facilities districts formed by the School District are not the obligated persons under the Continuing Disclosure Certificate. A review of compliance with disclosure undertakings for filings required by the School District or by other community facilities districts formed by the School District (other than the Community Facilities District) since June 15, 2011, indicates that the School District or other community facilities districts formed by the School District may not have fully complied with their prior continuing disclosure undertakings under the Rule. Identification of the below described events does not constitute a representation by the Community Facilities District, the School District or any other community facilities district formed by the School District that the late filings were material or that the School District or any other community facilities district formed by the School District, other than the Community Facilities District, is an obligated person under the Rule for this transaction. The review indicates (i) that in connection with other community facilities districts formed by the School District, other than the Community Facilities District, certain audited financial statements were filed late in 2012 and 2013, and one annual report was filed late in 2012, (ii) in connection with several series of School Facilities Improvement District No. 1 general obligation bonds, the audited financial statements were filed late in 2012, and the annual report was filed late in 2013 and 2016, and (iii) in connection with two series of certificates of participation, the audited financial statements and the annual report were filed late in 2013 and 2016 with respect to one series of certificates of participation and the audited financial statements were filed late in 2012 with respect to the other series of certificates of participation. In addition, notices of rating changes were not always filed within 10 business days with respect to financings by the School District or community facilities districts formed by the School District, (other than the Community Facilities District).

In order to remain in compliance with their respective undertakings in the future, the School District and the community facilities districts, including the Community Facilities District, have implemented procedures to file their annual reports on a timely basis and coordinate the efforts of personnel and firms responsible for preparing and/or monitoring compliance with the respective disclosure undertakings.

THE REFUNDING PLAN

The 2016 Bonds are being issued to (i) refund and defease the outstanding Prior Bonds currently outstanding in the aggregate principal amount of \$38,060,000, (ii) fund the portion of the Reserve Requirement not funded with the Reserve Policy, and (iii) pay costs of issuance, including premiums, if any, for the applicable municipal bond insurance policy obtained in connection with the 2016 Bonds and the Reserve Policy to satisfy the Reserve Requirement.

Pursuant to the Irrevocable Refunding Instruction and Agreement relating to the Prior Bonds, dated as of the date of issuance of the 2016 Bonds (the "Escrow Agreement"), by and between the Community Facilities District and U.S. Bank National Association, as Escrow Bank (the "Escrow Bank"), a portion of the proceeds of the Prior Bonds, together with funds held by the Fiscal Agent for the Prior Bonds, will be deposited into the Escrow Fund established thereunder. Moneys in the Escrow Fund, together with interest earnings thereon, will be in an amount necessary to pay when due

the regularly scheduled principal of and interest on Prior Bonds through September 1, 2016, and on September 1, 2016 pay the redemption price of the remaining outstanding principal amount of the 2006 Bonds. Moneys on deposit in the Escrow Fund will be invested by the Escrow Bank in State and Local Government Series, all as further provided in the Escrow Agreement. Upon the issuance of the 2016 Bonds, American Municipal Tax-Exempt Compliance Corporation (“AMTEC Corporation”) of Avon, Connecticut, and Ross & Company, PLLC (an independent Certified Public Accountant) of Louisville, Kentucky, together acting as verification agent, will deliver a report verifying the arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisor and the Fiscal Agent for the sufficiency of the moneys deposited in the Escrow Fund. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the 2016 Bonds will be deposited into the following respective accounts and funds established under the Indenture, as follows:

SOURCES

Principal Amount of 2016 Bonds	\$
Plus: Original Issue Premium	
Plus Available Prior Bonds Funds	
Less: Underwriter's Discount	()
<i>Total Sources</i>	\$

USES

Deposit into Escrow Fund	\$
Deposit into Reserve Fund	
Deposit into Costs of Issuance Fund ⁽¹⁾	
<i>Total Uses</i>	\$

- (1) Includes, among other things, the fees and expenses of Bond Counsel, Disclosure Counsel, the Financial Advisor, the cost of printing the preliminary and final Official Statements, insurance policy and reserve policy, the fees of the Special Tax Consultant, the Verification Agent and reimbursement to the School District.

THE 2016 BONDS

Authority for Issuance

The 2016 Bonds are being authorized pursuant to a resolution adopted by the Legislative Body on May 11, 2016. The 2016 Bonds will be issued pursuant to the Act and the Indenture.

General Provisions

The 2016 Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, calculated on the basis of a 360-day year comprised of twelve 30-day months, payable semi-annually on each March 1 and September 1, commencing on March 1, 2017 (each, an “Interest Payment Date”), and will mature in the amounts and on the dates set forth on the inside cover page hereof. The 2016 Bonds will be issued in fully-registered form in denominations of \$5,000 each or any integral multiple thereof and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for the 2016 Bonds. Ownership interests in the 2016 Bonds may be purchased in book-entry form only, in denominations of \$5,000 or any integral multiple thereof within a single maturity. So long as the 2016 Bonds are held in book-entry form, principal of, premium, if any, and interest on the 2016 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2016 Bonds in accordance with the procedures adopted by DTC. See “THE 2016 BONDS – Book-Entry and DTC.”

Interest on the 2016 Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a 2016 Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15th calendar day of the month preceding each Interest Payment Date whether or not such day is a Business Day (the “Record Date”), in which event it will bear interest from such Interest Payment Date, (ii) a 2016 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the date of issuance of the 2016 Bonds, or (iii) interest on any 2016 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 of America on each Interest Payment Date. Interest will be paid by check of the Trustee mailed by first-class mail, postage prepaid, or by wire transfer made on such Interest Payment Date upon the written instructions of any Owner of \$1,000,000 or more 2016 Bonds to an account within the United States of America, on each Interest Payment Date to the 2016 Bond Owners 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 2016 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 2016 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 2016 Bonds is payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption at the Office of the Trustee. Payment of principal of any 2016 Bond will be made only upon presentation and surrender of such Bond at the Office of the Trustee (currently in Los Angeles, California).

Debt Service Schedule

The following table presents the annual debt service on the 2016 Bonds (including sinking fund redemptions), assuming that there are no early redemptions.

Table 1
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)

Scheduled Annual Debt Service on 2016 Bonds

Year Ending September 1	Principal	Interest	Total Debt Service
2017	\$	\$	\$
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032	\$	\$	\$

Estimated Debt Service Coverage

The following table presents the estimated Net Special Tax Revenues, annual debt service on the 2016 Bonds (including sinking fund redemptions, if any), assuming that there are no early redemptions, and resulting estimated debt service coverage.

Table 2
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)
Debt Service Coverage from Net Special Tax Revenues *

Bond Year Ending September 1	Residential Special Tax Revenues ⁽¹⁾⁽²⁾	Non-Residential Special Tax Revenues	Annual Administrative Expenses ⁽³⁾	Net Special Tax Revenues	Series 2016 Debt Service ^{(4)*}	Coverage from Developed Property ⁽⁵⁾
2017	\$2,692,258	\$49,708	\$76,500	\$2,665,466	\$2,423,151	110.00%
2018	2,742,592	50,637	78,030	2,715,199	2,468,363	110.00
2019	2,801,367	51,722	79,591	2,773,499	2,521,363	110.00
2020	2,862,495	52,851	81,182	2,834,164	2,576,513	110.00
2021	2,920,415	53,920	82,806	2,891,529	2,628,663	110.00
2022	2,980,526	55,030	84,462	2,951,094	2,682,813	110.00
2023	3,037,267	56,078	86,151	3,007,194	2,733,813	110.00
2024	3,101,441	57,263	87,874	3,070,829	2,791,663	110.00
2025	3,167,322	58,479	89,632	3,136,169	2,851,063	110.00
2026	3,234,749	59,724	91,425	3,203,049	2,911,863	110.00
2027	3,307,532	61,068	93,253	3,275,346	2,977,588	110.00
2028	3,369,468	62,211	95,118	3,336,561	3,033,238	110.00
2029	3,442,350	63,557	97,020	3,408,886	3,098,988	110.00
2030	3,509,410	64,795	98,961	3,475,244	3,159,313	110.00
2031	3,587,605	66,239	100,940	3,552,904	3,229,913	110.00
2032	1,773,145	32,738	102,959	1,702,924	1,548,113	110.00

⁽¹⁾ Special Tax Revenues for Fiscal Year 2016-17 and each year thereafter are based on 110.00% debt service coverage. The Assigned Special Taxes for Fiscal Year 2016-17 is equal to \$4,161,966 which includes all property considered Developed Property for Fiscal Year 2016-17 and will increase each year by 2% thereafter. Assumes no future development thereafter.

⁽²⁾ Pursuant to Section 53321(d) of the Government Code and the Amended and Restated Rate and Method, the special tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued will not be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's parcel within the Community Facilities. As a result, it is possible that the School District may not be able to increase the tax levy to the assigned special tax in all years.

⁽³⁾ Based on Administrative Expenses of \$75,000 in Fiscal Year 2015-16, escalated by 2.00% per year thereafter.

⁽⁴⁾ Based on preliminary bond sizing dated June 23, 2016 provided by Government Financial Strategies inc.

⁽⁵⁾ Calculated by dividing the Net Special Tax Revenues column by the Total Debt Service column.

* Preliminary, subject to change.

Source: David Taussig & Associates, Inc.

Pursuant to Resolution No. 0506-73, adopted on April 24, 2006, the Board determined that the Community Facilities District had funded all projects intended to be funded with bond proceeds of the Community Facilities District and the Board reduced the bond authorization and reduced the final term of the Special Tax levy to Fiscal Year 2036-37, so long as the Special Tax is not needed to pay debt service on bonds of the Community Facilities District. The Community Facilities District is authorized by the Amended and Restated Rate and Method to levy Special Taxes for school facilities and/or city facilities. If the Community Facilities District were in the future to levy Special Taxes on Developed Property for debt service on the 2016 Bonds and for facilities at the Assigned Special Tax rates, such levy would

provide debt service coverage in an amount of approximately 1.67 times the debt service on the 2016 Bonds.

In recent years, Special Tax Revenues have been based on 110.00% debt service coverage. The Community Facilities District has covenanted in the Indenture to fix and levy the amount of Special Taxes within the Community Facilities District 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 the amount required for the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the Bond Year commencing in such Fiscal Year, the amount required for any necessary replenishment of the Reserve Fund and the amount estimated to be sufficient to pay the Administrative Expenses during such year, taking into account the balances in the funds and accounts established thereunder. See, APPENDIX C – “Summary of Certain Provisions of the Indenture.”

Redemption

Optional Redemption. The 2016 Bonds maturing on and after September 1, 2026, are subject to redemption in authorized denominations, in whole or in part, on any date on and after September 1, 2025, at a redemption price equal to the principal amount of 2016 Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Redemption from Special Tax Prepayment. The 2016 Bonds are subject to mandatory redemption, in whole or in part, in authorized denominations on any Interest Payment Date, 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 2016 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
March 1, 2017 through and including March 1, 2023	103%
September 1, 2023 and March 1, 2024	102
September 1, 2024 and March 1, 2025	101
September 1, 2025 and thereafter	100

*Mandatory Sinking Fund Redemption.** The 2016 Bonds, maturing on September 1, 20__, are subject to mandatory sinking fund redemption, in part, on September 1 in each year commencing September 1, 20__, at a redemption price equal to the principal amount of the 2016 Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the aggregate principal amounts in the respective years as follows:

Bonds Maturing on September 1, 20__

<u>Sinking Fund Redemption Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount to be</u> <u>Redeemed</u> \$
20__	
20__	
20__	
20__ (maturity)	

* Preliminary, subject to change.

The amounts in the foregoing table will be reduced as a result of any prior partial redemption of the 2016 Bonds pursuant to an optional redemption or redemption from proceeds of Special Tax prepayments as specified in writing by the Community Facilities District to the Trustee.

Purchase In Lieu of Redemption. In lieu of an optional, extraordinary mandatory or mandatory sinking fund redemption, the Community Facilities District may elect to purchase such 2016 Bonds at public or private sale at such prices as the Community Facilities District in its discretion may determine; *provided*, that, unless otherwise authorized by law, the purchase price (including brokerage and other charges) thereof will not exceed the principal amount thereof, plus accrued interest accrued to the purchase date and any premium which would otherwise be due if such 2016 Bonds were to be redeemed in accordance with the Indenture.

Notice of Redemption. The Trustee on behalf and at the expense of the Community Facilities District will mail (by first-class mail) notice of any redemption to the respective Owners of any 2016 Bonds designated for redemption at their respective addresses appearing on the Registration Books at least 30 but not more than 60 days prior to 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, the Bond numbers and the maturity or maturities of the 2016 Bonds to be redeemed (except in the event of redemption of all of the 2016 Bonds of such maturity or maturities in whole), and will require that such 2016 Bonds be then surrendered at the Office of the Trustee for redemption at the Redemption Price, giving notice also that further interest on such 2016 Bonds will not accrue from and after the date fixed for redemption. Neither the failure to receive any notice so mailed, nor any defect in such notice, will affect the validity of the proceedings for the redemption of the 2016 Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

Conditional Notice of Optional Redemption. With respect to any notice of any optional redemption of 2016 Bonds, unless at the time such notice is given the 2016 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 2016 Bonds to be redeemed, and that if such moneys have not been so received said notice will be of no force and effect and the Community Facilities District will not be required to redeem such 2016 Bonds. In the event a notice of redemption of 2016 Bonds contains such a condition and such moneys are not so received, the redemption of 2016 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 2016 Bonds pursuant to such notice of redemption.

Effect of Redemption. Notice of redemption having been mailed as described above, and moneys for the redemption price, and the interest to the applicable date fixed for redemption, having been set aside in the Redemption Fund, the 2016 Bonds will become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said 2016 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 2016 Bonds to be redeemed, together with interest to said date, is held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof has been mailed as described above and not canceled, then, from and after said date, interest on said 2016 Bonds will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of 2016 Bonds will be held in trust for the account of the Owners of the 2016 Bonds so to be redeemed without liability to such Owners for interest thereon.

Registration, Transfer and Exchange

Registration. Subject to the provision for book-entry registration of 2016 Bonds, the Trustee will keep sufficient books for the registration and transfer of the 2016 Bonds, and upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said register, the 2016 Bonds as hereinbefore provided. The Community Facilities District and the Trustee will treat the owner of any Bond whose name appears on the Bond Register as the holder and absolute Owner of such 2016 Bond for all purposes under the Indenture.

Transfer and Exchange of 2016 Bonds. Subject to the provision for book-entry registration of 2016 Bonds, any 2016 Bond may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such 2016 Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any 2016 Bond or 2016 Bonds are surrendered for transfer, the Community Facilities District will execute and the Trustee will authenticate and will deliver a new 2016 Bond or 2016 Bonds of the same maturity in a like aggregate principal amount, in any authorized denomination. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Subject to the provision for book-entry registration of 2016 Bonds, the 2016 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 2016 Bonds of the same maturity of other authorized denominations. The Trustee will require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee will not be obligated to make any transfer or exchange of 2016 Bonds during the period established by the Trustee for the selection of 2016 Bonds for redemption, or with respect to any 2016 Bonds selected for redemption.

Book-Entry and DTC

DTC will act as securities depository for the 2016 Bonds. The 2016 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 2016 Bond certificate will be issued for each maturity of the 2016 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX F – "Book-Entry System."

SECURITY FOR THE 2016 BONDS

General

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Net Special Tax Revenues and any other amounts (including proceeds of the sale of the 2016 Bonds) held in the Special Tax Fund, the Bond Fund and the Reserve Fund are pledged to secure the payment of the principal of, premium, if any, and interest on the 2016 Bonds and Parity Bonds in accordance with their terms, the provisions of the Indenture and the Act. Such pledge will constitute a first lien on such assets.

The Community Facilities District will fix and levy the amount of Special Taxes within the Community Facilities District in accordance with the Amended and Restated Rate and Method and, subject to the limitations in the Amended and Restated Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield the amount required for the payment of principal of and interest on any Outstanding 2016 Bonds and Parity Bonds becoming due and payable during the Bond Year commencing in such Fiscal Year, the amount required for any necessary replenishment of the Reserve Fund and the amount estimated to be sufficient to pay the Administrative Expenses during such year, taking into account the balances in the funds and accounts established thereunder.

The scheduled payment of the principal of and interest on the 2016 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2016 Bonds by BAM. See "BOND INSURANCE" herein and APPENDIX G hereto. Pursuant to the Indenture, BAM will be deemed to be the sole owner of the 2016 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the 2016 Bonds are entitled to take pursuant to the Indenture.

Amounts in the Administrative Expense Fund, the Costs of Issuance Fund, and the Rebate Fund are not pledged to the repayment of the 2016 Bonds. The School District Facilities constructed and/or acquired with the proceeds of bonds previously issued by the Community Facilities District are not in any way pledged to pay the debt service on the 2016 Bonds and Parity Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2016 Bonds or Parity Bonds are not pledged to pay the debt service on the 2016 Bonds or Parity Bonds.

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. The Amended and Restated Rate and Method provides that the Special Taxes will be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, *provided, however*, that the Community Facilities District may directly bill the Special Tax and may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

Because the Special Tax levy is limited to the maximum Special Tax rates set forth in the Amended and Restated Rate and Method, no assurance can be given that, in the event of Special Tax delinquencies, the receipt of Special Taxes will, in fact, be collected in sufficient amounts in any given year to pay debt service on the 2016 Bonds.

Although the Special Taxes, when levied, will constitute a lien on parcels subject to taxation, it does not constitute a personal indebtedness of the owners of property. There is no assurance that the

owners of real property will be financially able to pay the annual Special Tax or that they will pay such tax even if financially able to do so. See “BONDOWNERS’ RISKS” herein.

THE 2016 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2016 BONDS, ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OF CALIFORNIA (THE “STATE”) OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE 2016 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2016 BONDS. OTHER THAN THE SPECIAL TAXES LEVIED PURSUANT TO THE AMENDED AND RESTATED RATE AND METHOD, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2016 BONDS AND MONEYS RECEIVED UNDER THE INSURANCE POLICY AND THE RESERVE POLICY. THE 2016 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES LEVIED PURSUANT TO THE AMENDED AND RESTATED RATE AND METHOD AND MONEYS RECEIVED UNDER THE INSURANCE POLICY AND THE RESERVE POLICY, AS MORE FULLY DESCRIBED HEREIN.

Amended and Restated Rate and Method

The Special Taxes will be levied and collected according to the Amended and Restated Rate and Method, which provides the means by which the Legislative Body may annually levy the Special Taxes within the Community Facilities District, up to the maximum Special Tax rates, and to determine the amount of the Special Taxes that will need to be collected each Fiscal Year from the “Taxable Property” within the Community Facilities District.

The following is a synopsis of the provisions of the Amended and Restated Rate and Method, which should be read in conjunction with the complete text of the Amended and Restated Rate and Method which is included in APPENDIX B. Capitalized terms used but not defined in this section have the meanings given them in the Amended and Restated Rate and Method. This section provides only a summary of the Amended and Restated Rate and Method, and is qualified by more complete and detailed information contained in the entire Amended and Restated Rate and Method included in APPENDIX B.

Under the Amended and Restated Rate and Method, all Taxable Property in the Community Facilities District will be classified as Developed Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Religious Property, Taxable Senior Housing Property, Taxable Public Property or Undeveloped Property and will be subject to a Special Tax levy at the maximum rates described in Section C of the Amended and Restated Rate and Method.

A parcel will be classified as Developed Property if it is Taxable Property (other than Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Religious Property, Taxable Senior Housing Property or Taxable Public Property) for which a building permit for new construction was issued prior to March 1 of the previous Fiscal Year. Developed Property will be further assigned to land use classes for Residential Property (Land Use Class 1), and Non-Residential Property (Land Use Class 3). The Maximum Annual Special Tax for Developed Property and Taxable Senior Housing Property will be the greater of the Assigned Special Tax or the Backup Special Tax. The Fiscal

Year 2016-17 Assigned Special Tax rates for each Assessor's Parcel of Developed Property is shown in the table below:

**ASSIGNED SPECIAL TAXES FOR DEVELOPED PROPERTY
PROJECTED FOR FISCAL YEAR 2016-17
COMMUNITY FACILITIES DISTRICT NO. 90-2**

<i>Land Use</i>	<i>Class</i>	<i>Description</i>	<i>Assigned Special Tax</i>
	1	Residential Property	\$0.4613 per square foot of Residential Floor Area
	2	Taxable Senior Housing Property	\$0.4613 per square foot of Residential Floor Area
	3	Non-Residential Property	\$0.0837 per square foot of Non-Residential Floor Area

The Assigned Special Tax in the table above is applicable for Fiscal Year 2016-17. On July 1 of each Fiscal Year the Assigned Special Tax will be increased by an amount equal to two percent (2%) of the Assigned Special Tax in effect for the previous Fiscal Year.

For Fiscal Year 2016-17, the Backup Special Tax for an Assessor's Parcel of Developed Property and Taxable Senior Housing Property is projected to be \$0.2338 per square foot of the Assessor's Parcel, provided however, that the Backup Special Tax will not apply to the first 100 Acres of Non-Residential Property. On July 1 of each Fiscal Year the Backup Special Tax will be increased by an amount equal to two percent (2%) of the Backup Special Tax in effect for the previous Fiscal Year.

The Maximum Special Tax for Undeveloped Property, Undeveloped Non-Residential Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property is equal to \$8,649.29 per acre for Fiscal Year 2016-17, and will increase thereafter on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Maximum Special Tax for the previous Fiscal Year. The Fiscal Year 2016-17 Expected Special Tax for Undeveloped Non-Residential Property is \$1,572.47 per acre.

The Amended and Restated Rate and Method expressly exempts up to 1,230.74 acres of Property Owner Association Property, Public Property and/or Religious Property and 206.6 acres of Golf Course Property. In addition, no Special Tax will be levied on up to 66.02 acres of Senior Housing Property. See APPENDIX B – “Amended and Restated Rate and Method of Apportionment of Special Taxes.”

The School District will determine the Special Tax Requirement for the Fiscal Year pursuant to the Indenture. “Special Tax Requirement” is defined in the Amended and Restated Rate and Method as the amount required in any Fiscal Year to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the 2016 Bonds, including, but not limited to, credit enhancement and rebate payments on the 2016 Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for construction of Community Facilities District facilities eligible under the Act to the extent that the inclusion of such amount does not increase the Special Tax on Undeveloped Property or Undeveloped Non-Residential Property; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; (vii) less a credit for funds available to reduce the annual Special Tax levy, as determined by the School District pursuant to the Indenture.

The Special Tax will be levied each Fiscal Year as follows:

First: The Special Tax will be levied proportionately on each Assessor's Parcel of Developed Property and Taxable Senior Housing Property at up to 100% of the applicable Assigned Special Tax as needed to satisfy the Special Tax Requirement.

Second: If additional moneys are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax will be levied Proportionately on each Assessor's parcel of Undeveloped Property and Undeveloped Non-Residential Property at up to 100% of the Maximum Special Tax for Undeveloped Property and up to 100% of the Special Tax for each Acre of Undeveloped Non-Residential Property Undeveloped Non-Residential Property, respectively;

Third: If additional moneys are needed to satisfy the Special tax requirement after the first two steps have been completed, then the levy of the Special Tax on each Assessor's parcel of Undeveloped Non-Residential Property will be increased Proportionately from the Expected Special Tax up to 100% of the Maximum Special Tax for Undeveloped Non-Residential Property;

Fourth: If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property or Taxable Senior Housing Property whose Maximum Special Tax is determined through the application of the Backup Special Tax will be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

Fifth: If additional moneys are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax will be levied Proportionately on each Assessor's Parcel of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property. See APPENDIX B – “Amended and Restated Rate and Method of Apportionment of Special Taxes.”

Special Tax Levy

Special Taxes in the amount of \$2,732,338 are estimated to be levied on Residential Property and Non-Residential Property within the Community Facilities District for Fiscal Year 2016-17. No Special Tax is expected to be levied on other categories of property within the Community Facilities District.

Table 3 below summarizes the projected Fiscal Year 2016-17 Special Tax levy to be made in accordance with the Amended and Restated Rate and Method:

Table 3
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)
Projected Fiscal Year 2016-17 Special Tax Levy

Land Use	Number of Residential Units	Number of Building Sq. Ft./Acres		Fiscal Year 2016-17 Assigned/Maximum Special Tax ⁽¹⁾		Estimated Fiscal Year 2016-17 Actual Special Tax		Percent of Assigned/Maximum Special Tax
Residential Property	3,218	8,858,694	Sq. Ft.	\$0.4613	Sq. Ft.	\$0.3039	per unit	65.88%
Taxable Senior Housing Property	0	0	Sq. Ft.	0.4613	Sq. Ft.	0.3039	per unit	65.88
Non-Residential Property	NA	901,436	Sq. Ft.	0.0837	Sq. Ft.	0.0551	per unit	65.88
Undeveloped Property	NA	0.00	Acres	\$8,649.29	per Acre	\$0.00	per Acre	0.00%
Undeveloped Non-Residential Property (Expected)	NA	17.41	Acres	1,572.47	per Acre	0.00	per Acre	0.00
Backup Special Tax	NA	NA		0.2338	per Sq. Ft.	0.00	per Sq. Ft.	0.00
Total Assigned/Maximum Special Taxes				\$4,189,335		\$2,741,966		

⁽¹⁾ Based on the Assigned Special Tax rates for Residential and Non-Residential Property and the Maximum Special Tax rate for Undeveloped Property. The assigned and maximum rates increase by 2.00% per year.

⁽²⁾ Does not include 362 units which prepaid its special tax obligation in February 2015 and will not be levied.

Source: David Taussig & Associates, Inc.

As indicated above, under the Amended and Restated Rate and Method, the Community Facilities District levies on Developed Property in an amount less than the Assigned Special Tax. A portion of the Special Tax Requirement may be utilized for acquisition and/or construction of facilities eligible under the Act. In the event the Community Facilities District were to levy Special Taxes on Developed Property at less than the Assigned Special Tax, pursuant to Section 53321 of the Act and the Amended and Restated Rate and Method, a resolution adopted by the Community Facilities District and the Amended and Restated Rate and Method, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other parcel or parcels within the Community Facilities District. 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.

Proceeds of Foreclosure Sales

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

The Community Facilities District will determine or cause to be determined, on or about June 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 send or cause to be sent a notice of delinquency and demand for payment thereof to the property owner within 45 days of such determination and if such delinquency remains uncured, order and cause to be commenced within 90 days of such determination of delinquency, 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.

Notwithstanding the foregoing, however, the Community Facilities District is not required to order the commencement of foreclosure proceedings under the preceding paragraphs, if (i) 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 (ii) no draw has been made on the Reserve Fund that has not been replenished. However, 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, notwithstanding the first sentence of this paragraph.

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

No assurances can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. See "BONDOWNERS' RISKS – Potential Delay and Limitations in Foreclosure Proceedings." If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the Community Facilities District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 120 days from the date of service of the Notice of Levy and 20 days from the subsequent notice of sale in which to redeem the property to be sold. If a judgment debtor fails to so redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the

revived judgment as if the sale had not been made. The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price unless a lesser minimum bid price is authorized by the Owners of 75% of the principal amount of the 2016 Bonds Outstanding.

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

If the Reserve Fund is depleted and delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Bondholders pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of foreclosure sale proceeds, if any. However, within the limits of the Amended and Restated Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the 2016 Bonds and Parity Bonds, if any, and to replenish the Reserve Fund. There is, however, no assurance that the maximum Special Tax rates will be at all times sufficient to pay the amounts required to be paid on the 2016 Bonds and Parity Bonds, if any, by the Indenture. The levy of Special Taxes is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of the Community Facilities District and the limitation imposed by Section 53321 of the Act which limits Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued being increased by more than 10% as a consequence of delinquency or default by the owner of any other parcel or parcels within the Community Facilities District. See "SECURITY FOR THE 2016 BONDS – Special Tax Levy."

Special Tax Fund

Pursuant to the Indenture, the Special Tax Revenues received by the Community Facilities District will be deposited in the Special Tax Fund, which will be held by the Trustee on behalf of the Community Facilities District. Any portion of any such Special Tax Revenues that represents prepaid Special Taxes that are to be applied to the payment of the redemption price of 2016 Bonds or Parity Bonds in accordance with the provisions of the Indenture will be identified to the Trustee as such by the Community Facilities District and will be deposited in the Redemption Fund.

Pending disbursement, moneys in the Special Tax Fund will be subject to a lien in favor of the Bondholders of the 2016 Bonds as established under the Indenture.

Upon receipt of a Written Request of the Community Facilities District, the Trustee will 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 2016 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 (or necessary to reimburse BAM for any draw on the Reserve Policy).

On or after September 2 of each year, after having made any requested transfer to the Administrative Expense Fund, the Bond Fund and the Reserve Fund, the Trustee will withdraw from the Special Tax Fund and transfer to the Surplus Fund all or a portion of any moneys remaining in the Special Tax Fund upon receipt of a Written Request delivered to the Trustee by the Community Facilities District.

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

Bond Fund

The Trustee will establish and maintain the Bond Fund in trust for the benefit of the Bondholders. On each Interest Payment Date, the Trustee will withdraw from the Bond Fund for payment to the Owners of the 2016 Bonds and Parity Bonds, if any, the principal, if any, of and interest on the 2016 Bonds and Parity Bonds, if any, then due and payable, including principal due and payable by reason of mandatory sinking fund redemption of such 2016 Bonds and Parity Bonds, if any.

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 2016 Bonds and Parity Bonds, if any, due and payable on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such 2016 Bonds and Parity Bonds, if any, the Trustee will withdraw from the Reserve Fund, to the extent of any funds therein, the amount of such insufficiency, and will transfer any amounts so withdrawn to the Bond Fund.

Redemption Fund

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

Reserve Fund

In order to further secure the payment of principal of and interest on the 2016 Bonds, certain proceeds of the 2016 Bonds will be deposited into the Reserve Fund in an amount such that the total amount in the Reserve Fund will be equal to the Reserve Requirement (see “ESTIMATED SOURCES AND USES OF FUNDS” herein). The Indenture defines Reserve Requirement, with respect to the 2016 Bonds and any Parity Bonds, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the 2016 Bonds and any Parity Bonds (excluding 2016 Bonds and Parity Bonds refunded with the proceeds of subsequently issued Parity Bonds), (b) the largest Annual Debt Service for any Bond Year, including the Bond Year the calculation is made (“Maximum Annual Debt Service,”) or (c) 125% of the average of the Average Annual Debt Service for all Bond Years, including the Bond Year in which the calculation is made.

In connection with the issuance of the 2016 Bonds, the Community Facilities District has acquired the Reserve Policy in the amount of \$ _____, which is equal to the Reserve Requirement as of the date of issuance of the 2016 Bonds.

Except as otherwise provided below, all amounts deposited in the Reserve Fund will be used and withdrawn by the Trustee solely for the purpose of making transfers to the Bond Fund 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 2016 Bonds and Parity Bonds, if any, (or to reimburse BAM for draws on the Reserve Policy) or, in accordance with the provisions described below, for the purpose of redeeming 2016 Bonds and/or Parity Bonds.

So long as no Event of Default has occurred and is continuing, any amount in the Reserve Fund in excess of the Reserve Requirement on September 2 of each year will be withdrawn from the Reserve Fund by the Trustee and deposited in the Bond Fund. Notwithstanding the foregoing, before any such deposit is made, such amount will be available for the payment of any rebate that may be owed under the Code, as specified in a Written Request of the Community Facilities District delivered to the Trustee on or before September 2 of each year.

Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay all the Outstanding 2016 Bonds and Parity 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 2016 Bonds and Parity Bonds.

Whenever 2016 Bonds and/or Parity Bonds are to be redeemed pursuant to optional redemption or mandatory redemption from Special Tax prepayments or the corresponding provisions of a Supplemental Indenture, a proportionate share, determined as described below, of the amount on deposit in the Reserve Fund will, on the Business Day prior to the date on which such 2016 Bonds and/or Parity Bonds are to be redeemed, be transferred by the Trustee from the Reserve Fund to the Redemption Fund and will be applied to the redemption of said 2016 Bonds and/or Parity Bonds; provided, however, that such amount will 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 2016 Bonds and/or Parity Bonds to be redeemed). Such proportionate share will be equal to the largest integral multiple of \$5,000 that is not larger than the amount equal to the product of (a) the amount on deposit in the Reserve Fund on the date five Business Days prior to the date notice of redemption of such 2016 Bonds and/or Parity Bonds is required to be given pursuant to the provisions hereof, times (b) a fraction, the numerator of which is the principal amount of 2016 Bonds and/or Parity Bonds to be so redeemed and the denominator of which is the principal amount of 2016 Bonds and/or Parity Bonds to be Outstanding on the day prior to the date on which such 2016 Bonds and/or Parity Bonds are to be so redeemed.

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

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

Administrative Expense Fund

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

Pursuant to the Indenture, moneys in the Administrative Expense Fund will not be construed as a trust fund held for the benefit of the Owners of the 2016 Bonds and will not be available for the payment of debt service on the 2016 Bonds.

Surplus Fund

The Trustee will establish and maintain a special fund designated the “Surplus Fund.” The Trustee will deposit in the Surplus Fund the amounts transferred from the Special Tax Fund and required to be deposited therein as described above. The moneys in the Surplus Fund will be used and withdrawn by the Trustee from time to time, upon receipt of a written request of the Community Facilities District, directing the Trustee to transfer the amount so specified in such written request to: (i) the Redemption Fund to redeem Bonds; or (ii) the Community Facilities District for any authorized purpose of the Community Facilities District.

Investment of Moneys in Funds

Moneys in any fund or account created or established by the Indenture and held by the Trustee will be invested by the Trustee in Permitted Investments, as directed by the Community Facilities District, that mature 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 will mature no later than the earlier of five years from the date of investment or the final maturity date of the 2016 Bonds or Parity Bonds; *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 2016 Bonds or Parity Bonds. Absent timely written direction from the Community Facilities District, the Trustee will invest any funds held by it in Permitted Investments consisting of money market funds which are rated Am or better by S&P, including money market funds so rated for which the Trustee and its affiliates provide investment advisory or other management services. See APPENDIX C – “Summary of Certain Provisions of the Indenture” for a definition of “Permitted Investments.”

Payment of Rebate Obligation

The Community Facilities District is required to calculate excess investment earnings in accordance with the requirements set forth in the Indenture. If necessary, the Community Facilities District may use amounts in the Special Tax Fund, amounts on deposit in the Administrative Expense Fund and other funds available to the Community Facilities District (except amounts required to pay debt service on the 2016 Bonds) to satisfy rebate obligations.

Parity Bonds for Refunding Purposes Only

Bonds issued on a parity with the 2016 Bonds (“Parity Bonds”) may be issued for refunding purposes only and subject to specific conditions including that the Community Facilities District must be in compliance with all covenants set forth in the Indenture and any Supplement then in effect and a

certificate of the Community Facilities District to that effect will be filed with the Trustee. See APPENDIX C – “Summary of Certain Provisions of the Indenture.”

Special Taxes Are Within Teeter Plan

The County has adopted a Teeter Plan as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. By policy, the County does include special taxes of the community facilities districts formed by the School District in its Teeter program.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the 2016 Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the 2016 Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the 2016 Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the 2016 Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the 2016 Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the 2016 Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and

BAM does not guarantee the market price or liquidity of the 2016 Bonds, nor does it guarantee that the rating on the 2016 Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2016 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$475.0 million, \$41.6 million and \$433.4 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the 2016 Bonds or the advisability of investing in the 2016 Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are

statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the 2016 Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the 2016 Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the 2016 Bonds, whether at the initial offering or otherwise.

THE COMMUNITY FACILITIES DISTRICT

General Information

The Community Facilities District was formed in 1990. The Community Facilities District comprises approximately 2,176 gross acres within the southwesterly portion of the County, and all of such property is within the City of San Clemente. The land within the Community Facilities District is part of the approximately 3,510 acre Talega Valley Planned Development (the “Talega Project”). The Community Facilities District, as of March 1, 2016, contains 3,580 residential units, of which 362 units have prepaid the Special Tax, and approximately 62 acres of commercial. The Community Facilities District also includes an 18-hole public golf course on approximately 195 acres and approximately 2,000 acres of natural open space and public support uses, including parks and an elementary school.

Pursuant to the Amended and Restated Rate and Method, 1,230.74 acres of public property (including streets and public parks), religious property and property that is or will be owned by the property owners’ homeowners’ association (including private streets and open space) are exempt from Special Taxes. The Community Facilities District estimates that there are currently approximately 1,231 exempt acres.

The Community Facilities District was first established in 1990 and Improvement Area No. 2002-1 was added to the Community Facilities District in 2002. The Community Facilities District includes approximately 2,325 single-family detached homes and approximately 635 attached units subject to the levy of Special Taxes by the Community Facilities District which have been built. See “Authority for Issuance,” below, for additional information regarding the proceedings of the Legislative Body with respect to the Community Facilities District. The Community Facilities District includes a neighborhood park.

Authority for Issuance

As required by the Act, the Board has taken the following actions with respect to establishing the Community Facilities District and authorizing issuance of the 2016 Bonds:

Resolutions of Intention: On April 16, 1990, the Board adopted Resolution No. 90-32 stating its intention to establish the Community Facilities District and to authorize the levy of a special tax therein pursuant to a Rate and Method of Apportionment of Special Tax and Resolution No. 9033 stating its intention to incur bonded indebtedness.

Resolutions Relating to Formation: Immediately following a noticed public hearing on May 21, 1990, the Board of Trustees adopted Resolution No. 90-50 (the “Resolution of Formation”), which approved the financing of the authorized School District facilities and approved the original rate and method of apportionment and authorized the levy of the Special Taxes pursuant to the original rate and

method of apportionment, subject to the approval of such levy by the qualified voters. On May 21, 1990, the Board of Trustees also adopted Resolution No. 90-51 which determined the necessity to incur bonded indebtedness in an amount not to exceed \$10,000,000.

Landowner Election and Declaration of Results: On June 19, 1990, an election was held within the Community Facilities District, in which the landowners eligible to vote, being the qualified electors, approved the ballot proposition authorizing the issuance of up to \$30,000,000 in bonds to finance the acquisition and construction of the School District facilities. The qualified electors within the Community Facilities District also approved the levy of a special tax in accordance with the rate and method and the establishment of an appropriations limit. On July 2, 1990, the Board adopted Resolution No. 90-69 pursuant to which the Board approved the canvass of the votes. The Amended and Restated Rate and Method is set forth in APPENDIX B hereto.

Ordinance Levying Special Taxes: On July 2, 1990, the Board adopted Ordinance No. 90-2-1 levying the Special Tax within the Community Facilities District.

Special Tax Lien and Levy: A Notice of Special Tax Lien was recorded in the real property records of Orange County on July 25, 1990, as Document No. 90-391206 (the “Original Notice of Special Tax Lien”).

Resolution of Consideration. On April 26, 1999, the Legislative Body adopted Resolution No. 9899-112, regarding authorizing the Community Facilities District to incur a bonded indebtedness in an amount not to exceed \$50,000,000 (the “Authorization”) and approved an amended and restated rate and method of apportionment of the Special Taxes to be levied to pay the principal of, and interest on, such bonded indebtedness.

On June 14, 1999, at a special election held pursuant to the Act, the owners of the property within the boundaries of the Community Facilities District, who were the qualified voters, authorized the Community Facilities District to incur a bonded indebtedness in an amount not to exceed \$50,000,000 (the “Authorization”) and approved an amended and restated rate and method of apportionment of the Special Taxes to be levied to pay the principal of, and interest on, such bonded indebtedness.

An Amendment No. 1 to Notice of Special Tax Lien was filed with respect to the proceedings to amend and restate the Original Rate and Method and was recorded on June 15, 1999, as Document No. 19990443388.

Improvement Area No. 2002-1 Proceedings: In 2002, the Legislative Body conducted proceedings to designate portions of the then undeveloped property in the Community Facilities District as Improvement Area No. 2002-1. On June 24, 2002, the Legislative Body adopted resolutions confirming the establishment of Improvement Area No. 2002-1 and calling an election to authorize the issuance of bonds and levying of a special tax within Improvement Area 2002-1, which levy is in addition to the levy of the Special Taxes. Special taxes levied by the Community Facilities District with respect to Improvement Area No. 2002-1 are not available to pay debt service on the 2016 Bonds.

Improvement Area No. 2002-1 Election. On June 24, 2002, at a special election held pursuant to the Act, voters within the boundaries of Improvement Area No. 2002-1 authorized the issuance of up to \$50,000,000 principal amount of special tax bonds to finance certain road and related facilities of the City of San Clemente and certain school facilities within Improvement Area No. 2002-1.

A notice of special tax lien was filed with respect to the Improvement Area No. 2002-1 special taxes and recorded on July 2, 2002, as Document No. 2002-0557166.

Resolution Authorizing Issuance of the Prior Bonds. On April 24, 2006, the Legislative Body adopted Resolution No. 0506-73 approving the issuance of the Prior Bonds. In connection therewith, the Legislative Body determined that the Community Facilities District had funded all projects intended to be funded with bond proceeds and reduced the Community Facilities District bond authorization by the unissued portion of the original \$50 million authorization and reduced the final term of the Special Tax levy to Fiscal Year 2036-37, so long as the special Tax is not needed to pay debt service on bonds of the Community Facilities District.

Resolution Authorizing Issuance of the 2016 Bonds: On May 11, 2016, the Board adopted Resolution No. 1516-59, approving issuance of the 2016 Bonds.

Special Tax Collections

The Special Tax on Developed Property authorized for the 2015-16 Fiscal Year was \$3,037,359, which was levied against 3,197 parcels. For the 2014-15 Fiscal Year, 40 parcels remain delinquent in the amount of \$2,752 as of June 6, 2016.

Table 4 below sets forth the Special Tax collections for Fiscal Years 2004-05 through 2015-16, all of which was levied on Developed Property.

Table 4
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)

Special Tax Delinquency History ⁽¹⁾

Fiscal Year	Total Tax Levy	Number of Parcels Levied	Number of Delinquent Parcels at Fiscal Year End ⁽²⁾	Fiscal Year Amount Delinquent ⁽²⁾	Fiscal Year Delinquency Rate ⁽²⁾	Amount Collected as of 6/24/2016 ⁽³⁾	Remaining Delinquency as of 6/24/2016 ⁽³⁾	Remaining Delinquency Rate as of 6/24/2016 ⁽³⁾
2004-05	\$2,458,452	2,348	42	\$23,412	0.95%	\$2,458,452	\$0	0.00%
2005-06	2,495,847	2,740	69	44,286	1.77	2,495,847	0	0.00
2006-07	2,910,838	3,150	143	110,866	3.81	2,910,838	0	0.00
2007-08	3,237,166	3,340	201	180,460	5.57	3,237,166	0	0.00
2008-09	3,470,428	3,443	195	172,590	4.97	3,469,510	919	0.03
2009-10	3,578,899	3,469	239	201,168	5.62	3,578,899	0	0.00
2010-11	3,692,206	3,496	103	91,956	2.49	3,689,827	2,380	0.06
2011-12	3,782,710	3,507	63	51,147	1.35	3,780,389	2,321	0.06
2012-13	3,874,452	3,515	54	48,658	1.26	3,873,120	1,332	0.03
2013-14	3,951,684	3,515	43	34,646	0.88	3,947,729	3,955	0.10
2014-15	3,050,921	3,528	40	30,122	0.99	3,048,170	2,752	0.09
2015-16	3,037,359	3,197	NA	NA	NA	3,007,845	24,105	0.79

⁽¹⁾ School District is a participant in the County's Teeter Plan.

⁽²⁾ As of approximately June 30 of the fiscal year in which special taxes were levied.

⁽³⁾ Delinquency data as of June 24, 2016 provided by the Orange County Tax Collector.

Source: David Taussig & Associates, Inc.

Value-to-Lien Ratios

Table 5 below summarizes the assessed values as of January 1 for the years indicated below. The assessed values as of January 1, 2016, will not be available until late July, 2016.

Table 5
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)
Summary of Assessed Values ⁽¹⁾

As of January 1	No. of Developed Units ⁽²⁾	Developed Property Assessed Value ⁽³⁾	Undeveloped Property Assessed Value ⁽⁴⁾	Total Developed and Undeveloped Property Assessed Value	Percent Change
2002	1,473	\$491,342,350	\$39,508,221	\$530,850,571	NA
2003	1,770	710,314,179	92,091,357	802,405,536	51.15%
2004	2,348	1,041,019,116	96,818,148	1,137,837,264	41.80
2005	2,740	1,533,271,485	83,169,184	1,616,440,669	42.06
2006	3,150	2,034,773,478	34,790,333	2,069,563,811	28.03
2007	3,340	2,503,029,167	48,716,148	2,551,745,315	23.30
2008	3,443	2,596,867,934	38,162,856	2,635,030,790	3.26
2009	3,469	2,357,692,916	31,802,164	2,389,495,080	-9.32
2010	3,496	2,319,392,623	17,053,407	2,336,446,030	-2.22
2011	3,507	2,280,886,103	15,973,135	2,296,859,238	-1.69
2012	3,515	2,261,703,843	13,822,593	2,275,526,436	-0.93
2013	3,515	2,279,142,011	14,098,996	2,293,241,007	0.78
2014	3,528	2,515,014,409	8,367,324	2,523,381,733	10.04
2015	3,197 ⁽⁵⁾	2,602,059,497	5,490,361	2,607,549,858 ⁽⁵⁾	3.34

⁽¹⁾ Reflects value for taxable property only.

⁽²⁾ Based on property for which a building permit has been issued as of March 1 of each year.

⁽³⁾ Based on land and improvement values as of January 1 provided by the Orange County Assessor for property for which a building permit has been issued as of March 1 of each year.

⁽⁴⁾ Based on land values as of January 1 provided by the Orange County Assessor for property for which a building permit has not been issued as of March 1 of each year.

⁽⁵⁾ Does not include 362 units which prepaid its special tax obligation in February 2015 and were not levied beginning in Fiscal Year 2015-16.

Source: County of Orange; David Taussig & Associates, Inc.

Based on the County's Fiscal Year 2015-16 assessor's roll, the aggregate assessed value of taxable property within the Community Facilities District was \$2,607,549,858. The Fiscal Year 2016-17 Special Tax levy anticipated to be billed to the properties within the Community Facilities District is estimated to be \$2,741,966. Set forth in Table 3 above in "SECURITY FOR THE 2016 BONDS – Special Tax Levy" is a summary of the projected Fiscal Year 2016-17 Special Tax levy by tax classes.

Table 6A
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)

Value-to-Lien Analysis of Developed Property by Range (Does Not Include Undeveloped Property)

Value-to-Lien Range	Number of Parcels Taxed	Expected FY 2016-17 CUSD CFD No. 90-2 Levy ⁽¹⁾	Percentage of Estimated FY 2016-17 Levy	CUSD CFD No. 90-2, IA No. 2002-1 Bonds Outstanding ^{(2)*}	CUSD CFD No. 90-2, IA No. 2002-1 Bonds Outstanding ^{(3)*}	SMWD CFD No. 99-1 Bonds Outstanding ^{(3)*}	MWD Bonds Outstanding ⁽³⁾	WRCOG CA HERO PACE Program	CSCDA California First PACE Program	Total Direct and Overlapping Debt*	Fiscal Year 2015-16 Assessed Value ⁽⁴⁾	Estimated Assessed Value-to-Lien Ratios*
0-0.99	23 ⁽⁵⁾	\$31,666	1.15%	\$376,483	\$756,246	\$795,707	\$13	\$0	\$0	\$1,928,449	\$416,192	0.22 to 1
1.00-2.99	13 ⁽⁶⁾	17,298	0.63	205,661	117,152	123,264	24	0	0	446,101	805,031	1.80 to 1
3.00-4.99	22	22,043	0.80	262,072	474,751	595,866	149	0	0	1,332,838	4,876,036	3.66 to 1
5.00-9.99	42	51,027	1.86	606,675	532,819	1,379,381	416	0	0	2,519,291	18,591,309	7.38 to 1
10.00-19.99	2,094	1,846,661	67.35	21,955,466	38,186,619	50,071,067	51,940	14,930	38,577	110,318,599	1,705,742,715	15.46 to 1
20.00 or Greater	937	773,272	28.20	9,193,643	837,411	23,809,253	26,849	0	0	33,867,155	875,060,263	25.84 to 1
Grand Total	3,131 ⁽⁷⁾	\$2,741,966	100.00%	\$32,600,000	\$40,904,998	\$76,774,538	\$79,391	\$14,930	\$38,577	\$150,412,434	\$2,605,491,546	17.32 to 1

⁽¹⁾ Includes property for which a building permit was issued as of March 1, 2016. Based on expected Fiscal Year 2016-17 levy for the School District.

⁽²⁾ Based on preliminary bond sizing dated June 23, 2016 provided by Government Financial Strategies inc. Allocated based on share of estimated Fiscal Year 2016-17 levy.

⁽³⁾ As of March 2, 2016. Allocated based on Fiscal Year 2015-16 levy.

⁽⁴⁾ Fiscal Year 2015-16 land and improvement values as of January 1, 2015 provided by the Orange County Assessor.

⁽⁵⁾ All 23 parcels were owned by SP Telega LLC as of January 1, 2015 and did not have any improvement value.

⁽⁶⁾ Eight of the 13 parcels were owned by SP Telega LLC as of January 1, 2015 and did not have any improvement value. Five parcels have reduced assessed value due to Proposition 60/90.

⁽⁷⁾ Does not include 362 units which prepaid its special tax obligation in February 2015 and will not be levied. Also, does not include 283 senior units and golf course property which are not taxed under the Community Facilities District.

*Preliminary, subject to change.

Source: David Taussig & Associates, Inc.

Table 6B
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)

Estimated Assessed Value-to-Lien Ratios

Property Classification / Owner ⁽¹⁾	Number of Units/ Acres	CUSD CFD No. 90-2 Expected Fiscal Year 2016-17 Levy	CUSD CFD No. 90-2 Bonds Outstanding ^{(2)*}		CUSD CFD No. 90-2 IA No. 2002-1 Bonds Outstanding ⁽³⁾		SMWD CFD No. 99-1 Bonds Outstanding ⁽³⁾		WRCOG MWD GO Bonds Outstanding ⁽³⁾ CA HERO PACE Program		CSCDA California FIRST PACE Program		Total Direct and Overlapping Debt*	Assessed Value ⁽⁴⁾	Estimated Assessed Value-to-Lien Ratio
			CUSD CFD No. 90-2 Bonds Outstanding ^{(2)*}	IA No. 2002-1 Bonds Outstanding ⁽³⁾	SMWD CFD No. 99-1 Bonds Outstanding ⁽³⁾	WRCOG MWD GO Bonds Outstanding ⁽³⁾ CA HERO PACE Program	CSCDA California FIRST PACE Program								
Developed Property ⁽⁵⁾															
Residential Property															
Individual Owner	2,960 Units	\$2,537,338	\$30,167,123	\$39,034,704	\$68,590,239	\$73,260	\$14,930	\$38,577	\$137,918,833	\$2,375,639,259	17.22				
Jamboree-Tal Housing II	62 Units	19,615	233,209	0	530,241	0	0	0	763,450	4,998,801	6.55				
Jamboree-Tal Housing LP	124 Units	39,230	466,418	0	1,060,482	0	0	0	1,526,900	21,906,325	14.35				
Ora Alora 36 LLC	32 Units	41,564	494,161	702,418	739,069	532	0	0	1,936,180	17,170,074	8.87				
<u>SP Talega LLC</u>	<u>40 Units</u>	<u>54,511</u>	<u>648,101</u>	<u>1,015,925</u>	<u>1,068,936</u>	<u>185</u>	<u>0</u>	<u>0</u>	<u>2,733,146</u>	<u>5,952,830</u>	<u>2.18</u>				
Subtotal	3,218 Units ⁽⁷⁾	\$2,692,258	\$32,009,011	\$40,753,047	\$71,988,967	\$73,977	\$14,930	\$38,577	\$144,878,509	\$2,425,667,289	16.74				
Commercial Property															
Individual Owner	52.68 Acres	\$43,800	\$520,749	\$0	\$4,046,191	\$4,486		\$0	\$4,571,425	\$149,842,989	32.78				
<u>Talega Village Center LLC</u>	<u>9.63 Acres</u>	<u>5,908</u>	<u>70,240</u>	<u>151,953</u>	<u>739,380</u>	<u>930</u>	<u>0</u>	<u>0</u>	<u>962,503</u>	<u>29,981,268</u>	<u>31.15</u>				
Subtotal	62.30 Acres	\$49,708	\$590,989	\$151,953	\$4,785,571	\$5,415		\$0	\$5,533,928	\$179,824,257	32.49				
Subtotal Developed Property		\$2,741,966	\$32,600,000	\$40,905,000	\$76,774,538	\$79,392	\$14,930	\$38,577	\$150,412,437	\$2,605,491,546	17.32				
Undeveloped Property ⁽⁶⁾	17.41 Parcels	\$0	\$0	\$0	\$0	\$0	\$64	\$0	\$0	\$64	\$2,058,312	32,252.71			
GRAND TOTAL	NA	\$2,741,966	\$32,600,000	\$40,905,000	\$76,774,538	\$79,456	\$14,930	\$38,577	\$150,412,501	\$2,607,549,858	17.34				

⁽¹⁾ Reflects ownership as of January 1, 2015, provided by the Orange County Assessor.

⁽²⁾ Based on preliminary bond sizing dated June 23, 2016, provided by Government Financial Strategies inc. Allocated based on share of estimated Fiscal Year 2016-17 levy.

⁽³⁾ As of March 2, 2016. Allocated based on Fiscal Year 2015-16 levy.

⁽⁴⁾ Fiscal Year 2015-16 land and improvement values as of January 1, 2015 provided by the Orange County Assessor.

⁽⁵⁾ Property for which building permit was issued prior to March 1, 2016.

⁽⁶⁾ Property for which a building permit had not yet been issued as of March 1, 2016.

⁽⁷⁾ Does not include 362 units which prepaid its special tax obligation in February 2015 and will not be levied. Also, does not include 283 senior units and nine parcels of golf course property which are not taxed under the Community Facilities District.

* Preliminary, subject to change.

Source: David Taussig & Associates, Inc.

Table 6C
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)

Estimated Fiscal Year 2016-17 Top Taxpayers

Owner ⁽¹⁾	Parcels Taxed	Land Use	Estimated Fiscal Year 2016-17 Special Tax Levy ⁽²⁾	Percent of Total Levy
Individual Owners	2,960	Residential	\$2,537,338	92.54% ⁽⁴⁾
SP Talega LLC	40	Residential	54,511	1.99
Jamboree-Tal Housing LP	1	Residential	39,230	1.43
Ora Alora 36 LLC	32	Residential	41,564	1.52
Jamboree-Tal Housing II	1	Residential	19,615	0.72
Talega Village Center LLC	7	Commercial	5,908	0.22
Individual Owners – Non-Residential Property	90	Commercial	43,800	1.60 ⁽⁵⁾
Total	3,131 ⁽³⁾	NA	\$2,741,966	100.00%

⁽¹⁾ Reflects ownership as of January 1, 2015 provided by the Orange County Assessor.

⁽²⁾ Based on building permits issued as of January 1, 2016.

⁽³⁾ Does not include 362 units which prepaid in special tax obligation in February 2015 and will not be levied. Also, does not include 283 senior units and nine parcels of golf course property which are not taxed under the Community Facilities District.

⁽⁴⁾ No individual owner is responsible for more than 0.21% of total levy.

⁽⁵⁾ No individual owner is responsible for more than 0.18% of total levy.

Source: David Taussig & Associates, Inc.

Direct and Overlapping Debt

Table 7 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the Community Facilities District, prepared by David Taussig & Associates, Inc., and prepared April 4, 2016 (the “Debt Report”). The Debt Report is included for general information purposes only. In certain cases, the percentages of debt calculations are based on assessed values, which will change significantly as sales occur and assessed values increase to reflect housing values. The Community Facilities District believes the information is current as of its date, but makes no representation as to its completeness or accuracy. Other public agencies, such as the County, may issue additional indebtedness at any time, without the consent or approval of the School District or the Community Facilities District. See “– Overlapping Direct Assessments” below.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Community Facilities District in whole or in part. Such long term obligations are those payable from property taxes or special taxes on land in the Community Facilities District. There may be other long term obligations which are not payable directly from property taxes, assessment or special taxes on land in the Community Facilities District but which may be issued by a public agency and payable only from the general fund or other revenues of such public agency. Additional indebtedness could be authorized by the Community Facilities District, the School District, the County or other public agencies at any time.

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

Table 7
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)

Detailed Direct and Overlapping Debt
as of April 4, 2016

Overlapping District	Actual Fiscal Year 2015-16 Total Levy	Amount of Levy on Parcels in District ⁽¹⁾	Percent of Levy on Parcels in District	Total Debt Outstanding⁽²⁾	District Share of Total Debt Outstanding
Capistrano Unified School District CFD No. 90-2 IA No. 2002-1	\$3,481,683	\$3,481,683	100.0000%	\$40,905,000	\$40,905,000
Santa Margarita Water District CFD No. 99-1	6,951,096	6,497,835	93.4793	82,130,000	76,774,538
Metropolitan Water District	104,828,829	89,692	0.0856	92,865,000	79,456
WRCOG CA HERO PACE Program	NA	NA	NA	NA	14,930 ⁽³⁾
CSCDA CaliforniaFIRST PACE Program	NA	NA	NA	NA	38,577 ⁽³⁾
Estimated Share of Overlapping Debt Allocable to the District					\$117,812,501
Plus the 2016 Bonds					\$32,600,000 ^{(4)*}
Estimated Share of Direct and Overlapping Debt Allocable to the District					\$150,412,501

⁽¹⁾ Based on School District's share of total levy for Fiscal Year 2015-16.

⁽²⁾ Based on outstanding principal as of March 2, 2016.

⁽³⁾ Based on parcels levied in Fiscal Year 2015-16.

⁽⁴⁾ Based on preliminary bond sizing dated June 23, 2016 provided by Government Financial Strategies inc.

* Preliminary, subject to change.

Source: David Taussig & Associates, Inc.

Tables 8A through 8D below set forth Fiscal Year 2015-16 overall tax rates estimated to be applicable to a Detached or Attached Unit, as applicable.

Table 8A
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)
Fiscal Year 2015-16 Tax Rates
Residential Property – Single Family Detached
Within boundaries of Improvement Area No. 2002-1

		Percent of Net AV	Expected Amount	Maximum Amount
Assessed Valuation and Property Taxes				
TOTAL ASSESSED VALUE ⁽¹⁾	\$986,751			
NET ASSESSED VALUE ⁽¹⁾	\$979,751			
Unit Size for Single Family Detached Property ⁽²⁾	3,289 Square Feet			
Lot Size for Single Family Detached Property ⁽³⁾	7,343 Square Feet			
AD VALOREM PROPERTY TAXES ⁽⁴⁾				
Basic Levy	1.00000%	\$9,797.51		
<u>Metropolitan Water District G.O. Bonds</u>	<u>0.00350</u>	<u>34.29</u>		
Total General Property Taxes and Overrides	1.00350%	\$9,831.80		
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES				
Mosquito & Fire Ant Assessment ⁽⁵⁾		\$6.02		
Vector Control Charge ⁽⁶⁾		1.92		
Metropolitan Water District West Standby Charge ⁽⁷⁾		10.08		
Santa Margarita Water District ID No. 4 D/S Charge ⁽⁸⁾		16.70		
Santa Margarita Water District CFD No. 99-1 ⁽⁹⁾		2,332.25		\$2,897.11
Capistrano Unified School District CFD No. 90-2 ⁽¹⁰⁾		999.42		1,716.70
<u>Capistrano Unified School District CFD No. 90-2, IA No. 2002-1 ⁽¹¹⁾</u>	<u>2,229.27</u>	<u>3,137.83</u>		
Total Assessments and Parcel Charges		\$5,595.66		\$7,786.36
PROJECTED TOTAL PROPERTY TAXES			\$15,427.46	\$17,618.16
Projected Total Effective Tax Rate (as % of Assessed Value)			1.56346%	1.78547%

- ⁽¹⁾ Based on average assessed value for 1,313 individually-owned single family detached units sold to individuals as of January 1, 2015, provided by the Orange County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.
- ⁽²⁾ Based on the average unit size for 1,313 individually-owned single family detached units.
- ⁽³⁾ Based on the average lot size for 1,313 individually-owned single family detached units.
- ⁽⁴⁾ Estimated based on actual Fiscal Year 2015-16 *ad valorem* rates.
- ⁽⁵⁾ Estimated based on actual Fiscal Year 2015-16 rate of \$6.02 per benefit unit. Detached residential parcels are assessed at 1 benefit unit.
- ⁽⁶⁾ Estimated based on actual Fiscal Year 2015-16 rate of \$1.92 per benefit unit. Residential units are assessed at 1 benefit unit.
- ⁽⁷⁾ Estimated based on actual Fiscal Year 2015-16 rate of \$10.08 per parcel or per acre, whichever is greater.
- ⁽⁸⁾ Estimated based on actual Fiscal Year 2015-16 rate of \$16.70 per parcel.
- ⁽⁹⁾ Expected amount based on the Santa Margarita Water District CFD No. 99-1 estimated Fiscal Year 2016-17 Special Tax levy of \$0.7092 per SF for Developed Property, which is approximately 80.50% of the Fiscal Year 2016-17 Assigned Special Tax. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Backup Special Tax rate is \$0.3216 per parcel SF. The Assigned and Backup Special Tax rates escalate at 2% per year.
- ⁽¹⁰⁾ Expected amount based on the Community Facilities District's estimated Fiscal Year 2016-17 Special Tax levy of \$0.3028 per SF for Developed Property, which is approximately 65.65% of the Fiscal Year 2016-17 Assigned Special Tax. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Backup Special Tax rate is approximately \$0.2338 per parcel SF. The Assigned and Backup Special Tax rates escalate at 2% per year.
- ⁽¹¹⁾ Expected amount based on the Community Facilities District, IA No. 2002-1 estimated Fiscal Year 2015-16 Special Tax levy of \$0.6779 per SF for Developed Property, which is approximately 83.31% of the Fiscal Year 2016-17 Assigned Special Tax. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Assigned Special Tax rate is approximately \$0.8137 per unit SF and the Backup Special Tax rate is approximately \$18,615.21 per parcel acre. The Assigned and Backup Special Tax rates escalate at 2% per year.

Source: County of Orange; David Taussig & Associates, Inc.

Table 8B
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)
Fiscal Year 2015-16 Tax Rates
Residential Property – Single Family Detached
Not within boundaries of Improvement Area No. 2002-1

Assessed Valuation and Property Taxes		Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE ⁽¹⁾	\$789,386			
NET ASSESSED VALUE ⁽¹⁾	\$782,386			
Unit Size for Single Family Detached Property ⁽²⁾	2,962 Square Feet			
Lot Size for Single Family Detached Property ⁽³⁾	6,980 Square Feet			
AD VALOREM PROPERTY TAXES ⁽⁴⁾				
Basic Levy		1.00000%	\$7,823.86	
<u>Metropolitan Water District G.O. Bonds</u>		<u>0.00350</u>	<u>27.38</u>	-
Total General Property Taxes and Overrides		1.00350%	\$7,851.24	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES				
Mosquito & Fire Ant Assessment ⁽⁵⁾			\$6.02	
Vector Control Charge ⁽⁶⁾			1.92	
Metropolitan Water District West Standby Charge ⁽⁷⁾			10.08	
Santa Margarita Water District ID No. 4 D/S Charge ⁽⁸⁾			16.70	
Santa Margarita Water District CFD No. 99-1 ⁽⁹⁾			2,100.65	\$2,609.42
<u>Capistrano Unified School District CFD No. 90-2</u> ⁽¹⁰⁾			<u>900.18</u>	<u>1,631.95</u>
Total Assessments and Parcel Charges			\$3,035.55	\$4,276.10
PROJECTED TOTAL PROPERTY TAXES			\$10,886.79	\$12,127.34
Projected Total Effective Tax Rate (as % of Assessed Value)			1.37915%	1.53630%

⁽¹⁾ Based on average assessed value for 1,012 individually-owned single family detached units sold to individuals as of January 1, 2015, provided by the Orange County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.

⁽²⁾ Based on the average unit size for 1,012 individually-owned single family detached units.

⁽³⁾ Based on the average lot size for 1,012 individually-owned single family detached units.

⁽⁴⁾ Estimated based on actual Fiscal Year 2015-16 *ad valorem* rates.

⁽⁵⁾ Estimated based on actual Fiscal Year 2015-16 rate of \$6.02 per benefit unit. Detached residential parcels are assessed at 1 benefit unit.

⁽⁶⁾ Estimated based on actual Fiscal Year 2015-16 rate of \$1.92 per benefit unit. Residential units are assessed at 1 benefit unit.

⁽⁷⁾ Estimated based on actual Fiscal Year 2015-16 rate of \$10.08 per parcel or per acre, whichever is greater.

⁽⁸⁾ Estimated based on actual Fiscal Year 2015-16 rate of \$16.70 per parcel.

⁽⁹⁾ Expected amount based on the Santa Margarita Water District CFD No. 99-1 estimated Fiscal Year 2016-17 Special Tax levy of \$0.7092 per SF for Developed Property, which is approximately 80.50% of the Fiscal Year 2016-17 Assigned Special Tax. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Backup Special Tax rate is \$0.3216 per parcel SF. The Assigned and Backup Special Tax rates escalate at 2% per year.

⁽¹⁰⁾ Expected amount based on the Community Facilities District's estimated Fiscal Year 2016-17 Special Tax levy of \$0.3028 per SF for Developed Property, which is approximately 65.65% of the Fiscal Year 2016-17 Assigned Special Tax. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Backup Special Tax rate is approximately \$0.2338 per parcel SF. The Assigned and Backup Special Tax rates escalate at 2% per year.

Source: County of Orange; David Taussig & Associates, Inc.

Table 8C
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)

Fiscal Year 2015-16 Tax Rates
Residential Property – Single Family Attached
Within boundaries of Improvement Area No. 2002-1

Assessed Valuation and Property Taxes		Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE ⁽¹⁾	\$456,630			
NET ASSESSED VALUE ⁽¹⁾	\$449,630			
Unit Size for Single Family Attached Property ⁽²⁾	1,528 Square Feet			
Lot Size for Single Family Attached Property ⁽³⁾	2,849 Square Feet			
AD VALOREM PROPERTY TAXES ⁽⁴⁾				
Basic Levy		1.00000%	\$4,496.30	
<u>Metropolitan Water District G.O. Bonds</u>		<u>0.00350</u>	<u>15.74</u>	-
Total General Property Taxes and Overrides		1.00350%	\$4,512.04	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES				
Mosquito & Fire Ant Assessment ⁽⁵⁾			\$6.02	
Vector Control Charge ⁽⁶⁾			1.92	
Metropolitan Water District West Standby Charge ⁽⁷⁾			10.08	
Santa Margarita Water District ID No. 4 D/S Charge ⁽⁸⁾			16.70	
Santa Margarita Water District CFD No. 99-1 ⁽⁹⁾			1,083.63	\$1,346.08
Capistrano Unified School District CFD No. 90-2 ⁽¹⁰⁾			464.36	666.03
<u>Capistrano Unified School District CFD No. 90-2, IA No. 2002-1</u> ⁽¹¹⁾			<u>1,035.79</u>	<u>1,243.22</u>
Total Assessments and Parcel Charges			\$2,618.50	\$3,290.06
PROJECTED TOTAL PROPERTY TAXES			\$7,130.53	\$7,802.10
Projected Total Effective Tax Rate (as % of Assessed Value)			1.56156%	1.70863%

- (1) Based on average assessed value for 446 individually-owned single family attached units sold to individuals as of January 1, 2015, provided by the Orange County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.
- (2) Based on the average unit size for 446 individually-owned single family attached units.
- (3) Based on the average lot size for 446 individually-owned single family attached units.
- (4) Estimated based on actual Fiscal Year 2015-16 *ad valorem* rates.
- (5) Estimated based on actual Fiscal Year 2015-16 rate of \$6.02 per benefit unit. Attached residential parcels are assessed at 1 benefit unit.
- (6) Estimated based on actual Fiscal Year 2015-16 rate of \$1.92 per benefit unit. Residential units are assessed at 1 benefit unit.
- (7) Estimated based on actual Fiscal Year 2015-16 rate of \$10.08 per parcel or per acre, whichever is greater.
- (8) Estimated based on actual Fiscal Year 2015-16 rate of \$16.70 per parcel.
- (9) Expected amount based on the Santa Margarita Water District CFD No. 99-1 estimated Fiscal Year 2016-17 Special Tax levy of \$0.7092 per SF for Developed Property, which is approximately 80.50% of the Fiscal Year 2016-17 Assigned Special Tax. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Backup Special Tax rate is \$0.3216 per parcel SF. The Assigned and Backup Special Tax rates escalate at 2% per year.
- (10) Expected amount based on the Community Facilities District's estimated Fiscal Year 2016-17 Special Tax levy of \$0.3028 per SF for Developed Property, which is approximately 65.65% of the Fiscal Year 2016-17 Assigned Special Tax. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Backup Special Tax rate is approximately \$0.2338 per parcel SF. The Assigned and Backup Special Tax rates escalate at 2% per year.
- (11) Expected amount based on the Community Facilities District, IA No. 2002-1 estimated Fiscal Year 2015-16 Special Tax levy of \$0.6779 per SF for Developed Property, which is approximately 83.31% of the Fiscal Year 2016-17 Assigned Special Tax. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Assigned Special Tax rate is approximately \$0.8137 per unit SF and the Backup Special Tax rate is approximately \$18,615.21 per parcel acre. The Assigned and Backup Special Tax rates escalate at 2% per year.

Source: County of Orange; David Taussig & Associates, Inc.

Table 8D
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)
Fiscal Year 2015-16 Tax Rates
Residential Property – Single Family Attached
Not within boundaries of Improvement Area No. 2002-1

Assessed Valuation and Property Taxes	Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE ⁽¹⁾	\$451,439		
NET ASSESSED VALUE ⁽¹⁾	\$444,439		
Unit Size for Single Family Attached Property ⁽²⁾	1,863 Square Feet		
Lot Size for Single Family Attached Property ⁽³⁾	4,403 Square Feet		
AD VALOREM PROPERTY TAXES ⁽⁴⁾			
Basic Levy	1.00000%	\$4,444.39	
<u>Metropolitan Water District G.O. Bonds</u>	<u>0.00350</u>	<u>15.56</u>	-
Total General Property Taxes and Overrides	1.00350%	\$4,459.94	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES			
Mosquito & Fire Ant Assessment ⁽⁵⁾		\$6.02	
Vector Control Charge ⁽⁶⁾		1.92	
Metropolitan Water District West Standby Charge ⁽⁷⁾		10.08	
Santa Margarita Water District ID No. 4 D/S Charge ⁽⁸⁾		16.70	
Santa Margarita Water District CFD No. 99-1 ⁽⁹⁾		1,321.27	\$1,641.28
<u>Capistrano Unified School District CFD No. 90-2</u> ⁽¹⁰⁾		<u>566.19</u>	<u>1,029.32</u>
Total Assessments and Parcel Charges		\$1,922.18	\$2,705.32
<u>PROJECTED TOTAL PROPERTY TAXES</u>		<u>\$6,382.13</u>	<u>\$7,165.26</u>
Projected Total Effective Tax Rate (as % of Assessed Value)	1.41373%	1.58721%	

- ⁽¹⁾ Based on average assessed value for 189 individually-owned single family attached units sold to individuals as of January 1, 2015, provided by the Orange County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.
- ⁽²⁾ Based on the average unit size for 189 individually-owned single family attached units.
- ⁽³⁾ Based on the average lot size for 189 individually-owned single family attached units.
- ⁽⁴⁾ Estimated based on actual Fiscal Year 2015-16 *ad valorem* rates.
- ⁽⁵⁾ Estimated based on actual Fiscal Year 2015-16 rate of \$6.02 per benefit unit. Attached residential parcels are assessed at 1 benefit unit.
- ⁽⁶⁾ Estimated based on actual Fiscal Year 2015-16 rate of \$1.92 per benefit unit. Residential units are assessed at 1 benefit unit.
- ⁽⁷⁾ Estimated based on actual Fiscal Year 2015-16 rate of \$10.08 per parcel or per acre, whichever is greater.
- ⁽⁸⁾ Estimated based on actual Fiscal Year 2015-16 rate of \$16.70 per parcel.
- ⁽⁹⁾ Expected amount based on the Santa Margarita Water District CFD No. 99-1 estimated Fiscal Year 2016-17 Special Tax levy of \$0.7092 per SF for Developed Property, which is approximately 80.50% of the Fiscal Year 2016-17 Assigned Special Tax. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Backup Special Tax rate is \$0.3216 per parcel SF. The Assigned and Backup Special Tax rates escalate at 2% per year.
- ⁽¹⁰⁾ Expected amount based on the Community Facilities District's estimated Fiscal Year 2016-17 Special Tax levy of \$0.3028 per SF for Developed Property, which is approximately 65.65% of the Fiscal Year 2016-17 Assigned Special Tax. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Backup Special Tax rate is approximately \$0.2338 per parcel SF. The Assigned and Backup Special Tax rates escalate at 2% per year.

Source: County of Orange; David Taussig & Associates, Inc.

Overlapping Direct Assessments

As indicated in the tables above, properties within the Community Facilities District are subject to a variety of standby charges, direct assessments, maintenance assessments, special assessments and service charges. Most of these charges are in amounts less than \$200 per annum. Other than the Special Taxes levied with respect to the 2016 Bonds, special taxes levied with respect to Improvement Area No. 2002-1, and special taxes levied with respect to Santa Margarita Water District CFD No. 99-1, the Community Facilities District is not aware of whether the properties within the Community Facilities District are subject to sewer service charges or special taxes in excess of \$200 per year.

The Community Facilities District has no control over the amount of additional debt payable from taxes or assessments levied on all or a portion of the property within a special district which may be incurred in the future by other governmental agencies, including, but not limited to, the County or any other governmental agency having jurisdiction over all or a portion of the property within the Community Facilities District.

Accordingly, the debt on the property within the Community Facilities District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the 2016 Bonds are issued between the value of the property and the debt secured by other taxes and assessments which may be levied on such property. The incurring of such additional indebtedness could also affect the ability and willingness of the property owners within the Community Facilities District to pay Special Taxes when due.

Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of the property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes. See “BONDOWNERS’ RISKS – Assessed Values.”

BONDOWNERS’ RISKS

In addition to the other information contained in this Official Statement, the following risk factors should be carefully considered in evaluating the investment quality of the 2016 Bonds. The Community Facilities District cautions prospective investors that this discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the 2016 Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the Community Facilities District to pay their Special Taxes when due. Any such failure to pay Special Taxes could result in the inability of the Community Facilities District to make full and punctual payments of debt service on the 2016 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the Community Facilities District.

Risks of Real Estate Secured Investments Generally

The Bondholders will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the Community Facilities District, the supply of or demand for competitive properties in such area, and the market value of residential property in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes, landslides, wildfires, floods and droughts), which may result in uninsured losses.

Bond Insurance Risk Factors

The Community Facilities District has acquired a Policy to guarantee the scheduled payment of principal and interest on the 2016 Bonds. The following are risk factors relating to bond insurance.

In the event of default of the payment of principal or interest with respect to the 2016 Bonds when all or a portion becomes due, any Owner of the 2016 Bonds shall have a claim under the Policy for such payments. The Policy does not insure against redemption premium. The payment of principal and interest in connection with mandatory or optional redemption of the 2016 Bonds by the Community Facilities District which is recovered by the Community Facilities District from the Owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by BAM at such time and in such amounts as would have been due absent such redemption by the Community Facilities District unless BAM chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of BAM without appropriate consent. BAM may direct and must consent to any remedies and BAM's consent may be required in connection with amendments to any applicable legal documents.

In the event BAM is unable to make payment of principal and interest on the 2016 Bonds as such payments become due under the Policy, the 2016 Bonds are payable solely from the moneys received pursuant to the applicable legal documents. In the event BAM becomes obligated to make payments with respect to the 2016 Bonds, no assurance is given that such event will not adversely affect the market price of the 2016 Bonds or the marketability (liquidity) for the 2016 Bonds.

The long-term ratings on the 2016 Bonds are dependent in part on the financial strength of BAM and its claims-paying ability. BAM's financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the BAM and of the ratings on the 2016 Bonds insured by BAM will not be subject to downgrade and such event could adversely affect the market price of the 2016 Bonds or the marketability (liquidity) for the 2016 Bonds. See "RATINGS" herein.

The obligations of BAM are contractual obligations and in an event of default by BAM, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the Community Facilities District or the School District has made independent investigation into the claims-paying ability of BAM and no assurance or representation regarding the financial strength or projected financial strength of BAM is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Community Facilities District to pay principal and interest on the 2016 Bonds and the claims-paying ability of BAM, particularly over the life of the investment. See "BOND INSURANCE" for further information provided by BAM regarding BAM and the Policy and for instructions for obtaining current financial information concerning BAM.

Economic Uncertainty

In recent years, there have been local economic uncertainty and volatility within the region. Unemployment rates as of April 2016 have decreased to approximately 4.3% for the City of San Juan Capistrano (not seasonally adjusted) as compared to 4.5% for calendar year 2015, and approximately 3.9% (not seasonally adjusted) for Orange County as compared to 4.2% for calendar year 2015. The Community Facilities District cannot predict future economic conditions or whether or to what extent economic conditions may affect the ability of homeowners to pay Special Taxes or the marketability of the 2016 Bonds.

State Budget

As a result of the slow State and national economies, the State in recent years experienced serious budgetary shortfalls. The effect of the State revenue shortfalls on the local or State economy or on the demand for, or value of, the property within the Community Facilities District cannot be predicted.

Special Taxes Are Not Personal Obligations

The current and future owners of land within the Community Facilities District are not personally liable for the payment of the Special Taxes. Rather, the Special Tax is an obligation only of the land within the Community Facilities District. If the value of the land within the Community Facilities District is not sufficient to fully secure the Special Tax, then the Community Facilities District has no recourse against the landowner under the laws by which the Special Tax has been levied and the 2016 Bonds have been issued.

The 2016 Bonds Are Limited Obligations of the Community Facilities District

The Community Facilities District has no obligation to pay principal of and interest on the 2016 Bonds in the event Special Tax collections are delinquent, other than from amounts, if any, on deposit in the Special Tax Fund, the Bond Fund, the Reserve Fund or funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent, nor is the Community Facilities District obligated to advance funds to pay such debt service on the 2016 Bonds.

Neither the faith and credit nor the taxing power of the School District, the State or any political subdivision thereof other than the Community Facilities District is pledged to the payment of the 2016 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2016 Bonds. The 2016 Bonds are not general or special obligations of the School District, the State or any political subdivision thereof nor general obligations of the Community Facilities District, but are special obligations of the Community Facilities District, payable solely from Net Special Taxes and the other assets pledged therefor under the Indenture.

Assessed Values

Prospective purchasers of the 2016 Bonds should not assume that the land within the Community Facilities District could be sold for the assessed amount described in this Official Statement at a foreclosure sale for delinquent Special Taxes.

The assessed values summarized herein estimate the fee simple interest assessed value of the property within the Community Facilities District. This value is merely the amount of the assessed value in the records maintained by the County Assessor. The assessed value relates to sale by a willing seller to a willing buyer at a point in time, as adjusted by State law. Consequently, the assessed value is of limited

use in predicting the selling price at a foreclosure sale, because the sale is forced and the buyer may not have the benefit of full information.

No assurance can be given that if any of the Taxable Property in the Community Facilities District should become delinquent in the payment of the Special Taxes, and be foreclosed upon, that such property could be sold for the assessed value. See “Value-to-Lien Ratios,” below.

Value-to-Lien Ratios

Value-to-lien ratios have traditionally been used in land-secured bond issues as a measure of the “collateral” supporting the willingness of property owners to pay their special taxes and assessments (and, in effect, their general property taxes as well). The value-to-lien ratio is mathematically a fraction, the numerator of which is the value of the property (usually either the assessed value or a market value as determined by an appraiser) and the denominator of which is the “lien” of the assessments or special taxes as represented by the principal amount of bonds repaid by such assessment or special tax. A value-to-lien ratio should not, however, be viewed as a guarantee of credit-worthiness. Land values are especially sensitive to economic cycles. A downturn of the economy may depress land values and hence the value-to-lien ratios. Further, the value-to-lien ratio typically cited for a bond issue is an average. Individual parcels in a community facilities district may fall above or below the average, sometimes even below a 1:1 ratio. (With a 1:1 ratio, the land is worth less than the debt on it.) Although judicial foreclosure proceedings can be initiated rapidly, the process can take several years to complete, and the bankruptcy courts may impede the foreclosure action. Finally, local agencies may form overlapping community facilities districts or assessment districts. Such local agencies typically do not coordinate their bond issuances. Debt issuance by an entity other than the Community Facilities District can therefore dilute value-to-lien ratios. See “THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt.”

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

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

Table 7 in the section entitled “THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt” sets forth the presently outstanding amount of governmental obligations (with stated exclusions), the tax or assessment for which is or may become an obligation of one or more of the parcels of Taxable Property. The table does not specifically identify which of the governmental obligations are secured by liens on one or more of the parcels of Taxable Property.

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Tax securing the 2016 Bonds.

In general, as long as the Special Tax is collected on the County tax roll, the Special Tax and all other taxes, assessments and charges also collected on the tax roll are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of proceedings to foreclose for delinquency of Special Taxes securing the 2016 Bonds, the Special Tax will be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Special Taxes will generally be on a parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro rata basis. Although the Special Taxes will generally have priority over non-governmental liens on a parcel

of Taxable Property, regardless of whether the non-governmental liens were in existence at the time of the levy of the Special Tax or not, this result may not apply in the case of bankruptcy.

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

Disclosure to Future Purchasers

On June 15, 1999, the Community Facilities District recorded an Amendment No. 1 to Notice of Special Tax Lien for the territory included in the Community Facilities District in the Office of the Orange County Recorder, as Document No. 19990443388 with respect to the Amended and Restated Rate and Method. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a parcel of land or a home in the Community Facilities District or the lending of money thereon. The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers, other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Special Tax Delinquencies

In order to pay debt service on the 2016 Bonds, it is necessary that the Special Taxes be paid in a timely manner. Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the 2016 Bonds are derived, are customarily billed to the properties within the Community Facilities District, as applicable, on the regular *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 regular *ad valorem* property tax installments. The unwillingness or inability of a property owner to pay *ad valorem* property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future. If a substantial number of homeowners fail to pay the Special Taxes when due there could be significant special tax delinquencies.

As indicated above, by policy, the County does include special taxes of the community facilities districts formed by the School District in its Teeter program. See “SECURITY FOR THE 2016 BONDS – Special Taxes Are Within Teeter Plan.” So long as the Special Taxes are included within the Teeter Plan, the County will distribute Special Taxes to the Community Facilities District on the basis of the Special Tax levy, rather than on the basis of actual Special Tax collections.

Insufficiency of the Special Tax

The principal source of payment of principal of and interest on the 2016 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the Community Facilities District. The annual levy of the Special Tax is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy

and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the 2016 Bonds. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the 2016 Bonds, and certainly not a direct relationship.

The Special Tax levied in any particular tax year on a Taxable Property is based upon the revenue needs and application of the Amended and Restated Rate and Method. Application of the Amended and Restated Rate and Method will, in turn, be dependent upon certain development factors with respect to each Taxable Property by comparison with similar development factors with respect to the other Taxable Property within the Community Facilities District. Thus, in addition to annual variations of the revenue needs from the Special Tax, the following are some of the factors which might cause the levy of the Special Tax on any particular Taxable Property to vary from the Special Tax that might otherwise be expected:

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

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

Except as set forth above under “SECURITY FOR THE 2016 BONDS – Special Taxes” and “ – Amended and Restated Rate and Method” herein, the Indenture provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in “SECURITY FOR THE 2016 BONDS – Proceeds of Foreclosure Sales” and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County. In situations where the County has paid to the Community Facilities District the amount of the Special Tax levied on a parcel, all foreclosure proceeds, including penalties and interest, will be paid to the County. See “SECURITY FOR THE 2016 BONDS-Proceeds of Foreclosure Sales.”

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the 2016 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the Community Facilities District of the proceeds of sale if the Reserve Fund is depleted. See “SECURITY FOR THE 2016 BONDS – Proceeds of Foreclosure Sales.”

In addition, the Amended and Restated Rate and Method limits the increase of Special Taxes levied on parcels of Developed Property to cure delinquencies of other property owners in the Community Facilities District. See “SECURITY FOR THE 2016 BONDS – Amended and Restated Rate and Method” herein.

Exempt Properties

Certain properties are exempt from the Special Tax in accordance with the Amended and Restated Rate and Method (see “SECURITY FOR THE 2016 BONDS – Amended and Restated Rate and Method” herein). In addition, the Act provides that properties or entities of the state, federal or local government are exempt from the Special Tax; *provided, however*, that property within the Community Facilities District acquired by a public entity subsequent to adoption of the Resolution of Formation through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. It is possible that property acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from the Special Tax. In addition, although the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax. In the event that additional property is dedicated to the School District or other public entities, this additional property might become exempt from the Special Tax.

The Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax.

Depletion of Reserve Fund

The Reserve Fund is to be maintained at an amount equal to the Reserve Requirement (see “SECURITY FOR THE 2016 BONDS – Reserve Fund” herein). Funds in the Reserve Fund or available under the Reserve Policy may be used to pay principal of and interest on the 2016 Bonds, in the event the proceeds of the levy and collection of the Special Tax against property within the Community Facilities District are insufficient. If funds in the Reserve Fund are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the Bondholders pursuant to the Indenture. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within the Community Facilities District, at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Fund will be depleted and not be replenished or the Reserve Policy not reimbursed by the levy of the Special Tax.

Discontinuance of Advancement of the Special Tax

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 for the Community Facilities District. See “SECURITY FOR THE 2016 BONDS – Special Taxes Are Within Teeter Plan.”

Potential Delay and Limitations in Foreclosure Proceedings

The payment of property owners' taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings, may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SECURITY FOR THE 2016 BONDS – Proceeds of Foreclosure Sales" and "BONDOWNERS' RISKS – Bankruptcy and Foreclosure Delay" herein. In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

The ability of the Community Facilities District to collect interest and penalties specified by State law and to foreclose against properties having delinquent Special Tax installments may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC"), the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Drug Enforcement Agency, the Internal Revenue Service or other similar federal governmental agencies has or obtains an interest. See "BONDOWNERS' RISKS – Payments by FDIC, Fannie Mae, Freddie Mac and Other Federal Agencies" herein.

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

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

In addition, potential investors should be aware that judicial foreclosure proceedings are not summary remedies and can be subject to significant procedural and other delays caused by crowded court calendars and other factors beyond the control of the Community Facilities District or the School District. Potential investors should assume that, under current conditions, it is estimated that a judicial foreclosure of the lien of Special Taxes may take up to two or three years from initiation to the lien foreclosure sale. At a Special Tax lien foreclosure sale, each parcel will be sold for not less than the "minimum bid amount" which is equal to the sum of all delinquent Special Tax installments, penalties and interest thereon, costs of collection (including reasonable attorneys' fees), post-judgment interest and costs of sale. Each parcel is sold at foreclosure for the amounts secured by the Special Tax lien on such parcel and multiple parcels may not be aggregated in a single "bulk" foreclosure sale. If any parcel fails to obtain a "minimum bid," the Community Facilities District may, but is not obligated to, seek superior court approval to sell such parcel at an amount less than the minimum bid. Such superior court approval requires the consent of the owners of 75% of the aggregate principal amount of the outstanding Bonds.

Delays and uncertainties in the Special Tax lien foreclosure process create significant risks for Bondowners. High rates of special tax payment delinquencies which continue during the pendency of protracted Special Tax lien foreclosure proceedings, could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of property upon foreclosure. In that event, there

could be a default in payment of the principal of, and interest on, the 2016 Bonds. See “Special Taxes Are Not Personal Obligations” above.

If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the Community Facilities District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 120 days (or in some cases a shorter period) from the date of service of the Notice of Levy and 20 days from the subsequent notice of sale in which to redeem the property to be sold. If a judgment debtor fails to so redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made. The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price unless a lesser minimum bid price is authorized by the Owners of 75% of the aggregate principal amount of the 2016 Bonds Outstanding.

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

If the Reserve Fund is depleted and delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Bondholders pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of foreclosure sale proceeds, if any. However, within the limits of the Amended and Restated Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property in the Community Facilities District in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the 2016 Bonds and to replenish the Reserve Fund. There is, however, no assurance that the maximum Special Tax rates will be at all times sufficient to pay the amounts required to be paid on the 2016 Bonds by Indenture. The levy of Special Taxes is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of the Community Facilities District and the limitation imposed by Section 53321 of the Act and the Amended and Restated Rate and Method pursuant to which the Special Tax levied against any Assessor’s Parcel of Residential Property for which an occupancy permit for private residential use has been issued may not be increased by more than 10% as a consequence of delinquency or default by the owner of any other parcel or parcels within the Community Facilities District. See “SECURITY FOR THE 2016 BONDS – Special Tax Levy.”

Bankruptcy and Foreclosure Delay

The payment of Special Taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent Special Taxes as discussed in the section herein entitled “SECURITY FOR THE 2016 BONDS” may be limited by bankruptcy, insolvency, or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a judicial foreclosure may be delayed due to congested local court calendars or procedural delays.

The various legal opinions to be delivered concurrently with the delivery of the 2016 Bonds (including Bond Counsel’s approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the obligation to pay the Special Tax to become extinguished, bankruptcy of a property owner or of a partner or other equity owner of a property owner, could result in a stay of enforcement of the lien for the Special Taxes, a delay in prosecuting superior court foreclosure proceedings or adversely affect the ability or willingness of a property owner to pay the Special Taxes and could result in the possibility of delinquent Special Taxes not being paid in full. In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Special Tax, or any such delay or non-payment, would increase the likelihood of a delay or default in payment of the principal of and interest on the 2016 Bonds and the possibility of delinquent Special Taxes not being paid in full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments. To the extent that a significant percentage of the property in the Community Facilities District is owned any property owner, and Special Taxes have been levied on such property, and such owner is the subject of bankruptcy proceedings, the payment of the Special Tax and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax could be extremely curtailed by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure.

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

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

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

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

Payments by FDIC, Fannie Mae, Freddie Mac and Other Federal Agencies

The ability of the Community Facilities District to collect interest and penalties specified by State law and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to properties in which the FDIC, Fannie Mae, Freddie Mac, the Federal National Mortgage Association, the Drug Enforcement Agency, the Internal Revenue Service or other similar federal governmental agencies has or obtains an interest.

FDIC. Specifically, with respect to the FDIC, on June 4, 1991, the FDIC issued a Statement of Policy Regarding the Payment of State and Local Property Taxes (the “1991 Policy Statement”). The 1991 Policy Statement was revised and superseded by new Policy Statement effective January 9, 1997 (the “Policy Statement”). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution’s affairs, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC’s consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC’s consent.

The Policy Statement states that the FDIC generally will not pay non *ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC’s federal immunity.

The Community Facilities District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the Community Facilities District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Owners of the 2016 Bonds should assume that the Community Facilities District will be unable to collect Special Taxes or to foreclose on any parcel within the Community Facilities District owned by the FDIC. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the 2016 Bonds. Based upon the secured tax roll as of January 1, 2015, the FDIC did not own any of the property in the Community Facilities District. The Community Facilities District expresses no view concerning the likelihood that the risks described above will materialize while the 2016 Bonds are outstanding.

Mortgage Interests. Similarly, 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 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 (“This Constitution, and the Laws of the United States

which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding”), 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. For a discussion of risks associated with taxable parcels within the Community Facilities District becoming owned by the federal government, federal government entities or federal government sponsored entities, see “ Exempt Properties” above.

Factors Affecting Parcel Values and Aggregate Value

Geologic, Topographic and Climatic Conditions. The value of the Taxable Property in the Community Facilities District in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on the parcels of Taxable Property and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes and volcanic eruptions, topographic conditions such as earth movements, landslides, liquefaction, floods or fires, and climatic conditions such as tornadoes, droughts, and the possible reduction in water allocation or availability. It can be expected that one or more of such conditions may occur and may result in damage to improvements of varying seriousness, that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the value of the Taxable Property may well depreciate or disappear.

Seismic Conditions. The Community Facilities District is located in a seismically active region in Southern California. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the Community Facilities District. As a result, the property owners may be unable or unwilling to pay the Special Taxes when due, and the Reserve Fund may eventually become depleted. In addition, the value of land in the Community Facilities District could be diminished in the aftermath of such natural events, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes. Development within the Community Facilities District has been built in accordance with applicable building codes, including requirements relating to seismic safety. No assurances can be given that any earthquake insurance will be obtained as to any of the improvements within the Community Facilities District.

January 17, 2014, Governor’s State of Emergency Proclamation Regarding Drought. On January 17, 2014, with California facing water shortfalls in the then driest year in recorded state history, Governor Edmund G. Brown Jr. proclaimed a State of Emergency and directed state officials to take all necessary actions to prepare for these drought conditions. In the State of Emergency declaration, Governor Brown directed state officials to assist farmers and communities that are economically impacted by dry conditions and to ensure the State can respond if Californians face drinking water shortages. The Governor also directed state agencies to use less water and hire more firefighters and initiated a greatly expanded water conservation public awareness. In addition, the proclamation gave state water officials more flexibility to manage supply throughout California under drought conditions.

The Governor's State of Emergency Proclamation follows a series of actions the administration took to ensure that California is prepared for record dry conditions. In May 2013, Governor Brown issued an Executive Order to direct state water officials to expedite the review and processing of voluntary transfers of water and water rights. In December 2014, the Governor formed a Drought Task Force to review expected water allocations, California's preparedness for water scarcity and whether conditions merit a drought declaration.

On April 1, 2015, for the first time in state history, the Governor directed the State Water Resources Control Board to implement mandatory water reductions in cities and towns across California to reduce water usage by 25%. California set a new "low water" mark on April 1, 2015, with its early-April snowpack measurement. The statewide electronic reading of the snowpack's water content stood at 5% of the April 1st average. April 1, 2015's content was only 1.4 inches, or 5% of the 28-inch average. The lowest previous reading since 1950 was 25% of average, so Water Year 2015 is the driest winter in California's written record. On November 13, 2015, the Governor issued an executive order which stated that if the drought conditions persist through January 2016, the Water Board will extend until October 31, 2016, restrictions to achieve a statewide reduction in urban potable water usage, that the Water Board consider modifying existing restrictions to address use of potable and non-potable water, and that the California Public Utilities Commission be requested to take similar action with respect to investor owned utilities providing water service. On April 21, 2016, the Department of Water Resources announced a revised 2016 allocation of 60% for customers of the State Water Project. Depending upon the amount of rain and snow that reaches California this winter, the allocation maybe increased or decreased.

On May 9, 2016, in response to a five-year drought, the Governor issued an executive order which established a new water use efficiency framework for California. The order bolstered the State's drought resilience and preparedness by establishing longer-term water conservation measures that include permanent monthly water use reporting, new urban water use targets, reducing system leaks and eliminating clearly wasteful practices, strengthening urban drought contingency plans and improving agricultural water management and drought plans.

The historic drought has lasted for years and will not be resolved by a single year's rainfall. The implementation of mandatory water reductions is ongoing. The Community Facilities District cannot predict how long the drought conditions will last, what effect drought conditions may have on property values or whether to what extent water reduction requirements may affect the homeowners or development in the Community Facilities District.

Hazardous Substances. One of the most serious risks in terms of the potential reduction in the value of Taxable Property is a claim with regard to a hazardous substance. In general, the owners and operators of Taxable Property may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but State laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the Taxable Property be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

Further, it is possible that liabilities may arise in the future with respect to any of the Taxable Property resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but that 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 that may in the future be so classified. Such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of Taxable Property that is realizable upon a delinquency and subsequent institution of foreclosure proceedings. See “SECURITY FOR THE 2016 BONDS” for more information.

Legal Requirements. Other events which may affect the value of a parcel of Taxable Property in the Community Facilities District include changes in the law or application of the law. Such changes may include, without limitation, and local application of statewide tax and governmental spending limitation measures.

No Acceleration Provisions

The 2016 Bonds do not contain a provision allowing for the acceleration of the 2016 Bonds in the event of a payment default or other default under the terms of the 2016 Bonds or the Indenture. Pursuant to the Indenture, a Bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies (see APPENDIX C – “Summary of Certain Provisions of the Indenture” herein). So long as the 2016 Bonds are in book-entry form, DTC will be the sole Bondowner. See APPENDIX F – “Book-Entry System.”

Community Facilities District Formation

California voters, on June 6, 1978, approved an amendment (“Article XIIIIA”) to the California Constitution. Section 4 of Article XIIIIA, requires a vote of two-thirds of the qualified electorate to impose “special taxes,” or any additional *ad valorem*, sales or transaction taxes on real property. At an election held within the Community Facilities District pursuant to the Act, more than two-thirds of the qualified electors within the Community Facilities District, consisting of the landowners within the boundaries of the Community Facilities District, authorized the Community Facilities District to incur bonded indebtedness to finance School District facilities and City facilities and approved the Amended and Restated Rate and Method. The Supreme Court of the State has not yet decided whether landowner elections (as opposed to resident elections) satisfy requirements of Section 4 of Article XIIIIA, nor has the Supreme Court decided whether the special taxes of a community facilities district constitute a “special tax” for purposes of Article XIIIIA.

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

Billing of Special Taxes

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

Under provisions of the Act, the Special Taxes are billed to the properties within the Community Facilities District which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular

property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See “SECURITY FOR THE 2016 BONDS – Proceeds of Foreclosure Sales” for a discussion of the provisions which apply and procedures which the Community Facilities District is obligated to follow in the event of delinquency in the payment of installments of Special Taxes.

Inability to Collect Special Taxes

In order to pay debt service on the 2016 Bonds, it is necessary that the Special Tax levied against land within the Community Facilities District be paid in a timely manner. The Community Facilities District will covenant in the Indenture under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the 2016 Bonds. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. In the event such superior court foreclosure is necessary, there could be a delay in principal and interest payments to the owners of the 2016 Bonds pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. Although the Act authorizes the Board to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the Board with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See “SECURITY FOR THE 2016 BONDS – Proceeds of Foreclosure Sales.”

As indicated above, by policy, the County does include special taxes of the community facilities districts formed by the School District in its Teeter program. See “SECURITY FOR THE 2016 BONDS – Special Taxes Are Within Teeter Plan.” So long as the Special Taxes are included within the Teeter Plan, the County will distribute Special Taxes to the Community Facilities District on the basis of the Special Tax levy, rather than on the basis of actual Special Tax collections.

Right to Vote on Taxes Act

An initiative measure, Proposition 218, commonly referred to as the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article XIIIIC (“Article XIIIIC”) and Article XIIIID to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” The provisions of the Initiative as they may relate to community facilities districts are subject to interpretation by the courts.

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2016 Bonds.

It may be possible, however, for voters of the Community Facilities District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2016 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 2016 Bonds.

The Act also establishes time limits for initiating any challenge to the validity of special taxes levied pursuant to the Act and any challenge to the validity of bonds issued pursuant to the Act. Section 53341 of the Act provides that:

“Any action or proceeding to attack, review, set aside, void, or annul the levy of a special tax or an increase in a special tax pursuant to this chapter shall be commenced within 30 days after the special tax is approved by the voters. Any appeal from a final judgment in that action or proceeding shall be perfected within 30 days after the entry of judgment.”

Section 53359 of the Act provides that:

“An action to determine the validity of bonds issued pursuant to this chapter or the validity of any special taxes levied pursuant to this chapter may be brought pursuant to Chapter 9 (commencing with Section 860) of Title 10 of Part 2 of the Code of Civil Procedure but shall, notwithstanding the time limits specified in Section 860 of the Code of Civil Procedure, be commenced within 30 days after the voters approve the issuance of the bonds or the special tax if the action is brought by an interested person pursuant to Section 863 of the Code of Civil Procedure. Any appeal from a judgment in that action or proceeding shall be commenced within 30 days after entry of judgment.”

Based on the forgoing, with respect to any challenge to the validity of the Special Tax or the 2016 Bonds or Parity Bonds, if any, the Community Facilities District believe that under current State law the time for initiating any such legal challenge has expired.

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

For example, on August 1, 2014, in *City of San Diego. v. Shapiro*, an Appellate Court ruled that an election held by the City of San Diego to authorize the levying of special taxes on hotels City-wide pursuant to a City ordinance which created a convention center facilities district and which specifically defined the electorate to consist solely of (1) the owners of real property in the City on which a hotel is located, and (2) the lessees of real property owned by a governmental entity on which a hotel is located,

was invalid under the California Constitution because such landowners and lessees are neither “qualified electors” of the City for purposes of Articles XIII, Section 4 of the California Constitution nor do they comprise a proper “electorate” under Article XIII, Section 2(d). The Court specifically noted that the decision did not require the Court to consider the distinct question of whether landowner voting to impose special taxes pursuant to Section 53326(b) of the Act is constitutional under Article XIII, Section 4 and Article XIII, Section 2(d) in districts that lack sufficient registered voters to conduct an election among registered voters, and thus does not affect the validity of the levy of the Special Taxes by the Community Facilities District. In addition, the provisions of the Act described above that establish time limits for initiating any challenge to the validity of the Special Taxes levied pursuant to the Act or the issuance of Bonds pursuant to the Act described above would provide obstacles to any party which sought to present a legal challenge to the validity of the Special Taxes or the 2016 Bonds and Parity Bonds, if any, based on the *City of San Diego v. Shapiro* case. The Community Facilities District is not able to predict the outcome of any such examination of the Initiative in relation to community facilities districts formed under the Act.

The Community Facilities District covenants in the Indenture that it will not initiate proceedings to reduce the Maximum Special Tax, unless, in connection therewith, (i) the Community Facilities District receives a certificate from one or more Special Tax Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the Community Facilities District as of the July 1 preceding the reduction, the Maximum Special Tax which may be levied on all Assessor’s Parcels of Developed Property in each Fiscal Year will equal at least 110% of the gross debt service on all 2016 Bonds and Parity Bonds, if any, to remain Outstanding after the reduction is approved and will not reduce the Maximum Special Tax payable from Assessor’s Parcels of Developed Property to less than 110% of Maximum Annual Debt Service, and (ii) the Legislative Body finds pursuant to the Indenture that any reduction made under such conditions will not adversely affect the interests of the Owners of the 2016 Bonds and Parity Bonds. Any reduction in the Maximum Special Tax approved pursuant to the preceding sentence may be approved without the consent of the Owners of the 2016 Bonds and Parity Bonds, if any.

The Community Facilities District further covenants that in the event any initiative is adopted by the qualified electors which purports to reduce the maximum authorized Special Tax below the levels authorized pursuant to the Amended and Restated Rate and Method, the Community Facilities District will, from funds available under the Indenture, commence and pursue legal actions to preserve the authority and power of the Community Facilities District to levy Special Taxes pursuant to the Amended and Restated Rate and Method.

The foregoing discussion of the Initiative and related matters should not be considered an exhaustive or authoritative treatment of the issues. The Community Facilities District does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of the Initiative on the 2016 Bonds as well as the market for the 2016 Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of the Initiative.

Ballot Initiatives and Legislative Measures

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

revenues or to increase appropriations or on the ability of a property owner to complete the development of the property.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the 2016 Bonds or, if a secondary market exists, that such 2016 Bonds can be sold for any particular price. Although the Community Facilities District has committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondholders on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of credit rating for the 2016 Bonds or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption

As discussed under the caption “**LEGAL MATTERS – Tax Exemption**,” the interest on the 2016 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2016 Bonds as a result of future acts or omissions of the Community Facilities District and the School District in violation of certain provisions of the Code and the covenants of the Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2016 Bonds, the Community Facilities District has covenanted in the Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2016 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Interest on the 2016 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2016 Bonds were issued as a result of acts or omissions of the Community Facilities District in violation of the Code. Should such an event of taxability occur, the 2016 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the Indenture. See “**THE 2016 BONDS – Redemption**.”

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing or examination of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2016 Bonds will be selected for audit or examination by the IRS. It is also possible that the market value of such 2016 Bonds might be affected as a result of such an audit of such 2016 Bonds (or by an audit of similar bonds or securities).

Impact of Legislative Proposals, Clarifications of the Code and Court Decisions on Tax Exemption

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2016 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 Owners of the 2016 Bonds from realizing the full current benefit of the tax status of such interest.

The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, liquidity of or marketability of, the 2016 Bonds. In recent years, legislative changes were proposed in Congress, which, if enacted, would result in

additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the 2016 Bonds. Prospective purchasers of the 2016 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation as to which Bond Counsel expresses no opinion. As discussed in this Official Statement, under the caption "LEGAL MATTERS," interest on the 2016 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2016 Bonds were issued as a result of future acts or omissions of the Community Facilities District in violation of its covenants in the Indenture. Should such an event of taxability occur, the 2016 Bonds are not subject to special redemption or acceleration and will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Indenture.

Backup Withholding

Interest paid with respect to tax-exempt obligations such as the 2016 Bonds is subject to information reporting to the IRS in a manner similar to interest paid on taxable obligations. In addition, interest with respect to the 2016 Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Limitations on Remedies

Remedies available to the Bondholders may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2016 Bonds or to preserve the tax-exempt status of the 2016 Bonds. See "Payments by FDIC, Fannie Mae, Freddie Mac and other Federal Agencies," "No Acceleration Provisions" and "Billing of Special Taxes" herein.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the 2016 Bonds, AMTEC Corporation of Avon, Connecticut, and Ross & Company, PLLC (an independent Certified Public Accountant) of Louisville, Kentucky, together acting as verification agent, will deliver a report stating that the firms have verified the mathematical accuracy of (a) certain computations relating to the adequacy of the Federal Securities (as defined in the Escrow Agreement) and the interest thereon to pay when due the redemption price, and interest due and to become due on the Prior Bonds on and prior to the redemption date thereof, and (b) the computations of yields of the 2016 Bonds and of investments in the Escrow Fund.

LEGAL MATTERS

Legal Opinion

The legal opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, approving the validity of the 2016 Bonds will be made available to purchasers at the time of original delivery and is attached hereto as Appendix E. A copy of the legal opinion will be printed on each 2016 Bond. James F. Anderson Law Firm A Professional Corporation, Laguna Hills, California, is serving as Disclosure Counsel. Dennis Woliver Kelley, A Professional Corporation, San Diego, California, will also pass upon certain legal matters for the School District and the Community Facilities District as counsel to these entities.

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 2016 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 2016 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 set forth in APPENDIX E hereto.

To the extent the issue price of any maturity of the 2016 Bonds is less than the amount to be paid at maturity of such 2016 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2016 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 2016 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 2016 Bonds is the first price at which a substantial amount of such maturity of the 2016 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 2016 Bonds accrues daily over the term to maturity of such 2016 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 2016 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2016 Bonds. Beneficial Owners of the 2016 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2016 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2016 Bonds in the original offering to the public at the first price at which a substantial amount of such 2016 Bonds is sold to the public.

The 2016 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 obligations, 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 2016 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 2016 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 2016 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2016 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 2016 Bonds may adversely affect the value of, or the tax status of interest on, the 2016

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 2016 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 amounts treated as interest on, the 2016 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 2016 Bonds to be subject, directly or indirectly, in whole or in part, 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. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the 2016 Bonds to some extent for high income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2016 Bonds. Prospective purchasers of the 2016 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which 2016 Bond Counsel is expected to express 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 2016 Bonds for federal income tax purposes. It is not binding on the 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 2016 Bonds ends with the issuance of the 2016 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 2016 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 disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the 2016 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 2016 Bonds, and may cause the Community Facilities District or the Beneficial Owners to incur significant expense.

Absence of Litigation

No litigation is pending or threatened concerning the validity of the 2016 Bonds. There is no action, suit or proceeding known by the Community Facilities District or the School District to be pending at the present time restraining or enjoining the delivery of the 2016 Bonds or in any way contesting or affecting the validity of the 2016 Bonds or any proceedings of the Community Facilities District or the School District taken with respect to the execution thereof. A no litigation certificate executed by the School District, on behalf of the Community Facilities District, will be delivered to the Underwriter simultaneously with the delivery of the 2016 Bonds.

No General Obligation of School District or Community Facilities District

The 2016 Bonds are not general obligations of the School District or the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from proceeds of the Special Tax and proceeds of the 2016 Bonds, including amounts in the Reserve Fund, Special Tax Fund and Bond Fund and investment income on funds held pursuant to the Indenture (other than as necessary to be rebated to the United States of America pursuant to Section 148(f) of the Code and any applicable regulations promulgated pursuant thereto). Any tax levied for the payment of the 2016 Bonds will be limited to the Special Taxes to be collected within the Community Facilities District.

RATINGS

The 2016 Bonds are expected to be assigned a rating of "AA" (Stable outlook) by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), based on the issuance of the Policy by BAM. Additionally, S&P has assigned an underlying rating of "BBB+" (Stable outlook) to the 2016 Bonds without consideration of the issuance of the Insurance Policy. The rating agency may have obtained and considered information and material which has not been included in this Official Statement. Generally, a rating agency bases its ratings on information and material so furnished and on investigations, studies and assumptions made by the rating agency. The rating is not a recommendation to buy, sell or hold the 2016 Bonds. The rating reflects only the view of the rating agency with respect to its rating and an explanation of the significance of such rating may be obtained from it. No assurance can be given that the rating of a rating agency will be maintained for any given period of time or that the rating may not be revised downward or withdrawn entirely by the rating agency, if in its own judgment, circumstances warrant. Any such downward change in or withdrawal may have an adverse effect on the market price of the 2016 Bonds. The Community Facilities District has not undertaken any responsibility after the offering of the 2016 Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal.

Rating Downgrades of Municipal Bond Insurers. In the past, Moody's Investors Service, S&P and Fitch Ratings (the "Rating Agencies") have each downgraded the claims-paying ability and financial strength of various bond insurance companies. Downgrades or negative changes in the rating outlook are possible. In addition, in the past events in the credit markets have had a substantial negative effect on the 2016 Bond insurance business. Should similar events, occur, such events could have a material adverse effect on the claims paying ability of BAM. The Community Facilities District has not made an independent investigation into the claims paying ability of BAM and no assurance or representation regarding the financial strength or projected financial strength thereof can be given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Community Facilities District to pay the principal of and interest on the 2016 Bonds and the claims paying ability of BAM, particularly over the life of the investment.

UNDERWRITING

The 2016 Bonds are being purchased by _____ (the "Underwriter") at a purchase price of \$_____ (which represents the aggregate principal amount of the 2016 Bonds of \$_____,* plus a net original issue premium of \$_____ and less an underwriter's discount of \$______).

The purchase agreement relating to the 2016 Bonds provides that the Underwriter will purchase all of the 2016 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement.

The Underwriter may offer and sell the 2016 Bonds to certain dealers and others at prices lower than the offering price stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

PROFESSIONAL FEES

Fees payable to certain professionals, including James F. Anderson Law Firm, A Professional Corporation, as Disclosure Counsel, Orrick, Herrington & Sutcliffe LLP, as Bond Counsel, and U.S. Bank National Association, as the Trustee, are contingent upon the issuance of the 2016 Bonds. The fees of David Taussig & Associates, Inc., as Special Tax Consultant, are in part contingent upon the issuance of the 2016 Bonds. From time to time, Disclosure Counsel represents the Underwriter on matters unrelated to the 2016 Bonds.

MISCELLANEOUS

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

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representatives of fact. This Official Statement is not to be construed as a contract or agreement between the Community Facilities District and the purchasers or owners of any of the 2016 Bonds.

* Preliminary, subject to change.

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

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF
THE CAPISTRANO UNIFIED SCHOOL DISTRICT
(TALEGA)

By: _____

Clark Hampton, Deputy Superintendent,
Business & Support Services,
Capistrano Unified School District, on behalf of
Community Facilities District No. 90-2 of the
Capistrano Unified School District (Talega)

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APPENDIX A

GENERAL INFORMATION ABOUT THE CAPISTRANO UNIFIED SCHOOL DISTRICT

The following information relating to the School District is included only for the purpose of supplying general information regarding the School District. Neither the faith and credit nor the taxing power of the School District has been pledged to payment of the 2016 Bonds, and the 2016 Bonds will not be payable from any of the School District's revenues or assets.

Introduction

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the School District. Additional information concerning the School District and copies of the most recent and subsequent audited financial reports of the School District may be obtained by contacting: Capistrano Unified School District, 33122 Valle Road, San Juan Capistrano, CA 92675 Attention: Deputy Superintendent, Business & Support Services. There may be a charge for copying, mailing and handling.

General Information

The Capistrano Unified School District (the "School District") is a political subdivision of the State of California (the "State") and is governed by a seven-member Board of Trustees (the "Board").

Founded in 1965, the School District encompasses 195 square miles in seven cities and a portion of the unincorporated area of Orange County (the "County"). The jurisdiction of the School District includes all or part of the cities of San Clemente, Dana Point, San Juan Capistrano, Laguna Niguel, Aliso Viejo, Mission Viejo and Rancho Santa Margarita, and the communities of Las Flores, Coto de Caza, Dove Canyon, Ladera Ranch, Sendero/Rancho Mission Viejo and Wagon Wheel.

The School District provides kindergarten through 12th grade public education to more than 49,000 students on 55 campuses. The School District's second period report (P-2, the period from July 1 to April 15) of average daily attendance ("ADA"), computed in accordance with State law for the 2015-16 academic year, is estimated at 47,226. The estimated population within the School District's boundaries was approximately 358,800 based on United States census figures for 2014. The School District reported 50,095 students enrolled at the California Basic Educational Data System ("CBEDS") for Fiscal Year 2013-14 and 49,838 students enrolled at the CBEDS during Fiscal Year 2014-15. The School District reports 49,120 students enrolled at the CBEDS during Fiscal Year 2015-16.

Administration and Enrollment

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

The administrative staff of the School District includes Kirsten M. Vital, Superintendent, and Clark Hampton, Deputy Superintendent, Business & Support Services.

The Superintendent of the School District is responsible for administering the affairs of the School District in accordance with the policies of the Board. The School District also employs an Assistant Superintendent of Education Services, an Assistant Superintendent of Human Resource Services and an Assistant Superintendent of SELPA, Special Education.

Commencing with Fiscal Year 2013-14, the State budget restructures the manner in which the State allocates funding for K-12 education. In Fiscal Year 2013-14, State legislation replaced the majority of revenue limit and categorical funding formulas with a new set of funding formulas. The Governor refers to the proposals as the “Local Control Funding Formula.” The State budget provided funding in Fiscal Year 2013-14 to begin implementing the new formulas. Under the prior funding system, school districts received different per-pupil funding rates based on historical factors and varying participation in categorical programs. The new system provides a more uniform base per-pupil rate for each of several grade levels. The base rates are augmented by several funding supplements for (1) students needing additional services, defined as English learners, students from lower income families and foster youth; (2) school districts with high concentrations of English learners and lower income families; and (3) high school students. The new funding system requires school districts to develop local plans describing how the school district intends to educate its students.

From Fiscal Year 2011-12 through Fiscal Year 2015-16 the School District’s enrollment has been stable. The demographics of the School District reflect a slight decrease in elementary school population, stable trend in middle school population and slight increase in high school population. California voters approved Proposition 13 that not only limits the tax rate on property, but gives an incentive for owners to occupy longer resulting in slower turnover of homes to new families. Information concerning enrollment for these years is set forth below:

**Capistrano Unified School District
Student Enrollment**

Fiscal Year	CBEDS Enrollment	District Average Daily Attendance⁽¹⁾	District Base Revenue Limit
2011-12	50,538	48,717	6,492
2012-13	50,500	48,469	6,704
2013-14	50,095	48,354	6,810 ⁽²⁾
2014-15	49,838	47,936	6,848 ⁽²⁾
2015-16	49,120	47,226	N/A ⁽²⁾

⁽¹⁾ Estimated second period report (P-2, the period from July 1 to April 15).

⁽²⁾ Commencing with Fiscal Year 2013-14, the State restructured allocations for funding K-12 education and begins implementing the Local Control Funding Formula. See “ – Administration and Enrollment” above.

Source: California Department of Education and the School District.

Labor Relations

As of December 2015, the School District employed approximately 2,162 certificated professionals and approximately 1,456 classified employees. The professionals, except management and some part-time employees, are represented by the bargaining units as noted below

Capistrano Unified School District District Employees

Labor Organization	Approximate Number of Employees In Organization¹	Contract Expiration Date
Capistrano Unified Educators Association	1,655	6/30/17
California School Employees Association	1,570	6/30/18
Teamsters	102	6/30/18

¹Excludes management and part-time employees who are not represented by any of the labor organizations.

Source: The School District.

Retirement Programs

The School District participates in the State of California Teachers' Retirement System ("STRS"). This plan covers certificated employees. The School District's contribution to STRS in Fiscal Year 2012-13 was \$14,727,500 and in Fiscal Year 2013-14 was \$15,679,891. The School District's contribution to STRS for Fiscal Year 2014-15 was \$17,782,182. The School District's contribution to STRS for Fiscal Year 2015-16 is estimated to be \$33,347,224. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The School District also participates in the State of California Public Employees' Retirement System ("PERS"). This plan covers certificated employees who elect and all classified personnel who are employed 1,000 or more hours per fiscal year. The School District's contribution to PERS in Fiscal Year 2012-13 was \$5,642,008 and in Fiscal Year 2013-14 was \$5,654,959. The School District's contribution to PERS for Fiscal Year 2014-15 was \$6,198,896. The School District's contribution to PERS for Fiscal Year 2015-16 is estimated to be \$6,753,618. In order to receive PERS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

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

The School District offers post-retirement benefits for employees up to age 65. The School District's contribution for these benefits for the Fiscal Year ending June 30, 2013, was \$2,137,149, for the Fiscal Year ending June 30, 2014 was \$2,759,413 and for the Fiscal year ending June 30, 2015, was \$3,327,978. The School District's contribution for these benefits is estimated to be \$3,474,350 for Fiscal Year 2015-16. The program is operated on a pay-as-you go basis and budgets the current costs each year with an increase based on actual health and welfare increases.

Insurance

The School District operates workers' compensation and property and liability insurance programs that are accounted for in the Internal Service Fund. In addition, the School District's health and welfare benefit programs are accounted for in the Internal Service Fund.

In 1998, the State of California authorized the School District to operate a Self-Insured Workers' Compensation Plan to finance liabilities arising from employee industrial injuries. The School District responded by implementing such a plan on July 1, 1998. Beginning in 2009, the School District has established a fund to self-insure itself for workers' compensation coverage. The workers' compensation experience of the School District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. Excess liability coverage for workers' compensation claims is provided through the purchase of commercial insurance.

The School District operates a self-insurance program to cover general liability claim losses up to a limit of \$100,000 per claim and for property losses up to \$25,000 per claim. During fiscal year ending June 30, 2015, the School District contracted with Alliance of Schools Cooperative Insurance Programs (ASCP) for property and liability insurance coverage. Excess liability coverage is obtained through participation in Schools Excess Liability Fund (SELF) (through ASCP). Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year. In addition, property and liability claims for which the School District retains the risk of loss (claims below the School District's retained limits), are administered by the Self Insurance Fund.

APPENDIX B

**AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT
CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)**

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**AMENDED AND RESTATED
RATE AND METHOD OF APPORTIONMENT FOR
CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 90-2
(TALEGA)**

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Capistrano Unified School District Community Facilities District No. 90-2 (Talega) ("CFD No. 90-2") and collected each Fiscal Year commencing in Fiscal Year 1999-2000, in an amount determined by the Board through the application of the appropriate Special Tax for "Developed Property," "Taxable Golf Course Property," "Taxable Property Owner Association Property," "Taxable Public Property," "Taxable Religious Property," "Taxable Senior Housing Property," "Undeveloped Non-Residential Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 90-2, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 90-2: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the School District or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the School District, CFD No. 90-2 or any designee thereof of complying with arbitrage rebate requirements; the costs to the School District, CFD No. 90-2 or any designee thereof of complying with School District, CFD No. 90-2 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the School District, CFD No. 90-2 or any designee thereof related to an appeal of the Special

Tax; the costs associated with the release of funds from an escrow account; and the School District's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the School District or CFD No. 90-2 for any other administrative purposes of CFD No. 90-2, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

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

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

"Assigned Special Tax" means the Special Tax for each Land Use Class of Developed Property and Taxable Senior Housing Property, as determined in accordance with Section C below.

"Backup Special Tax" means the Special Tax applicable to each Assessor's Parcel of Developed Property and Taxable Senior Housing Property, as determined in accordance with Section C below.

"Board" means the Board of Trustees of the Capistrano Unified School District, acting as the legislative body of CFD No. 90-2.

"Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 90-2 under the Act.

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

"CFD No. 90-2" means Capistrano Unified School District Community Facilities District No. 90-2 (Talega).

"County" means the County of Orange.

"Developed Property" means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, or Taxable Senior Housing Property, for which a building permit for new construction was issued prior to March 1 of the prior Fiscal Year.

"Expected Special Tax" means the Special Tax for each Acre of Undeveloped Non-Residential Property, as determined in accordance with Section C below.

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

"Golf Course Property" means the area consisting of up to 206.6 acres of the golf course property described and geographically identified in Attachment A to this Rate and Method of Apportionment and in Exhibit A of the Talega Area Plan dated September 8, 1998 for planning areas B, C, G, H, and I, and portions of planning areas D and E, as amended from time-to-time or modified pursuant to a precise site plan for such golf course property.

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

"Land Use Class" means any of the classes listed in Table 1.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor's Parcel of Taxable Property.

"Non-Residential Floor Area" means the total building square footage of the building(s) located on an Assessor's Parcel, measured from outside wall to outside wall, exclusive of overhangs, porches, patios, carports, or similar spaces attached to the building but generally open on at least two sides. The determination of Non-Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

"Non-Residential Property" means all Assessor's Parcels of Developed Property for which a building permit(s) was issued for a non-residential use.

"Outstanding Bonds" means all Bonds which are deemed to be outstanding under the Indenture.

"Property Owner Association Property" means any property within the boundaries of CFD No. 90-2 that is owned by or dedicated to a property owner association, including any master or sub-association.

"Proportionately" means for Developed Property and Taxable Senior Housing Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor's Parcels of Developed Property and Taxable Senior Housing Property within CFD No. 90-2. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property in CFD No. 90-2. For Undeveloped Non-Residential Property, "Proportionately" means the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Non-Residential Property in CFD No. 90-2.

"Public Property" means any property within the boundaries of CFD No. 90-2 that is used for rights-of-way or any other purpose and is owned by or irrevocably offered for dedication to the federal government, the State, the County or any other public agency,

provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

"Religious Property" means all property within the boundary of CFD No. 90-2 which is used primarily as a place of worship and is exempt from *ad valorem* property taxes because it is owned by a religious organization. Religious Property, without limitation, does not include any Assessor's Parcels used primarily for religious schools, day care centers, or congregate care facilities.

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

"Residential Floor Area" means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

"School District" means the Capistrano Unified School District.

"Senior Housing Property" means all Assessor's Parcels which are used or intended to be used as senior citizen housing, residential care facilities for the elderly, or multi-level care facilities for the elderly as referred to in California Government Code Section 65995.1. An Assessor's Parcel shall only be designated as Senior Housing Property if Senior Citizen Restrictions have been recorded with respect to such Assessor's Parcel.

"Senior Citizen Restriction" means a restriction limiting the use of an Assessor's Parcel to senior citizen housing, as defined in Section 65995.1 of the Government Code, under a final map, other governmental entitlements, or a declaration of covenants, conditions and restrictions or any similar binding recorded instrument that may not be amended to remove such use limitation without prior written notice to School District.

"Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Developed Property, Undeveloped Property, Undeveloped Non-Residential Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Taxable Senior Housing Property to fund the Special Tax Requirement.

"Special Tax Requirement" means that amount required in any Fiscal Year for CFD No. 90-2 to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for construction of CFD No. 90-2 facilities eligible under the Act to the extent that the inclusion of such amount does not increase the Special Tax levy on Undeveloped Property or Undeveloped

Non-Residential Property; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; (vii) less a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

"State" means the State of California.

"Taxable Golf Course Property" means all of the Assessor's Parcels of Golf Course Property that are not exempt pursuant to Section E below.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of CFD No. 90-2 which are not exempt from the Special Tax pursuant to law or Section E below.

"Taxable Property Owner Association Property" means all Assessor's Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

"Taxable Public Property" means all Assessor's Parcels of Public Property that are not exempt pursuant to Section E below.

"Taxable Religious Property" means all Assessor's Parcels of Religious Property that are not exempt pursuant to Section E below.

"Taxable Senior Housing Property" means all Assessor's Parcels of Senior Housing Property that are not exempt pursuant to Section E below.

"Trustee" means the trustee or fiscal agent under the Indenture.

"Undeveloped Non-Residential Property" means, for each Fiscal Year, all Assessor's Parcels that are zoned for commercial or industrial use, and for which no building permit for a commercial or industrial structure has been issued.

"Undeveloped Property" means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, Taxable Senior Housing Property, or Undeveloped Non-Residential Property.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within CFD No. 90-2 shall be classified as Developed Property, Taxable Golf Course Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property, Taxable Senior Housing Property, Undeveloped Non-Residential Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. Developed Property shall be further classified as Residential Property and Non-Residential Property.

Residential Property shall be assigned to Land Use Class 1, Taxable Senior Housing Property shall be assigned to Land Use Class 2, and Non-Residential Property shall be assigned to Land Use Class 3.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property and Taxable Senior Housing Property

a. Maximum Special Tax

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property or Taxable Senior Housing Property shall be the greater of (i) the amount derived by application of the Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax.

b. Assigned Special Tax

The Assigned Special Tax for each Land Use Class is shown below in Table 1. The Assigned Special Tax for Residential Property and Taxable Senior Housing Property shall be based on the amount of Residential Floor Area on the Assessor's Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the amount of Non-Residential Floor Area on the Assessor's Parcel.

TABLE 1

**Assigned Special Taxes for Developed Property and Taxable Senior Housing Property
For Fiscal Year 1999-2000
Community Facilities District No. 90-2**

Land Use Class	Description	Assigned Special Tax
1	Residential Property	\$0.3294 per square foot of Residential Floor Area
2	Taxable Senior Housing Property	\$0.3294 per square foot of Residential Floor Area
3	Non-Residential Property	\$0.0599 per square foot of Non-Residential Floor Area.

c. Backup Special Tax

The Fiscal Year 1999-2000 Backup Special Tax for an Assessor's Parcel of Developed Property and Taxable Senior Housing Property shall equal \$0.1670 per square foot of the Assessor's Parcel, provided however, that the Backup Special Tax shall not apply to the first 100 Acres of Non-Residential Property, as determined by the CFD Administrator.

d. Increase in the Assigned Special Tax and Backup Special Tax

On each July 1, commencing on July 1, 2000, the Assigned Special Tax and the Backup Special Tax shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

2. Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property

a. Maximum Special Tax

The Fiscal Year 1999-2000 Maximum Special Tax for Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property in CFD No. 90-2 shall be \$6,177 per Acre.

b. Increase in the Maximum Special Tax

On each July 1, commencing on July 1, 2000, the Maximum Special Tax for Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

3. Undeveloped Non-Residential Property

a. Expected Special Tax

The Fiscal Year 1999-2000 Expected Special Tax for Undeveloped Non-Residential Property in CFD No. 90-2 shall be \$1,123 per Acre.

b. Maximum Special Tax

The Fiscal Year 1999-2000 Maximum Special Tax for Undeveloped Non-Residential Property in CFD No. 90-2 shall be \$6,177 per Acre.

c. Increase in the Maximum Special Tax and Expected Special Tax

On each July 1, commencing on July 1, 2000, the Maximum Special Tax and Expected Special Tax for Undeveloped Non-Residential Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 1999-2000 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property and Taxable Senior Housing Property at up to 100% of the applicable Assigned Special Tax as needed to satisfy the Special Tax Requirement.

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

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of Special Tax on each Assessor's Parcel of Undeveloped Non-Residential Property shall be increased Proportionately from the Expected Special Tax up to 100% of the Maximum Special Tax for Undeveloped Non-Residential Property;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property or Taxable Senior Housing Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private

residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the CFD.

E. EXEMPTIONS

No Special Tax shall be levied on up to 1,230.74 Acres of Property Owner Association Property, Public Property and/or Religious Property and 206.6 Acres of Golf Course Property. In addition, no Special Tax shall be levied on up to 66.02 Acres of Senior Housing Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Golf Course Property, Property Owner Association Property, Public Property, Religious Property or Senior Housing Property. However, should an Assessor's Parcel no longer be classified as Golf Course Property, Property Owner Association Property, Public Property, Religious Property, or Senior Housing Property its tax-exempt status will be revoked.

F. REVIEW/APPEAL COMMITTEE

The Board shall establish as part of the proceedings and administration of CFD No. 90-2 a special three-member Review/Appeal Committee. Any landowner or resident who feels that the amount of the Special Tax levied on their Assessor's Parcel is in error may file a notice with the Review/Appeal Committee appealing the amount of the Special Tax levied on such Assessor's Parcel. The Review/Appeal Committee shall interpret this Rate and Method of Apportionment and make determinations relative to the annual administration of the Special Tax and any landowner or resident appeals, as herein specified. The decision of the Review/Appeal Committee shall be final and binding as to all persons.

G. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 90-2 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

H. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section H:

"CFD Public Facilities" means either \$33,938,000 million in 1999 dollars, which shall increase by the Construction Inflation Index on July 1, 2000, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 90-2 under the authorized bonding program for CFD No. 90-2, or (ii) shall be determined by the Board concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

"Construction Fund" means an account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

"Construction Inflation Index" means the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Engineering News-Record Building Cost Index for the City of Los Angeles.

"Future Facilities Costs" means the CFD Public Facilities minus public facility costs available to be funded through existing construction or escrow accounts or funded by Previously Issued Bonds, minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment, and minus public facilities costs paid directly with Special Taxes.

"Outstanding Bonds" means all Previously Issued Bonds which are deemed to be outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year.

"Previously Issued Bonds" means all Bonds that have been issued by CFD No. 90-2 prior to the date of prepayment.

1. Prepayment in Full

All Assessor's Parcels of Developed Property or Taxable Senior Housing Property and Assessor's Parcels of Undeveloped Property or Undeveloped Non-Residential Property for which a building permit has been issued may be prepaid. The Special Tax obligation applicable to such Assessor's Parcel in CFD No. 90-2 may be fully prepaid and the obligation of the Assessor's Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. The CFD Administrator will charge a fee to the owner requesting prepayment for providing this figure. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

The Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance Amount
plus	Administrative Fees and Expenses
less	Reserve Fund Credit
<u>less</u>	<u>Capitalized Interest Credit</u>
Total: equals	Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount (defined below) shall be calculated as follows:

Paragraph No.:

1. For Assessor's Parcels of Developed Property or Taxable Senior Housing Property, compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property or Undeveloped Non-Residential Property (for which a building permit has been issued) to be prepaid, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.
2. (a) Divide the Assigned Special Tax computed pursuant to paragraph 1 by the total estimated Assigned Special Taxes for the entire CFD No. 90-2 based on the Developed Property Special Taxes and Taxable Senior Housing Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 90-2, excluding any Assessor's Parcels which have been prepaid, and
(b) Divide the Backup Special Tax computed pursuant to paragraph 1 by the estimated Backup Special Taxes at buildout of CFD No. 90-2 using the Backup Special Tax amount for the current Fiscal Year, excluding any Assessor's Parcels which have been prepaid.
3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
4. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").

5. Compute the current Future Facilities Costs
6. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the amount determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
7. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
8. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
11. Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
12. Verify the administrative fees and expenses of No. 90-2, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
13. The reserve fund credit (the "*Reserve Fund Credit*") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "*Capitalized Interest Credit*").
15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 4, 6, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").

16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 6 shall be deposited into the construction fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 90-2.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel that is prepaid, the Board shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Assigned Special Taxes that may be levied on Taxable Property within CFD No. 90-2 both prior to and after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

2. Prepayment in Part

The Maximum Special Tax on an Assessor's Parcel of Developed Property or Taxable Senior Housing Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \cdot F.$$

These terms have the following meaning:

PP = the partial prepayment

P_E = the Prepayment Amount calculated according to Section H.1

F = the percent by which the owner of the Assessor's Parcel(s) is partially prepaying the Maximum Annual Special Tax.

The owner of an Assessor's Parcel who desires to partially prepay the Maximum Special Tax shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax, (ii) the percentage by which the Maximum Special Tax shall be

prepaid, and (iii) the company or agency that will be acting as the escrow agent, if applicable. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Maximum Special Tax for an Assessor's Parcel within 30 days of the request and will charge a fee to the owner requesting prepayment for providing this figure.

With respect to any Assessor's Parcel that is partially prepaid, the School District shall (i) distribute the funds remitted to it according to Paragraph 16 of Section H.1. and (ii) indicate in the records of CFD No. 90-2 that there has been a partial prepayment of the Maximum Special Tax and that a portion of the Maximum Special Tax equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax shall continue to be authorized to be levied on such Assessor's Parcel pursuant to Section D.

I. TERM OF SPECIAL TAX

The Special Tax shall be levied for the period necessary to fully satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2041-42.

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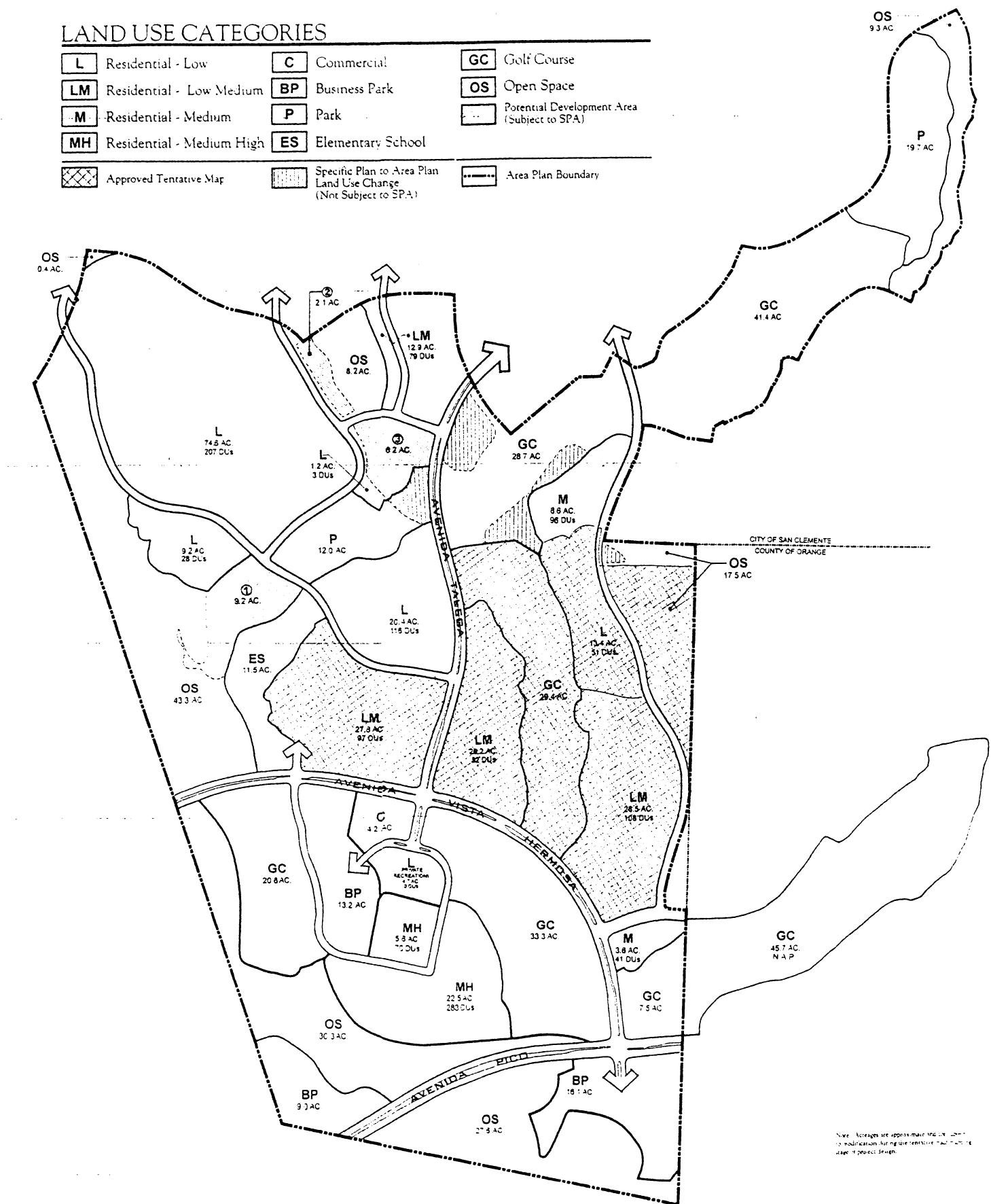
ATTACHMENT A

GOLF COURSE PROPERTY

LAND USE CATEGORIES

L	Residential - Low	C	Commercial	GC	Golf Course
LM	Residential - Low Medium	BP	Business Park	OS	Open Space
M	Residential - Medium	P	Park	PD	Potential Development Area (Subject to SPA)
MH	Residential - Medium High	ES	Elementary School		

 Approved Tentative Map Specific Plan to Area Plan
Land Use Change
(Not Subject to SPA) Area Plan Boundary



Note: Acreages are approximate and subject to modification during the tentative tract plan stage of project design.



TALEGA AREA PLAN LAND USE PLAN

Exhibit A

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following summary discussion of selected provisions of the Indenture is made subject to all of the provisions of the Indenture. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the 2016 Bonds are referred to the complete text of the Indenture, a copy of which is available upon request sent to the Trustee.

DEFINITIONS

Unless the context otherwise requires, the terms defined below shall for all purposes of the Indenture and of any certificate, opinion or other document mentioned in the Indenture, have the meanings specified 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 2016 Bonds issued under the Indenture in accordance with the provisions thereof as summarized herein under the heading “ADDITIONAL BONDS.”

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

“Administrative Expenses” means the following actual or reasonably estimated costs directly related to the administration of the Community Facilities District: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the School District or designee thereof or both); the costs of collecting the Special Taxes (whether by the County of Orange or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the School District, the Community Facilities District or any designee thereof of complying with arbitrage rebate requirements; the costs to the School District, the Community Facilities District or any designee thereof of complying with School District, Community Facilities District or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the School District, the Community Facilities District or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the School District’s annual administration fees, including, without limitation, expenses incurred in pursuit of State of California funding with respect to the Community Facilities District public facilities, and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the School District or the Community Facilities District for any other administrative purposes of the Community Facilities District, including attorney’s fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

“Affiliate” of another Person means (a) each Person that, directly or indirectly, owns or controls, whether beneficially or as trustee, guardian, or other fiduciary, 50% or more of any class of equity securities of such other Person, and (b) each Person that controls, is controlled by, or is under common control with or by such Person or any Affiliate of such Person. For the purpose of this definition, “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

“Annual 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 any mandatory sinking fund redemptions due in such Bond Year).

“Auditor” means the Auditor/Controller of the County of Orange.

“Authorized Denominations” means (a) with respect to the Series 2016 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 Deputy Superintendent of Business and Support Services of the School District, 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.

“Average Annual Debt Service” means the average of the Annual Debt Service for all Bond Years, including the Bond Year in which the calculation is made.

“BAM” or **“Bond Insurer”** shall mean Build America Mutual Assurance Company, or any successor thereto.

“Board of Trustees” means the Board of Trustees of the School District.

“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, 2016.

“Bonds” means the Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Special Tax Refunding Bonds issued under the Indenture, and includes the Series 2016 Bonds and any Additional Bonds.

“Book-Entry Bonds” means the Bonds of a Series registered in the name of the nominee of DTC, or any successor securities depository for such Series of Bonds, 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 of California, (b) a day on which banking institutions in the State of California, 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.

“Capitalized Interest Account” means the account by that name within the Bond Fund as may be established and held by the Trustee pursuant to the Indenture.

“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 2016 Bonds are delivered to the Original Purchaser.

“Code” means the Internal Revenue Code of 1986.

“Community Facilities District” means Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega), a community facilities district organized and existing under and by virtue of the laws of the State of California, and any successor thereto.

“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, appraisers, consultants, and other professionals, fees and charges for preparation, execution and safekeeping 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.

“District Continuing Disclosure Certificate” means the Continuing Disclosure Certificate, dated as of the Closing Date, executed by the Community Facilities District and agreed and accepted to by David Taussig and Associates, Inc., as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“DTC” means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for any Series of Book-Entry Bonds, including any such successor appointed pursuant to the Indenture.

“Federal Securities” means (a) 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), and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

“Fiscal 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 designated in a Written Certificate of the Community Facilities District delivered to the Trustee.

“Indenture” means the Indenture, dated as of July 1, 2016, by and between the Community Facilities District and U.S. Bank National Association, 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 domination of the Community Facilities District or the School District; (c) does not have any substantial interest, direct or indirect, with or in the Community Facilities District or the School District, 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 or the School District as an officer or employee thereof, but who may be regularly retained to make reports to the Community Facilities District or the School District.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing March 1, 2017, so long as any Bonds remain Outstanding.

“Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, N.A., at its principal office in The City of New York, New York, as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank, N.A.) plus 3%, and (ii) the then applicable highest rate of interest on the Series 2016 Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. In the event JPMorgan Chase Bank, N.A., ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such other bank, banking association or trust company as BAM, in its sole and absolute discretion, shall designate. Interest at the Late Payment Rate on any amount owing to BAM shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

“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 and by virtue of 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.

“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 School District levying the Special Taxes.

“Original Purchaser” means the original purchaser of the Series 2016 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 as summarized herein under the heading “MISCELLANEOUS – Disqualified Bonds,” 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 as summarized herein under the heading “DEFEASANCE – Discharge of the Indenture,” including Bonds (or portions of Bonds) disqualified under the Indenture as summarized herein under the heading “MISCELLANEOUS – Disqualified Bonds;” and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the provisions of 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 thereto in the District Continuing Disclosure Certificate.

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

- (a) Federal Securities;
- (b) any of the following direct or indirect obligations of the following agencies of the United States of America: (i) direct obligations of the Export-Import Bank; (ii) certificates of beneficial ownership issued by the Farmers Home Administration; (iii) participation certificates issued by the General Services Administration; (iv) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal Housing Administration; (v) project notes issued by the United States Department of Housing and Urban Development; and (vi) public housing notes and bonds guaranteed by the United States of America;
- (c) interest-bearing demand deposit accounts or time deposits (including certificates of deposit) in a federal or state chartered bank (including the Trustee and its affiliates) or a state licensed branch of a foreign bank or a state or federal association (as defined in Section 5102 of the California Financial Code), provided that: (i) the unsecured short-term obligations of such commercial bank or savings and loan association shall be rated A1 or better by S&P; or (ii) such demand deposit accounts or time deposits shall be fully insured by the Federal Deposit Insurance Corporation;
- (d) commercial paper rated in the highest short-term rating category by S&P, issued by corporations which are organized and operating within the United States of America, and which matures not more than 180 days following the date of investment therein;
- (e) bankers acceptances, consisting of bills of exchange or time drafts drawn on and accepted by a commercial bank whose short-term obligations are rated in the highest short term rating category by S&P, which mature not more than 270 days following the date of investment therein;
- (f) obligations the interest on which is excludable from gross income pursuant to Section 103 of the Code and which are rated A or better by S&P;
- (g) obligations issued by any corporation organized and operating within the United States of America having assets in excess of \$500,000,000, which obligations are rated A or better by S&P;
- (h) money market funds which are rated Am or better by S&P, including funds for which the Trustee and its affiliates provide investment advisory or other management services;

(i) an investment agreement or guaranteed investment contract with, or guaranteed by, a financial institution or corporation, the long-term unsecured obligations of which are or, in the case of an insurance company, the long term financial strength of which is, rated “AA-” or better by S&P at the time of initial investment; provided, that the investment agreement shall be subject to a downgrade provision with at least the following requirements:

(1) the agreement shall provide that within ten Business Days after the financial institution’s long-term unsecured credit rating has been withdrawn, suspended, or reduced below “AA-” by S&P (such events referred to as “rating downgrades”) the financial institution shall give notice to the Community Facilities District and the Trustee and, within such ten-day period, and for as long as the rating downgrade is in effect, shall deliver in the name of the Trustee Federal Securities with an aggregate current market value equal to at least 105% of the principal amount of the investment agreement invested with the financial institution at that time, and shall deliver additional Federal Securities as needed to maintain an aggregate current market value equal to at least 105% of the principal amount of the investment agreement within three days after each evaluation date, which shall be at least weekly, and

(2) the agreement shall provide that, if the financial institution’s long-term unsecured credit rating is reduced below “A-” by S&P, the financial institution shall give notice of the downgrade to the Community Facilities District and the Trustee within five Business Days, and the Trustee may, upon five Business Days’ written notice to the financial institution, withdraw all amounts invested pursuant to the investment agreement, with accrued but unpaid interest thereon to the withdrawal date, and terminate the agreement.

(j) repurchase agreements with: (i) any domestic bank, or domestic branch of a foreign bank, the long-term debt of which is rated at least “A” by S&P and Moody’s; (ii) any broker-dealer with “retail customers” or a related affiliate thereof, which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by S&P and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (iii) any other entity (or entity whose obligations are guaranteed by an affiliate or parent company) rated at least “A” by S&P and Moody’s, provided that:

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

(2) the Trustee or a third party acting solely as agent therefor (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);

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

(4) all other requirements of S&P and Moody’s in respect of repurchase agreements shall be met; and

(5) the repurchase agreement shall provide that if during its term the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3" respectively, the provider must immediately notify the Community Facilities District and Trustee and the provider must, at the direction of the Community Facilities District or the Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Community Facilities District or Trustee.

(k) the Orange County Treasurer's Money Market Commingled Investment Pool or similar pooled investment fund then maintained by the Orange County Treasurer.

(l) the Local Agency Investment Fund of the State of California.

"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.

"Policy" shall mean the Municipal Bond Insurance Policy issued by BAM that guarantees the scheduled payment of principal of and interest on the Series 2016 Bonds when due.

"Prior Bonds" means the Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2006 Special Tax Refunding Bonds, issued under the Prior Indenture.

"Prior Indenture" means the Bond Indenture, dated as of June 1, 2006, by and between the Community Facilities District and U.S. Bank National Association, as fiscal agent, as originally executed and as it may be amended or supplemented from time to time in accordance with the terms thereof.

"Rate and Method" means the Amended and Restated Rate and Method of Apportionment of the Special Taxes approved by the qualified electors of the Community Facilities District at the June 14, 1999 election, as further amended from time to time.

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

"Rebate Requirement" has the meaning ascribed thereto in the Tax Certificate.

"Record Date" means the 15th calendar day of the month preceding each 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.

"Representation Letter" means the Letter of Representations from the Community Facilities District to DTC, or any successor securities depository for any Series of Book-Entry Bonds, in which the Community Facilities District makes certain representations with respect to issues of its securities for deposit by DTC or such successor depository.

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

“Reserve Policy” means the Municipal Bond Debt Service Reserve Insurance Policy issued by BAM in satisfaction of the Reserve Requirement for the Series 2016 Bonds.

“Reserve Requirement” means, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds (excluding Bonds refunded with the proceeds of subsequently issued Bonds), (b) Maximum Annual Debt Service, and (c) 125% of Average Annual Debt Service.

“Resolution of Formation” means Resolution No. 9899-112, adopted by the School District on April 26, 1999, as originally adopted and as it may be amended or supplemented from time to time.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of 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.

“School District” means the Capistrano Unified School District, a school district organized and existing under and by virtue of the laws of the State of California.

“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 2016 Bonds, and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

“Series 2016 Bonds” means the Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Special Tax Refunding Bonds, Series 2016, 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 described in the Rate and Method levied within the Community Facilities District pursuant to the Act, the Ordinance and the Indenture.

“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.

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

“Tax Certificate” means the Tax Certificate executed by the Community Facilities District at the time of issuance of the Series 2016 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 U.S. Bank National Association, 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, appointed as provided in the Indenture.

“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.

CERTAIN PROVISIONS OF THE BONDS

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 like tenor and Series 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 like tenor and Series 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 the provisions of the Indenture summarized in 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 the Indenture summarized in 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 2016 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 made conditions precedent to the issuance of such Additional Bonds:

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

(1) The purpose for which such Additional Bonds are to be issued; provided, that the proceeds of the sale of such Additional Bonds shall be applied only for the purposes of: (i) providing funds to refund any Bonds issued under the Indenture; (ii) providing funds to pay Costs of Issuance incurred in connection with the issuance of such Additional Bonds; and (iii) providing funds to make any deposit to the Reserve Fund required pursuant to paragraph (6) below;

(2) The principal amount and designation of such Series of Additional Bonds and the denomination or denominations of the Additional Bonds;

(3) The date, the maturity date or dates, the interest payment dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, that (i) the serial Bonds of such Series of Additional Bonds shall be payable as to principal annually on September 1 of each year in which principal falls due, and the term Bonds of such Series of Additional Bonds shall have annual mandatory sinking fund redemptions on September 1, (ii) the Additional Bonds shall be payable as to interest semiannually on March 1 and September 1 of each year, 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 and the interest shall be payable thereafter semiannually on March 1 and September 1, (iii) all Additional Bonds of a Series of like maturity shall be identical in all respects, except as to number or denomination, and (iv) 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;

(4) The redemption premiums and terms, if any, for such Additional Bonds;

(5) The form of such Additional Bonds;

(6) The amount to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Fund; provided, that the Reserve Fund shall be increased at the time that such Additional Bonds become Outstanding to an amount at least equal to the Reserve Requirement, and an amount at least equal to the Reserve Requirement shall thereafter be maintained in the Reserve Fund; and

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

(b) Upon the issuance of such Additional Bonds, the Community Facilities District shall be in compliance with all agreements, conditions, covenants, and terms contained in the Indenture required to be observed or performed by it; and

(c) Annual Debt Service in each Bond Year, calculated for all Bonds to be Outstanding after the issuance of such Additional Bonds, shall 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.

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) 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 of California), (ii) such Additional Bonds constitute valid and binding special obligations of the Community Facilities District payable solely from Net Special Tax Revenues as provided in the Indenture 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 of California), 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;
- (d) The proceeds of the sale of such Additional Bonds; and
- (e) 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 Net Special Tax Revenues on a parity with the Bonds, except to refund any Bonds issued pursuant to the Indenture as summarized herein under the headings “**ADDITIONAL BONDS – Conditions for the Issuance of Additional Bonds**” and “**— Procedure for the Issuance of Additional Bonds.** So long as any of the Bonds remain Outstanding, the Community Facilities District shall not issue any obligations payable from Net Special Tax Revenues on a basis senior to the Bonds.

SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS

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, all of the Net Special Tax Revenues and any other amounts (including proceeds of the sale of the Bonds) held in the Special Tax Fund, the Bond Fund and the Reserve Fund are hereby pledged 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. Said pledge shall constitute a first lien on such assets.

Special Tax Fund. 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 any portion of any such Special Tax Revenues that represents prepaid Special Taxes that are to be applied to the payment of the Redemption Price of Bonds in accordance with the provisions of the Indenture shall be identified to the Trustee as such by the Community Facilities District and shall be deposited in the Redemption 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 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, including principal due and payable by reason of mandatory sinking fund redemption of such 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 including, without limitation, the amount necessary to pay all Policy Costs due to BAM in connection with the Reserve Policy.

On or after September 2 of each year, after having made any requested transfer to the Administrative Expense Fund, the Bond Fund and the Reserve Fund, the Trustee shall withdraw from the Special Tax Fund and transfer to the Surplus Fund all or a portion of any moneys remaining in the Special Tax Fund upon receipt of a Written Request delivered to the Trustee by the Community Facilities District.

Bond Fund. (a) The Trustee shall establish and maintain a separate fund designated the "Bond Fund." Within the Bond Fund, the Trustee shall establish and maintain a separate account designated the "Capitalized Interest Account" as may be required under any Supplemental Indenture. The Trustee shall deposit in the Bond Fund from time to time the amounts required to be deposited therein pursuant to the Indenture.

(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. There shall additionally be transferred from the Capitalized Interest Account to the Bond Fund the amounts required to be so transferred under any Supplemental Indenture.

Redemption Fund. 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 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 2016 Bonds pursuant to the Indenture and any other amounts required to be deposited therein pursuant to the Indenture or pursuant to any Supplemental Indenture.

Amounts in the Redemption Fund shall be disbursed therefrom for the payment of the Redemption Price of Series 2016 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.

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 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 heading (“– Reserve Fund”), all amounts deposited in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Bond Fund 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 or, in accordance with the provisions of the Indenture summarized under this heading (“– Reserve Fund”), for the purpose of redeeming Bonds. Transfers shall be made from the Reserve Fund to the Bond Fund in the event of a deficiency in the Bond Fund, in accordance with the Indenture.

So long as no Event of Default shall have occurred and be continuing, any amount in the Reserve Fund in excess of the Reserve Requirement on September 2 (including the amount required for payment of any Policy Costs due in connection with the Reserve Policy) of each year shall be withdrawn from the Reserve Fund by the Trustee and shall be deposited in the Bond Fund. Notwithstanding the foregoing, before any such deposit shall be made, such amount shall be available for the payment of any rebate that may be owed under the Code, as specified in a Written Request of the Community Facilities District delivered to the Trustee on or before September 2 of each year.

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.

Whenever Bonds are to be redeemed pursuant to the Indenture or the corresponding provisions of a Supplemental Indenture, a proportionate share, determined as provided below, of the amount on deposit in the Reserve Fund shall, on the Business Day prior to the date on which such Bonds are to be redeemed, be transferred by the Trustee from the Reserve Fund to the Redemption Fund 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 \$5,000 that is not larger than the amount equal to the product of (a) the amount on deposit in the Reserve Fund on the date five Business Days prior to the date notice of redemption of such Bonds is required to be given pursuant to the provisions of the Indenture, times (b) 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.

Rebate Fund. The Trustee shall establish and maintain a special fund designated the “Rebate Fund” when and if needed. 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 described under the heading “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 of the Indenture summarized in this paragraph 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. Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in the provisions of the Indenture summarized in this paragraph, 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.

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

(b) 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.

Surplus Fund. The Trustee shall establish and maintain a special fund designated the “Surplus Fund.” The Trustee shall deposit in the Surplus Fund the amounts transferred from the Special Tax Fund and required to be deposited therein pursuant to the Indenture. The moneys in the Surplus Fund shall be used and withdrawn by the Trustee from time to time, upon receipt of a Written Request of the Community Facilities District, directing the Trustee to transfer the amount so specified in such Written Request to: (i) the Redemption Fund to redeem Bonds; or (ii) the Community Facilities District, for any authorized purpose of the Community Facilities District.

Costs of Issuance Fund. 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.

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: (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; (d) that such payment is a proper charge against the Costs of Issuance Fund; and (e) 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.

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. Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the Community Facilities District two Business Days prior to the making of such investment. Moneys in all funds and accounts held by the Trustee 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; 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 timely written direction from the Community Facilities District, the Trustee shall invest any funds held by it in Permitted Investments described in clause (h) of the definition thereof.

Subject to the provisions of the Indenture, 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 Capitalized Interest Account and the Reserve Fund) shall be retained therein. Subject to the provisions of the Indenture, all interest, profits or other income received from the investment of moneys in the Reserve Fund shall be transferred to 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.

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. The Trustee may utilize and rely upon securities pricing services available to it for such valuations, including those available through the Trustee’s accounting system.

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 is

credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to the provisions of the Indenture summarized under this heading ("– Investment of Moneys"). For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

The Community Facilities District acknowledges that 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 will furnish the Community Facilities District periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

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 10 days of the failure to make such payment or the date of such withdrawal.

COVENANTS

Collection of Special Tax Revenues. 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.

Prior to August 1 of each year, the Community Facilities District shall 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 shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 10 that the Bonds are Outstanding, 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 to include the levy of the Special Taxes on the next real property tax roll.

The Community Facilities District shall fix and levy the amount of Special Taxes within the Community Facilities District 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 the amount required for the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the Bond Year commencing in such Fiscal Year, the amount required for any necessary replenishment of the Reserve Fund including, without limitation, payment of any Policy Cost due on the Reserve Policy (which shall be made prior to replenishment) and the amount estimated to be sufficient to pay the Administrative Expenses during such year, taking into account the balances in the funds and accounts established under the Indenture.

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, 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 of the Bonds that it will determine or cause to be determined, on or about June 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 send or cause to be sent a notice of delinquency and demand for payment thereof to the property owner within 45 days of such determination and if such delinquency remains uncured, order and cause to be commenced within 90 days of such determination of delinquency, 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.

Notwithstanding the foregoing, however, the Community Facilities District shall not be required to order the commencement of foreclosure proceedings under the preceding paragraph, if (i) 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 (ii) no draw has been made on the Reserve Fund including, without limitation, the Reserve Policy, that has not been replenished or reimbursed. However, 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, notwithstanding the first sentence of this paragraph.

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 the provisions of the Indenture summarized 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. The Community Facilities District shall not create, or permit the creation of, any pledge, lien, charge, or other encumbrance upon the Special Tax Revenues and other assets pledged under the Indenture while any of the Bonds are Outstanding, except as permitted by the Indenture.

Power to Issue Bonds and Make Pledge. The Community Facilities District is duly authorized pursuant to the Act to issue the Bonds and to enter into the Indenture and to pledge the Net Special Tax Revenues and other assets pledged under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid, and binding special obligations of the Community Facilities District in accordance with their terms, and the Community Facilities District and the Trustee (subject to the provisions of the Indenture) shall at all times, to the extent permitted by law, defend, preserve and protect said pledge of Net Special Tax Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all Persons whomsoever.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with prudent corporate trust industry standards, in which accurate entries shall be made of all transactions made by it relating to the proceeds of the Bonds, the Special Tax Revenues and all funds and accounts established by it pursuant to the Indenture. Such books of record and account shall be available for inspection by the Community Facilities District, during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee. The Trustee shall deliver to the Community Facilities District a monthly accounting of the funds and accounts it holds under the Indenture; provided, however, that the Trustee shall not be obligated to deliver an accounting for any fund or account that (a) has a balance of zero, and (b) has not had any activity since the last reporting date.

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 2016 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. The covenant summarized under this heading (“– Tax Covenants”) shall survive payment in full or defeasance of the 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 heading (“– Tax Covenants”) 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 heading (“– Tax Covenants”), if the Community Facilities District shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under such provisions of the Indenture 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 2016 Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of such provisions of the Indenture and of the Tax Certificate, and the covenants under the Indenture shall be deemed to be modified to that extent.

Continuing Disclosure. The Community Facilities District shall comply with and carry out all of the provisions of the District Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Community Facilities District to comply with the District Continuing Disclosure Certificate 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 2016 Bonds, and upon indemnification of the Trustee to its reasonable satisfaction, shall) or any holder or beneficial owner of the Series 2016 Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Annual Reports to the California Debt and Investment Advisory Commission. Not later than October 30 of each year, commencing October 30, 2016 and 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.

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 or referendum measure is proposed 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.

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 Bonds of the rights and benefits provided in the Indenture.

EVENTS OF DEFAULT AND REMEDIES

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 60 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 the Owners of not less than 5% in aggregate principal amount of the Bonds at the time Outstanding; provided, however, if in the reasonable opinion of the Community Facilities District the failure stated in the notice can be corrected, but not within such 60 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Community Facilities District within such 60 day period and the Community Facilities District shall thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The Community Facilities District or the School District shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

Foreclosure. If any Event of Default shall occur under the Indenture as summarized herein under paragraphs (a) or (b) under the heading "EVENTS OF DEFAULT AND REMEDIES – 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; provided, however, that the Trustee need not commence any such foreclosure if such foreclosure has been commenced by the Community Facilities District.

Other Remedies. If an Event of Default shall have occurred under the Indenture, 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 Trustee's or Bond Owner's rights; 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.

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

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

Second: To the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity 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.

Bond 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 under the Indenture; provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and 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 Bond Owners not parties to such direction.

Limitation on Bond 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 Bonds, 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 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 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 Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, 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 in the Indenture provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation. Nothing in the Indenture or in any other provision of the Indenture or in 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 of the Bonds 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 pledged in the Indenture therefor and received by the Community Facilities District or the Trustee, 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 Bond 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 Bond Owners, then in every such case the Community Facilities District, the Trustee and the Bond 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 Bond 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 of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

TRUSTEE

Section 1.02.Duties and Liabilities of Trustee. (a) *Duties of Trustee Generally.* 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 persons own affairs.

(b) *Removal of Trustee.* The Community Facilities District may upon 30 days prior written notice remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if 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 if at any time the Trustee shall cease to be eligible in accordance with paragraph (e) below, 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 and thereupon shall appoint a successor Trustee by an instrument in writing.

(c) *Resignation of Trustee.* 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 Bond Owners at the respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the Community Facilities District shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

(d) *Appointment of Successor Trustee.* 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 under any circumstances the successor Trustee shall be qualified as provided in paragraph (e) below. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bond Owner (on behalf of himself and all other Bond 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 after payment by the Community Facilities District of all unpaid fees and expenses of the predecessor Trustee, then 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 set forth in the Indenture. Upon request of the successor Trustee, the Community Facilities District shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties, and obligations. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the Community Facilities District shall

mail or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which then maintains a rating on the Bonds and to the Bond Owners at the addresses shown on the Registration Books. If the Community Facilities District fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Community Facilities District.

(e) *Qualifications of Trustee.* The Trustee shall be a trust company 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 bank or trust company 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 federal or state agency. If such bank or trust company 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 bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this paragraph (e), the Trustee shall resign immediately in the manner and with the effect specified in the provisions of the Indenture as summarized herein under the heading "TRUSTEE – Duties and Liabilities of the Trustee."

Merger or Consolidation. Any bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or trust company shall be eligible under the Indenture 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 make any representations as to the validity or sufficiency of the Indenture or of the Bonds or shall 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. 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. 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. The Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture. 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 Bond Owners, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

(b) 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.

(c) 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.

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

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

(f) The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement or any other disclosure material prepared or distributed with respect to the Bonds.

MODIFICATION OR AMENDMENT

Amendments Permitted. (a) The Indenture and the rights and obligations of the Community Facilities District, the Owners of the Bonds and the Trustee 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 with the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, which shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, reduce the amount of principal thereof or the rate of interest thereon, alter the redemption provisions thereof or extend the time of payment thereof, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, without the consent of the Owners of all of the Bonds then Outstanding, or (iii) permit the creation of any lien on the Net Special Tax Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Net Special Tax Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

(b) The Indenture and the rights and obligations of the Community Facilities District, the Trustee and the Owners of the Bonds 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 Bond 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 in the Indenture reserved to or conferred upon the Community Facilities District;

(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;

(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 herein under the heading "ISSUANCE OF BONDS; APPLICATION OF PROCEEDS; ADDITIONAL BONDS;"

(iv) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(v) to modify, amend or supplement the Indenture in such manner as 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 interests of the Bond 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 of the Bonds 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 described herein under the heading "MODIFICATION OR AMENDMENT," 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 all Owners of Bonds Outstanding 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 execution of any Supplemental Indenture pursuant to the Indenture as described herein under the heading "MODIFICATION OR AMENDMENT," 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 Bonds Outstanding at the time of such execution and presentation of his Bonds for the 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 upon demand of the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same interest rate and maturity.

Amendment of Particular Bonds. The provisions of the Indenture as summarized herein under the heading "MODIFICATION OR AMENDMENT" shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

DEFEASANCE

Discharge of Indenture. 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 in the Indenture and therein, then the Owners of such Bonds 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 to the Owners of such Bonds under the Indenture shall thereupon cease, terminate, and become void and 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 such Bonds.

Subject to the provisions of the above paragraph, when any of the Bonds 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 the Community Facilities District or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Community Facilities District under shall cease, terminate become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, 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 the Bonds 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 the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the compensation of the Trustee shall remain in effect and shall be binding upon the Trustee and the Community Facilities District.

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 Bonds and the interest thereon at the maturity or redemption date thereof, such Bonds shall be deemed to have been paid within the meaning and with the effect provided in the Indenture as summarized herein under the heading "DEFEASANCE – Discharge of Indenture." Any Outstanding Bonds 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 Indenture as summarized herein under the heading "DEFEASANCE – Discharge of Indenture" if 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, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture, there shall have been deposited with the Trustee either (i) money in an amount which shall be sufficient, or (ii) Federal Securities that are not subject to redemption other than at the option of the holder thereof, the interest on and principal of which when paid will provide money which, together with the money, if any deposited with the Trustee at the same time, shall, as verified by an independent certified public accountant, be sufficient to pay when due the interest to become due on such Bonds 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 Bonds, which sufficiency shall be verified in a report of an independent firm

of nationally recognized certified public accountants, and (c) in the event such Bonds are not by their 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 owners of such Bonds that the deposit required by clause (b) above has been made with the Trustee and that such Bonds, are deemed to have been paid in accordance with this paragraph 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 Bonds.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, to the extent permitted by law, any moneys held by the Trustee in trust for the payment of the principal of, or premium or interest on, any Bonds and remaining unclaimed for two years after the date of deposit of such moneys, shall be repaid to the Community Facilities District free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Community Facilities District as aforesaid, the Trustee may (at the cost of the Community Facilities District) first mail, by first class mail postage prepaid, to the Owners of Bonds which have not yet been paid, at the respective addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Community Facilities District of the moneys held for the payment thereof.

MISCELLANEOUS

Special Obligations. All obligations of the Community Facilities District under the Indenture shall be special obligations of the Community Facilities District, payable solely from Special Tax Revenues and the other assets pledged therefor under the Indenture; provided, however, that all obligations of the Community Facilities District under the Bonds shall be special obligations of the Community Facilities District, payable 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 School District, or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the Community Facilities District or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the Community Facilities District or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

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 or in the Indenture 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.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

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.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality, or unenforceability shall not affect any other provision of the Indenture, and the Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained in the Indenture. The Community Facilities District hereby declares that it would have entered into the Indenture and each and every other Section, subsection, paragraph, sentence, clause or phrase of the Indenture and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, subsections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Evidence of Rights of Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond 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 the provisions of the Indenture summarized 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 the provisions of the Indenture summarized in 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 Indenture as summarized herein under the heading "DEFEASANCE – Unclaimed Moneys" 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.

Payment on Non-Business Days. In the event any payment is required to be made under the Indenture on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such non-Business Day.

Waiver of Personal Liability. No member, trustee, officer, agent or employee of the Community Facilities District or the School District 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 contained in the Indenture shall relieve any such member, trustee, 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 of California.

PAYMENTS UNDER THE POLICY; OTHER PROVISIONS CONCERNING THE BOND INSURER

Defeasance. The investments in the defeasance escrow relating to Series 2016 Bond shall be limited to non-callable, direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, or as otherwise maybe authorized under State law and approved by BAM (“Defeasance Obligations”).

At least (three) 3 Business Days prior to any defeasance with respect to the Series 2016 Bonds, Community Facilities District shall deliver to BAM draft copies of an escrow agreement or escrow instructions (the “Escrow Agreement”), an opinion of bond counsel regarding the validity and enforceability of the Escrow Agreement and the defeasance of the Series 2016 Bonds, a verification report (a “Verification Report”) prepared by a nationally recognized independent financial analyst or firm of certified public accountants regarding the sufficiency of the escrow fund. Such opinion and Verification Report shall be addressed to BAM and shall be in form and substance satisfactory to BAM. In addition, the Escrow Agreement shall provide that:

- (a) Any substitution of securities following the execution and delivery of the Escrow Agreement shall require the delivery of a Verification Report, an opinion of bond counsel that such

substitution will not adversely affect the exclusion (if interest on the Series 2016 Bonds is excludable) from gross income of the holders of the Series 2016 Bonds of the interest on the Series 2016 Bonds for federal income tax purposes and the prior written consent of BAM, which consent will not be unreasonably withheld.

(b) Community Facilities District will not exercise any prior optional redemption of Series 2016 Bonds secured by the Escrow Agreement or any other redemption other than mandatory sinking fund redemptions unless (i) the right to make any such redemption has been expressly reserved in the Escrow Agreement and such reservation has been disclosed in detail in the official statement for the refunding bonds, and (ii) as a condition to any such redemption there shall be provided to BAM a Verification Report as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following any such redemption.

(c) Community Facilities District shall not amend the Escrow Agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of BAM.

Trustee. BAM shall receive prior written notice of any name change of the Trustee, for the Series 2016 Bonds or the resignation or removal of the Trustee. Each Trustee must be (A) a national banking association that is supervised by the Office of the Comptroller of the Currency and has at least \$250 million of assets, (B) a state-chartered commercial bank that is a member of the Federal Reserve System and has at least \$1 billion of assets, or (C) otherwise approved by BAM in writing. No removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to BAM, shall be qualified and appointed.

Amendments, Supplements and Consents. BAM's prior written consent is required for all amendments and supplements to the Indenture, with the exceptions noted below. Community Facilities District shall send copies of any such amendments or supplements to BAM and the rating agencies which have assigned a rating to the Series 2016 Bonds.

(a) *Consent of BAM.* Any amendments or supplements to the Indenture shall require the prior written consent of BAM with the exception of amendments or supplements:

i. To cure any ambiguity or formal defect or omissions or to correct any inconsistent provisions in the transaction documents or in any supplement thereto, or

ii. To grant or confer upon the holders of the Series 2016 Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the holders of the Series 2016 Bonds, or

iii. To add to the conditions, limitations and restrictions on the issuance of bonds or other obligations under the provisions of the Indenture other conditions, limitations and restrictions thereafter to be observed, or

iv. To add to the covenants and agreements of Community Facilities District in the Indenture other covenants and agreements thereafter to be observed by Community Facilities District or to surrender any right or power therein reserved to or conferred upon Community Facilities District, or

v. To issue additional parity debt in accordance with the requirements set forth in the Indenture.

(b) *Consent of BAM in Addition to Bondholder Consent.* Any amendment, supplement, modification to, or waiver of, any term of the Indenture that requires the consent of holders of the Series 2016 Bonds or adversely affects the rights or interests of BAM shall be subject to the prior written consent of BAM.

(c) *Insolvency.* Any reorganization or liquidation plan for the Community Facilities District must be acceptable to BAM. The Trustee and each owner of the Series 2016 Bonds hereby appoint BAM as their agent and attorney-in-fact with respect to the Series 2016 Bonds and agree that BAM may at any time during the continuation of any proceeding by or against the Community Facilities District under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an “Insolvency Proceeding”) direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a “Claim”), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, the Trustee and each owner of the Series 2016 Bonds delegate and assign to BAM, to the fullest extent permitted by law, the rights of the Trustee and each owner of the Series 2016 Bonds with respect to the Series 2016 Bonds in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

(d) *Consent of BAM Upon Default.* Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of a default or an event of default, BAM shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Series 2016 Bonds or the Trustee for the benefit of the holders of the Series 2016 Bonds under the Indenture. No default or event of default may be waived without BAM’s written consent.

(e) *BAM as Owner.* Upon the occurrence and continuance of a default or an event of default, BAM shall be deemed to be the sole owner of the Series 2016 Bonds for all purposes under the Indenture, including, without limitations, for purposes of exercising remedies and approving amendments.

(f) *Consent of BAM for acceleration.* BAM’s prior written consent is required as a condition precedent to and in all instances of acceleration.

(g) *Grace Period for Payment Defaults.* No grace period shall be permitted for payment defaults on the Series 2016 Bonds. No grace period for a covenant default shall exceed 30 days without the prior written consent of BAM.

(h) *Special Provisions for Insurer Default.* If an Insurer Default shall occur and be continuing, then, notwithstanding anything in paragraphs 4(a)-(e) above to the contrary, (1) if at any time prior to or following an Insurer Default, BAM has made payment under the Policy, to the extent of such payment BAM shall be treated like any other holder of the Series 2016 Bonds for all purposes, including giving of consents, and (2) if BAM has not made any payment under the Policy, BAM shall have no further consent rights until the particular Insurer Default is no longer continuing or BAM makes a payment under the Policy, in which event, the foregoing clause (1) shall control. For purposes of this paragraph, “Insurer Default” means: (A) BAM has failed to make any payment under the Policy when due and owing in accordance with its terms; or (B) BAM shall (i) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, or (vi) take action for the purpose of effecting any

of the foregoing; or (C) any state or federal agency or instrumentality shall order the suspension of payments on the Policy or shall obtain an order or grant approval for the rehabilitation, liquidation, conservation or dissolution of BAM (including without limitation under the New York Insurance Law).

Payment Procedure Under the Policy. In the event that principal and/or interest due on the Series 2016 Bonds shall be paid by BAM pursuant to the Policy, the Series 2016 Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Community Facilities District, the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Community Facilities District to the registered owners shall continue to exist and shall run to the benefit of BAM, and BAM shall be subrogated to the rights of such registered owners.

In the event that on the second (2nd) business day prior to any payment date on the Series 2016 Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Series 2016 Bonds due on such payment date, the Trustee shall immediately notify BAM or its designee on the same business day by telephone or electronic mail, of the amount of the deficiency. If any deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify BAM or its designee.

In addition, if the Trustee has notice that any holder of the Series 2016 Bonds has been required to disgorge payments of principal of or interest on the Series 2016 Bonds pursuant to a final, non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such holder within the meaning of any applicable bankruptcy law, then the Trustee shall notify BAM or its designee of such fact by telephone or electronic mail, or by overnight or other delivery service as to which a delivery receipt is signed by a person authorized to accept delivery on behalf of BAM.

The Trustee shall irrevocably be designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Series 2016 Bonds as follows:

(a) If there is a deficiency in amounts required to pay interest and/or principal on the Series 2016 Bonds, the Trustee shall (i) execute and deliver to BAM, in form satisfactory to BAM, an instrument appointing BAM as agent and attorney-in-fact for such holders of the Series 2016 Bonds in any legal proceeding related to the payment and assignment to BAM of the claims for interest on the Series 2016 Bonds, (ii) receive as designee of the respective holders (and not as Trustee) in accordance with the tenor of the Policy payment from BAM with respect to the claims for interest so assigned, (iii) segregate all such payments in a separate account (the "BAM Policy Payment Account") to only be used to make scheduled payments of principal of and interest on the Series 2016 Bond, and (iv) disburse the same to such respective holders; and

(b) If there is a deficiency in amounts required to pay principal of the Series 2016 Bonds, the Trustee shall (i) execute and deliver to BAM, in form satisfactory to BAM, an instrument appointing BAM as agent and attorney-in-fact for such holder of the Series 2016 Bonds in any legal proceeding related to the payment of such principal and an assignment to BAM of the Series 2016 Bonds surrendered to BAM, (ii) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Policy payment therefore from BAM, (iii) segregate all such payments in the BAM Policy Payment Account to only be used to make scheduled payments of principal of and interest on the Series 2016 Bond, and (iv) disburse the same to such holders.

The Trustee shall designate any portion of payment of principal on Series 2016 Bonds paid by BAM, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Series 2016 Bonds registered to the then current holder, whether DTC or its nominee or otherwise, and shall issue a replacement Series 2016 Bond to BAM, registered in the name directed by BAM, in a principal amount equal to the amount of principal so paid

(without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Series 2016 Bond shall have no effect on the amount of principal or interest payable by the Community Facilities District on any Series 2016 Bond or the subrogation or assignment rights of BAM.

Payments with respect to claims for interest on and principal of Series 2016 Bonds disbursed by the Trustee from proceeds of the Policy shall not be considered to discharge the obligation of the Community Facilities District with respect to such Series 2016 Bonds, and BAM shall become the owner of such unpaid Series 2016 Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the preceding paragraphs or otherwise. The Indenture shall not be discharged or terminated unless all amounts due or to become due to BAM have been paid in full or duly provided for.

Irrespective of whether any such assignment is executed and delivered, Community Facilities District and the Trustee agree for the benefit of BAM that:

- (a) They recognize that to the extent BAM makes payments directly or indirectly (e.g., by paying through the Trustee), on account of principal of or interest on the Series 2016 Bonds, BAM will be subrogated to the rights of such holders to receive the amount of such principal and interest from the Community Facilities District, with interest thereon, as provided and solely from the sources stated in the Indenture and the Series 2016 Bonds; and
- (b) They will accordingly pay to BAM the amount of such principal and interest, with interest thereon as provided in the transaction documents and the Series 2016 Bonds, but only from the sources and in the manner provided therein for the payment of principal of and interest on the Series 2016 Bonds to holders, and will otherwise treat BAM as the owner of such rights to the amount of such principal and interest.

Additional Payments. Community Facilities District agrees unconditionally that it will pay or reimburse BAM on demand any and all reasonable charges, fees, costs, losses, liabilities and expenses that BAM may pay or incur, including, but not limited to, fees and expenses of BAM's agents, attorneys, accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of the Indenture ("Administrative Costs"). For purposes of the foregoing, costs and expenses shall include a reasonable allocation of compensation and overhead attributable to the time of employees of BAM spent in connection with the actions described in the preceding sentence. Community Facilities District agrees that failure to pay any Administrative Costs on a timely basis will result in the accrual of interest on the unpaid amount at the Late Payment Rate, compounded semi-annually, from the date that payment is first due to BAM until the date BAM is paid in full.

Notwithstanding anything in the Indenture to the contrary, Community Facilities District agrees to pay to BAM (i) a sum equal to the total of all amounts paid by BAM under the Policy ("BAM Policy Payment"); and (ii) interest on such BAM Policy Payments from the date paid by BAM until payment thereof in full by Community Facilities District, payable to BAM at the Late Payment Rate per annum (collectively, "BAM Reimbursement Amounts") compounded semi-annually. Community Facilities District hereby covenants and agrees that the BAM Reimbursement Amounts are payable from and secured by a lien on and pledge of the same revenues and other collateral pledged to the Series 2016 Bonds on a parity with debt service due on the Series 2016 Bonds.

Debt Service Reserve Fund. The prior written consent of BAM shall be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the Reserve Fund, if any.

Amounts on deposit in the Reserve Fund shall be applied solely to the payment of debt service due on the Series 2016 Bonds.

Exercise of Rights by BAM. The rights granted to BAM under the Indenture to request, consent to or direct any action are rights granted to BAM in consideration of its issuance of the Policy. Any exercise by BAM of such rights is merely an exercise of the BAM's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the holders of the Series 2016 Bonds and such action does not evidence any position of BAM, affirmative or negative, as to whether the consent of the holders of the Series 2016 Bonds or any other person is required in addition to the consent of BAM.

BAM shall be entitled to pay principal or interest on the Series 2016 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Community Facilities District (as such terms are defined in the Policy) and any amounts due on the Series 2016 Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not BAM has received a claim upon the Policy.

No contract shall be entered into or any action taken by which the rights of BAM or security for or source of payment of the Series 2016 Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of BAM.

If an event of default occurs under any agreement pursuant to which any Obligation of the Community Facilities District has been incurred or issued and that permits the holder of such Obligation or trustee to accelerate the Obligation or otherwise exercise rights or remedies that are adverse to the interest of the holders of the Series 2016 Bonds or BAM, as BAM may determine in its sole discretion, then an event of default shall be deemed to have occurred under the Indenture for which BAM or the Trustee, at the direction of BAM, shall be entitle to exercise all available remedies under the Indenture, at law and in equity. For purposes of the foregoing "Obligation" shall mean any bonds, loans, certificates, installment or lease payments or similar obligations that are payable and/or secured on a parity or subordinate basis to the Series 2016 Bonds.

PAYMENT AND OTHER PROVISIONS UNDER THE RESERVE POLICY

With respect to the Reserve Policy, notwithstanding anything to the contrary set forth in the Indenture Community Facilities District and the Trustee agree to comply with the following provisions:

(a) Community Facilities District shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by BAM. Interest shall accrue and be payable on such draws and expenses from the date of payment by the Bond Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of (A) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such changes are announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Series 2016 Bonds, and (B) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such bank, banking association or trust company bank as the Bond Insurer in its sole and absolute discretion shall specify.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, the "Policy Costs") shall commence in the first month following each draw, and each

such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to the Bond Insurer shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Bond Insurer on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

All cash and investments in the Reserve Fund shall be transferred to the Bond Fund for payment of the debt service on the Bonds before any drawing may be made on the Reserve Policy or any other Reserve Fund Credit Instrument in lieu of cash.

Payment of any Policy Cost shall be made prior to replenishment of any cash amounts. Draws on all Reserve Fund Credit Instruments (including the Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Reserve Fund Credit Instruments shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(b) Draws under the Reserve Policy may only be used to make payments on Bonds insured by the Bond Insurer.

(c) If the Community Facilities District shall fail to pay any Policy Costs in accordance with the requirements of paragraph (a) above, the Bond Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture other than (i) acceleration of the maturity of the Bonds, or (ii) remedies which would adversely affect owners of the Bonds.

(d) The Indenture shall not be discharged until all Policy Costs owing to the Bond Insurer shall have been paid in full. The Community Facilities District's obligation to pay such amount shall expressly survive payment in full of the Bonds.

(e) The Trustee shall ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of paragraph (a) hereof and provide notice to the Bond Insurer at least three business days prior to each date upon which interest or principal is due on the Bonds.

(f) The Reserve Policy shall expire on the earlier of the date the Bonds are no longer outstanding and the final maturity date of the Bonds.

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APPENDIX D
FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”), dated as of July 1, 2016, is by and between Government Financial Strategies inc., as dissemination agent (the “Dissemination Agent”), and the Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the “Community Facilities District”).

RECITALS:

WHEREAS, the Community Facilities District has issued its Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Special Tax Refunding Bonds, Series 2016 (the “Bonds”) in the initial principal amount of \$[Principal Amount]; and

WHEREAS, the Bonds are being issued pursuant to the Indenture, dated as of July 1, 2016 (the “Indenture”), by and between the Community Facilities District and U.S. Bank National Association, as trustee (the “Trustee”); and

WHEREAS, this Disclosure Certificate is being executed and delivered by the Community Facilities District and the Dissemination Agent for the benefit of the owners and beneficial owners of the Bonds and in order to assist the underwriter of the Bonds in complying with United States Securities and Exchange Commission Rule 15c2-12(b)(5).

AGREEMENT:

NOW, THEREFORE, for and in consideration of the premises and mutual covenants herein contained, and for other consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Definitions. In addition to the definitions of capitalized terms set forth in Section 1.02 of the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section or in the Recitals above, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

“*Annual Report*” means any Annual Report provided by the Community Facilities District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Beneficial Owner*” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including persons holding any Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for federal income tax purposes.

“*Disclosure Representative*” means the Deputy Superintendent, Business & Support Services of the School District, or such person’s designee, or such other officer or employee as the Community Facilities District shall designate as the Disclosure Representative hereunder in writing to the Dissemination Agent from time to time.

“*Dissemination Agent*” means Government Financial Strategies inc., 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 Community Facilities District and the School District a written acceptance of such designation.

“*EMMA*” or “*Electronic Municipal Market Access*” means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

“*Listed Events*” means any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“Official Statement” means the Official Statement, dated _____, 2016, relating to the Bonds.

“Participating Underwriter” means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the 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.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Community Facilities District and the Dissemination Agent for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The Community Facilities District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the School District’s fiscal year (which currently ends on June 30), commencing with the report for the 2015-16 Fiscal Year, which is due not later than March 31, 2017, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided 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.

(b) *Change of Fiscal Year.* If the Community Facilities District’s fiscal year changes, the Community Facilities District shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the Community Facilities District shall provide the Annual Report to the Dissemination Agent (if other than the Community Facilities District). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the Community Facilities District.

(d) *Report of Non-Compliance.* If the Community Facilities District is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the Community Facilities District shall send in a timely manner a notice to EMMA substantially in the form attached hereto as Exhibit A. If the Community Facilities District is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send in a timely manner a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the Community Facilities District, file a report with the Community Facilities District certifying that the Annual Report has been filed with EMMA pursuant to this Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) *Financial Statements.* If audited financial statements of the Community Facilities District are prepared, the Community Facilities District shall provide such audited financial statements, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standard Board. If audited financial statements are to be prepared but are not available at the time required for filing, unaudited financial statements shall be submitted with the Annual Report and audited financial statement shall be submitted in a timely manner once available. For purposes of this section, the financial statements of the School District shall not be deemed to be the financial statements of the Community Facilities District, unless such audited financial statements contain specific information as to such Community Facilities District, its revenues, expenses and account balances. If audited financial statements of the Community Facilities District are not prepared, no unaudited financial statements need be submitted.

(b) *Other Annual Information.* Each Annual Report shall also include the following information, to the extent not included in the audited final statements of the Community Facilities District:

- (i) The most recent annual information required to be provided to the California Debt and Investment Advisory Commission pursuant to Section 6.10 of the Indenture, which shall include, in any event, the principal amount of the Bonds and any Parity Bonds outstanding and the balance in each fund under the Indenture as of the immediately preceding June 30.
- (ii) Any amendments or changes to the Rate and Method since the last Annual Report.
- (iii) The principal amount of any Parity Bonds issued since the last Annual Report.
- (iv) The aggregate levy of the Special Taxes, for the most recent fiscal year.
- (v) The number of building permits issued for property in the Community Facilities District as of the January 1 occurring during the fiscal year to which the Annual Report pertains.
- (vi) An update of Table 2 of the Official Statement entitled “Debt Service Coverage from Net Special Tax Revenues” and Table 6B entitled “Estimated Assessed Value-to-Lien Ratios” in the Official Statement for the Bonds based on the assessed values of property within the Community Facilities District and the Special Tax levy, in each case for the most recent Fiscal Year for which such information is available.
- (vii) The Special Tax and property tax delinquency rate for parcels in the Community Facilities District for the most recent Fiscal Year.
- (viii) Concerning delinquent parcels:
 - the number of parcels delinquent in payment of Special Tax,
 - the amount of total delinquency and as a percentage of total Special Tax levy, and
 - the status of the Community Facilities District’s actions on covenants to pursue foreclosure proceedings upon delinquent properties.
- (ix) Any change in the application of Orange County’s Teeter Plan to the Special Taxes levied in the Community Facilities District since the last Annual Report.

(c) *Cross References.* 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 School District or related public entities, which are available to the public on EMMA. The Community Facilities District shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) Further Information. In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, 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.

Section 5. Reporting of Events.

(a) Listed Events. The Community Facilities District shall, or shall cause the Dissemination Agent (if not the Community Facilities District) to, give notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

Note: For the purposes of the event identified in subparagraph (8), 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) Material Events. 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 Bonds, if material:

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.
- (5) 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.

(6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) Time to Disclose. The Community Facilities District shall, or shall cause the Dissemination Agent (if not the Community Facilities District) to, file a notice of any such occurrence described in subsection (a) or subsection (b) above with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of any Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Indenture.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Community Facilities District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Community Facilities District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) Appointment of 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 Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Government Financial Strategies inc.

If the Dissemination Agent is not the Community Facilities District, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Community Facilities District pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the Community Facilities District. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bond owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the School District or the Community Facilities District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the Community Facilities District.

(b) Compensation of Dissemination Agent. The Dissemination Agent shall be paid compensation by the Community Facilities District for its services provided hereunder as agreed to between the Dissemination Agent and the Community Facilities District from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Community Facilities District, the School District, the owners of the Bonds or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the Community Facilities District or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the Community Facilities District and the School District. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) Responsibilities of Dissemination Agent. In addition to the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the Community Facilities District and the School District to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The

failure to provide or receive any such request shall not affect the obligations of the Community Facilities District under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Community Facilities District may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the Community Facilities District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or the type of business conducted.

(b) *Compliance as of Issue Date.* The Disclosure Certificate, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Bond owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bond owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the Community Facilities District shall describe such amendment or waiver in the next following 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 the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Community Facilities District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Community Facilities District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Community Facilities District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the Community Facilities District to comply with any provision of this Disclosure Certificate, any Bond owner or Beneficial Owner, or the Trustee or the Participating Underwriter, 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 to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the Community Facilities District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Community Facilities District, the Trustee, the Dissemination Agent, the Participating Underwriter and holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Certificate 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 Certificate as of the date first above written.

COMMUNITY FACILITIES DISTRICT
NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL
DISTRICT (TALEGA)

By: _____
Its: _____

GOVERNMENT FINANCIAL STRATEGIES INC.,
as Dissemination Agent

By: _____
Its: _____

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Obligor: Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)

Name of Bond Issue: Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Special Tax Refunding Bonds, Series 2016

Date of Issuance: _____, 2016

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated as of July 1, 2016, between the Obligor and Government Financial Strategies inc., as dissemination agent, and Section 6.09 of the Indenture, dated as of July 1, 2016, by and between the Obligor and U.S. Bank National Association, as Trustee. The Obligor anticipates that the Annual Report will be filed by _____.

Date: _____

[DISSEMINATION AGENT]

By: _____

Its: _____

APPENDIX E
FORM OF OPINION OF BOND COUNSEL

Upon the delivery of the 2016 Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Community Facilities District, proposes to render its final approving opinion with respect to the 2016 Bonds in substantially the following form:

[Date of Delivery]

Community Facilities District No. 90-2 of the
Capistrano Unified School District (Pacifica San Juan)
San Juan Capistrano, California

Community Facilities District No. 90-2
of the Capistrano Unified School District (Talega)
Special Tax Refunding Bonds, Series 2016
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the “Community Facilities District”) in connection with the issuance of \$_____ aggregate principal amount of Community Facilities District No. 90-2 Capistrano Unified School District (Talega) Special Tax Refunding Bonds, Series 2016 (the “Bonds”), issued pursuant to the Indenture, dated as of July 1, 2016 (the “Indenture”), by and between the Community Facilities District and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate, 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 speaks only as of its date and 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 and of the legal conclusions contained in the opinions, 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 interest

on the Bonds to be included in gross income for federal income tax purposes. 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, receivership, 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, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the plans, specifications, maps, reports or other engineering or financial details of the proceedings, or upon the Rate and Method or the validity of the Special Taxes 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.

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 when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX F

BOOK-ENTRY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2016 Bonds, payment of principal of and interest on the 2016 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2016 Bonds, confirmation and transfer of beneficial ownership interests in the 2016 Bonds and other bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2016 Bonds is based solely on information furnished by DTC to the Community Facilities District which the Community Facilities District believes to be reliable, but the Community Facilities District and the School District do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2016 Bonds. The 2016 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 2016 Bond will be issued for each maturity of the 2016 Bonds, each in the aggregate principal amount of such maturity, 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 3.6 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. The information on such website is not incorporated herein by such reference or otherwise.

Purchases of 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2016 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2016 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 2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2016 Bonds, except in the event that use of the book-entry system for the 2016 Bonds is discontinued.

To facilitate subsequent transfers, all 2016 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 the 2016 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 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2016 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 2016 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2016 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2016 Bonds documents. For example, Beneficial Owners of the 2016 Bonds may wish to ascertain that the nominee holding the 2016 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 Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2016 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2016 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 the 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the 2016 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 principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the 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.

DTC may discontinue providing its services as depository with respect to the 2016 Bonds at any time by giving reasonable notice to the Community Facilities District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the 2016 Bond certificates are required to be printed and delivered.

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, the 2016 Bond certificates will be printed and delivered to DTC.

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

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the 2016 Bonds, or (b) the Community Facilities District determines that DTC shall no longer act and delivers a written certificate to the Trustee to that effect, then the Community Facilities District will discontinue the Book-Entry System with DTC for the 2016 Bonds. If the Community Facilities District determines to replace DTC with another qualified securities depository, the Community Facilities District will prepare or direct the preparation of a new single separate, fully-registered 2016 Bond for each maturity of the 2016 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Indenture. If the Community Facilities District fails to identify another qualified securities depository to replace the incumbent securities depository for the 2016 Bonds, then the 2016 Bonds shall no longer be restricted to being registered in the 2016 Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the 2016 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2016 Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the 2016 Bonds will be payable upon surrender thereof at the trust office of the Trustee identified in the Indenture, and (iii) the 2016 Bonds will be transferable and exchangeable as provided in the Indenture.

The Community Facilities District and the Trustee do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the 2016 Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the 2016 Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the 2016 Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the 2016 Bonds or the Indenture. The Community Facilities District and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of or interest on the 2016 Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The Community Facilities District and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the 2016 Bonds or any error or delay relating thereto.

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APPENDIX G
SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____

Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

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APPENDIX H

CAPISTRANO UNIFIED SCHOOL DISTRICT

COMMUNITY FACILITIES DISTRICTS

FINANCIAL AND PERFORMANCE AUDIT

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CAPISTRANO UNIFIED SCHOOL DISTRICT

**COMMUNITY FACILITIES DISTRICTS
FINANCIAL AND PERFORMANCE AUDIT**

JUNE 30, 2015

CAPISTRANO UNIFIED SCHOOL DISTRICT

**COMMUNITY FACILITIES DISTRICTS
FINANCIAL AUDIT**

JUNE 30, 2015

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

**TABLE OF CONTENTS
JUNE 30, 2015**

FINANCIAL SECTION

Independent Auditor's Report	1
Community Facilities Districts	
Governmental Fund Balance Sheet	3
Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	4
Fiduciary Funds – Statement of Net Position	5
Notes to Financial Statements	6

SUPPLEMENTARY INFORMATION

Combining Statements – Governmental Fund	
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	15
Combining Balance Sheet	16
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	17
Combining Statement - Fiduciary Funds	
Combining Statement of Net Position	18
Schedule of Debt Service Activity for Agency Funds	19
Note to Supplementary Information	20

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	22
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Financial Statement Findings	25
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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Capistrano Unified School District
San Juan Capistrano, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Capistrano Unified School District (the District), Capital Project Fund for Blended Component Units specific to the Community Facilities Districts (CFDs) No. 87-1, 88-1, 92-1, 98-1A, 98-2, 90-2, 2004-1, 90-1, 94-1, and 2005-1, the related fiduciary funds, and the related notes to the financial statements as of and for the year ended June 30, 2015, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Capital Project Fund for Blended Component Units and the related fiduciary funds of the Capistrano Unified School District at June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial statements of the Capital Project Fund for Blended Component Units and the related fiduciary funds, and are not intended to present fairly the financial position and changes in financial position of Capistrano Unified School District in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Capistrano Unified School District's Capital Project Fund for Blended Component Units and the related fiduciary funds. The combining statements and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Capital Project Fund for Blended Component Units and the related fiduciary funds and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Capital Project Fund for Blended Component Units and the related fiduciary funds, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2015, on our consideration of the District's Capital Project Fund for Blended Component Units and the related fiduciary funds internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's Capital Project Fund for Blended Component Units and the related fiduciary funds internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Vawink, Jin, Day & Co., LLP

Rancho Cucamonga, California

December 2, 2015

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT**

**GOVERNMENTAL FUND
BALANCE SHEET
JUNE 30, 2015**

	Capital Project Fund for Blended Component Units
ASSETS	
Deposits and investments	\$ 41,961,969
Due from other funds	2,105,967
Total Assets	<u>\$ 44,067,936</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 158,730
Due to other funds	554,554
Total Liabilities	<u>713,284</u>
Fund Balance:	
Restricted	<u>43,354,652</u>
Total Liabilities and Fund Balances	<u>\$ 44,067,936</u>

The accompanying notes are an integral part of these financial statements.

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT**

**GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
JUNE 30, 2015**

	Capital Project Fund for Blended Component Units
REVENUES	
Other local sources	\$ 9,692,172
EXPENDITURES	
Current	
Plant services	461,078
Facility acquisition and construction	2,012,770
Other outgo	311,836
Total Expenditures	2,785,684
Excess of Revenues	
Over Expenditures	6,906,488
Other Financing Sources	
Transfers in	2,105,967
NET CHANGE IN FUND BALANCES	9,012,455
Fund Balances - Beginning	34,342,197
Fund Balances - Ending	\$ 43,354,652

The accompanying notes are an integral part of these financial statements.

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT**

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2015**

	CFD Agency Funds
ASSETS	
Deposits and investments	\$ 38,814,552
Receivables	805,700
Total Assets	<u>39,620,252</u>
LIABILITIES	
Accounts payable	\$ 12,701
Due to bondholders	39,607,551
Total Liabilities	<u>\$ 39,620,252</u>

The accompanying notes are an integral part of these financial statements.

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Community Facilities Districts No. 87-1, 88-1, 92-1, 98-1A, 98-2, 90-2, 2004-1, 90-1, 94-1, and 2005-1 (CFDs) of Capistrano Unified School District (the District) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Reporting Entity

The financial statements include the Capital Project Fund for Blended Component Units and the related Fiduciary Funds specific to the Community Facilities Districts No. 87-1, 88-1, 92-1, 98-1A, 98-2, 90-2, 2004-1, 90-1, 94-1, and 2005-1 of the Capistrano Unified School District used to account for capital projects financed by Mello-Roos Community Facilities Districts and the receipt of special taxes for payment of debt required for the CFDs. These financial statements are not intended to present fairly the financial position and results of operations of the Capistrano Unified School District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the CFDs are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The CFDs capital projects activity is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Fiduciary funds accounted for the CFD's receipt of special taxes for payment of debt using the flow of economic resources measurement focus and the accrual basis of accounting.

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Fund Balance

As of June 30, 2015, fund balance of the Capital Project Fund for Blended Component Units is classified as follows:

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, voters or the laws or regulations of other governments.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVESTMENTS

Investments as of June 30, 2015, are classified as follows:

Governmental fund	\$ 41,961,969
Fiduciary fund	<u>38,814,552</u>
Total Investments	<u>\$ 80,776,521</u>

Policies and Practices

The District is authorized under *California Government Code* to make direct investments in local agency bonds, notes, or warrants within the State: U.S. Treasury instrument; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreement; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security, and collateralized mortgage obligations.

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Authorized Under Debt Agreements

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	N/A	None	None
Federal Housing Administration Debentures	N/A	None	None
Federal Home Loan Mortgage Corporation	N/A	None	None
Participation Certificates - Senior Debt Obligations	N/A	None	None
Farm Credit Banks Bonds and Notes	N/A	None	None
Federal Home Loan Banks Consolidated Debt Obligations	N/A	None	None
Federal National Mortgage Association Senior Debt Obligations	N/A	None	None
Student Loan Marketing Association Senior Debt Obligations	N/A	None	None
Financing Corporation Debt Obligations	N/A	None	None
Resolution Funding Corporation Debt Obligations	N/A	None	None
Certificates of Deposit, Time Deposits, Bankers' Acceptances	30 days	None	None
Commercial Paper	270 days	None	None
Deposit Accounts	N/A	None	None
Money Market Funds	N/A	None	None
Registered State Bonds, Notes, Warrants	N/A	None	None
Local Agency Bonds, Notes, Warrants	N/A	None	None
Repurchase Agreements	N/A	None	None
Investment Agreements	N/A	None	None

Interest Rate Risk and Credit Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by limiting the total amount invested in any one issuer.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year-end for each investment type.

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation and the actual rating as of year-end for each investment is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Cost Basis	Fair Value	Maturity in Days	Maturity Date/ and Poor's Rating
First American Government Obligations Fund				
Class Y	\$ 75,268,257	\$ 75,268,257	46 Days	AAAm
FSA Capital Management Service GIC Investment ¹	3,576,000	3,576,000	8/25/2020	*
FSA Capital Management Service GIC Investment ¹	1,932,264	1,932,264	8/25/2032	*
Total	\$ 80,776,521	\$ 80,776,521		

* Not rated, nor required to be rated

¹ Investment balance relates to amounts that will be used to repay non-obligatory debt of CFDs, as discussed in Note 6.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District has investment agreements with FSA Capital Management Services. The investment agreements are held in fiduciary funds related to the CFDs. A stipulation for each investment agreement requires the collateralization of each investment agreement. As a result, respective collateral agents for the investment agreements hold securities representing 102 percent of the outstanding principal amount of the investment agreement on behalf of the trustee, U.S. Bank. As such, investment agreements with a cost of \$5,508,264 are subjected to custodial credit risk exposure because the related securities are uninsured, unregistered, and held by counterparty's trust department or agent but not in the name of the District.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

CFD	Fiduciary Funds								Total
	87-1	92-1	98-1A	98-2	90-2	2004-1	2005-1		
Local Government									
Interest	\$ 67,330	\$ -	\$ -	\$ -	\$ 36,482	\$ -	\$ -	\$ 103,812	
Special taxes	174,119	37,067	6,204	246,955	166,784	37,541	33,218	701,888	
	\$ 241,449	\$ 37,067	\$ 6,204	\$ 246,955	\$ 203,266	\$ 37,541	\$ 33,218	\$ 805,700	

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

	Governmental Fund						
	87-1	92-1	98-2	90-2	2004-1	2005-1	Total
CFD							
Services	\$ 12,274	\$ 3,882	\$ 7,851	\$ 23,292	\$ 982	\$ 953	\$ 49,234
Capital Outlay	513	108,983	-	-	-	-	109,496
	<u>\$ 12,787</u>	<u>\$ 112,865</u>	<u>\$ 7,851</u>	<u>\$ 23,292</u>	<u>\$ 982</u>	<u>\$ 953</u>	<u>\$ 158,730</u>
 Fiduciary Funds							
CFD							
Services	98-1A						
	<u>\$ 12,701</u>						

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund Receivables/Payables (Due to/Due From) at June 30, 2015, consisted of the following:

Due To	Due From							
	Special Reserve Fund for Capital Outlay Projects		Capital Project Fund for Blended Component Units					
	87-1	92-1	98-2	90-2	2004-1	2005-1	Total	
General Fund	\$ -	\$ 181,024	\$ 45,256	\$ 173,482	\$ 108,291	\$ 8,081	\$ 38,420	\$ 554,554
Capital Projects Fund for Blended Component Units								
Units - CFD 87-1	2,105,967	-	-	-	-	-	-	2,105,967
Total	<u>\$ 2,105,967</u>	<u>\$ 181,024</u>	<u>\$ 45,256</u>	<u>\$ 173,482</u>	<u>\$ 108,291</u>	<u>\$ 8,081</u>	<u>\$ 38,420</u>	<u>\$ 2,660,521</u>

The Capital Project Fund for Blended Component Units owes \$554,554 to the General Fund for administrative costs.

The Special Reserve Fund for Capital Outlay Projects owes \$2,105,967 to the Capital Projects Fund for Blended Component Units for the purchase price of the land sold during the fiscal year.

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Operating Transfers

Interfund transfers for the year ended June 30, 2015, consisted of the following:

The Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund transferred to the Capital Projects Fund for Blended Component Units for the purchase price of the land sold during the fiscal year.

\$ 2,105,967

NOTE 6 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facilities Districts as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$247,998,371 as of June 30, 2015, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

Future payments are as follows:

Fiscal Year	Principal		Current Interest to Maturity	Total
	Including Accrued Interest	Accrued Interest		
2016	\$ 11,580,000	\$ -	\$ 10,589,706	\$ 22,169,706
2017	12,345,000	-	10,097,442	22,442,442
2018	13,160,000	-	9,544,099	22,704,099
2019	14,055,000	-	8,933,667	22,988,667
2020	14,990,000	-	8,273,902	23,263,902
2021-2025	61,545,000	-	32,111,167	93,656,167
2026-2030	73,280,000	-	17,029,484	90,309,484
2031-2035	42,128,371	23,426,629	3,537,156	69,092,156
2036-2040	2,295,000	-	1,057,238	3,352,238
2041-2044	2,620,000	-	301,950	2,921,950
Total	<u>\$ 247,998,371</u>	<u>\$ 23,426,629</u>	<u>\$ 101,475,811</u>	<u>\$ 372,900,811</u>

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 7 - CONTINGENCIES

Litigation

The District is not currently party to any legal proceedings related to the Community Facilities District.

NOTE 8 – SUBSEQUENT EVENTS

2015 Subordinate Special Tax Refunding Bonds

On July 16, 2015, the Community Facilities District No. 98-2 of the Capistrano Unified School District issued \$87,480,000 of 2015 Subordinate Special Tax Refunding Bonds. The current interest bonds mature September 1, 2029, with interest yields of 3.00 to 5.00 percent. Proceeds from the bonds will be used to refund Community Facilities District 2005 Special Tax Refunding Bonds and pay costs associated with the issuance of the bonds.

2015 Special Tax Refunding Bonds

On July 14, 2015, the Community Facilities District No. 2004-1 of the Capistrano Unified School District issued \$6,015,000 of 2015 Special Tax Refunding Bonds. The current interest bonds mature September 1, 2032, with interest yields of 2.00 to 5.00 percent. Proceeds from the bonds will be used to refund Community Facilities District 2005 Special Tax Bonds and pay costs associated with the issuance of the bonds.

SUPPLEMENTARY INFORMATION

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
COMBINING BALANCE SHEET
JUNE 30, 2015**

	Capital Project Fund for Blended Component Units	
		CFD 87-1
FUND BALANCE		
Balance, June 30, 2015, Unaudited Actuals		
Increase in:		
Due from Other Funds		2,105,967
Balance, June 30, 2015, Audited Financial Statement	\$	18,155,655

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

**GOVERNMENTAL FUND
COMBINING BALANCE SHEET
JUNE 30, 2015**

	CFD 87-1	CFD 92-1	CFD 98-2
ASSETS			
Deposits and investments	\$ 16,243,499	\$ 7,507,691	\$ 5,903,037
Due from other funds	2,105,967	-	-
Total Assets	\$ 18,349,466	\$ 7,507,691	\$ 5,903,037
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 12,787	\$ 112,865	\$ 7,851
Due to other funds	181,024	45,256	173,482
Total Liabilities	193,811	158,121	181,333
Fund Balance:			
Restricted	18,155,655	7,349,570	5,721,704
Total Liabilities and Fund Balances	\$ 18,349,466	\$ 7,507,691	\$ 5,903,037

CFD 90-2	CFD 2004-1	CFD 2005-1	Total Capital Project Fund for Blended Component Units
\$ 10,192,204	\$ 1,679,691	\$ 435,847	\$ 41,961,969
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,105,967</u>
<u>\$ 10,192,204</u>	<u>\$ 1,679,691</u>	<u>\$ 435,847</u>	<u>\$ 44,067,936</u>
\$ 23,292	\$ 982	\$ 953	\$ 158,730
<u>108,291</u>	<u>8,081</u>	<u>38,420</u>	<u>554,554</u>
<u>131,583</u>	<u>9,063</u>	<u>39,373</u>	<u>713,284</u>
<u>10,060,621</u>	<u>1,670,628</u>	<u>396,474</u>	<u>43,354,652</u>
<u>\$ 10,192,204</u>	<u>\$ 1,679,691</u>	<u>\$ 435,847</u>	<u>\$ 44,067,936</u>

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

**GOVERNMENTAL FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	CFD 87-1	CFD 88-1	CFD 92-1	CFD 98-2
REVENUES				
Other local sources	\$ 4,323,837	\$ 8	\$ 755,500	\$ 2,493,988
EXPENDITURES				
Current				
Plant services	-	-	165,587	265,244
Facility acquisition and construction	1,598,919	119,801	115,584	-
Other outgo	-	302,982	-	8,854
Total Expenditures	1,598,919	422,783	281,171	274,098
Excess (Deficiency) of Revenues				
Over Expenditures	2,724,918	(422,775)	474,329	2,219,890
Other Financing Sources (Uses)				
Transfers in	3,170,866		36,755	
Transfers out	(18,357)	-	(323,322)	(794,338)
Net Financing Sources	3,152,509	-	(286,567)	(794,338)
NET CHANGE IN FUND BALANCES				
Fund Balances - Beginning	5,877,427	(422,775)	187,762	1,425,552
Fund Balances - Ending	12,278,228	422,775	7,161,808	4,296,152
	\$ 18,155,655	\$ -	\$ 7,349,570	\$ 5,721,704

See accompanying note to supplementary information.

CFD 90-2	CFD 2004-1	CFD 2005-1	Total Capital Project Fund for Blended Component Units
\$ 1,789,006	\$ 262,013	\$ 67,820	\$ 9,692,172
22,316	-	7,931	461,078
149,036	24,249	5,181	2,012,770
-	-	-	311,836
<u>171,352</u>	<u>24,249</u>	<u>13,112</u>	<u>2,785,684</u>
<u>1,617,654</u>	<u>237,764</u>	<u>54,708</u>	<u>6,906,488</u>
65	63,463		3,271,149
(29,165)	-	-	(1,165,182)
(29,100)	63,463	-	2,105,967
1,588,554	301,227	54,708	9,012,455
8,472,067	1,369,401	341,766	34,342,197
<u>\$ 10,060,621</u>	<u>\$ 1,670,628</u>	<u>\$ 396,474</u>	<u>\$ 43,354,652</u>

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

**FIDUCIARY FUNDS
COMBINING STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

	CFD 87-1	CFD 92-1	CFD 98-1A	CFD 98-2
ASSETS				
Deposits and investments	\$ 13,459,671	\$ 2,406,038	\$ 2,495,160	\$ 10,300,911
Receivables	241,449	37,067	6,204	246,955
Total Assets	\$ 13,701,120	\$ 2,443,105	\$ 2,501,364	\$ 10,547,866
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 12,701	\$ -
Due to bondholders	13,701,120	2,443,105	2,488,663	10,547,866
Total Liabilities	\$ 13,701,120	\$ 2,443,105	\$ 2,501,364	\$ 10,547,866

See accompanying note to supplementary information.

CFD 90-2	CFD 2004-1	CFD 2005-1	Total Agency Funds
\$ 7,865,419	\$ 1,157,166	\$ 1,130,187	\$ 38,814,552
203,266	37,541	33,218	805,700
<u>\$ 8,068,685</u>	<u>\$ 1,194,707</u>	<u>\$ 1,163,405</u>	<u>\$ 39,620,252</u>
\$ -	\$ -	\$ -	\$ 12,701
8,068,685	1,194,707	1,163,405	39,607,551
<u>\$ 8,068,685</u>	<u>\$ 1,194,707</u>	<u>\$ 1,163,405</u>	<u>\$ 39,620,252</u>

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

**SCHEDULE OF DEBT SERVICE ACTIVITY FOR AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

COMMUNITY FACILITIES DISTRICT	Debt Service Agency Funds	Sources			
		Beginning Balance	Special Tax Collections	Interest Earnings	Other
87-1	\$ 13,537,513	\$ 10,710,855	\$ 196,181	\$ -	
88-1	2,100,621	-	7,447	302,982	
92-1	2,396,217	2,666,798	540	-	
98-1A	2,045,474	476,899	211	68,896	
98-2	10,394,589	10,233,692	2,168	-	
90-2	7,442,786	7,781,412	106,390	-	
2004-1	1,193,327	703,106	176	-	
90-1	1,641,494	-	65,586	-	
94-1	3,434,092	-	-	-	
2005-1	1,038,482	631,306	162	-	
	\$ 45,224,595	\$ 33,204,068	\$ 378,861	\$ 371,878	

See accompanying note to supplementary information.

Uses

Contributions to Capital Projects	Payments on Debt Service Principal	Payments on Debt Service Interest	Other	Debt Service Agency Funds Ending Balance
\$ (3,731,454)	\$ (5,375,000)	\$ (1,636,975)	\$ -	\$ 13,701,120
-	(1,330,000)	(43,225)	(1,037,825)	-
(747,950)	(1,410,000)	(462,500)	-	2,443,105
(67,896)	-	-	(34,921)	2,488,663
(2,493,677)	(2,955,000)	(4,633,906)	-	10,547,866
(1,710,320)	(1,900,000)	(3,576,655)	(74,928)	8,068,685
(261,918)	(105,000)	(334,984)	-	1,194,707
(523,582)	-	-	(1,183,498)	-
-	-	-	(3,434,092)	-
(67,795)	(20,000)	(418,750)	-	1,163,405
\$ (9,604,592)	\$ (13,095,000)	\$ (11,106,995)	\$ (5,765,264)	\$ 39,607,551

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

**NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Combining Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances are included to provide information regarding the individual CFDs that have been included in the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

Combining Statement of Net Position

The Combining Statement of Net Position is included to provide information regarding the individual CFDs that have been included in the Fiduciary Funds Statement of Net Position.

Schedule of Debt Service Activity for Agency Funds

This schedule discloses the receipt of special taxes and other revenues along with the payment of non-obligatory debt and other uses of the individual CFDs that have been included in the Fiduciary Funds Statement of Net Position.

INDEPENDENT AUDITOR'S REPORT



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Capistrano Unified School District
San Juan Capistrano, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the Capistrano Unified School District (the District) Capital Project Fund for Blended Component Units and the related fiduciary funds, as of and for the year ended June 30, 2015, and the related notes of the financial statements, and have issued our report thereon dated December 2, 2015.

As discussed in Note 1, the financial statements present only the financial statements of the Capital Project Fund for Blended Component Units and the related fiduciary funds, and are not intended to present fairly the financial position and changes in financial position of Capistrano Unified School District in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Capistrano Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Capistrano Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Capistrano Unified School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Capistrano Unified School District's Capital Project Fund for Blended Component Units and the related fiduciary funds financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vawink, Irvin, Day & Co., LLP

Rancho Cucamonga, California

December 2, 2015

***SCHEDULE OF FINDINGS AND QUESTIONED
COSTS***

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2015**

None reported.

CAPISTRANO UNIFIED SCHOOL DISTRICT

**COMMUNITY FACILITIES DISTRICTS
PERFORMANCE AUDIT**

JUNE 30, 2015

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

**PERFORMANCE AUDIT
TABLE OF CONTENTS
JUNE 30, 2015**

Independent Auditor's Report on Performance	1
Authority for Issuance	2
Purpose of Issuance	2
Objectives of the Audit	2
Scope of the Audit	2
Procedures Performed	2
Conclusion	3
Schedule of Findings and Questioned Costs	4
Summary Schedule of Prior Audit Findings	5



INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Governing Board
Capistrano Unified School District
San Juan Capistrano, California

We were engaged to conduct a performance audit of the Community Facilities Districts (CFDs) No. 87-1, 88-1, 92-1, 98-1A, 98-2, 90-2, 2004-1, 90-1, 94-1, and 2005-1 of Capistrano Unified School District for the year ended June 30, 2015.

We conducted this performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the permitted uses as authorized by CFD voters. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the permitted uses as authorized by CFD voters. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Community Facilities Districts No. 87-1, 88-1, 92-1, 98-1A, 98-2, 90-2, 2004-1, 90-1, 94-1, and 2005-1 funds only on authorized projects as approved by the voters of the community facilities districts.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 2, 2015

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICTS

JUNE 30, 2015

AUTHORITY FOR ISSUANCE

The bonds are issued pursuant to the Melo-Roos Community Facilities Act of 1982, as amended, Section 53311 et seq. of the California Government Code. The laws were enacted by the State Legislature to provide an alternative method of financing certain public capital facilities and services. Only established by the legislative board of a local agency, a community facilities district is a legally constituted governmental entity with defined boundaries, with the governing board or legislative body of the local agency acting on its behalf. Subject to approval by a two-thirds vote of qualified electors and compliance with the provisions of the laws, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness.

PURPOSE OF ISSUANCE

The CFDs may use its special taxes proportionally on the school facilities, including modernization and rehabilitation that serve the project students, including the facilities and central support and administrative facilities, interim housing, transportation and lease payments for financings.

OBJECTIVES OF THE AUDIT

1. Determine whether expenditures charged to the CFDs have been made only on authorized projects as approved by the voters of the Community Facilities Districts.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2014 to June 30, 2015. The population of expenditures tested included all object and project codes associated with the CFD projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than CFD bond proceeds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2015 were not reviewed or included within the scope of our audit or in this report.

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2015 for the Community Facilities Districts No. 87-1, 88-1, 92-1, 98-1A, 98-2, 90-2, 2004-1, 90-1, 94-1, and 2005-1 of Capistrano Unified School District. Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the permitted uses as authorized by CFD voters. We performed the following procedures:

1. We selected from each CFD a sample of expenditures for the period starting July 1, 2014 and ending June 30, 2015, and reviewed supporting documentation to ensure that such funds were properly expended on the authorized projects.
2. Our sample included 67 transactions totaling \$33,265,730. This represents 76 percent of the total expenditures of \$43,522,717 (including funds expended for debt service activities from Agency Funds).

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

JUNE 30, 2015

3. Based on our testing, we verified that funds from the Community Facilities Districts No. 87-1, 88-1, 92-1, 98-1A, 98-2, 90-2, 2004-1, 90-1, 94-1, and 2005-1 of Capistrano Unified School District were expended on the school facilities, including modernization and rehabilitation that serve the project students, including the facilities and central support and administrative facilities, interim housing, transportation and lease payments for financings.

CONCLUSION

The results of our tests indicated that, in all significant respects, the Capistrano Unified School District has properly accounted for the expenditures held in the Community Facilities Districts No. 87-1, 88-1, 92-1, 98-1A, 98-2, 90-2, 2004-1, 90-1, 94-1, and 2005-1 and that such expenditures were made for authorized voter approved projects.

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2015**

None reported.

**CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015**

There were no audit findings reported in the prior year's schedule of financial statement findings.