
TRUST INDENTURE

Between

**NORTHSTAR COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1**

And

**WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee**

**NORTHSTAR COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1
SPECIAL TAX BONDS**

Dated as of November 1, 2005

Table of Contents

Page

ARTICLE I

DEFINITIONS

Section 1.1.	Definitions	1
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ARTICLE II

GENERAL AUTHORIZATION AND BOND TERMS

Section 2.1.	Amount, Issuance, Purpose and Nature of Bonds	13
Section 2.2.	Type and Nature of Bonds	13
Section 2.3.	Equality of Bonds and Pledge of Net Taxes	14
Section 2.4.	Description of 2005 Bonds; Interest Rates.....	14
Section 2.5.	Place and Form of Payment	15
Section 2.6.	Form of Bonds.....	16
Section 2.7.	Execution and Authentication	16
Section 2.8.	Bond Register.....	16
Section 2.9.	Registration of Exchange or Transfer	16
Section 2.10.	Mutilated, Lost, Destroyed or Stolen Bonds	17
Section 2.11.	Validity of Bonds	17
Section 2.12.	Book-Entry System	17
Section 2.13.	Conditions for the Issuance of Parity Bonds	18

ARTICLE III

CREATION OF FUNDS AND APPLICATION OF REVENUES AND GROSS TAXES

Section 3.1.	Creation of Funds; Application of Proceeds.	21
Section 3.2.	Deposits to and Disbursements from Special Tax Fund	22
Section 3.3.	Administrative Expense Account of the Special Tax Fund	23
Section 3.4.	Interest Account and Principal Account of the Special Tax Fund	23
Section 3.5.	Redemption Account of the Special Tax Fund.	24
Section 3.6.	Prepayment Account of the Special Tax Fund.....	25
Section 3.7.	Reserve Account of the Special Tax Fund	25
Section 3.8.	Rebate Fund.	26
Section 3.9.	Acquisition and Construction Fund.....	29
Section 3.10.	Surplus Fund	30
Section 3.11.	Investments	30

ARTICLE IV

REDEMPTION OF BONDS

Section 4.1.	Redemption of Bonds.....	32
Section 4.2.	Selection of Bonds for Redemption	34
Section 4.3.	Notice of Redemption	34
Section 4.4.	Partial Redemption of Bonds	35

Table of Contents
(continued)

Page

Section 4.5.	Effect of Notice and Availability of Redemption Money	35
Section 4.6.	Purchase of Bonds by District	35

ARTICLE V

COVENANTS AND WARRANTY

Section 5.1.	Warranty	35
Section 5.2.	Covenants	36
Section 5.3.	Continuing Disclosure and Reporting Requirements	39

ARTICLE VI

AMENDMENTS TO INDENTURE

Section 6.1.	Supplemental Indentures or Orders Not Requiring Bondowner Consent	39
Section 6.2.	Supplemental Indentures or Orders Requiring Bondowner Consent	40
Section 6.3.	Notation of Bonds; Delivery of Amended Bonds	41

ARTICLE VII

TRUSTEE

Section 7.1.	Duties, Immunities and Liabilities of Trustee	41
Section 7.2.	Removal of Trustee	42
Section 7.3.	Resignation of Trustee	42
Section 7.4.	Liability of Trustee	43
Section 7.5.	Merger or Consolidation	44

ARTICLE VIII

EVENTS OF DEFAULT; REMEDIES

Section 8.1.	Events of Default	45
Section 8.2.	Remedies of Owners	45

ARTICLE IX

DEFEASANCE

Section 9.1.	Defeasance	46
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ARTICLE X

MISCELLANEOUS

Section 10.1.	Cancellation of Bonds	48
Section 10.2.	Execution of Documents and Proof of Ownership	48

Table of Contents
(continued)

	<i>Page</i>
Section 10.3. Unclaimed Moneys	48
Section 10.4. Provisions Constitute Contract.....	49
Section 10.5. Future Contracts	49
Section 10.6. Further Assurances.....	49
Section 10.7. Severability	49
Section 10.8. Notices.....	49
Section 10.9. General Authorization	50
Section 10.10. Execution in Counterparts.....	50
 Signatures	 S-1
EXHIBIT A FORM OF SPECIAL TAX BOND.....	A-1
EXHIBIT B FORM OF REQUISITION FOR DISBURSEMENT OF COSTS OF ISSUANCE.....	B-1
EXHIBIT C RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.....	C-1

TRUST INDENTURE

THIS TRUST INDENTURE, dated as of November 1, 2005, governs the terms of the Special Tax Bonds of Northstar Community Services District Community Facilities District No. 1.

RECITALS:

WHEREAS, the Board of Directors (hereinafter sometimes referred to as the “legislative body of the District”) of the Northstar Community Services District has heretofore undertaken proceedings and declared the necessity to issue bonds on behalf of Northstar Community Services District Community Facilities District No. 1 (the “District”) pursuant to the terms and provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5, of the Government Code of the State of California (the “Act”); and

WHEREAS, based upon a resolution adopted by the legislative body of the District on May 3, 2005 and an election held on May 3, 2005 authorizing the levy of a special tax and the issuance of bonds by the District, the District is now authorized to issue bonds in one or more series, pursuant to the Act, in an aggregate principal amount not to exceed \$125,000,000; and

WHEREAS, the legislative body of the District intends to accomplish the financing of the cost of planning, designing, constructing, acquiring, modifying, expanding, improving, furnishing, equipping or rehabilitating certain improvements, and all appurtenances and appurtenant work in connection with the foregoing and (ii) the incidental expenses incurred and to be incurred in connection with financing said improvements, including costs associated with the creation of the District and the issuance of bonds and the establishment and replenishment of a bond reserve fund, through the issuance of bonds in an aggregate principal amount of \$56,125,000 designated as the “Northstar Community Services District Community Facilities District No. 1 Special Tax Bonds, Series 2005” (the “Bonds”); and

WHEREAS, the legislative body of the District has determined all requirements of the Act for the issuance of the Bonds have been satisfied;

NOW, THEREFORE, in order to establish the terms and conditions upon and subject to which the Bonds are to be issued, and in consideration of the premises and of the mutual covenants contained herein and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, the District and Wells Fargo Bank, National Association, as Trustee, hereby covenant and agree, for the benefit of the Owners of the Bonds which may be issued hereunder from time to time, as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Unless the context otherwise requires, the following terms shall have the following meanings:

“2005 Bonds” means any of the District’s Special Tax Bonds, Series 2005 that are Outstanding under this Indenture.

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

“Acquisition Account” means the account by such name in the Acquisition and Construction Fund created and established pursuant to Section 3.1.

“Acquisition and Construction Fund” means the fund by such name created and established pursuant to Section 3.1.

“Acquisition and Disclosure Agreement” means, depending on the context, either the Acquisition and Disclosure Agreement by and among the Community Services District, the District and the Developer which has an effective date of December 15, 2005 or any subsequent agreement among said parties substantially similar thereto in form, as the same may be amended from time to time.

“Administrative Expenses” means the administrative costs incurred by the District or the Community Services District on behalf of the District with respect to the calculation, levy, and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Trustee, any fees for credit enhancement for the Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District’s compliance with State and federal laws requiring continuing disclosure of information concerning the Bonds and the District and the calculation or payment of arbitrage rebate, and any other costs otherwise incurred by the District or the Community Services District on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District hereunder.

“Administrative Expense Account” means the account by such name in the Special Tax Fund created and established pursuant to Section 3.1.

“Administrative Expense Cap” means the amount of \$25,500, with such amount escalating by 2% per Bond Year beginning September 2, 2006, provided that the District may, in its sole discretion, fund Administrative Expenses, without limitation, from any other funds available to the District, including the Surplus Fund.

“Affiliate” of another Person means (i) a Person directly or indirectly owning, controlling, or holding with power of vote, 25% or more of the outstanding voting securities of such other Person, (ii) any Person 25% or more of whose outstanding voting securities are a directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (iii) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person; for purposes hereof, control means the power to exercise a controlling influence over the management or policies of Person, unless such power is solely the result of an official position with such Person.

“Alternative Penalty Account” means the account by such name created and established in the Rebate Fund pursuant to Section 3.1.

“Annual Debt Service” means the principal amount of any Outstanding Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds in such Bond Year, if the Bonds are retired as scheduled.

“Authorized Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

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

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

- (i) U.S. Export-Import Bank (“Eximbank”) - direct obligations or fully guaranteed certificates of beneficial ownership,
- (ii) Farmers Home Administration (“FmHA”) - certificates of beneficial ownership,
- (iii) Federal Financing Bank,
- (iv) Federal Housing Administration Debentures (“FHA”),
- (v) General Services Administration - participation certificates,
- (vi) Government National Mortgage Association (“GNMA” or “Ginnie Mae”) - GNMA-guaranteed mortgage-backed bonds and GNMA-guaranteed pass-through obligations,
- (vii) U.S. Maritime Administration - guaranteed Title XI financing, and
- (viii) U.S. Department of Housing and Urban Development (“HUD”) - project notes, local authority bonds, new communities debentures (U.S. government guaranteed debentures), and U.S. Public Housing Notes and Bonds (U.S. government guaranteed public housing notes and bonds);

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- (i) Federal Home Loan Bank System - senior debt obligations,
- (ii) Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”) - participation certificates and senior debt obligations,
- (iii) Federal National Mortgage Association (“FNMA” or “Fannie Mae”) - mortgage-backed securities and senior debt obligations,
- (iv) Student Loan Marketing Association (“SLMA” or “Sallie Mac”) - senior debt obligations,

- (v) Resolution Funding Corp. ("REFCORP") obligations, and
- (vi) Farm Credit System Corp. - Consolidated system-wide bonds and notes;
- (d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and to which Standard & Poor's has assigned a rating of AAAm-G, AAAm or AAm, and, which, if they are rated by Moody's, are rated Aaa, Aa1 or Aa2 (including the money market funds of the Trustee and its affiliates or funds for which the Trustee or affiliates provide investment advisory or other management services);
- (e) Certificates of deposit fully secured at all times by collateral described in (a) and/or (b) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Trustee on behalf of the Bondholders must have a perfected first security interest in the collateral;
- (f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC or which are with a bank rated AA or better by Standard & Poor's and Aa or better by Moody's (including those of the Trustee and its affiliates);
- (g) Investment Agreements with any corporation, including banking or financial institutions, provided that:
 - (i) the long-term debt of the provider of any such investment agreement, or in the case of a guaranteed corporation the long-term debt of the guarantor, or in the case of a monoline financial guaranty insurance company the claims paying ability, is rated, at the time of investment, in one of the two highest rating categories offered by each Rating Agency (without regard to gradations of plus or minus, or numerical gradations, within such category), and
 - (ii) any such investment agreement shall include a provisions that in the event that the long-term debt rating or claims paying ability rating of the provider or the guarantor is downgraded below AA- by Standard & Poor's or Aa3 by Moody's during the term of the agreement the provider must either (A) deliver to the Trustee or a third party custodian collateral in the form of Unites States Treasury or agency obligations which at least equal 102% of the principal amount invested thereunder or (B) assign the existing agreement and all of its obligations thereunder to a financial institution mutually acceptable to the provider, the District and the Trustee which is rated in one of the two highest rating categories offered by each Rating Agency (without regard to gradations of plus or minus, or numerical gradations, within such category), and
 - (iii) any such investment agreement shall include a provision that in the event that the long-term debt rating or claims paying ability rating of the provider, or the guarantor, is downgraded below A- by Standard & Poor's or A3 by Moody's during the term of the agreement the provider must repay the principal of and accrued by it unpaid interest on the invested moneys, and
 - (iv) any such agreement shall include a provision to the effect that in the event of default under such Investment Agreement by such provider or in the event of a bankruptcy of such provider, the District has the right to withdraw or cause the Trustee to withdraw all

funds invested in such agreement and thereafter to invest such funds pursuant to this Indenture, and

(v) any such investment agreement permits withdrawal upon not more than three (3) days notice (excepting only withdrawals from the Acquisition and Construction Fund, from which withdrawals may be permitted upon not more than seven (7) days notice) for any purpose authorized for the use of the invested funds under this Indenture;

(h) Commercial paper rated, at the time of purchase, Prime - 1 by Moody's and A-1 or better by Standard & Poor's;

(i) Bonds or notes issued by any state or municipality which are rated by both Rating Agencies in one of the two highest rating categories assigned by such agencies;

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured or unguaranteed obligation rating of Prime - 1 or A3 or better by Moody's and A-1 or A or better by Standard & Poor's;

(k) Repurchase agreements collateralized by Direct Obligations, GNMA's, FNMA's or FHLMC's with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an unsecured, unsecured and unguaranteed obligation rated P-1 or A3 or better by Moody's, and A-1 or A- by Standard & Poor's; provided:

(i) a master repurchase agreement or specific written repurchase agreement governs the transaction, and

(ii) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million, or (iii) a bank approved in writing for such purpose by the District, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, and

(iii) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 *et seq.* or 31 C.F.R. 350.0 *et seq.* in such securities is created for the benefit of the Trustee, and

(iv) the Agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation, and

(v) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%;

(l) The State of California Local Agency Investment Fund; and

(m) Any other investment which the District is permitted by law to make.

To the extent that any of the requirements concerning Authorized Investments embodies a legal conclusion, the Trustee shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party, that such requirement has been met.

“Authorized Representative of the District” means the General Manager of the Community Services District, the Deputy General Manager of the Community Services District and any other person or persons designated by the legislative body of the District and authorized to act on behalf of the District by a written certificate signed by the President of the legislative body of the District and containing the specimen signature of each such person.

“Bond Counsel” means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“Bond Register” means the books which the Trustee shall keep or cause to be kept on which the registration and transfer of the Bonds shall be recorded.

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

“Bonds” means the 2005 Bonds and any Parity Bonds issued pursuant to this Indenture.

“Bond Year” means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for a Series of Bonds shall begin on the Delivery Date of the Bonds of such Series and end on the first September 1 which is not more than 12 months after such Delivery Date, provided that for purposes of Section 3.8 “Bond Year” shall have the meaning ascribed thereto in the Tax Certificate applicable to the Bonds in question.

“Buildout Revenues” has the meaning ascribed thereto in the RMA.

“Business Day” means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the city where the corporate trust office of the Trustee is located, are not required or authorized to remain closed.

“Certificate of an Authorized Representative” means a written certificate or warrant request executed by an Authorized Representative of the District on behalf of the District.

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

“Community Services District” means the Northstar Community Services District.

“Construction Account” means the account by such name in the Acquisition and Construction Fund created and established pursuant to Section 3.1.

“Costs of Issuance” means the costs and expenses incurred in connection with the issuance and sale of Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal

fees and expenses, costs of printing the Bonds and the preliminary and final official statements for the Bonds, fees of financial consultants, District formation and related administration costs and all other related fees and expenses, as set forth in a Certificate of an Authorized Representative.

"Costs of Issuance Account" means the Account by that name created and established in the Acquisition and Construction Fund pursuant to Section 3.1.

"Delivery Date" means the date on which the Bonds of a Series are issued and delivered to the initial purchasers thereof.

"Developed Property" has the meaning ascribed thereto in the RMA.

"Developer" means Northstar Mountain Properties, LLC and any successor thereto.

"Direct Debt for Tax Zone #1 Property" means the largest principal amount of Bonds (including Parity Bonds then proposed to be issued) for which the sum of the Annual Debt Service and the Administrative Expense Cap in each future Bond Year does not exceed 90.91% of the aggregate amount of Buildout Revenues in the Fiscal Year that begins in each such Bond Year which are attributable to all Taxable Property located in Tax Zone #1 that is not then delinquent in the payment of any ad valorem taxes or any Special Taxes.

"Direct Debt for Tax Zone #2 Property" means the largest principal amount of Bonds (including Parity Bonds then proposed to be issued) for which the Annual Debt Service in each future Bond Year does not exceed 90.91% of the aggregate amount of Buildout Revenues in the Fiscal Year that begins in each such Bond Year which are attributable to all Taxable Property located in Tax Zone #2 that is not then delinquent in the payment of any ad valorem taxes or any Special Taxes.

"Direct Debt for Tax Zone #3 Non-Residential Property" means the largest principal amount of Bonds (including Parity Bonds then proposed to be issued) for which the Annual Debt Service in each future Bond Year does not exceed 90.91% of the aggregate amount of Buildout Revenues in the Fiscal Year that begins in each such Bond Year which are attributable to all Non-Residential Property located in Tax Zone #3 that is not then delinquent in the payment of any ad valorem taxes or any Special Taxes.

"Direct Debt for Tax Zone #3 Property" means the remainder of the sum of all Outstanding Bonds and Parity Bonds then proposed to be issued minus the sum of the Direct Debt For Tax Zone #1 Property and the Direct Debt for Tax Zone #2 Property.

"Direct Debt for Tax Zone #3 Residential and Other Property" means the remainder of the Direct Debt for Tax Zone #3 Property minus the Direct Debt for Tax Zone #3 Non-Residential Property.

"District" means Northstar Community Services District Community Facilities District No. 1 established pursuant to the Act and the Resolution of Formation.

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

“DTC Participants” means securities brokers and dealers, banks, trust companies, clearing corporations and other organizations maintaining accounts with DTC.

“Federal Securities” means any of the following:

- (a) Cash,
- (b) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series — “SLGS”),
- (c) Direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself, e.g., CATS, TIGRS and similar securities,
- (d) The interest component of Resolution Funding Corp. strips which have been stripped by request to the Federal Reserve Bank of New York and are in book-entry form,
- (e) Pre-refunded municipal bonds rated Aaa by Moody’s and AAA by Standard & Poor’s,
- (f) Obligations issued by the following agencies which are backed by the full faith and credit of the United States:
 - (i) U.S. Export-Import Bank - direct obligations or fully guaranteed certificates of beneficial ownership,
 - (ii) Farmers Home Administration - certificates of beneficial ownership,
 - (iii) Federal Financing Bank,
 - (iv) General Services Administration - participation certificates,
 - (v) U.S. Maritime Administration - guaranteed Title XI financing, and
 - (vi) U.S. Department of Housing and Urban Development (HUD) - project notes, local authority bonds, new communities debentures - U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next following June 30.

“Gross Taxes” means the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of this Indenture for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions, including, but not limited to, all legal fees and expenses, court costs, consultant and title insurance fees and expenses.

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

(a) is in fact independent and not under the domination of the District or the Community Services District;

(b) does not have any substantial interest, direct or indirect, in the District or the Community Services District; and

(c) is not connected with the District or the Community Services District as a member, officer or employee of the District or the Community Services District, but who may be regularly retained to make annual or other reports to the District or the Community Services District.

“Indenture” means this Trust Indenture, together with any Supplemental Indenture entered into pursuant to Article VI.

“Interest Account” means the account by such name created and established in the Special Tax Fund pursuant to Section 3.1.

“Interest Payment Date” means each March 1 and September 1, commencing March 1, 2006; *provided, however*, that, if any such day is not a Business Day, interest up to, but not including, the Interest Payment Date will be paid on the Business Day next following such date.

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

“Maximum Annual Debt Service” means the maximum amount of the Annual Debt Service for any Bond Year prior to the final maturity of the Bonds.

“Maximum Annual Special Tax” has the meaning ascribed thereto in the RMA.

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

“National Repositories” means any Nationally Recognized Municipal Securities Information Repository for purpose of the Rule.

“Net Taxes” means, for each Fiscal Year, Gross Taxes (exclusive of any penalties and interest accruing with respect to delinquent Special Tax installments) minus: (i) any amount retained by or payable to the County of Placer in connection with its services in levying and collecting the Special Tax, (ii) amounts (not in excess of the then current Administrative Expense Cap) set aside to pay Administrative Expenses, and (iii) the portion of any Prepayment that is not required to be deposited in the Special Tax Fund pursuant to Section 3.2.

“Non-Residential Property” has the meaning ascribed thereto in the RMA.

“Outstanding” or *“Outstanding Bonds”* means all Bonds theretofore issued by the District, except:

(a) Bonds theretofore cancelled or surrendered for cancellation in accordance with Section 10.1;

(b) Bonds for payment or redemption of which moneys shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in this Indenture; and

(c) Bonds which have been surrendered to the Trustee for transfer or exchange pursuant to Section 2.9 or for which a replacement has been issued pursuant to Section 2.10.

"Overlapping Debt" means for any Taxable Property, the sum of (a) the aggregate amount of all unpaid assessments which are a lien on such property and which are pledged to secure the repayment of bonds, plus (b) a portion of the principal amount of any outstanding Bonds of other community facilities districts which are payable at least partially from special taxes to be levied on such property (the "Other CFD Bonds") determined by multiplying the aggregate principal amount of the Other CFD Bonds by a fraction the numerator of which is the total amount of the maximum special taxes that may be then levied for the Other CFD Bonds on such property and the denominator of which is the total amount of the maximum special taxes that may be then levied for the Other CFD Bonds on all other parcels of property which are subject to the levy of such special taxes.

"Parcel" has the meaning ascribed thereto in the RMA.

"Parity Bonds" means all bonds, notes or other evidences of indebtedness issued subsequent to the issuance of the 2005 Bonds that are payable from Net Taxes on a parity with the 2005 Bonds.

"Person" means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

"Prepayment" means money received by the Community Services District or the District as a complete or partial prepayment of Special Taxes permitted pursuant to the RMA.

"Prepayment Account" means the Account by such name created and established in the Special Tax Fund pursuant to Section 3.1.

"Principal Account" means the Account by such name created and established in the Special Tax Fund pursuant to Section 3.1.

"Principal Office of the Trustee" means the office of the Trustee located in Los Angeles, California or such other office or offices as the Trustee may designate from time to time, or the office of any successor Trustee where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued, except that with respect to presentation of Bonds for payment or for registration of transfers and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

"Project" means the Facilities, as defined in the Resolution of Formation, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time.

“Project Costs” means the amounts necessary to finance the Project, to create and replenish any necessary reserve accounts, to pay the initial and annual costs associated with the Bonds, including, but not limited to, remarketing, credit enhancement, other fees and expenses relating to the issuance of the Bonds and the formation of the District, and to pay any other “incidental expenses” of the District, as such term is defined in the Act.

“Rating Agency” means either Moody’s or Standard & Poor’s.

“Rebate Account” means the Account by such name created and established in the Rebate Fund pursuant to Section 3.1.

“Rebate Fund” means the fund by such name created and established pursuant to Section 3.1.

“Rebate Regulations” means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

“Record Date” means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

“Redemption Account” means the account by such name created and established in the Special Tax Fund pursuant to Section 3.1.

“Regulations” means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

“Representation Letter” means the representation letter or letters from the District to DTC.

“Reserve Account” means the account by such name created and established in the Special Tax Fund pursuant to Section 3.1.

“Reserve Requirement” means, as of any date of calculation by the District, an amount equal to the lowest of (i) 10% of the original proceeds of the Bonds, less original issue discount, if any, plus original issue premium, if any, or (ii) Maximum Annual Debt Service, or (iii) 125% of the average Annual Debt Service.

“Resolution of Formation” means the resolution adopted by the Board of Directors of the Community Services District on May 3, 2005, pursuant to which the Community Services District formed the District.

“RMA” means the Rate and Method of Apportionment of Special Taxes approved by the qualified electors of the District at an election conducted on May 3, 2005, a copy of which is attached hereto as Exhibit C.

“Series” means one or more Bonds issued at the same time, or sharing some other common term or characteristic, and designated as a separate series in the Supplemental Indenture pursuant to which they are issued.

“Sinking Fund Payment” means the annual payment in those years indicated in Section 4.1(b) to be deposited in the Principal Account to redeem a portion of the Term Bonds in accordance with the schedule set forth herein to retire the Term Bonds.

“Special Tax Administrator” means such person or firm as may be designated by the Board of Directors to administer the calculation and collection of the Special Taxes, or any successor person or entity acting in such capacity.

“Special Taxes” means the taxes authorized to be levied by the District in accordance with the RMA, as the RMA may be amended from time to time (if and to the extent such amendment is consistent with the covenant set forth in Section 5.2(g)).

“Special Tax Fund” means the fund by such name created and established pursuant to Section 3.1.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, its successors and assigns.

“Supplemental Indenture” means any supplemental indenture entered into in accordance with the provisions hereof amending or supplementing this Indenture.

“Surplus Fund” means the Fund by such name created and established pursuant to Section 3.1.

“Surplus Special Tax Account” means the Account by that name established in the Construction Fund pursuant to Section 3.1.

“Tax Certificate” means the certificate by that name to be executed by the District on the Delivery Date of each Series of Bonds to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

“Tax Zone #1” shall have the meaning ascribed thereto in the RMA.

“Tax Zone #2” shall have the meaning ascribed thereto in the RMA.

“Tax Zone #3” shall have the meaning ascribed thereto in the RMA.

“Tax Zone #3 Non-Residential Property” means the Non Residential Property located in Tax Zone #3.

“Tax Zone #3 Residential and Other Property” shall mean all of the Taxable Property located within Tax Zone #3 other than the Tax Zone #3 Non-Residential Property.

“Taxable Property” shall have the meaning ascribed thereto in the RMA.

“Term Bonds” means the Bonds maturing September 1, 2028 and September 1, 2036 and any maturities of Parity Bonds designated as such in a Supplemental Indenture.

“Trustee” means Wells Fargo Bank, National Association, a banking association organized and existing under the laws of the United States, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in Sections 7.2 or 7.3 and any successor thereto.

“Underwriter” means the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of Bonds.

“Value” means, with respect to parcels of Taxable Property which are not delinquent in the payment of any ad valorem taxes or any Special Taxes, either (a) the fair market value, as of the date of value specified in the appraisal provided for below, of such parcel, including the value of the then existing improvements thereon, as estimated by an appraiser, who shall be a State of California certified general real estate appraiser selected and employed by the District, in an appraisal which specifies a date of value that is less than 90 days preceding the date as of which such value is being applied by the District and which utilizes a methodology of valuation that is consistent with the Community Services District’s policy for appraisals, provided that a mass appraisal methodology may be applied when valuing property on which a completed structure is located or (b) the full cash value of such parcel, including the value of the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of Placer.

ARTICLE II

GENERAL AUTHORIZATION AND BOND TERMS

Section 2.1. Amount, Issuance, Purpose and Nature of Bonds. Under and pursuant to the Act, the Bonds in the aggregate principal amount of \$125,000,000 shall be issued for the purposes described herein. The Bonds shall be and are limited obligations of the District and shall be payable as to the principal thereof and interest thereon and any premiums upon the redemption thereof solely from the Net Taxes and the other amounts in the Special Tax Fund (other than amounts in the Administrative Expense Account of the Special Tax Fund).

Section 2.2. Type and Nature of Bonds. Neither the faith and credit nor the taxing power of the Community Services District, the State of California or any political subdivision thereof other than the District is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the Community Services District nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described herein. The District’s limited obligation to pay the principal of, premium, if any, and interest on the Bonds from amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the Community Services District or the forfeiture of any of their property. The Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District’s property, or upon any of its income, receipts or revenues, except the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of this Indenture and the Act, set aside for the payment of the Bonds and interest thereon; and neither the members of the legislative body of the District or the Board of Directors of the Community Services District nor any persons executing the Bonds, are liable personally on the Bonds by reason of their issuance.

Notwithstanding anything to the contrary contained in this Indenture, the District shall not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds, or for the performance of any covenants

contained herein. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Section 2.3. Equality of Bonds and Pledge of Net Taxes. Pursuant to the Act and this Indenture, the Bonds shall be equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) without priority for number, date of the Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of (including Sinking Fund Payments) the Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are hereby set aside for the payment of the Bonds. The Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) are hereby pledged to the payment of the principal of, premium, if any, and interest on the Bonds. Such pledge shall constitute a first lien on such assets. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by this Indenture or any Supplemental Indenture. Notwithstanding any provision contained in this Indenture to the contrary, Special Taxes deposited in the Administrative Expense Account of the Special Tax Fund, the Rebate Fund, the Surplus Special Tax Account of the Acquisition and Construction Fund and the Surplus Fund shall no longer be considered to be pledged to the Bonds; and none of the Rebate Fund, the Surplus Fund, the Administrative Expense Account of the Special Tax Fund nor the Acquisition and Construction Fund shall be construed as a trust fund held for the benefit of the Owners.

Nothing in this Indenture or any Supplemental Indenture shall preclude, subject to the limitations contained hereunder, the redemption prior to maturity of any Bonds subject to call and redemption and payment of said Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as hereafter amended, or under any other law of the State of California.

Section 2.4. Description of 2005 Bonds; Interest Rates. The 2005 Bonds shall be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. The 2005 Bonds shall be numbered as desired by the Trustee.

The Bonds shall be designated "Northstar Community Services District Community Facilities District No. 1, Special Tax Bonds, Series 2005." The 2005 Bonds shall be dated as of their Delivery Date and shall mature and be payable on September 1 in the years and in the aggregate principal amounts and shall be subject to and shall bear interest at the rates set forth in the table below payable on each Interest Payment Date:

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
2008	\$ 90,000	3.800%
2009	155,000	4.100
2010	225,000	4.250
2011	300,000	4.500
2012	380,000	4.625
2013	465,000	4.750
2014	560,000	4.750
2015	655,000	5.000
2016	760,000	5.000
2017	870,000	5.000
2018	990,000	5.125
2019	1,115,000	5.125
2020	1,255,000	5.200
2028	16,205,000	5.450
2036	32,100,000	5.550

Interest shall be payable on each 2005 Bond from the date established in accordance with Section 2.5 below on each Interest Payment Date thereafter until the principal sum of that 2005 Bond has been paid; provided, however, that if at the maturity date of any 2005 Bond (or if the same is redeemable and shall be duly called for redemption, then at the date fixed for redemption) funds are available for the payment or redemption thereof in full, in accordance with the terms of this Indenture, such 2005 Bonds shall then cease to bear interest. Interest due on the 2005 Bonds shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Section 2.5. Place and Form of Payment. The Bonds shall be payable both as to principal and interest, and as to any premiums upon the redemption thereof, in lawful money of the United States of America. The principal of the Bonds and any premiums due upon the redemption thereof shall be payable by check of the Trustee upon presentation and surrender thereof at the Principal Office of the Trustee, or at the designated office of any successor Trustee. Interest on any Bond shall be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) such date of authentication is an Interest Payment Date in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date occurring after the issuance of such Bond, in which event interest shall be payable from the dated date of such Bond; provided, however, that if at the time of authentication of such Bond, interest is in default, interest on that Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment on that Bond, interest on that Bond shall be payable from its dated date. Interest on any Bond shall be paid to the person whose name shall appear in the Bond Register as the Owner of such Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Trustee mailed by first class mail, postage prepaid, on the applicable Interest Payment Date to such Bondowner at his or her address as it appears on the Bond Register. In addition, upon a request in writing received by the Trustee on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of the Bonds, payment shall be made on the Interest Payment Date by wire transfer in

immediately available funds to an account within the United States designated by such Owner in such request.

Section 2.6. Form of Bonds. The 2005 Bonds and the certificate of authentication shall be substantially in the form attached hereto as Exhibit A, which forms are hereby approved and adopted as the forms of such Bonds and of the certificate of authentication. Notwithstanding any provision in this Indenture to the contrary, the District may, in its sole discretion, elect to issue the 2005 Bonds in book entry form.

Section 2.7. Execution and Authentication. The Bonds shall be signed on behalf of the District by the manual or facsimile signatures of the President of the Board of Directors of the Community Services District and the District Secretary, or any duly appointed Assistant or Deputy Secretary. In case any one or more of the officers who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed have been authenticated and delivered by the Trustee (including new Bonds delivered pursuant to the provisions hereof with reference to the transfer and exchange of Bonds or to lost, stolen, destroyed or mutilated Bonds), such Bonds shall nevertheless be valid and may be authenticated and delivered as herein provided, and may be issued as if the person who signed such Bonds had not ceased to hold such office.

Only the Bonds as shall bear thereon such certificate of authentication in the form set forth in Exhibit A hereto shall be entitled to any right or benefit under this Indenture, and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee.

Section 2.8. Bond Register. The Trustee will keep or cause to be kept, at its office, sufficient books for the registration and transfer of the Bonds which shall upon reasonable prior notice be open to inspection by the District during all regular business hours, and, subject to the limitations set forth in Section 2.9 below, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds as herein provided.

The District and the Trustee may treat the Owner of any Bond whose name appears on the Bond Register as the absolute Owner of that Bond for any and all purposes, and the District and the Trustee shall not be affected by any notice to the contrary. The District and the Trustee may rely on the address of the Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of the Bondowner to give written notice to the Trustee of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Section 2.9. Registration of Exchange or Transfer. Subject to the limitations set forth in the following paragraph, the registration of any Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the office of the Trustee, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee and duly executed by the Bondowner or his or her duly authorized attorney.

Bonds may be exchanged at the office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Trustee shall not collect from the Owner any charge for any new Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge

required to be paid with respect to such exchange or transfer. The cost of supplying such Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer and exchange shall be paid by the District. Whenever any Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount; provided that the Trustee shall not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

Section 2.10. Mutilated, Lost, Destroyed or Stolen Bonds. If any Bond shall become mutilated, the District shall execute, and the Trustee shall authenticate and deliver, a new Bond of like tenor, date and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by the Trustee pursuant to Section 10.1 hereof. 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 is satisfactory to the Trustee and, if any indemnity satisfactory to the District and the Trustee shall be given, the District shall execute and the Trustee shall authenticate and deliver, a new Bond of like tenor and maturity, numbered and dated as the Trustee shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. Any Bond issued in lieu of any Bond alleged to be mutilated, lost, destroyed or stolen, shall be equally and proportionately entitled to the benefits hereof with all other Bonds issued hereunder. The Trustee shall not treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed, authenticated and delivered hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and replacement Bond shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee may make payment with respect to such Bonds.

Section 2.11. Validity of Bonds. The validity of the authorization and issuance of the Bonds shall not be affected in any way by any defect in any proceedings taken by the District, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and the recital contained in the Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

Section 2.12. Book-Entry System.

(a) All Bonds shall be initially issued in the form of a separate single certificated fully registered Bond for each maturity date of the Bonds. Upon initial issuance, the ownership of each Bond shall be registered in the Bond Register in the name of Cede & Co., as nominee of DTC. Except as provided in Section 2.12(d) hereof, all Outstanding Bonds shall be registered in the Bond Register in the name of Cede & Co., as nominee of DTC.

(b) With respect to Bonds registered in the Bond Register in the name of Cede & Co., as nominee of DTC, the District and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than an Owner, as shown in the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than an Owner, as shown in the Bond Register, of any amount with respect to principal of, premium, if any, or interest on the Bonds. The District and the Trustee may treat and consider the person in whose

name each Bond is registered in the Bond Register as the holder and absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owners, as shown in the Bond Register, as provided in Section 2.8 hereof, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Bond Register, shall receive a certificated Bond evidencing the obligation of the District to make payments of principal, premium, if any, and interest pursuant to this Indenture. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions herein with respect to record dates, the word "Cede & Co." in this Indenture shall refer to such new nominee of DTC.

(c) The delivery of the Representation Letter by the District and the Trustee shall not in any way limit the provisions of Section 2.12(b) hereof or in any other way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Owners, as shown on the Bond Register. The Trustee shall take all action necessary for all representations in the Representation Letter with respect to the Trustee to be complied with at all times.

(d) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving written notice to the District and the Trustee and discharging its responsibilities with respect thereto under applicable law.

The District, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the District determines that either DTC is unable to discharge its responsibilities with respect to the Bonds or a continuation of the requirement that all Outstanding Bonds be registered in the Bond Register in the name of Cede & Co., or any other nominee of DTC, is not in the best interest of the beneficial owners of such Bonds.

Upon the discontinuation or termination of the services of DTC with respect to the Bonds pursuant to the foregoing after which no substitute securities depository willing to undertake the functions of DTC hereunder can be found which, in the opinion of the District, is willing and able to undertake such functions upon reasonable and customary terms, the District is obligated to deliver Bond certificates, as described in this Indenture and the Bonds shall no longer be restricted to being registered in the Bond Register in the name of Cede & Co. as nominee of DTC, but may be registered in whatever name or names DTC shall designate to the Trustee in writing, in accordance with the provisions of this Indenture.

(e) Notwithstanding any other provisions of this Indenture to the contrary, as long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal or, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the Representation Letter.

Section 2.13. Conditions for the Issuance of Parity Bonds. The District may issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than

in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the 2005 Bonds and any other Parity Bonds theretofore issued hereunder or under any Supplemental Indenture for any purposes authorized under the Act. Parity Bonds may be issued subject to the following additional specific conditions, which are hereby made conditions precedent to the issuance of any such Parity Bonds:

(a) The District shall be in compliance with all covenants set forth in this Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Trustee; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

(b) The issuance of such Parity Bonds shall have been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplemental Indenture duly adopted by the District which shall specify the following:

(i) The purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including payment of all costs and the funding of all reserves incidental to or connected with such issuance;

(ii) The authorized principal amount of such Parity Bonds;

(iii) The date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on a September 1, and (ii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

(iv) The description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(v) The denominations and method of numbering of such Parity Bonds;

(vi) The amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds and the redemption provisions for such Parity Bonds;

(vii) The amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;

(viii) The form of such Parity Bonds; and

(ix) Such other provisions as are necessary or appropriate and not inconsistent with this Indenture.

(c) The Trustee shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds to the Trustee (unless the Trustee shall be directed by the District to accept any of such documents bearing a prior date):

(i) A certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;

(ii) A written request of the District as to the delivery of such Parity Bonds;

(iii) An opinion of Bond Counsel to the effect that (a) the District has the right and power under the Act to adopt this Indenture and the Supplemental Indentures relating to such Parity Bonds, and this Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) this Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in this Indenture, subject to the application thereof to the purposes and on the conditions permitted by this Indenture; and (c) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of this Indenture and all Supplemental Indentures thereto and entitled to the benefits of this Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and this Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a tax exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

(iv) A certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of this Indenture;

(v) A certificate or certificates from the Special Tax Administrator and/or one or more Independent Financial Consultants which, when taken together, certify that:

(A) The Maximum Annual Special Taxes that may be levied in each Fiscal Year on property that is not then delinquent in the payment of any ad valorem taxes or any Special Taxes is not less than the sum of the Administrative Expense Cap plus 110% of the Annual Debt Service in the Bond Year that begins in such Fiscal Year;

(B) The Value of Taxable Property in Tax Zone #1 is not less than four (4) times the sum of the Direct Debt for Tax Zone #1 Property plus the Overlapping Debt for Tax Zone #1 Property;

(C) The Value of Taxable Property in Tax Zone #2 is not less than four (4) times the sum of the Direct Debt for Tax Zone #2 Property plus the Overlapping Debt for Tax Zone #2 Property;

(D) The Value of Tax Zone #3 Non-Residential Property is not less than four (4) times the sum of the Direct Debt for Tax Zone #3 Non-Residential Property plus the Overlapping Debt for Tax Zone #3 Non-Residential Property;

(E) The Value of Tax Zone #3 Residential and Other Property is not less than four (4) times the sum of the Direct Debt for Tax Zone #3 Residential and Other Property plus the Overlapping Debt for Tax Zone #3 Residential and Other Property;

(F) The Maximum Annual Special Taxes applicable to Parcels that are then delinquent in the payment of any ad valorem taxes or any Special Taxes shall not exceed 10 percent of the aggregate amount of the Maximum Annual Special Tax then applicable to the Taxable Property; and

(G) No Parcel that is owned in whole or in part by the Developer or an Affiliate of the Developer shall be delinquent in the payment of any ad valorem taxes or any Special Taxes.

For purposes of the foregoing certificate, all calculations shall consider the Parity Bonds proposed to be issued to be Outstanding.

The provisions of this paragraph (v) shall not apply to Parity Bonds issued for the purpose of refunding Outstanding Bonds if the District shall have received a certificate from an Independent Financial Consultant to the effect that Annual Debt Service after the issuance of such Parity Bonds will be no larger than Annual Debt Service would have been prior to the issuance of such Parity Bonds in each Fiscal Year in which Bonds or Parity Bonds (other than the refunding Parity Bonds) will remain Outstanding.

(vi) Such further documents, money and securities as are required by the provisions of this Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

ARTICLE III

CREATION OF FUNDS AND APPLICATION OF REVENUES AND GROSS TAXES

Section 3.1. Creation of Funds; Application of Proceeds.

(a) There is hereby created and established and shall be maintained by the Trustee the following funds and accounts:

(i) The Northstar Community Services District Community Facilities District No. 1 Special Tax Fund (the "Special Tax Fund") (in which there shall be established and created an Interest Account (and a Capitalized Interest Subaccount therein for the 2005 Bonds), a Principal Account, a Redemption Account, a Prepayment Account, a Reserve Account and an Administrative Expense Account);

(ii) The Northstar Community Services District Community Facilities District No. 1 Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account for the 2005 Bonds);

(iii) The Northstar Community Services District Community Facilities District No. 1 Surplus Fund (the "Surplus Fund"); and

(iv) The Northstar Community Services District Community Facilities District No. 1 Acquisition and Construction Fund (the "Acquisition and Construction Fund") (in which there shall be established a Costs of Issuance Account for the 2005 Bonds, an Acquisition Account for the 2005 Bonds, a Construction Account for the 2005 Bonds and a Surplus Special Tax Account).

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Trustee and the Trustee shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of this Article III and shall disburse investment earnings thereon in accordance with the provisions of Section 3.11 hereof.

(b) The proceeds of the sale of the 2005 Bonds received by the Trustee on behalf of the District shall be deposited and transferred as follows:

(i) \$25,500.00 shall be deposited in the Administrative Expense Account of the Special Tax Fund for the disbursement in accordance with Section 3.3 below;

(ii) \$5,178,587.80 shall be deposited in the Capitalized Interest Subaccount for the 2005 Bonds in the Interest Account of the Special Tax Fund for disbursement in accordance with Section 3.4 below;

(iii) \$1,252,857.95 shall be deposited in the Costs of Issuance Account for the 2005 Bonds in the Acquisition and Construction Fund for disbursement in accordance with Section 3.9 below;

(iv) \$22,654,000.00 shall be deposited to the Acquisition Account for the 2005 Bonds in the Acquisition and Construction Fund for disbursement in accordance with Section 3.9 below;

(v) \$21,233,000.00 shall be deposited to the Construction Account for the 2005 Bonds in the Acquisition and Construction Fund for disbursement in accordance with Section 3.9 below; and

(vi) \$5,171,211.10 shall be deposited in the Reserve Account of the Special Tax Fund (equaling the initial Reserve Requirement) to be disbursed in accordance with Section 3.7 below.

The Trustee may, in its discretion, establish a temporary fund or account in its books and records to facilitate such transfers.

Section 3.2. Deposits to and Disbursements from Special Tax Fund. The Trustee shall, on each date on which the Special Taxes are received from the Community Services District or the District, deposit the Special Taxes in the Special Tax Fund in accordance with the terms of the Indenture to be held by the Trustee, provided that any Prepayment shall be deposited in the funds and accounts (and in the respective amounts) specified in the certificate of the Special Tax Administrator delivered to the Trustee in connection with the delivery of the Prepayment to the Trustee. The Trustee shall transfer the amounts on deposit in the Special Tax Fund generally on the dates and in the amounts set forth in the following Sections, in the following order of priority, but subject in any event to the provisions of the following Sections, to:

(a) the Administrative Expense Account up to the Administrative Expense Cap,

- (b) the Interest Account,
- (c) the Principal Account,
- (d) the Redemption Account,
- (e) the Reserve Account,
- (f) the Administrative Expense Account in excess of the Administrative Expense Cap,
- (g) the Rebate Fund,
- (h) the Surplus Special Tax Account, and
- (i) the Surplus Fund.

At the maturity of all of the Bonds and, after all principal and interest then due on the Bonds then Outstanding has been paid or provided for and any amounts owed to the Trustee have been paid in full, moneys in the Special Tax Fund and any accounts therein may be used by the District for any lawful purpose.

Section 3.3. Administrative Expense Account of the Special Tax Fund. In addition to bond proceeds deposited therein, the Trustee shall, commencing in Fiscal Year 2005-2006, not less often than annually transfer from the Special Tax Fund and deposit in the Administrative Expense Account an amount equal to the Administrative Expense Cap and, in addition thereto, from time to time such amounts as are necessary to make timely payment of Administrative Expenses upon the written direction of the District; provided, however, that the total amount of the deposits into the Administrative Expense Account in any Bond Year shall not exceed the Administrative Expense Cap until such time as (i) there has been deposited in the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds due in such Bond Year and (ii) there has been deposited in the Reserve Account the amount, if any, required in order to cause the amount on deposit therein to equal the Reserve Requirement. In addition to the foregoing, the Trustee shall also deposit in the Administrative Expense Account the portion of any Prepayment directed to be deposited in the certificate of the Special Tax Administrator delivered to the Trustee in connection with such Prepayment. Any fee or reimbursement retained by or payable to the County of Placer in connection with its services in levying and collecting the Special Tax shall be excluded from the calculation of the Administrative Expense Cap.

Section 3.4. Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds until maturity, other than principal due upon redemption, shall be paid by the Trustee from the Principal Account and the Interest Account, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds will be made when due, the Trustee shall make the transfers described below from the Special Tax Fund on each Interest Payment Date first to the Interest Account and then to the Principal Account; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers then any deficiency shall be made up by an immediate transfer from the applicable Capitalized Interest Subaccount and, if additional amounts are necessary for such purpose, from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account shall be equal to the installment of interest due on the Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds as the same become due. If the amount in the Special Tax Fund that is available for such transfer is less than the amount described in the first sentence of this subsection, the Trustee shall transfer the amount of such deficiency from the Capitalized Interest Subaccount. On any date on which Bonds are to be redeemed from moneys on deposit in the Prepayment Account, the Trustee shall withdraw from the Capitalized Interest Subaccount and transfer to the Prepayment Account the amount, if any, directed to be so transferred in the certificate of the Special Tax Administrator delivered to the Trustee in connection with the delivery of the Prepayment giving rise to such redemption.

(b) To the Principal Account, an amount such that the balance in the Principal Account on September 1 of each year, commencing September 1, 2008 shall equal the sum of (i) the principal payment due on the Bonds maturing on such September 1, (ii) the Sinking Fund Payment due on any Outstanding Bonds on such September 1, and (iii) any principal payment due on a previous September 1 which remains unpaid. If the amount in the Special Tax Fund that is available for such transfer is less than the amount described in the first sentence of this subsection, the Trustee shall transfer the amount of such deficiency from the Capitalized Interest Subaccount. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds as the same become due at maturity or pursuant to the Sinking Fund Payment schedules set forth in Section 4.1(b) hereof and in any Supplemental Indenture.

In addition to the transfers to the Interest Account and Principal Account described in the first paragraph of this Section, the Trustee shall also transfer thereto such portions of a Prepayment as may be directed to be so transferred in the certificate of the Special Tax Administrator delivered to the Trustee in connection with the Prepayment.

Section 3.5. Redemption Account of the Special Tax Fund.

(a) After making the deposits to the Interest Account and the Principal Account of the Special Tax Fund pursuant to Section 3.4 above, and in accordance with the District's election to call Bonds for optional redemption as set forth in Section 4.1(a) hereof the Trustee shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be so deposited in the Redemption Account and applied to optionally redeem Bonds only if immediately following such transfer and redemption the amount in the Reserve Account will equal the Reserve Requirement. The Trustee shall also transfer from the Acquisition and Construction Fund and deposit in the Redemption Account moneys in the amounts and at the times provided in Section 3.9.

(b) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and shall be applied on or after the redemption date to the payment of the principal of and premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account as set forth above may be used to purchase Outstanding Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only

at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to Section 4.1(a) hereof. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Section 3.6. Prepayment Account of the Special Tax Fund.

(a) The Trustee shall deposit in the Prepayment Account the portion of each Prepayment directed to be so deposited in the certificate of the Special Tax Administrator delivered to the Trustee in connection with the delivery of such Prepayment. On each date on which Bonds are to be redeemed from moneys on deposit in the Prepayment Account pursuant to subsection (b) of this Section, the Trustee shall withdraw from the Capitalized Interest Subaccount (if any) for the applicable Series of Bonds and from the Reserve Account and deposit in the Prepayment Account the respective amounts, if any, directed to be so withdrawn and deposited in the certificate of the Special Tax Administrator delivered to the Trustee in connection with the Prepayment giving rise to such redemption.

(b) Moneys set aside in the Prepayment Account shall be used solely for the purpose of redeeming Bonds and shall be applied on or after the redemption date to the payment of the principal of and premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Prepayment Account as set forth above may be used to purchase Outstanding Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus the premium applicable at the next following call date according to the premium schedule established pursuant to Section 4.1(c) hereof. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Interest Account or the applicable Capitalized Interest Subaccount for the payment of interest on such Bonds on the next following Interest Payment Date.

Section 3.7. Reserve Account of the Special Tax Fund. There shall be maintained in the Reserve Account an amount equal to the Reserve Requirement. Notwithstanding any provision hereof to the contrary, the amounts in the Reserve Account shall be applied as follows:

(a) Moneys in the Reserve Account shall be used solely for the purpose of (i) paying the principal of, including Sinking Fund Payments, and interest on any Bonds when due in the event that the moneys in the Interest Account and the Principal Account are insufficient therefor, (ii) making any required transfer to the Rebate Fund pursuant to Section 3.8 upon written direction from the District, and (iii) making any transfer to the Prepayment Account required pursuant to the provisions of Section 3.6. If the amounts in the Interest Account or the Principal Account are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Trustee shall withdraw from the Reserve Account for deposit in the Interest Account or the Principal Account or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to in Sections 3.4, 3.6 and 3.8 hereof, the Trustee shall transfer to the

Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Interest Account or the Principal Account for the next succeeding Interest Payment Date. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates and to the extent permitted by the Act.

(c) In connection with an optional redemption of the Bonds hereunder or a partial defeasance of the Bonds in accordance with Section 9.1 hereof, amounts in the Reserve Account may be applied to such optional redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such optional redemption or partial defeasance equals the Reserve Requirement.

(d) To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for Outstanding Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds in such final Bond Year. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this paragraph shall be withdrawn from the Reserve Account on each Interest Payment Date and transferred to the Interest Account.

Section 3.8. Rebate Fund.

(a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein for the 2005 Bonds and for each subsequent Series of Bonds. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternate Penalty Account shall be established for each Series of Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund with respect to the Bonds shall be governed by this Section and the Tax Certificate for such issue, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on such Bonds will not be adversely affected if such requirements are not satisfied.

(i) Rebate Account. The following requirements shall be satisfied with respect to each subaccount of the Rebate Account:

(A) Annual Computation. Within 55 days of the end of the fourth and the fifth Bond Year and each fifth Bond Year thereafter, the District shall calculate or cause to be calculated the amount of rebatable arbitrage for each Series of Bonds in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage described in the Tax Certificate for each issue (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1½% Penalty") has been made), for this purpose treating the last day of the applicable

Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Rebate Regulations (the "Rebatable Arbitrage"). The District shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.

(B) Annual Transfer. Within 55 days of the end of each Bond Year for which Rebatable Arbitrage must be calculated as required by the Tax Certificate, upon the written direction of an Authorized Representative of the District, an amount shall be deposited to each subaccount of the Rebate Account by the Trustee from any funds so designated by the District if and to the extent required, so that the balance in the Rebate Account shall equal the amount of Rebatable Arbitrage so calculated by or on behalf of the District in accordance with (A) of this Subsection (a)(i). In the event that immediately following any transfer required by the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit to the credit of the applicable subaccount of the Rebate Account exceeds the amount required to be on deposit therein, upon written instructions from an Authorized Representative of the District, the Trustee shall withdraw the excess from the appropriate subaccount of the Rebate Account and then credit the excess to the Special Tax Fund.

(C) Payment to the Treasury. The Trustee shall pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in each subaccount of the Rebate Account,

1. Not later than 60 days after the end of (A) the fifth Bond Year and (B) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated by the District as of the end of such Bond Year for each issue of Bonds; and

2. Not later than 60 days after the payment or redemption of all of the Bonds an amount equal to 100% of the Rebatable Arbitrage calculated by the District as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Account, the amount in the Rebate Account is not sufficient to make such payment when such payment is due, the District shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (a)(i) shall be made on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T prepared by the District, or shall be made in such other manner as provided under the Code.

(ii) Alternative Penalty Account.

(A) Six-Month Computation. If the 1½% Penalty has been elected, within 85 days of the Six-Month Period, the District shall determine or cause to be determined whether the 1½% Penalty is payable (and the amount of such penalty) as of the close of the Six-Month Period. The District shall obtain expert advice in making such determinations.

(B) Six-Month Transfer. Within 85 days of the close of the Six-Month Period, the Trustee, at the written direction of an Authorized Representative of the District, shall deposit an amount in the appropriate subaccounts of the Alternative Penalty Account from any

source of funds held by the Trustee pursuant to this Indenture and designated by the District in such written directions or provided to it by the District, if and to the extent required, so that the balance in each subaccount of the Alternative Penalty Account equals the amount of 1½% Penalty due and payable to the United States Treasury determined as provided in Subsection (a)(ii)(A) above. In the event that immediately following any transfer provided for in the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit in a subaccount of the Alternative Penalty Account exceeds the amount required to be on deposit therein to make the payments required by Subsection (C) below, the Trustee, at the written direction of an Authorized Representative of the District, shall withdraw the excess from the applicable subaccount of the Alternative Penalty Account and credit the excess to the Special Tax Fund.

(C) Payment to the Treasury. The Trustee shall pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in a subaccount of the Alternative Penalty Account, specified by the District in writing not later than 90 days after the close of the Six-Month Period the 1½% Penalty, if applicable and payable, computed in accordance with Section 148(f)(4) of the Code. In the event that, prior to the time of any payment required to be made from a subaccount of the Alternative Penalty Account, the amount in such subaccount is not sufficient to make such payment when such payment is due, the District shall calculate the amount of such deficiency and direct the Trustee, in writing, to deposit an amount equal to such deficiency into such subaccount of the Alternative Penalty Account from any funds held by the Trustee pursuant to this Indenture and designated by the District in such written directions prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (a)(ii) shall be made on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T prepared by the District or shall be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Accounts of the Rebate Fund after redemption and payment of the Bonds and after making the payments described in Subsection (a)(i)(C) or (a)(ii)(C) (whichever is applicable), may be withdrawn by the Trustee at the written direction of the District and utilized in any lawful manner pursuant to the Act.

(c) Survival of Defeasance and Final Payment. Notwithstanding anything in this Section or this Indenture to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance and final payment of the Bonds.

(d) Amendment Without Consent of Owners. This Section may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(e) Trustee Responsibility. The Trustee shall be deemed conclusively to have complied with its obligations with respect to the Rebate Fund and any amounts required to be rebated to the United States Treasury hereunder by following the directions given by the District pursuant to this Section, and no other obligations of the Trustee shall be implied hereunder. Specifically, the Trustee may rely conclusively upon the District's determinations, calculations and certifications required by this Section; and the Trustee shall have no responsibility to independently make any calculation or determination or to review the District's calculations hereunder.

Section 3.9. Acquisition and Construction Fund.

(a) After making the transfers required by Sections 3.3, 3.4, 3.5, 3.6, 3.7 and 3.8 hereof, in any Fiscal Year from and including Fiscal Year 2005-06 through and including Fiscal Year 2024-25 in which the Developer is, or may in the future be, owed money pursuant to an Acquisition and Disclosure Agreement, as evidenced by a Certificate of an Authorized Representative, and the funds in the applicable Acquisition Account of the Acquisition and Construction Fund available to pay amount so owed are not expected to sufficient to pay such amount, the Trustee shall transfer from the Special Tax Fund to the Surplus Special Tax Account of the Acquisition and Construction Fund the lesser of (i) the amount specified in the Certificate of an Authorized Representative or (ii) all remaining amounts in the Special Tax Fund.

(b) The moneys in the Acquisition and Construction Fund shall be applied exclusively to pay the Project Costs and Costs of Issuance. Amounts for Costs of Issuance shall be disbursed by the Trustee from the applicable Costs of Issuance Account pursuant to a requisition signed by an Authorized Representative of the District substantially in the form of Exhibit B hereto. Amounts for Project Costs for portions of the Project being acquired from the Developer shall be disbursed by the Trustee from the applicable Acquisition Account or from the Surplus Special Tax Account pursuant to a requisition signed by an Authorized Representative of the District substantially in the form of Exhibit B hereto, which requisition shall specify the account from which such amounts are to be paid. Amounts for all other portions of the Project shall be disbursed by the Trustee from the applicable Construction Account pursuant to a requisition signed by an Authorized Representative of the District substantially in the form of Exhibit B hereto. Each such requisition of the District shall be sufficient evidence to the Trustee of the facts stated therein, and the Trustee shall have no duty to confirm the accuracy of such facts.

(c) Upon the earlier of the first anniversary of the applicable Delivery Date or its receipt of a Certificate of an Authorized Representative that all or a specified portion of the amount remaining in the Costs of Issuance Account for a Series of Bonds is no longer needed to pay Costs of Issuance for such Series, the Trustee shall transfer all or such specified portion of said amount to the Administrative Expense Account.

(d) If so directed in a Certificate of an Authorized Representative, the Trustee shall transfer from the Construction Account to the Acquisition Account such amount as may be specified in such Certificate as no longer being necessary for the purposes of the Construction Account.

(e) Upon receipt of a Certificate of an Authorized Representative (i) stating that the portion of the Project to be financed from the Acquisition and Construction Fund has been completed and that all costs of such portion of the Project have been paid, or (ii) stating that such portion of the Project has been substantially completed and that all remaining costs of such portion of the Project have been determined and specifying the amount to be retained therefor, or (iii) stating that no additional Project Costs (or no additional such costs above a specified amount) are expected to be paid from the Acquisition and Construction Fund, the Trustee shall (A) if the amount remaining in the Acquisition and Construction Fund (less any such retention) is equal to or greater than \$25,000, transfer the portion of such amount equal to the largest integral multiple of \$5,000 that is not greater than such amount to the Redemption Account, to be applied to the redemption of Bonds, and (B) after making the transfer, if any, required to be made pursuant to the preceding clause (A), transfer all of the amount remaining in the Acquisition and Construction Fund (less any such retention) to the Interest Account, to be applied to the payment of interest on the Bonds.

Section 3.10. Surplus Fund. After making the transfers required by Sections 3.3, 3.4, 3.5, 3.6, 3.7, 3.8 and 3.9 hereof, as soon as practicable after each September 1, and in any event prior to each October 1, the Trustee shall transfer all remaining amounts in the Special Tax Fund, if any, to the Surplus Fund, other than amounts in the Special Tax Fund which the District has deemed available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to Section 5.2(b) hereof. On the written direction of an Authorized Representative of the District, moneys deposited in the Surplus Fund shall be transferred by the Trustee, (i) to the Interest Account or the Principal Account to pay the principal of, including Sinking Fund Payments, and interest on the Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account are insufficient therefor, (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement, and (iii) to the Administrative Expense Account to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account are insufficient to pay Administrative Expenses. In the event unexpended amounts remain on deposit in the Surplus Fund after the foregoing transfers, if any, the District may apply such unexpended amounts, in its sole discretion, to (i) pay Project Costs, (ii) to reduce the next fiscal year's Special Tax levy by depositing such amount in the Special Tax Fund, or (iii) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds and may be used by the District for any lawful purpose in the manner described in this Section. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds, upon the written direction of the District, the Trustee will segregate such amount into a separate subaccount, and the moneys on deposit in such subaccount of the Surplus Fund shall be invested, at the written direction of the District, in Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the Bonds unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Section 3.11. Investments. Moneys held in any of the funds, accounts and subaccounts under this Indenture shall be invested at the written direction of an Authorized Representative of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such funds, accounts and subaccounts. Any investment earnings, gains or losses resulting from such Authorized Investments shall be credited or charged to the fund, account or subaccount from which such investment was made. Moneys in the funds, accounts and subaccounts held under this Indenture may be invested by the Trustee on the written direction of the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Interest Account, the Principal Account and the Redemption Account shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds as the same become due. Notwithstanding anything herein to the contrary, amounts in the Capitalized Interest Subaccount on the Delivery Date for the Bonds shall not be invested at yields greater than those set forth in the Tax Certificate.

(b) Moneys in the Acquisition and Construction Fund shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund. Notwithstanding anything herein to the contrary, amounts in the Acquisition and Construction Fund on the Delivery Date for the Bonds shall not be invested at yields greater than those set forth in the Tax Certificate.

(c) The amount in the Reserve Account may be invested only in Authorized Investments which mature not later than five years from their date of purchase; provided that such amounts may be invested in an Investment Agreement to the final maturity of Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with Section 3.7 hereof; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds shall mature later than the final maturity date of the Bonds. Notwithstanding anything herein to the contrary, amounts in the Reserve Fund on the Delivery Date for the Bonds shall not be invested at yields greater than those set forth in the Tax Certificate.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (a) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to Section 3.8 hereof or in Authorized Investments of the type described in clause (d) of the definition thereof.

(e) In the absence of written investment directions from the District, the Trustee shall invest solely in Authorized Investments specified in clause (d) of the definition thereof.

(f) The investment instructions of the District shall comply with the yield requirements set forth in this Section, and the Trustee may conclusively rely upon such instructions as being in compliance with such requirements.

The Trustee shall sell, or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such funds and accounts or from such funds and accounts. For the purpose of determining at any given time the balance in any such funds and accounts, any such investments constituting a part of such funds and accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value thereof and marked to market at least annually. In making any valuations of investments hereunder, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon. Notwithstanding anything herein to the contrary, the Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of this Indenture. The Trustee or an affiliate may act as principal or agent in connection with the acquisition or disposition of any Authorized Investments and shall be entitled to its customary fee therefor. Any Authorized Investments that are registrable securities shall be registered in the name of the Trustee or its nominee.

For investment purposes, the Trustee may commingle the funds and accounts established hereunder (other than the Rebate Fund) but shall account for each separately.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder.

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

ARTICLE IV

REDEMPTION OF BONDS

Section 4.1. Redemption of Bonds.

(a) Optional Redemption. Subject to the limitations set forth below, the 2005 Bonds may be redeemed, at the option of the District from any source of funds, other than Prepayments and surplus Bond proceeds, on any Interest Payment Date on or after March 1, 2013, in whole, or in part in the order of maturity selected by the District and by lot within a maturity, at a redemption price equal to the principal amount to be redeemed together with accrued interest to the date of redemption.

In the event the District elects to redeem 2005 Bonds as provided above, the District shall give written notice to the Trustee of its election to so redeem, the redemption date and the principal amount of the Bonds to be redeemed. The notice to the Trustee shall be given at least 60 but no more than 90 days prior to the redemption date, or such shorter period as shall be acceptable to the Trustee.

(b) Mandatory Sinking Fund Redemption. The 2005 Term Bonds maturing on September 1, 2028 shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Principal Account, on September 1, 2021, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

<i>Redemption Date (September 1)</i>	<i>Principal Amount</i>
2021	\$1,400,000
2022	1,555,000
2023	1,725,000
2024	1,900,000
2025	2,090,000
2026	2,295,000
2027	2,505,000
2028 (maturity)]	2,735,000

The 2005 Term Bonds maturing on September 1, 2036 shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Principal Account, on September 1, 2029, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

<i>Redemption Date (September 1)</i>	<i>Principal Amount</i>
2029	\$2,975,000
2030	3,240,000
2031	3,515,000
2032	3,810,000
2033	4,120,000
2034	4,455,000
2035	4,805,000
2036 (maturity)	5,180,000

If during the Fiscal Year immediately preceding one of the redemption dates specified in (b) above the District purchases 2005 Term Bonds, at least 45 days prior to the applicable redemption date the District shall deliver to the Trustee a Certificate of an Authorized Representative specifying the principal amount purchased and the principal amount of 2005 Bonds so purchased shall be credited at the time of purchase, to the extent of the full principal amount thereof, to reduce such upcoming Sinking Fund Payment for such Term Bonds. All Bonds purchased pursuant to this subsection shall be cancelled pursuant to Section 10.1 hereof.

In the event of a partial redemption of 2005 Term Bonds, other than as a result of Sinking Fund Payments, each of the remaining Sinking Fund Payments for such 2005 Term Bonds that were partially redeemed, as described above, will be reduced, as nearly as practicable, on a pro rata basis in increments of \$5,000.

(c) Special Mandatory Redemption From Prepayments and Surplus Bond Proceeds. The 2005 Bonds are subject to special mandatory redemption on any Interest Payment Date from amounts on deposit in the Prepayment Account, and from amounts transferred to the Redemption Account pursuant to Section 3.9 in integral multiples of \$5,000, in whole or in part as hereinafter provided, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Prices</i>
March 1, 2006 through March 1, 2013	103%
September 1, 2013 and March 1, 2014	102
September 1, 2014 and March 1, 2015	101
September 1, 2015 and thereafter	100

The Trustee shall select 2005 Bonds for redemption pursuant to the provisions of this subsection from the maturities of all Bonds of all Series so that the ratio of Outstanding Bonds to the Bonds originally issued shall be approximately the same in each maturity of each Series. The

particular Bonds of each maturity of a Series to be redeemed shall be selected by lot in whatever manner the Trustee chooses.

Section 4.2. Selection of Bonds for Redemption. If less than all of the Bonds Outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof. In selecting portions of such Bonds for redemption, the Trustee shall treat such Bonds as representing that number of Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bonds to be redeemed in part by \$5,000. The Trustee shall promptly notify the District in writing of the Bonds, or portions thereof, selected for redemption.

Section 4.3. Notice of Redemption. When Bonds are due for redemption under Section 4.1 above, the Trustee shall give notice, in the name of the District, of the redemption of such Bonds; provided, however, that a notice of a redemption to be made from other than from Sinking Fund Payments shall be conditioned on there being on deposit on the redemption date sufficient money to pay the redemption price of the Bonds to be redeemed. Such notice of redemption shall (a) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds are subject to redemption, or all the Bonds of one maturity, are to be redeemed, the bond numbers of such issue need not be specified; (b) state the date fixed for redemption and surrender of the Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds are to be redeemed; (e) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (f) state the date of issue of the Bonds as originally issued; (g) state the rate of interest borne by each Bond being redeemed; and (h) state any other descriptive information needed to identify accurately the Bonds being redeemed as shall be specified by the Trustee. Such notice shall further state that on the date fixed for redemption, there shall become due and payable on each Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon shall cease to accrue and be payable. At least 30 days but no more than 60 days prior to the redemption date, the Trustee shall mail a copy of such notice, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register and to the original purchaser of the Bonds. The actual receipt by the Owner of any Bond or the original purchaser of any Bond of notice of such redemption shall not be a condition precedent to redemption, and neither the failure to receive nor any defect in such notice shall affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the redemption date. A certificate by the Trustee that notice of such redemption has been given as herein provided shall be conclusive as against all parties and the Owner shall not be entitled to show that he or she failed to receive notice of such redemption.

In addition to the foregoing notice, further notice shall be given by the Trustee as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

Each further notice of redemption shall be sent by the Trustee by registered or certified mail, overnight delivery service or facsimile transmission or by other acceptable means to any registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds and any national information services as shall be specified by the Trustee that disseminate notice of redemption of obligations such as the Bonds.

Upon the payment of the redemption price of any Bonds being redeemed, each check or other transfer of funds issued for such purpose shall to the extent practicable bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Section 4.4. Partial Redemption of Bonds. Upon surrender of any Bond to be redeemed in part only, the District shall execute and the Trustee shall authenticate and deliver to the Bondowner, at the expense of the District, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered, with the same interest rate and the same maturity.

Section 4.5. Effect of Notice and Availability of Redemption Money. Notice of redemption having been duly given, as provided in Section 4.3 hereof, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

(a) The Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in this Indenture, anything in this Indenture or in the Bonds to the contrary notwithstanding;

(b) Upon presentation and surrender thereof at the office of the Trustee, the redemption price of such Bonds shall be paid to the Owners thereof;

(c) As of the redemption date the Bonds or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Bonds or portions thereof shall cease to bear further interest; and

(d) As of the date fixed for redemption no Owner of any of the Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of this Indenture or any Supplemental Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

Section 4.6. Purchase of Bonds by District. In lieu, or partially in lieu, of optional, mandatory or mandatory sinking fund redemption, the District may elect, prior to the selection of Bonds for redemption by the Trustee, to instruct the Trustee to purchase Bonds at public or private sale at such prices as the District may in its discretion determine; provided that the purchase price thereof (including brokerage or other expenses) shall not exceed the principal amount thereof plus accrued interest to the purchase date and, in the case of purchase with funds in an optional redemption account, applicable premium.

ARTICLE V

COVENANTS AND WARRANTY

Section 5.1. Warranty. The District shall preserve and protect the security pledged hereunder to the Bonds against all claims and demands of all persons.

Section 5.2. Covenants. So long as any of the Bonds issued hereunder are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and this Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

(a) Punctual Payment; Against Encumbrances. The District covenants that it will receive all Special Taxes in trust and will immediately deposit such amounts with the Trustee, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by this Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth herein, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District further covenants that, in connection with the delivery of any Prepayment to the Trustee, the District will also deliver to the Trustee a certificate of the Special Tax Administrator identifying with respect to the Prepayment: (i) the "Remaining Facilities Amount" (as defined in the RMA), if any, with instructions that said amount shall be deposited in the Acquisition and Construction Fund and specifying the account or accounts therein in which such deposit(s) are to be made, (ii) the "Administrative Fees and Expenses" (as defined in the RMA), with instructions that said amount shall be deposited in the Administrative Expense Account, (iii) the amount that represents the Special Taxes levied in the current Fiscal Year on the subject Assessor's Parcel which had not been paid, with instructions to deposit portions of said amount in the Interest Account and the Principal Account of the Special Tax Fund, (iv) the amount of the "Reserve Fund Credit" (as defined in the RMA), with instructions to withdraw said amount from the Reserve Account and transfer it to the Prepayment Account in connection with the redemption of Bonds, and (v) the amount to be deposited in the Prepayment Account.

The District covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond issued hereunder, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and in accordance with this Indenture to the extent that Net Taxes are available therefor, and that the payments into the Funds and Accounts created hereunder will be made, all in strict conformity with the terms of the Bonds and this Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and all Supplemental Indentures and of the Bonds issued hereunder.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Special Taxes except as provided in this Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds. Nothing herein shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds.

(b) Levy of Special Tax. Beginning in Fiscal Year 2006-2007 and in each Fiscal Year thereafter so long as any Bonds issued under this Indenture are Outstanding, the legislative body of the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (1) the principal (including Sinking Fund Payments) of and interest on the Bonds when due, (2) to the extent permitted by law, the Administrative Expenses, and

(3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement.

(c) Commence Foreclosure Proceedings. The District covenants for the benefit of the Owners of the Bonds that it (i) will commence judicial foreclosure proceedings against all parcels owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than \$7,500 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied for such Fiscal Year, and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes for a period of three years or more or in an amount in excess of \$12,000 so long as (1) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (2) the District is not in default in the payment of the principal of or interest on the Bonds. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account of the Special Tax Fund at the Reserve Requirement or to avoid a default in payment on the Bonds.

The District covenants that it will deposit the proceeds of any foreclosure which constitute Net Taxes in the Special Tax Fund.

The District will not, in collecting the Special Taxes or in processing any such judicial foreclosure proceedings, exercise any authority which it has pursuant to Sections 53340, 53344.1, 53344.2, 53356.1 and 53356.5 of the California Government Code in any manner which would materially and adversely affect the interests of the Bondowners and, in particular, will not permit the tender of Bonds in full or partial payment of any Special Taxes except upon receipt of a certificate or certificates from the Special Tax Administrator and/or one or more Independent Financial Consultants that to accept such tender will not result in a reduction in the maximum Special Taxes that may be levied on the taxable property within the District in any Fiscal Year to an amount less than the sum of 110% of Annual Debt Service in the Bond Year ending on the September 1 following the end of such Fiscal Year plus the estimated Administrative Expenses for such Bond Year.

(d) Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Special Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account therein), or which might impair the security of the Bonds then Outstanding; provided that nothing herein contained shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

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

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

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

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

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

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

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

(vi) Miscellaneous. The District will take no action and will refrain from taking any action inconsistent with its expectations stated in the Tax Certificate and will comply with the covenants and requirements stated therein and incorporated by reference herein, including payment of amounts required to pay the District’s pro rata share of any rebate amounts owing to the United States on the Bonds.

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

(g) Reduction of Maximum Annual Special Taxes. The District hereby finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District hereby determines that a reduction in the Maximum Annual Special Tax authorized to be levied on parcels in the District below the levels provided in this Section 5.2(g) would interfere with the timely retirement of the Bonds. The District determines it to be necessary in

order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District hereby does covenant, that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the Maximum Annual Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate or certificates from the Special Tax Administrator and/or one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property in each Bond Year will equal at least 110% of the sum of the estimated Administrative Expenses and Annual Debt Service in that Bond Year on all Bonds to remain Outstanding after the reduction is approved, (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and (iii) the District receives both (A) a certificate of the Developer specifying the development activity that the Developer expects will take place within the District in each Fiscal Year until all such development is complete, which specification shall be sufficiently detailed to permit the preparation of the certificate required pursuant to (B) hereof, and (B) a certificate or certificates from the Special Tax Administrator and/or one or more Independent Financial Consultants which, when taken together, in the determination of the District, certify that (1) on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the proposed reduction and (2) on the basis of the future development activity described in the certificate of the Developer described in (A) hereof, the maximum amount of the Special Tax which may be levied each Fiscal Year on all property within the District that is subject to the levy of the Special Taxes will equal at least 110% of the sum of the estimated Administrative Expenses and Annual Debt Service in each applicable Bond Year on all Bonds subsequent to the proposed reduction. For purposes of estimating Administrative Expenses for the foregoing calculations, the Independent Financial Consultant or the Special Tax Administrator shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by two percent (2%) in each subsequent Fiscal Year.

(h) Covenant to Defend. The District covenants that in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the Maximum Annual Special Tax below the levels specified in Section 5.2(g) above or to limit the power of the District to levy the Special Taxes for the purposes set forth in Section 5.2(b) above, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

Section 5.3. Continuing Disclosure and Reporting Requirements. The District covenants to comply with the terms of the Continuing Disclosure Agreement executed by it on the Delivery Date with respect to compliance with Rule 15c2-12, provided the failure of the District to comply with the terms of said Continuing Disclosure Agreement shall not constitute an event of default under Article VIII hereof.

ARTICLE VI

AMENDMENTS TO INDENTURE

Section 6.1. Supplemental Indentures or Orders Not Requiring Bondowner Consent. The District and Trustee may from time to time, and at any time, without notice to or consent of any of the Bondowners, enter into Supplemental Indentures in order to provide for the issuance of Parity Bonds pursuant to Section 2.13 and for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions herein which may be inconsistent with any other provision herein, or to make any other provision with respect to matters or questions arising under this Indenture or in any additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners;

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

(c) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds then Outstanding; or

(d) to modify, alter or amend the RMA in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than that permitted under Section 5.2(g) hereof; or

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

Section 6.2. Supplemental Indentures or Orders Requiring Bondowner Consent.

Exclusive of the Supplemental Indentures described in Section 6.1, the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding shall have the right to consent to and approve the execution and delivery by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture; provided, however, that nothing herein shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, (c) a preference or priority of any Bond over any other Bond, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of this Section shall require the consent of the Bondowners, the District shall so notify the Trustee and shall deliver to the Trustee a copy of the proposed Supplemental Indenture. The Trustee shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the Trustee for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding as required by this Section. Whenever at any time within one year after the date of the first mailing of such notice, the Trustee shall receive an instrument or instruments purporting to be executed by the Owners of a majority in aggregate principal amount of the Bonds Outstanding, which instrument or instruments shall refer to

the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Trustee, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds have consented to the adoption of any Supplemental Indenture, Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds in instances where such consent is required pursuant to the provisions of this Section, this Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the District and all Owners of Outstanding Bonds shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by Sections 6.1 and 6.2 which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 6.3. Notation of Bonds; Delivery of Amended Bonds. After the effective date of any action taken as hereinabove provided, the District may determine that the Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds. If the District shall so determine, new Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond at such effective date such new Bonds shall be exchanged at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, without cost to each Owner of Outstanding Bonds, upon surrender of such Outstanding Bonds.

ARTICLE VII

TRUSTEE

Section 7.1. Duties, Immunities and Liabilities of Trustee. Wells Fargo Bank, National Association shall be the Trustee for the Bonds unless and until another Trustee is appointed by the District hereunder. The Trustee shall, prior to an event of default and after curing all events of default which may have occurred, perform such duties and only such duties as are specifically set forth herein. Upon the occurrence and upon the continuance of an event of default, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a reasonable corporate trustee would exercise or use as trustee under a trust indenture. The District may, at any time, appoint a successor Trustee satisfying the requirements of Section 7.2 below for the purpose of receiving all money which the District is

required to deposit with the Trustee hereunder and to allocate, use and apply the same as provided in this Indenture.

The Trustee is hereby authorized to and shall mail or cause to be mailed by first class mail, postage prepaid, or wire transfer in accordance with Section 2.5 above, interest payments to the Bondowners, to select Bonds for redemption, and to maintain the Bond Register. The Trustee is hereby authorized to pay the principal of and premium, if any, on the Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds presented to it for such purposes, to provide for the cancellation of Bonds all as provided in this Indenture, and to provide for the authentication of Bonds, and shall perform such other duties expressly assigned to or imposed on it as provided in this Indenture; provided, however, that no other duties of the Trustee shall be implied or imposed upon the Trustee other than as expressly stated hereunder. The Trustee shall keep accurate records of all funds administered by it and all Bonds paid, discharged and cancelled by it.

The Trustee is hereby authorized to redeem the Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Trustee shall cancel all Bonds upon payment thereof in accordance with the provisions of Section 10.1 hereof.

The District shall from time to time, subject to any agreement between the District and the Trustee then in force, pay to the Trustee compensation for its services, reimburse the Trustee for all its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties hereunder, and indemnify and save the Trustee and its officers, directors and employees harmless against costs, claims, expenses (including the reasonable expenses of its counsel) and liabilities not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties hereunder. The foregoing obligation of the District to indemnify the Trustee shall survive the removal or resignation of the Trustee or the discharge of the Bonds.

Section 7.2. Removal of Trustee. The District may at any time at its sole discretion remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee a written notice of its decision to remove the Trustee and may appoint a successor or successors thereto; provided that any such successor, other than the Trustee, shall be a bank, corporation or trust company having (or in the case of a financial institution that is part of a bank holding company, such company shall have) a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Trustee. If any bank, corporation or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank, corporation 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. Any removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee and notice being sent by the successor Trustee to the Bondowners of the successor Trustee's identity and address.

Section 7.3. Resignation of Trustee. The Trustee may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice

shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee satisfying the criteria in Section 7.2 above by an instrument in writing. In the event a successor trustee shall not have been designated within 30 Business Days, the Trustee shall have the right to petition any court for an order appointing a replacement Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

Section 7.4. Liability of Trustee. The recitals of fact and all promises, covenants and agreements contained herein and in the Bonds shall be taken as statements, promises, covenants and agreements of the District, and the Trustee assumes no responsibility and shall have no liability for the correctness of the same and makes no representations as to the validity or sufficiency of this Indenture, the Bonds, and shall incur no responsibility and have no liability in respect thereof, other than in connection with its express duties or obligations specifically set forth herein, in the Bonds or in the certificate of authentication of the Trustee. The Trustee shall be under no responsibility or duty and shall have no responsibility with respect to the issuance of the Bonds for value. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct.

The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, facsimile transmission, electronic mail, Bond, certificate of an Independent Financial Consultant or the Special Tax Administrator or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered hereunder in good faith and in accordance therewith.

The Trustee shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of this Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

The Trustee shall have no duty or obligation whatsoever to monitor or enforce the collection of Special Taxes or other funds to be deposited with it hereunder, or as to the correctness of any amounts received. The sole obligation of the Trustee with respect thereto shall be limited to the proper accounting for such funds as it shall actually receive. No provision in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers.

In the event the Trustee shall advance funds in connection with its administration of this trust, the Trustee shall be entitled to interest at the maximum interest rate which the Bonds are permitted by law to bear.

The Trustee shall not be deemed to have knowledge of any event of default of the type described in Section 8.1(c) unless and until it shall have actual knowledge thereof by receipt of written notice thereof at its corporate trust office.

The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

The Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to this Indenture provided, however, that: (a) subsequent to such facsimile transmission of written instructions and/or directions the Trustee shall forthwith receive the originally executed instructions and/or directions, (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee shall have received a current incumbency certificate containing the specimen signature of such designated person.

The Trustee shall have no responsibility or liability with respect to any information, statements or recitals in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of this Indenture unless such Bondholders shall have offered to the Trustee reasonable security or indemnity against the cost, expenses and liabilities which may be incurred therein or thereby.

The Trustee shall not be liable for any action taken or not taken by attorneys and agents appointed with due care.

Section 7.5. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

ARTICLE VIII

EVENTS OF DEFAULT; REMEDIES

Section 8.1. Events of Default. Any one or more of the following events shall constitute an "event of default":

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

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

(c) Except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in this Indenture, the Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Owners of 25% in aggregate principal amount of the Outstanding Bonds.

The District agrees to give notice to the Trustee immediately upon the occurrence of an event of default under (a) or (b) above and within 30 days of the District's knowledge of an event of default under (c) above.

Section 8.2. Remedies of Owners. Following the occurrence of an event of default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in this Indenture;

(b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

Nothing in this Article or in any other provision of this Indenture, the Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners thereof at the respective dates of maturity, as herein provided, out of the Net Taxes and other amounts pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in this Indenture.

A waiver of any default or breach of duty or contract by any Owner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission by any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners

by the Act or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

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

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

The Trustee's counsel is not and shall not be deemed counsel to the Bondholders. Any communication between the Trustee and its counsel shall be deemed confidential and privileged.

In case the moneys held by the Trustee after an event of default pursuant to Section 8.1(a) or (b) shall be insufficient to pay in full the whole amount so owing and unpaid upon the Outstanding Bonds, then, after payment of the fees and expenses of the Trustee (including the fees and expenses of its counsel) incurred in and about the performance of its powers and duties under this Indenture, all available amounts shall be applied to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

ARTICLE IX

DEFEASANCE

Section 9.1. Defeasance. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in this Indenture or any Supplemental Indenture, then the Owner of such Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under this Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds pursuant to this Section, the Trustee shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District's general fund all money or securities held by it pursuant to this Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds.

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

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable; or

(c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, noncallable Federal Securities, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds shall not have been surrendered for payment, all obligations of the District under this Indenture and any Supplemental Indenture with respect to such Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owner of any such Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in Section 5.2(f) or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee. In connection with a defeasance under (b) or (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Trustee or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds to be defeased in accordance with this Section, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds being defeased have been legally defeased in accordance with this Indenture and any applicable Supplemental Indenture. If a forward supply contract is employed in connection with an advance refunding to be effected under (c) above, (i) such verification report shall expressly state that the adequacy of the amounts deposited with the bank under (c) above to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement executed to effect an advance refunding in accordance with (c) above shall provide that, in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling.

Upon a defeasance, the Trustee, upon request of the District, shall release the rights of the Owners of such Bonds and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance hereunder of all Outstanding Bonds, after the payment of all fees and expenses of the Trustee, the Trustee shall pay over or deliver to the District any funds held by the Trustee at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds when due. The Trustee shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

ARTICLE X

MISCELLANEOUS

Section 10.1. Cancellation of Bonds. All Bonds surrendered to the Trustee for payment upon maturity or for redemption shall be upon payment therefor, and any Bond purchased by the District as authorized herein and delivered to the Trustee for such purpose shall be, cancelled forthwith and shall not be reissued. The Trustee shall destroy such Bonds, and, upon request of the District, furnish to the District a certificate of such destruction.

Section 10.2. Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by this Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds shall be sufficient for the purposes of this Indenture (except as otherwise herein provided), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee shall also constitute sufficient proof of his authority.

(b) As to any Bond, the person in whose name the same shall be registered in the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond, and the interest thereon, shall be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Trustee shall be affected by any notice to the contrary.

Nothing contained in this Indenture shall be construed as limiting the Trustee or the District to such proof, it being intended that the Trustee or the District may accept any other evidence of the matters herein stated which the Trustee or the District may deem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond in respect of anything done or suffered to be done by the Trustee or the District in pursuance of such request or consent.

Section 10.3. Unclaimed Moneys. Anything in this Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds which remain unclaimed for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date when such Outstanding Bonds have become due and payable, if such money was held by the Trustee at such date, or for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds become due and payable, shall be repaid by the Trustee to the District, as its absolute property and free from trust, and the Trustee shall thereupon be

released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee at the written request of the District or the Trustee shall, at the expense of the District, cause to be mailed by first-class mail, postage prepaid, to the registered Owners of such Outstanding Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

Section 10.4. Provisions Constitute Contract. The provisions of this Indenture shall constitute a contract between the District and the Bondowners and the provisions hereof shall be construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Trustee, then the District, the Trustee and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

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

Section 10.5. Future Contracts. Nothing herein contained shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Gross Taxes which is subordinate to the pledge hereunder, or which is payable from the general fund of the District or from taxes or any source other than the Gross Taxes and other amounts pledged hereunder.

Section 10.6. Further Assurances. The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in this Indenture.

Section 10.7. Severability. If any covenant, agreement or provision, or any portion thereof, contained in this Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of this Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and this Indenture, the Bonds issued pursuant hereto shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

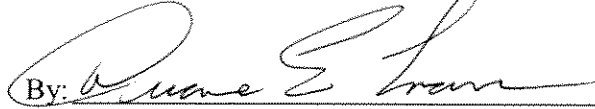
Section 10.8. Notices. Any notices required to be given to the District with respect to the Bonds or this Indenture shall be mailed, first class, postage prepaid, or personally delivered to the General Manager at 908 Northstar Drive, Truckee, California 96161, and all notices to the Trustee in its capacity as Trustee shall be mailed, first class, postage prepaid, or personally delivered to the Trustee, at Wells Fargo Bank, National Association, 707 Wilshire Blvd., 17th Floor, MAC E2818-176, Los Angeles, California 90017, Attention: Account Administrator.

Section 10.9. General Authorization. The President of the Board of Directors of the Community Services District and the General Manager of the Community Services District are hereby respectively authorized to do and perform from time to time any and all acts and things consistent with this Trust Indenture necessary or appropriate to carry the same into effect.

Section 10.10. Execution in Counterparts. This Trust Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts shall together constitute but one and the same instrument.

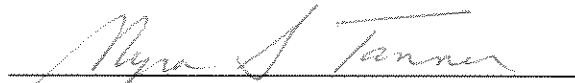
IN WITNESS WHEREOF, the parties have executed and attested this Trust Indenture by their officers duly authorized as of the date and year first written above.

NORTHSTAR COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1

By: 

President of the Board of Directors of the Northstar
Community Services District, acting as the legislative
body of the Northstar Community Services District
Community Facilities District No. 1

ATTEST:



Secretary of the
Northstar Community Services District

WELLS FARGO BANK, NATIONAL
ASSOCIATION., as Trustee

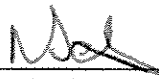
By: 
Its: Authorized Officer

EXHIBIT A

FORM OF 2005 BOND

No. ____

\$ _____

**UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF PLACER**

**NORTHSTAR COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1
SPECIAL TAX BOND, SERIES 2005**

INTEREST RATE: MATURITY DATE: DATED DATE: CUSIP NO.

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

NORTHSTAR COMMUNITY SERVICES DISTRICT COMMUNITY FACILITIES DISTRICT NO. 1 (the "District") FOR VALUE RECEIVED, hereby promises to pay, solely from certain amounts held under the Indenture (as hereinafter defined), to the Registered Owner named above, or registered assigns, on the Maturity Date set forth above, unless redeemed prior thereto as hereinafter provided, the Principal Amount set forth above, and to pay interest on such Principal Amount from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication hereof, unless (i) the date of authentication is an Interest Payment Date in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after a Record Date (as hereinafter defined) but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date in which event interest shall be payable from the Dated Date set forth above. Notwithstanding the foregoing, if at the time of authentication of this Bond interest is in default, interest on this Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment, interest on this Bond shall be payable from the Dated Date set forth above. Interest will be paid semiannually on March 1 and September 1 (each, an "Interest Payment Date"), commencing March 1, 2006, at the Interest Rate set forth above, until the Principal Amount hereof is paid or made available for payment.

The principal of and premium, if any, on this Bond are payable to the Registered Owner hereof in lawful money of the United States of America upon presentation and surrender of this Bond at the principal office of Wells Fargo Bank, National Association (the "Trustee"), in Los Angeles, California or such other location as may be designated by the Trustee. Interest on this Bond shall be paid by check of the Trustee mailed by first class mail, postage prepaid, on the applicable Interest Payment Date or in certain circumstances described in the Indenture by wire transfer to an account within the United States, to the Registered Owner hereof as of the close of business on the fifteenth day of the month preceding the month in which the Interest Payment Date occurs (the "Record

Date”) at such Registered Owner’s address as it appears on the registration books maintained by the Trustee.

This Bond is one of a duly authorized issue of “Northstar Community Services District Community Facilities District No. 1 Special Tax Bonds, Series 2005” (the “Bonds”) issued in the aggregate principal amount of \$56,125,000 pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311 *et seq.*, of the California Government Code (the “Act”). The issuance of the Bonds and the terms and conditions thereof are provided for by a resolution adopted by the Board of Directors of the Northstar Community Services District, acting in its capacity as the legislative body of the District on November 16, 2005 and a Trust Indenture dated as of November 1, 2005, by and between the District and the Trustee (the “Indenture”), and this reference incorporates the Indenture herein, and by acceptance hereof the Registered Owner of this Bond assents to said terms and conditions. The Indenture is adopted under and this Bond is issued under, and both are to be construed in accordance with, the laws of the State of California.

Pursuant to the Act and the Indenture, the principal of, premium, if any, and interest on this Bond are payable solely from the annual special taxes authorized under the Act to be levied and collected within the District and certain other amounts pledged to the repayment of the Bonds as set forth in the Indenture. The District has covenanted for the benefit of the owners of the Bonds that under certain circumstances described in the Indenture it will commence and diligently pursue to completion appropriate foreclosure proceedings in the event of delinquencies of Special Tax installments levied for payment of principal and interest on the Bonds.

Subject to the limitations set forth in the Indenture, the Bonds may be redeemed, at the option of the District from any source of funds, other than Prepayments and surplus Bond proceeds, on any Interest Payment Date on or after March 1, 2013, in whole, or in part in the order of maturity selected by the District and by lot within a maturity, at a redemption price equal to the principal amount to be redeemed, together with interest to the date of redemption.

In addition, the Bonds maturing on September 1, 2028 and September 1, 2036 are subject to mandatory sinking fund redemption prior to maturity commencing on September 1, 2021 and September 1, 2029, respectively, in part, by lot, from Sinking Fund Payments (as defined in the Indenture) at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption, without premium, to the extent, in the manner and subject to the terms of the Indenture. In the event of a partial redemption of such Bonds, other than as a result of Sinking Fund Payments, each of the remaining Sinking Fund Payments for the Bonds that were partially redeemed (as described in the Indenture) will be reduced, as nearly as practicable, on a pro rata basis in increments of \$5,000.

The Bonds are also subject to special mandatory redemption on any Interest Payment Date, in whole or in part, from surplus Bond proceeds and from certain funds derived from the prepayment of Special Taxes, at the following redemption prices, expressed as a percentage of the principal amount thereof, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Prices</i>
March 1, 2006 through March 1, 2013	103%
September 1, 2013 and March 1, 2014	102
September 1, 2014 and March 1, 2015	101
September 1, 2015 and thereafter	100

Notice of redemption with respect to the Bonds to be redeemed shall be mailed to the registered owners thereof not less than 30 nor more than 60 days prior to the redemption date by first class mail, postage prepaid, to the addresses set forth in the registration books. Neither a failure of the Registered Owner hereof to receive such notice nor any defect therein will affect the validity of the proceedings for redemption. All Bonds or portions thereof so called for redemption will cease to accrue interest on the specified redemption date; provided that funds for the redemption are on deposit with the Trustee on the redemption date. Thereafter, the registered owners of such Bonds shall have no rights except to receive payment of the redemption price upon the surrender of the Bonds.

This Bond shall be registered in the name of the Registered Owner hereof, as to both principal and interest, and the District and the Trustee may treat the Registered Owner hereof as the absolute owner for all purposes and shall not be affected by any notice to the contrary.

The Bonds are issuable only in fully registered form in the denomination of \$5,000 or any integral multiple thereof and may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same issue and maturity, all as more fully set forth in the Indenture. This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Trustee or such other location as may be designated by the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, upon surrender and cancellation of this Bond. Upon such transfer, a new registered Bond of authorized denomination or denominations for the same aggregate principal amount of the same issue and maturity will be issued to the transferee in exchange therefor.

The Trustee shall not be required to register transfers or make exchanges of (i) any Bonds for a period of 15 days next preceding any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

The rights and obligations of the District and of the registered owners of the Bonds may be amended at any time, and in certain cases without notice to or the consent of the registered owners, to the extent and upon the terms provided in the Indenture.

THE BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE NORTHSTAR COMMUNITY SERVICES DISTRICT OR OF NORTHSTAR COMMUNITY SERVICES DISTRICT COMMUNITY FACILITIES DISTRICT NO. 1 FOR WHICH THE NORTHSTAR COMMUNITY SERVICES DISTRICT OR THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, GENERAL OR SPECIAL TAXES, OTHER THAN THE SPECIAL TAXES REFERENCED HEREIN. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE FROM THE PORTION OF THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE BUT ARE NOT A DEBT OF THE NORTHSTAR COMMUNITY SERVICES DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Trustee.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

IN WITNESS WHEREOF, Northstar Community Services District Community Facilities District No. 1 has caused this Bond to be dated as of the Dated Date, to be signed on behalf of the District by the President of the Board of Directors of the Northstar Community Services District, acting as the legislative body of Northstar Community Services District Community Facilities District No. 1 by his facsimile signature and attested by the facsimile signature of the Secretary of the Northstar Community Services District.

President of the Board of Directors of the
Northstar Community Services District, acting
as the legislative body of Northstar
Community Services District Community
Facilities District No. 1

ATTEST:

Secretary of the Northstar Community Services
District, acting as the legislative body of
Northstar Community Services District
Community Facilities District No. 1

[FORM OF TRUSTEE'S CERTIFICATE
OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within-defined Indenture.

Dated: _____, 2005

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Trustee

By: _____
Authorized Signatory

[FORM OF LEGAL OPINION]

The following is a true copy of the opinion rendered by Stradling Yocca Carlson & Rauth, a Professional Corporation, in connection with the issuance of, and dated as of the date of the original delivery of, the Bonds. A signed copy is on file in my office.

Secretary of the Northstar Community
Services District, acting as the legislative body
of Northstar Community Services District
Community Facilities District No. 1

[FORM OF ASSIGNMENT]

For value received the undersigned do(es) hereby sell, assign and transfer unto

(typewrite name, address and social security or federal tax identification number)

the within-registered Bond and hereby irrevocably constitute(s) and appoint(s) _____ attorney,
to transfer the same on the Bond Register of the Trustee with full power of substitution in the
premises.

Dated: _____

Signature Guaranteed:

Note: Signature guarantee shall be made by a guarantor institution participating in the Securities
Transfer Agents Medallion Program or in such other guarantee program acceptable to the
Trustee.

Note: The signature(s) on this assignment must correspond with the name(s) as written on the face
of the within-registered Bond in every particular, without alteration or enlargement or any
change whatsoever.

EXHIBIT B

**NORTHSTAR COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1**

REQUISITION FOR DISBURSEMENT OF COSTS OF ISSUANCE OR PROJECT COSTS

Wells Fargo Bank, National Association, Trustee, is hereby requested to pay from the [specify one of the Costs of Issuance Account, the Acquisition Account, the Construction Account or the Surplus Special Tax Account] of the Northstar Community Services District Community Facilities District No. 1 Acquisition and Construction Fund, established by the Trust Indenture between the Trustee and Northstar Community Services District Community Facilities District No. 1, dated as of August 1, 2005, the amount specified and to the payee named below for payment of [Describe Type of Costs].

Payee:

Address:

Purpose:

Amount: \$

The amount is due and payable under purchase order, contract or other authorization and has not formed the basis of any prior request for payment. The conditions to the release of this amount from the Northstar Community Services District Community Facilities District No. 1 Acquisition and Construction Fund are satisfied.

There has not been filed with nor served upon the District notice of any lien, right to lien or attachment upon, or stop notice or claim affecting the right to receive payment of the amount specified above which has not been released or will not be released simultaneously with the payment of such amount, other than materialmen's or mechanic's liens accruing by mere operation of law.

Dated:

NORTHSTAR COMMUNITY SERVICES
DISTRICT COMMUNITY FACILITIES DISTRICT
NO. 1

By:

Authorized Officer

EXHIBIT C

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

A Special Tax applicable to each Assessor's Parcel in the Northstar Community Services District Community Facilities District No. 1 (herein "CFD No. 1") shall be levied and collected according to the tax liability determined by the Board of Directors or its designee, through the application of the appropriate amount or rate for Taxable Property, as described below. All of the property in CFD No. 1, unless exempted by law or by the provisions of Section H below, 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" means each acre of 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 or other parcel map recorded with the County.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter .5, (commencing with Section 53311), Division 2 of Title 5 of the California Government Code.

"Administrative Expenses" means any or all of the following: the fees and expenses of any fiscal agent or trustee (including any fees or expenses of its counsel) employed in connection with any Bonds, and the expenses of the NCSD carrying out its duties with respect to CFD No. 1 and the Bonds, including, but not limited to, levying and collecting the Special Tax, the fees and expenses of legal counsel, charges levied by the County Auditor's Office, Tax Collector's Office, and/or Treasurer's Office, costs related to property owner inquiries regarding the Special Tax, amounts needed to calculate and pay rebate to the federal government with respect to the Bonds, costs associated with complying with any continuing disclosure requirements for the Bonds and the Special Tax, and all other costs and expenses of the NCSD in any way related to the establishment or administration of the CFD.

"Administrator" means the Person designated by the NCSD to administer the Special Tax according to this Rate and Method of Apportionment of Special Tax.

"Affiliate" of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, 25% or more of the outstanding voting securities of such other Person, (b) any Person 25% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person; for purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

“Assessor’s Parcel” or **“Parcel”** means a lot or parcel, including an airspace parcel, shown on an Assessor’s Parcel Map with an assigned Assessor’s Parcel number.

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

“Association Property” means any property within the CFD that is owned by a homeowners association, excluding such property under the pad or footprint of a residential building or Residential Unit. Association Property shall also include property, other than Public Property, designated as open space in a recorded Final Map whether or not such property has yet been dedicated to a homeowners association or private land trust.

“Authorized Facilities” means those public facilities authorized to be funded by CFD No. 1 as set forth in the formation documents of the CFD.

“Backup Special Tax” means the amount set forth in Section E below that can be levied on NMP LLC Property.

“Board of Directors” or **“Board”** means the Board of Directors of the NCSD.

“Bonds” means bonds or other debt (as defined in the Act), whether in one or more series, issued, insured or assumed by CFD No. 1 related to public infrastructure and/or improvements that are authorized to be funded by CFD No. 1.

“Buildout Revenues” means, in any Fiscal Year, the sum of the following:

- (1) The current Fiscal Year’s Maximum Annual Special Tax rates applied to Residential Units and Non-Residential Square Footage on existing Parcels of Developed Property within the CFD, and
- (2) The current Fiscal Year’s Maximum Annual Special Tax rates applied to Residential Units and Non-Residential Square Footage projected to be constructed on Final Map Property, Tentative Map Property, and Undeveloped Property remaining within the CFD. Projected Residential Units shall be based on the Administrator’s review of approved Tentative Maps, recorded Final Maps, site plans, or other maps or plans for such Undeveloped Property. To the extent such maps and plans do not identify the projected size of future Residential Units, the Administrator shall assume all future Residential Units will be less than 1,001 square feet. Projected Non-Residential Square Footage shall be estimated based on review of condominium plans or other current development plans for each Parcel of Final Map Property, Tentative Map Property, and Undeveloped Property that is anticipated to be Non-Residential Property.

“Capitalized Interest” means funds in any capitalized interest account available to pay debt service on Bonds.

“County” means the County of Placer.

“Developed Property” means, in any Fiscal Year, the following:

- for Residential Property, all Parcels for which a building permit for new construction of a residential structure was issued prior to June 1 of the preceding Fiscal Year but not prior to June 1, 2004
- for Non-Residential Property, all Parcels for which a certificate of occupancy was issued for a non-residential structure prior to June 1 of the preceding Fiscal Year but not prior to June 1, 2004

“Final Bond Sale” means the last series of Bonds that will be issued on behalf of CFD No. 1 (excluding any Bond refundings), as determined in the sole discretion of the NCSD.

“Final Map” means a final map, or portion thereof, recorded by the County pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) that creates individual lots on which building permits for new construction may be issued without further subdivision.

“Final Map Property” means, in any Fiscal Year, all property for which a Final Map was recorded prior to June 1 of the preceding Fiscal Year, but not prior to June 1, 2004, and which has not yet become Developed Property.

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

“Fractional Unit” means a Residential Unit for which multiple owners may each purchase a fractional share of ownership (also referred to as a timeshare unit by the California Department of Real Estate).

“Hotel Property” means all Developed Property for which a building permit has been issued for a non-residential structure that constitutes a place of lodging providing overnight sleeping accommodations and related facilities for travelers. If building permits are issued for any for-sale Residential Units on property that will also include a hotel, such Residential Units shall be subject to the Special Tax levy as discussed further in Section B below.

“Maximum Annual Special Tax” means the greatest amount of Special Tax that can be levied on an Assessor’s Parcel in any Fiscal Year determined in accordance with Section C below. For NMP LLC Property, the Backup Special Tax is not part of the Maximum Annual Special Tax, although it is part of the total Special Tax obligation assigned to the property.

“NCSD” means the Northstar Community Services District.

“NMP LLC” means the Northstar Mountain Properties, LLC and its successors and assigns.

“NMP LLC Property” means, in any Fiscal Year, the Parcels of Final Map Property, Tentative Map Property, and Undeveloped Property in CFD No. 1 that are owned by the NMP LLC or any Affiliate thereof against which the Backup Special Tax can be assigned pursuant to Section E below.

“Non-Residential Property” means all Parcels of Taxable Property in CFD No. 1 for which a building permit has been issued for construction of a structure that will serve as a retail or other commercial establishment, including Hotel Property. A temporary, portable structure which is used as part of the Northstar sales operations shall not be categorized as Non-Residential Property and,

therefore, shall not be subject to the Special Tax levy. Notwithstanding the foregoing, if a building permit is issued for a structure that will include both Residential Units and commercial and/or hotel operations, the Residential Units within the building will be categorized as Residential Property, and the Special Tax shall be calculated separately for the Residential Units and Non-Residential Square Footage on the Parcel.

“Non-Residential Square Footage” means (i) for all Non-Residential Property other than Hotel Property, the net leasable non-residential square footage shown on the condominium plan, construction drawings, architectural designs, or other such plan for the building, and (ii) for Hotel Property, the aggregate square footage of the hotel rooms, retail property, and food and beverage areas within the hotel as shown on the architectural drawings or other building plans for the structure. Square footage within a Residential Unit that is used as a home office or an at-home business venture shall not be categorized as Non-Residential Square Footage, and such property shall only be taxed as Residential Property.

“Parcel Map” means a large lot subdivision map, Final Map, or other map recorded with the County Recorder’s Office that results in the subdivision or reconfiguration of one or more Parcels in the CFD.

“Person” means an individual, a corporation, a partnership, an association, a joint stock company, a trust, a limited liability company, any unincorporated organization or a government or political subdivision thereof.

“Proportionately” means, for Developed Property, that the ratio of the actual Special Tax levied in any Fiscal Year to the Maximum Annual Special Tax authorized to be levied in that Fiscal Year is equal for all Assessor’s Parcels of Developed Property. For Final Map Property, Proportionately means that the ratio of the actual Special Tax levied in any Fiscal Year to the Maximum Annual Special Tax authorized to be levied in that Fiscal Year is equal for all Assessor’s Parcels of Final Map Property. For Tentative Map Property, Proportionately means that the ratio of the actual Special Tax levied in any Fiscal Year to the Maximum Annual Special Tax authorized to be levied in that Fiscal Year is equal for all Assessor’s Parcels of Tentative Map Property. For Undeveloped Property, Proportionately means that the ratio of the actual Special Tax to the Maximum Annual Special Tax is equal for all Assessor’s Parcels of Undeveloped Property.

“Public Property” means any property within the boundaries of CFD No. 1 that is owned by the federal government, the State of California, the County, the NCSD, or other public agency.

“Purchase Price” means the amount, if any, that is payable to the NMP LLC or any Affiliate thereof pursuant to an agreement between the NMP LLC or any Affiliate thereof and the NCSD for the acquisition of Authorized Facilities.

“Replacement Square Footage” means Non-Residential Square Footage in Zone 3 that is constructed to replace Non-Residential Square Footage that has been removed elsewhere in Zone 3. To qualify as Replacement Square Footage, a notice must be submitted to the Administrator prior to issuance of a certificate of occupancy for the building within which some or all of the Non-Residential Square Footage is Replacement Square Footage. Such notice will identify for the NCSD (i) which existing building will be removed, (ii) the amount of Non-Residential Square Footage within the building to be removed (which must be reflected in a condominium plan, construction

drawings, architectural designs, or other such plan for the building that shall be reviewed by the NCSD), and (iii) total the Non-Residential Square Footage in the new building for which a certificate of occupancy will be issued. The Administrator shall confirm the information contained in the notice and determine how much square footage in the new building will qualify as Replacement Square Footage.

“Required Revenues” means, in any Fiscal Year after the Final Bond Sale, the amount of Special Tax revenue that must be available from Taxable Property within the CFD to comply with debt service coverage requirements set forth in the bond indenture(s) for all outstanding Bonds.

“Residential Property” means, in any Fiscal Year, all Parcels of Developed Property for which a building permit was issued for construction of a structure that includes one or more Residential Units. Notwithstanding the foregoing, if a building permit is issued for a structure that will include both Residential Units and commercial and/or hotel operations, the Residential Units within the building will be categorized as Residential Property, and the Special Tax shall be calculated separately for the Residential Units and Non-Residential Square Footage on the Parcel.

“Residential Unit” means an individual single-family detached unit or an individual residential unit within a duplex, triplex, fourplex, townhome, condominium, apartment, or commercial structure.

“Ski Property” means, in any Fiscal Year, any Parcel within the CFD that is used as part of the Northstar ski operations and does not have one or more Residential Units located on the Parcel. Ski Property shall include, but not be limited to, ski runs, ski lifts, vehicle storage, maintenance areas and facilities and open space.

“Special Tax” means a Special Tax levied in any Fiscal Year to pay the Special Tax Requirement.

“Special Tax Requirement” means the amount necessary in any Fiscal Year to: (i) pay principal and interest on Bonds which is due in the calendar year that begins in such Fiscal Year; (ii) create and/or replenish reserve funds for the Bonds; (iii) cure any delinquencies in the payment of principal or interest on Bonds which have occurred in the prior Fiscal Year or, based on existing delinquencies in the payment of Special Taxes, are expected to occur in the Fiscal Year in which the tax will be collected; and (iv) pay Administrative Expenses. The amounts referred to in clauses (i) and (ii) of the preceding sentence may be reduced in any Fiscal Year by: (i) interest earnings on or surplus balances in funds and accounts for the Bonds to the extent that such earnings or balances are available to apply against debt service pursuant to a Bond indenture, Bond resolution, or other legal document that sets forth these terms; (ii) proceeds received by CFD No. 1 from the collection of penalties associated with delinquent Special Taxes; and (iii) any other revenues available to pay debt service on the Bonds as determined by the Administrator.

“Taxable Property” means all of the Assessor’s Parcels within the boundaries of CFD No. 1 which are not exempt from the Special Tax pursuant to law or Section H below.

“Tax Zone” means one of the three mutually exclusive geographic areas defined below and identified in Attachment 1 of this Rate and Method of Apportionment of Special Tax.

“Tax Zone #1” means the geographic area that is specifically identified in Attachment 1 of this Rate and Method of Apportionment of Special Tax as Tax Zone #1.

“Tax Zone #2” means the geographic area that is specifically identified in Attachment 1 of this Rate and Method of Apportionment of Special Tax as Tax Zone #2.

“Tax Zone #3” means the geographic area that is specifically identified in Attachment 1 of this Rate and Method of Apportionment of Special Tax as Tax Zone #3.

“Tentative Map” means any approved tentative subdivision map for property within CFD No. 1.

“Tentative Map Property” means, in any Fiscal Year, all property for which a Tentative Map had been approved prior to June 1 of the preceding Fiscal Year, but not prior to September 1, 2003, and which has not yet become Final Map Property.

“Undeveloped Property” means, in any Fiscal Year, all Parcels of Taxable Property within the CFD that are not Developed Property, Final Map Property or Tentative Map Property.

B. DATA FOR CFD ADMINISTRATION

On or about July 1 of each Fiscal Year, the Administrator shall identify the current Assessor’s Parcel numbers for all Parcels of Taxable Property. The Administrator shall also determine: (i) whether each Assessor’s Parcel of Taxable Property is Developed Property, Final Map Property, Tentative Map Property, or Undeveloped Property, (ii) for Developed Property, which Parcels are Residential Property and Non-Residential Property, (iii) for Residential Property, the number and size of Residential Units within the residential structure, (iv) for Non-Residential Property, the Non-Residential Square Footage on each Parcel, and (v) the Special Tax Requirement.

For Residential Property, the number and size of Residential Units shall be determined by referencing the building permit, site plan, condominium plan, or other such development plan. In any Fiscal Year, if it is determined that (i) a parcel map for a portion of property in CFD No. 1 was recorded after January 1 of the prior Fiscal Year (or any other date after which the Assessor will not incorporate the newly-created Parcels into the then current tax roll), (ii) because of the date the parcel map was recorded, the Assessor does not yet recognize the new Parcels created by the parcel map, and (iii) one or more of the newly-created Parcels meets the definition of Developed Property, the Administrator shall calculate the Special Tax for the property affected by recordation of the parcel map by determining the Special Tax that applies separately to each newly-created Parcel, then applying the sum of the individual Special Taxes to the original Parcel that was subdivided by recordation of the parcel map.

Notwithstanding the exemptions set forth in Section H below, if an Assessor’s Parcel includes both Non-Residential Property and Residential Units, a Maximum Annual Special Tax shall be assigned to such Parcel that is equal to the sum of the Maximum Annual Special Taxes assigned separately to the Residential Units and Non-Residential Square Footage on the Parcel.

Each Fiscal Year, the Administrator shall determine if any Replacement Square Footage has been designated within Zone 3. The Administrator shall review notices submitted by developers who have proposed Replacement Square Footage and confirm the Non-Residential Square Footage that will qualify as Replacement Square Footage for purposes of calculating the Maximum Annual Special Tax. The Administrator shall also determine whether the building proposed for removal pursuant to the developer's notice has been removed. If, at the time the Special Tax levy is being prepared for the Fiscal Year, the Administrator determines that such removal has not yet taken place, none of the Non-Residential Square Footage in the new building will be categorized as Replacement Square Footage for that Fiscal Year. In the first Fiscal Year in which the Administrator determines that the removal has occurred, the Replacement Square Footage within the building shall become exempt from the Special Tax. If the total Square Footage of the new building exceeds the amount of Replacement Square Footage for which the developer qualified, the Administrator shall subtract the Replacement Square Footage from the total Non-Residential Square Footage in the building, and calculate the Maximum Annual Special Tax for the Parcel based on the remainder.

In addition to the tasks set forth above, at the time of and at least twice each Fiscal Year after the Final Bond Sale, the Administrator shall calculate the Required Revenues and compare the Required Revenues to the Buildout Revenues. Such comparison may occur upon the approval of each Tentative Map or Final Map within the CFD, or at certain designated dates throughout the Fiscal Year. At a minimum, the comparison shall occur when the Final Bond Sale is issued, when Bonds are refunded, and at least once every six months until all Taxable Property within the CFD becomes Developed Property to determine if a Backup Special Tax needs to be levied pursuant to Section D below.

C. MAXIMUM ANNUAL SPECIAL TAX

1. *Residential Property*

The Maximum Annual Special Tax for Residential Property for Fiscal Year 2005-06 is shown in Table 1 below:

TABLE 1
NCSO CFD No. 1
Maximum Annual Special Tax for Residential Property
FISCAL YEAR 2005-06*
(PER RESIDENTIAL UNIT)

<i>Square Footage of Residential Unit</i>	<i>Tax Zone #1</i>	<i>Tax Zone #2</i>	<i>Tax Zone #3</i>
Less than 1,001 square feet	\$2,850	\$3,450	\$4,050
1,001 to 1,400 square feet	\$2,975	\$3,575	\$4,175
1,401 to 1,800 square feet	\$3,100	\$3,700	\$4,300
1,801 to 2,200 square feet	\$3,225	\$3,825	\$4,425
2,201 to 2,600 square feet	\$3,350	\$3,950	\$4,550
2,601 to 3,000 square feet	\$3,475	\$4,075	\$4,675
Greater than 3,000 square feet	\$3,600	\$4,200	\$4,800

On July 1, 2006 and on each July 1 thereafter, the Maximum Annual Special Taxes shown in Table 1 above shall be increased by an amount equal to two percent (2%) of the amount in effect for the prior Fiscal Year.

2. *Non-Residential Property*

The Maximum Annual Special Tax for Non-Residential Property for Fiscal Year 2005-06 is shown in Table 2 below. In Zone 3, the Maximum Annual Special Tax shall be calculated using any Non-Residential Square Footage on a Parcel that has not been determined to be Replacement Square Footage:

TABLE 2
NCSO CFD NO. 1
Maximum Annual Special Tax for Non-Residential Property
(PER SQUARE FOOT OF NON-RESIDENTIAL SQUARE FOOTAGE)

<u><i>Fiscal Year</i></u>	<u><i>Tax Zone #1</i></u>	<u><i>Tax Zone #2</i></u>	<u><i>Tax Zone #3</i></u>
2005-06	\$0.093	\$0.093	\$0.030
2006-07	\$0.095	\$0.095	\$0.031
2007-08	\$0.097	\$0.097	\$0.032
2008-09	\$0.099	\$0.099	\$0.033
2009-10	\$0.233	\$0.233	\$0.060
2010-11	\$0.238	\$0.238	\$0.061
2011-12	\$0.243	\$0.243	\$0.062
2012-13	\$0.248	\$0.248	\$0.063
2013-14	\$0.253	\$0.253	\$0.064
2014-15	\$0.373	\$0.373	\$0.100
2015-16	Increased by two percent	Increased by two percent	Increased by two percent
And Each Fiscal Year	(2%) of the amount in	(2%) of the amount in	percent (2%) of the
Thereafter	effect in the prior Fiscal	effect in the prior Fiscal	amount in effect in the
	Year.	Year.	prior Fiscal Year.

3. *Final Map Property, Tentative Map Property, and Undeveloped Property*

The Maximum Annual Special Tax for Final Map Property, Tentative Map Property, and Undeveloped Property for Fiscal Year 2005-06 is \$512,000 per Acre. On July 1, 2006 and on each July 1 thereafter, this Maximum Annual Special Tax shall be increased by an amount equal to two percent (2%) of the amount in effect for the prior Fiscal Year.

D. BACK-UP SPECIAL TAX

In addition to the Maximum Special Taxes set forth in Section C above, a Backup Special Tax of up to \$2,000,000 shall be levied on NMP LLC Property in each Fiscal Year after the Final Bond Sale in which the Administrator estimates that the Buildout Revenues will be less than the Required Revenues. On July 1, 2006 and on each July 1 thereafter, this Backup Special Tax shall be increased by an amount equal to two percent (2%) of the amount in effect for the prior Fiscal Year.

Proceeds from the levy of the Backup Special Tax shall be used as soon as practicable to redeem Bonds in an amount sufficient to reduce the Required Revenues to the amount of Buildout Revenues calculated in that Fiscal Year. After such Bond redemption takes place, the Administrator shall use the reduced Required Revenues for future comparisons of Buildout Revenues and Required Revenues. The Backup Special Tax may only be levied for the purpose set forth above and shall not be levied to pay for Authorized Facilities, accelerate repayment of Bonds, or redeem Bonds in any Fiscal Year in which the Buildout Revenues exceed the Required Revenues.

Notwithstanding the foregoing, at such time as the Administrator determines that the Maximum Annual Special Tax revenues that can be collected from Developed Property within the CFD are greater than or equal to the Required Revenues, the NMP LLC Property shall be immediately exempted from the levy of the Backup Special Tax in that Fiscal Year and all future Fiscal Years.

E. ASSIGNMENT OF BACKUP SPECIAL TAX TO NMP LLC PROPERTY

If, at any time the Administrator compares the Required Revenues to the Buildout Revenues and determines that a Backup Special Tax must be levied to redeem Bonds and reduce the Required Revenues, the Administrator shall immediately notify the NCSD of such finding. Within thirty (30) days of such a finding, the NCSD shall mail, or cause to be mailed, a notice to the NMP LLC Property that a Backup Special Tax shall be levied to redeem Bonds, provided that failure to provide such notice within thirty days does not adversely impact the power to levy the Backup Special Tax. Such notice shall identify (i) the current Assessor's Parcel numbers for all Parcels of NMP LLC Property within the CFD, (ii) the total Backup Special Tax that must be levied, and (iii) the Backup Special Tax that will be assigned to each Assessor's Parcel of NMP LLC Property.

Each time a Backup Special Tax must be levied, the Backup Special Tax shall be allocated to each Parcel of NMP LLC Property according to the following steps:

- Step 1:** Estimate the Buildout Revenues for each Parcel of NMP LLC Property.
- Step 2:** Add together the amounts determined in Step 1 to calculate the total Buildout Revenues that are expected from the NMP LLC Property.
- Step 3:** Divide the amount determined for each Parcel in Step 1 by the total from Step 2 to calculate each Parcel's percentage share of the total.
- Step 4:** Multiply the total Backup Special Tax to be levied by the percentage determined in Step 3 for each Parcel to calculate each Parcel's share of the Backup Special Tax.

The Backup Special Tax may be collected in the same manner and at the same time as ordinary ad valorem property taxes or billed directly to the NMP LLC.

F. METHOD OF LEVY OF THE SPECIAL TAX

Each Fiscal Year, the Special Tax shall be levied according to the steps outlined below (not including the Backup Special Tax which shall be levied pursuant to Sections D and E above):

- Step 1:** In any Fiscal Year from Fiscal Year 2005-06 through Fiscal Year 2024-25 in which the full Purchase Price has not yet been paid, the Special Tax shall be levied on each Parcel of Developed Property that is Residential Property at 100% of the Maximum Annual Special Tax for each Parcel for such Fiscal Year. Amounts collected from the levy of the Maximum Annual Special Tax shall be used first to pay the Special Tax Requirement, with any remaining amount applied toward the Purchase Price. Beginning the earlier of (i) the Fiscal Year after the Fiscal Year in which the entire Purchase Price has been paid, or (ii) Fiscal Year 2025-26, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property that is Residential Property up to 100% of the Maximum Annual Special Tax for Residential Property for such Fiscal Year until the amount levied equals the Special Tax Requirement for the Fiscal Year.

- Step 2:** If additional revenue is needed after Step 1 in order to meet the Special Tax Requirement before Capitalized Interest has been applied to reduce the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property that is Non-Residential Property up to 100% of the Maximum Annual Special Tax for Non-Residential Property for such Fiscal Year until the amount levied equals the Special Tax Requirement for the Fiscal Year.
- Step 3:** If additional revenue is needed in order to meet the Special Tax Requirement after applying Step 2 and applying Capitalized Interest to the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Final Map Property up to 100% of the Maximum Annual Special Tax for Final Map Property for such Fiscal Year until the amount levied equals the Special Tax Requirement for the Fiscal Year.
- Step 4:** If additional revenue is needed after Step 3 in order to meet the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Tentative Map Property up to 100% of the Maximum Annual Special Tax for Tentative Map Property for such Fiscal Year until the amount levied equals the Special Tax Requirement for the Fiscal Year.
- Step 5:** If additional revenue is needed after Step 4 in order to meet the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property within the CFD, up to 100% of the Maximum Annual Special Tax for Undeveloped Property for such Fiscal Year until the amount levied equals the Special Tax Requirement for the Fiscal Year..
- Step 6:** If additional revenue is needed after Step 5 in order to meet the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Parcel of Association Property within the CFD, up to 100% of the Maximum Annual Special Tax for Undeveloped Property for such Fiscal Year until the amount levied equals the Special Tax Requirement for the Fiscal Year.
- Step 7:** If additional revenue is needed after Step 6 in order to meet the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Public Property, exclusive of property exempt from the Special Tax pursuant to Section H below, up to 100% of the Maximum Annual Special Tax for Undeveloped Property for such Fiscal Year until the amount levied equals the Special Tax Requirement for the Fiscal Year.

G. COLLECTION OF SPECIAL TAX

The Special Taxes for CFD No. 1 shall be collected in the same manner and at the same time as ordinary ad valorem property taxes, provided, however, that prepayments are permitted as set forth in Section I below and provided further that the NCSD may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner, and may collect delinquent Special Taxes through foreclosure or other available methods. If, in any Fiscal Year, a Special Tax is to be levied on Fractional Units within the CFD, such Special Tax may be billed either directly to individual fractional share owners or to a homeowners association, which shall then bill the individual fractional share owners; non-payment of Special Taxes billed by the homeowners association shall result in interest and penalties, and the fractional ownership shall be subject to foreclosure proceedings as set forth in the Bond covenants.

The Special Tax shall be levied and collected until principal and interest on Bonds have been repaid, NCSD's costs of constructing or acquiring Authorized Facilities from Special Tax proceeds have been paid, and all Administrative Expenses have been reimbursed. However, in no event shall a Special Tax be levied after Fiscal Year 2045-46. Pursuant to Section 53321 (d) of the Act, the Special Tax levied against a Parcel used for private residential purposes shall under no circumstances increase more than ten percent (10%) as a consequence of delinquency or default by the owner of any other Parcel or Parcels and shall, in no event, exceed the Maximum Annual Special Tax in effect for the Fiscal Year in which the Special Tax is being levied.

H. EXEMPTIONS

Notwithstanding any other provision of this Rate and Method of Apportionment of Special Tax, no Special Tax shall be levied on: (i) Public Property, (ii) Parcels that have prepaid the Special Tax obligation and had a Release of Special Tax Lien recorded against the property, (iii) Replacement Square Footage, (iv) Parcels that are owned by a public utility for an unmanned facility, (iv) Parcels that are subject to an easement that precludes any other use on the Parcels, and (v) Parcels of Ski Property.

I. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section I:

“Outstanding Bonds” means all Previously Issued Bonds which remain outstanding, with the following exception: if a Special Tax has been levied against, or already paid by, an Assessor's Parcel making a prepayment, and a portion of such Special Tax will be used to pay a portion of the next principal payment on the Bonds that remain outstanding (as determined by the Administrator), that next principal payment shall be subtracted from the total Bond principal that remains outstanding, and the difference shall be used as the amount of Outstanding Bonds for purposes of this prepayment formula.

“Previously Issued Bonds” means all Bonds that have been issued on behalf of the CFD prior to the date of prepayment.

“Public Facilities Requirements” means either \$72,500,000 in 2005 dollars, which shall increase on January 1, 2006, and on each January 1 thereafter by the percentage increase, if any, in the construction cost index for the San Francisco region for the prior twelve (12) month period as published in the Engineering News Record or other comparable source if the Engineering News Record is discontinued or otherwise not available, or such other number as shall be determined by the NCSD to be an appropriate estimate of the net construction proceeds that will be generated from all Bonds that have been or are expected to be issued on behalf of CFD No. 1.

“Remaining Facilities Costs” means the Public Facilities Requirements (as defined above), minus public facility costs funded by Previously Issued Bonds (as defined above), developer equity, and/or any other source of funding.

The Special Tax obligation applicable to an Assessor's Parcel in the CFD that is not a Parcel of NMP LLC Property may be 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 NCSD with written notice of intent to prepay. Within 30 days of receipt of such written notice, the NCSD or its designee shall notify such owner of the prepayment amount for such Assessor's Parcel. Prepayment must be made not less than 75 days prior to any redemption date for Bonds to be redeemed with the proceeds of such prepaid Special Taxes. The Prepayment Amount shall be calculated as follows: (capitalized terms as defined below):

Bond Redemption Amount	
plus	Remaining Facilities Amount
plus	Redemption Premium
plus	Defeasance Requirement
plus	Administrative Fees and Expenses
<u>less</u>	<u>Reserve Fund Credit</u>
equals	Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount shall be determined by application of the following steps:

- Step 1.** Compute the total Maximum Annual Special Tax that could be collected from the Assessor's Parcel prepaying the Special Tax in the Fiscal Year in which prepayment would be received by the NCSD.
- Step 2.** Divide the Maximum Annual Special Tax from Step 1 by the Buildout Revenues.
- Step 3.** Multiply the quotient computed pursuant to Step 2 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (*the "Bond Redemption Amount"*).
- Step 4.** Compute the current Remaining Facilities Costs (if any).
- Step 5.** Multiply the quotient computed pursuant to Step 2 by the amount determined pursuant to Step 4 to compute the amount of Remaining Facilities Costs to be prepaid (*the "Remaining Facilities Amount"*).
- Step 6.** Multiply the Bond Redemption Amount computed pursuant to Step 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (*the "Redemption Premium"*).
- Step 7.** Compute the amount needed to pay interest on the Bond Redemption Amount starting with the first Bond interest payment date after which the prepayment has been received until the earliest redemption date for the Outstanding Bonds, which, depending on the Bond offering document, may be as early as the next interest payment date.
- Step 8:** Compute the amount of interest the NCSD reasonably expects to derive from reinvestment of the Bond Redemption Amount plus the Redemption Premium from the first Bond interest payment date after which the prepayment has been received until the redemption date for the Outstanding Bonds.

- Step 9:** Take the amount computed pursuant to Step 7 and subtract the amount computed pursuant to Step 8 (the “*Defeasance Requirement*”).
- Step 10.** Determine the costs of computing the prepayment amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the “*Administrative Fees and Expenses*”).
- Step 11.** If and to the extent so provided in the indenture pursuant to which the Outstanding Bonds to be redeemed were issued, a reserve fund credit shall be calculated as a reduction in the applicable reserve fund for the Outstanding Bonds to be redeemed pursuant to the prepayment (the “*Reserve Fund Credit*”).
- Step 12.** The Special Tax prepayment is equal to the sum of the amounts computed pursuant to Steps 3, 5, 6, 9, and 10, less the amount computed pursuant to Step 11 (the “*Prepayment Amount*”).

A partial prepayment may be made in an amount equal to any percentage of full prepayment desired by the party making a partial prepayment, provided however that the partial prepayment must be in an amount sufficient to payoff Bonds in \$5,000 increments. The Maximum Annual Special Tax that can be levied on an Assessor’s Parcel after a partial prepayment is made is equal to the Maximum Annual Special Tax that could have been levied prior to the prepayment, reduced by the percentage of a full prepayment that the partial prepayment represents, all as determined by or at the direction of the Administrator.

J. INTERPRETATION OF SPECIAL TAX FORMULA

The NCSD reserves the right to make minor administrative and technical changes to this document that do not materially affect the rate and method of apportioning Special Taxes. In addition, the interpretation and application of any section of this document shall be left to the NCSD’s discretion. Interpretations may be made by the NCSD by ordinance or resolution for purposes of clarifying any vagueness or ambiguity in this Rate and Method of Apportionment of Special Tax.

ATTACHMENT 1

NORTHSTAR COMMUNITY SERVICES DISTRICT

COMMUNITY FACILITIES DISTRICT NO. 1

IDENTIFICATION OF TAX ZONES

