

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest on the 2006 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2006 Bonds is exempt from State of California personal income tax. See “TAX MATTERS” herein with respect to tax consequences relating to the 2006 Bonds.

\$58,590,000

**NORTHSTAR COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1
SPECIAL TAX BONDS, SERIES 2006**

Dated: Date of Delivery

Due: September 1, as shown on the inside front cover

The Northstar Community Services District Community Facilities District No. 1 Special Tax Bonds, Series 2006 (the “2006 Bonds”) are being issued to finance various public improvements relating to the development of property located within Community Facilities District No. 1. The Community Facilities District has been formed by Northstar Community Services District and is located in the County of Placer, California, within the Northstar community.

The 2006 Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California), and pursuant to a Trust Indenture, dated as of November 1, 2005, by and between the Community Facilities District and Wells Fargo Bank, National Association, as trustee, as supplemented by a First Supplemental Trust Indenture, dated as of December 1, 2006, by and between the Community Facilities District and the Trustee. The 2006 Bonds are special obligations of the Community Facilities District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners of the taxable property within the Community Facilities District and from certain other funds pledged under the Indenture, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the Board of Directors of Northstar Community Services District and the qualified landowner-electors within the Community Facilities District. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes.” The 2006 Bonds are payable on a parity with the Community Facilities District’s 2005 Special Tax Bonds, originally issued and currently outstanding in the aggregate amount of \$56,125,000. See “SOURCES OF PAYMENT FOR THE BONDS — Parity Bonds.”

The 2006 Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of 2006 Bonds will not receive certificates representing their beneficial ownership of the 2006 Bonds but will receive credit balances on the books of their respective nominees. The 2006 Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the 2006 Bonds will be payable on March 1, 2007 and semiannually thereafter on each March 1 and September 1. Principal of and interest on the 2006 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the 2006 Bonds. See “THE BONDS — Description of the Bonds” and “— Book-Entry-Only System” herein.

Neither the faith and credit nor the taxing power of Northstar Community Services District, the County of Placer, the State of California or any political subdivision thereof is pledged to the payment of the 2006 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2006 Bonds.

The 2006 Bonds are subject to optional redemption, special mandatory redemption and mandatory sinking fund redemption prior to maturity as set forth herein. See “THE BONDS — Redemption” herein.

**MATURITY SCHEDULE
(See Inside Cover Page)**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security for the terms of the 2006 Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE COMMUNITY FACILITIES DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2006 BONDS WHEN DUE. THE PURCHASE OF THE 2006 BONDS INVOLVES SIGNIFICANT RISKS, AND THE 2006 BONDS ARE NOT SUITABLE INVESTMENTS FOR ALL INVESTORS. SEE THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED “SPECIAL RISK FACTORS” FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN EVALUATING THE INVESTMENT QUALITY OF THE 2006 BONDS.

The 2006 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for Northstar Community Services District and the Community Facilities District by McDonough, Holland & Allen P.C., Sacramento, California, for the Developer by its counsel, Hefner, Stark & Marois LLP, Sacramento, California, and for the Underwriters by their counsel, Nossaman, Guthner, Knox & Elliott LLP, Irvine, California. It is anticipated that the 2006 Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about December 20, 2006.

UBS Investment Bank

Banc of America Securities LLC

Dated: December 7, 2006

MATURITY SCHEDULE

NORTHSTAR COMMUNITY SERVICES DISTRICT COMMUNITY FACILITIES DISTRICT NO. 1 SPECIAL TAX BONDS, SERIES 2006

\$6,615,000 Serial Bonds

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP No.[†]</i>
2009	\$ 110,000	3.900%	3.900%	66704PAR5
2010	175,000	4.000	4.000	66704PAS3
2011	245,000	4.125	4.125	66704PAT1
2012	315,000	4.200	4.200	66704PAU8
2013	395,000	4.300	4.300	66704PAV6
2014	475,000	4.400	4.400	66704PAW4
2015	565,000	4.500	4.500	66704PAX2
2016	655,000	4.600	4.600	66704PAY0
2017	755,000	4.650	4.650	66704PAZ7
2018	860,000	4.700	4.700	66704PBA1
2019	975,000	4.750	4.750	66704PBB9
2020	1,090,000	4.800	4.800	66704PBC7

\$51,975,000 Term Bonds

\$9,560,000 5.000% Term Bonds Due September 1, 2026 - Yield: 4.880% CUSIP No. 66704PBD5^{†(c)}
\$42,415,000 5.000% Term Bonds Due September 1, 2037 - Yield: 4.930% CUSIP No. 66704PBE3^{†(c)}

[†] CUSIP® is a registered trademark of the American Bankers Association. Copyright© 2006 Standard & Poor's, a Division of the McGraw Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the Community Facilities District nor the Underwriter takes any responsibility for the accuracy of such numbers.

^(c) Priced to call on March 1, 2014 at par.

NORTHSTAR COMMUNITY SERVICES DISTRICT

BOARD OF DIRECTORS

Duane Evans, President
Nancy Ives, Vice-President
Jeann Green, Board Member
Mike Moll, Board Member
Frank Seelig, Board Member

DISTRICT OFFICIALS

Mike Staudenmayer, General Manager
Myra Tanner, Administrative Manager and Secretary to the Board
Denise Lewis, Controller
Michael Geary, District Engineer
Mark Shadowens, Fire Chief
Mark Atlas, General Counsel

PROFESSIONAL SERVICES

Bond Counsel

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

Financial Advisor to the District

Fieldman, Rolapp & Associates
Irvine, California

Special Tax Administrator

Goodwin Consulting Group, Inc.
Sacramento, California

Real Estate Appraiser

Cushman & Wakefield of Colorado, Inc.
Park City, Utah

Trustee

Wells Fargo Bank, National Association
Los Angeles, California

Except where otherwise indicated, all information contained in this Official Statement has been provided by Northstar Community Services District (“NCS D”) and Northstar Community Services District Community Facilities District No. 1 (the “District”). No dealer, broker, salesperson or other person has been authorized by NCS D, the District, the Trustee or the Underwriters to give any information or to make any representations in connection with the offer or sale of the 2006 Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by NCS D, the District, the Trustee or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2006 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

All information for investors regarding NCS D, the District and the 2006 Bonds is contained in this Official Statement. While NCS D maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the 2006 Bonds. No dealer, broker, salesperson or other person has been authorized by NCS D to provide any information or to make any representations other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by NCS D or the District.

This Official Statement is not to be construed as a contract with the purchasers or Owners of the 2006 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The Underwriters have provided the following sentence for inclusion in this Official Statement:

The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of NCS D, the District or any other parties described herein since the date hereof. All summaries of the Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with NCS D for further information in connection therewith.

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

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

IN CONNECTION WITH THE OFFERING OF THE 2006 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2006 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE 2006 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2006 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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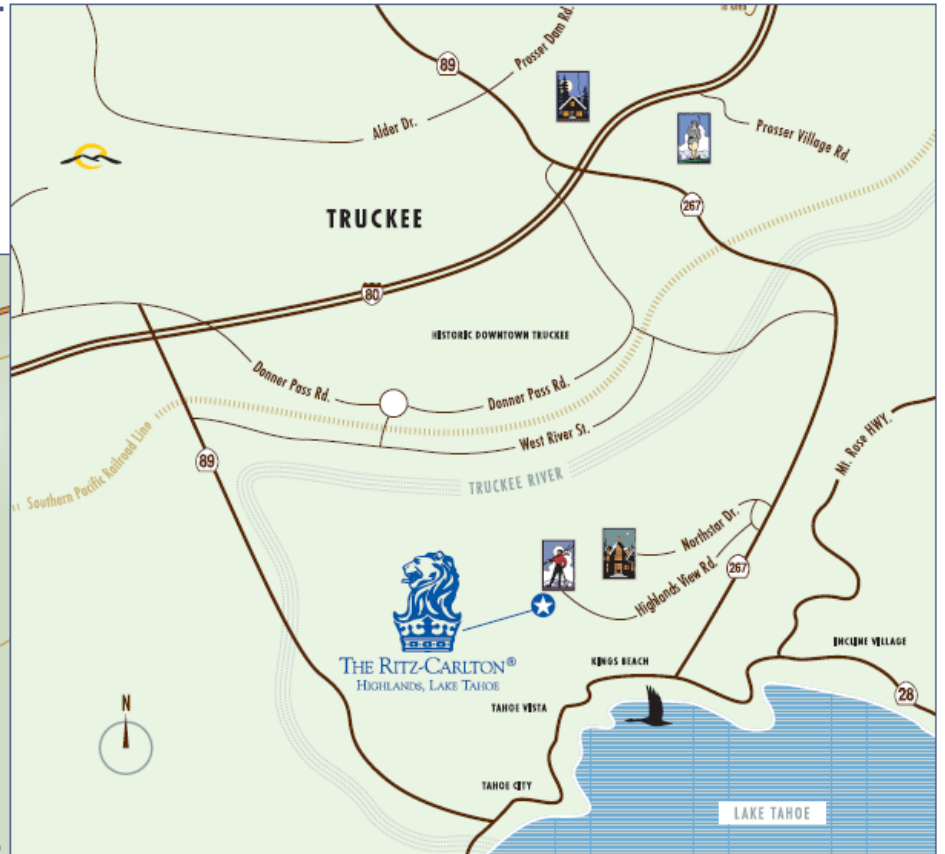
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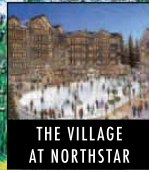
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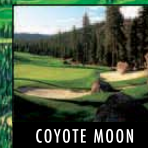
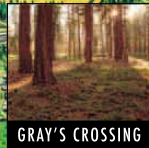
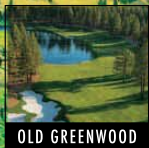
LOCATION MAP



LAKE TAHOE



TRUCKEE



TO SAN FRANCISCO

TO RENO



JAMES MENZIES

\$58,590,000
NORTHSTAR COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1
SPECIAL TAX BONDS, SERIES 2006

INTRODUCTION

General

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of 2006 Bonds (as defined below) to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meanings set forth in Appendix C — “SUMMARY OF INDENTURE — Definitions.”

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices, is to provide certain information concerning the issuance of the \$58,590,000 Northstar Community Services District Community Facilities District No. 1 Special Tax Bonds, Series 2006 (the “2006 Bonds”). The 2006 Bonds will be issued on a parity with the Northstar Community Services District Community Facilities District No. 1 Special Tax Bonds, Series 2005, originally issued and currently outstanding in the aggregate amount of \$56,125,000 (the “2005 Bonds,” and together with the 2006 Bonds, the “Bonds”). The proceeds of the 2006 Bonds will be used to construct and acquire various public improvements relating to the proposed development within Northstar Community Services District Community Facilities District No. 1 (the “District”), to fund the Reserve Account securing the 2006 Bonds, to fund capitalized interest on the 2006 Bonds and to pay costs of issuance of the 2006 Bonds.

The 2006 Bonds are authorized to be issued pursuant to Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the “Act”) and a Trust Indenture, dated as of November 1, 2005, by and between the District and Wells Fargo Bank, National Association, as trustee (the “Trustee”), as supplemented by a First Supplemental Trust Indenture, dated as of December 1, 2006, by and between the District and the Trustee (collectively, the “Indenture”). The Bonds are secured under the Indenture by a pledge of and lien upon Net Taxes (as defined herein) and all moneys in the funds and accounts under the Indenture other than the Rebate Fund and the Administrative Expense Account.

Forward Looking Statements

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

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

The District

Formation Proceedings. The District has been formed by the Northstar Community Services District (“NCS D”) pursuant to the Act. The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State of California (the “State”). Any local agency (as defined in the Act) may establish a community facilities district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a community facilities district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness. The Board of Directors of NCS D (the “Board of Directors”) acts as the legislative body of the District.

Pursuant to the Act, the Board of Directors adopted the necessary resolutions stating its intent to establish the District, to authorize the levy of special taxes on taxable property within the boundaries of the District, and to have the District incur bonded indebtedness. Following public hearings conducted pursuant to the provisions of the Act, the Board of Directors adopted resolutions establishing the District and calling special elections to submit the levy of the special taxes and the incurring of bonded indebtedness to the qualified voters of the District. On May 3, 2005, at an election held pursuant to the Act, the Developer (defined below), which comprised the qualified voter of the District, authorized the District to incur bonded indebtedness in an aggregate principal amount not to exceed \$125,000,000 and approved the rate and method of apportionment of the special taxes for the District which is set forth in Appendix A hereto (the “Rate and Method”).

The District. The District consists of approximately 456.27 gross acres and is located west of State Highway 267 in the County of Placer, California (the “County”), in the Northstar community. The Developer expects to develop the District into a master-planned recreation resort community consisting of 1,800 residential units, approximately 100,000 square feet of commercial space in The Villages and a 170-room luxury hotel to be known as “The Ritz Carlton Highlands – Lake Tahoe,” with retail, restaurant and spa space (the “Hotel”). On-site amenities will include an ice skating rink, a gondola accessing ski terrain, fitness centers and various other luxury resort amenities. All residential units in the District will be located within walking distance of Northstar-at-Tahoe’s ski and recreation facilities.

Although the total size of the District is approximately 456.27 acres, subsequent to the formation of the District the Developer reconveyed approximately 52.44 acres to Trimont Land Holdings, LLC, the owner and operator of the Northstar-at-Tahoe Resort; and those acres are expected to be classified as “Ski Property” and to be exempt from the Special Tax. The Developer

expects that it will make additional reconveyances, resulting in additional Ski Property, as development of the District proceeds. Most of the development planned for the District is expected to consist of multi-story buildings. As a result of the foregoing, the land area of the District that is expected to be subject to the Special Tax at buildout will consist of approximately 28 acres.

For purposes of administering the levy of special taxes, the District is divided into three taxing zones.

Zone 1, also known as “The Village,” is located at the base area of the Northstar-at-Tahoe Resort. Development of The Village is expected to take place in three phases and be completed by the end of 2012 with final sales expected to close escrow to individual buyers by the end of 2013. The Village, when fully developed, is expected to include 350 luxury condominium and townhome residential units and approximately 100,000 square feet of commercial space. The first development phase of The Village, consisting of 100 residential units, has been completed, and all 100 residential units have closed escrow to individual buyers. Phase 2 of The Village is expected to contain 113 residential units (19 of which are being marketed on a fractional ownership basis) with sales escrow closings beginning in December 2006. Build out of the planned Phase 2 units of The Village is expected to occur in Spring 2007 and Phase 2 is expected to be sold out by Summer 2007. Phase 3 is planned to be a mix of 34 luxury townhomes expected to be completed in two phases of construction with completed units being delivered in Fall 2008 and Fall 2009 and 103 fractional ownership condominiums expected to be completed in three phases with completed units being delivered in Fall 2008, Fall 2010 and Fall 2012.

Zones 2 and 3 of the District, collectively known as “The Highlands,” are located at an elevation approximately 800 feet higher than The Village. Development of The Highlands is expected to take place in multiple phases with construction having begun on two projects within The Highlands in 2006. At build out, The Highlands is expected to include 1,450 residential units and the Hotel. The Developer expects full development of The Highlands to take approximately 15 years. See “THE DEVELOPMENT AND PROPERTY OWNERSHIP — Development Plan.”

The Developer. The master developer of the land in the District is Northstar Mountain Properties, LLC (the “Developer”), the members of which are NMP Holdings, LLC (a subsidiary of East West Resort Development V, L.P., L.L.L.P., a Delaware limited partnership, limited liability limited partnership (“EWRDV”)), and Trimont Land Holdings, LLC, a Delaware limited liability company (“Trimont”). Trimont is a subsidiary of Booth Creek Ski Holdings (“Booth Creek”), the owner and operator of the Northstar-at-Tahoe Resort. NMP Holdings, LLC is the appointed manager of the Developer. East West Partners, the appointed manager of EWRDV, has been responsible for the development of over \$1 billion of residential and commercial real estate. Such development has included resort communities in California and Colorado that are similar to the development proposed in the District. East West Partners also has developed property in Utah and South Carolina. East West Partners, through EWRDV and its subsidiaries, is currently developing several projects in the vicinity of the District. The investor limited partner of the EWRDV is Crescent Resort Development Inc., a subsidiary of Crescent Real Estate Equities Company, one of the largest publicly held real estate investment trusts in the United States. See “THE DEVELOPMENT AND PROPERTY OWNERSHIP — The Developer.”

Although the Developer is the master developer of the planned improvements within the District, portions of the property within the District are not expected to be developed by the Developer or its affiliates. For example, the Hotel and the Ritz Residences are expected to be

developed by an entity controlled by Crescent and East West Partners, but is not expected to include Trimont or Booth Creek. Additionally, the Ritz-Carlton Club fractional interest condominiums are being developed by Ritz-Carlton Development Company, which is not affiliated with the Developer. Also, the Developer and/or its affiliates may decide to sell additional property owned by the Developer and/or its affiliates within the District for development by non-affiliated developers. See “THE DEVELOPMENT AND PROPERTY OWNERSHIP — The Developer.”

Current Development Status. Construction of Phase 1 of The Village has been completed and all 100 residential units in Phase 1 have closed escrow to individual purchasers. Total revenues from such sales were approximately \$142,000,000 with individual sales prices ranging from approximately \$500,000 to \$5,800,000 and averaging approximately \$1,420,000 per unit. As of November 1, 2006, construction of Phase 2 of The Village was approximately 80% completed. As of November 1, 2006, 83 of the 113 residential units planned for Phase 2 of The Village were under contract of which 62 units were under contract with individual purchasers and 21 units were under contract with a single purchaser which plans to sell 1/12th fractional ownership interests in 19 of the 21 units. The Developer expects to complete and sell out Phase 2 by Summer 2007. Groundbreaking for Phase 3 of The Village is expected in May 2007.

Development began on two projects in The Highlands during 2006. Foundation work began on the Hotel which also contains 23 Ritz Residence Penthouse units on the top two floors of the Hotel building. The Hotel project is scheduled to be completed in Fall 2009. Also in The Highlands, construction and sitework has begun on a 16 residential townhome project with the first phase of 6 units expected to be completed in Fall 2007. Development of the remainder of the District is still in the planning and design stage.

Appraisal. Cushman & Wakefield of Colorado, Inc., Park City, Utah (the “Appraiser”), has conducted an appraisal (the “Appraisal”) of the land within the District and has concluded, based upon the assumptions and limiting conditions contained in the Appraisal, that, as of November 1, 2006, the value of residential property within the District that is subject to the Special Tax levy was \$779,100,000. The Appraisal allocates \$376,400,000 of the total value to the three phases of Zone 1 in the District, \$88,800,000 to Zone 2, and \$313,900,000 to Zone 3. See “THE COMMUNITY FACILITIES DISTRICT — Appraisal” and Appendix B — “COMPLETE APPRAISAL.”

Sources of Payment for the Bonds

Net Taxes. Under the Indenture, the District has pledged to repay the Bonds from the Net Taxes and amounts on deposit in the accounts in the Special Tax Fund established under the Indenture excluding the Rebate Fund and the Administrative Expense Account.

Under the Indenture, “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 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.

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

The Net Taxes are the primary security for the payment of the Bonds. In the event that the Net Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are certain amounts held by the Trustee, including amounts held in the Reserve Account. See “SOURCES OF PAYMENT FOR THE BONDS — Reserve Account.”

Foreclosure Proceedings. The District has covenanted 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. See “SOURCES OF PAYMENT FOR THE BONDS — Proceeds of Foreclosure Sales” herein. There is no assurance that the property within the District can be sold for the appraised value or assessed values described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current or future property owners within the District. See “SPECIAL RISK FACTORS — Land Values” and Appendix B — “COMPLETE APPRAISAL” herein.

EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE 2006 BONDS. THE 2006 BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF NCSD NOR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

Description of the Bonds

The 2006 Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the 2006 Bonds (the “Beneficial Owners”) in denominations of \$5,000 or any integral multiple thereof under the book-entry system maintained by DTC only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the 2006 Bonds. See “THE BONDS — Book-Entry-Only System” herein.

Principal of, premium, if any, and interest on the 2006 Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry-only system is no longer used with respect to the 2006 Bonds, the

Beneficial Owners will become the registered owners of the 2006 Bonds and will be paid principal and interest by the Trustee, all as described herein. See “THE BONDS — Book-Entry-Only System” herein.

The 2006 Bonds are subject to optional redemption, extraordinary mandatory redemption and mandatory sinking fund redemption as described herein. For a more complete descriptions of the 2006 Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE BONDS” and Appendix C — “SUMMARY OF INDENTURE” herein.

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest on the 2006 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2006 Bonds is exempt from State of California personal income tax. See “TAX MATTERS” herein.

Set forth in Appendix F is the form of opinion of Bond Counsel expected to be delivered in connection with the issuance of the 2006 Bonds. For a more complete discussion of such opinion and certain tax consequences incident to the ownership of the 2006 Bonds, see “TAX MATTERS” herein.

Professionals Involved in the Offering

UBS Securities LLC and Banc of America Securities LLC will serve as the Underwriters of the 2006 Bonds. Wells Fargo Bank, National Association, Los Angeles, California, will act as Trustee under the Indenture.

Fieldman, Rolapp & Associates, Irvine, California, is acting as Financial Advisor to NCSD in connection with the issuance of the 2006 Bonds. Cushman & Wakefield of Colorado, Inc., Park City, Utah, is the Appraiser; and Goodwin Consulting Group, Inc., Sacramento, California, will be assisting NCSD by serving as Special Tax Administrator. All proceedings in connection with the issuance and delivery of the 2006 Bonds are subject to the approval of Bond Counsel. Certain legal matters will be passed on for NCSD and the District by McDonough, Holland & Allen P.C., Sacramento, California, for the Developer by its counsel, Hefner, Stark & Marois LLP, Sacramento, California, and for the Underwriters by their counsel, Nossaman, Guthner, Knox & Elliott LLP, Irvine, California (“Underwriters’ Counsel”).

For information concerning the respects in which certain of the above-mentioned firms may have a financial or other interest in the offering of the 2006 Bonds, see “FINANCIAL INTERESTS” herein.

Continuing Disclosure

The District and the Developer have agreed to provide, or cause to be provided certain annual financial information and operating data to each nationally recognized municipal securities

information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (the "Rule"). The District has further agreed to provide notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with the Rule. See "CONTINUING DISCLOSURE" herein and Appendix D and Appendix E hereto for a description of the specific nature of the annual reports to be filed by the District, the annual and semi-annual reports to be filed by the Developer, and notices of material events to be provided by the District. Both the District and the Developer entered into continuing disclosure agreements in connection with the issuance of the 2005 Bonds. The Developer was late in filing the continuing disclosure report due September 1, 2006. See "CONTINUING DISCLOSURE."

Bondowners' Risks

Certain events could affect the timely payment of the principal of and interest on the 2006 Bonds when due. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the 2006 Bonds. The 2006 Bonds are not rated by any nationally recognized rating agency. *The purchase of the 2006 Bonds involves significant risks, and the 2006 Bonds are not suitable investments for all investors.* See "SPECIAL RISK FACTORS" herein.

Other Information

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

Brief descriptions of the 2006 Bonds and the Indenture are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the 2006 Bonds and the constitution and laws of the State as well as the proceedings of the Board of Directors, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the 2006 Bonds, by reference to the Indenture. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

Copies of the Indenture, the Continuing Disclosure Agreements and other documents and information referred to herein are available for inspection and (upon request and payment to NCSD of a charge for copying, mailing and handling) delivery from NCSD at 908 Northstar Drive, Truckee, California 96161, Attention: General Manager.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected uses of 2006 Bond proceeds:

Sources of Funds

Principal Amount of 2006 Bonds	\$58,590,000.00
Plus: Original Issue Premium	242,912.60
Less: Underwriters' Discount	<u>(571,252.50)</u>
Total Sources	<u>\$58,261,660.10</u>

Uses of Funds

Acquisition Account	\$39,716,000.00
Construction Account	7,284,000.00
Reserve Account ⁽¹⁾	5,098,457.79
Cost of Issuance Account ⁽²⁾	361,249.80
Interest Account ⁽³⁾	<u>5,801,952.51</u>
Total Uses	<u>\$58,261,660.10</u>

⁽¹⁾ The amount necessary, together with the balance on deposit in the Reserve Account, to equal the Reserve Requirement.

⁽²⁾ Includes legal costs, printing costs, consultant fees and other costs of issuing the 2006 Bonds.

⁽³⁾ Bond proceeds deposited into the Interest Account, together with moneys on deposit therein and interest earnings thereon and Special Taxes levied on Developed Property, are expected to be sufficient to pay debt service on the Bonds through September 1, 2008.

THE BONDS

General Provisions

The 2006 Bonds will be dated their date of delivery and will be issued in the aggregate principal amount of \$58,590,000. The 2006 Bonds will bear interest from their dated date at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing March 1, 2007 (individually, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page hereof. Interest on the 2006 Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. The 2006 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof.

Principal of and interest on the 2006 Bonds are payable in lawful money of the United States of America. Interest is payable by check of the Trustee mailed to the registered owners appearing on the registration books of the Trustee as of the close of business on the fifteenth day of the month next preceding each Interest Payment Date. Principal and any premium on the 2006 Bonds are payable upon surrender of the 2006 Bonds at the Principal Office of the Trustee.

The 2006 Bonds, when issued, will be registered initially in the name of Cede & Co., as nominee of DTC. So long as DTC, or Cede & Co., as nominee, is the registered owner of all the 2006 Bonds, principal and interest payments on the 2006 Bonds will be made directly to DTC, and disbursement of such payments to the Direct Participants (defined below) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (defined below) will be the

responsibility of the Direct Participants, as more fully described under “— Book-Entry-Only System.”

Redemption

Optional Redemption. The 2006 Bonds maturing on or before September 1, 2013 are not subject to optional redemption. The 2006 Bonds maturing on or after September 1, 2014 are subject to optional redemption, at the option of the District from sources of funds other than prepayments of the Special Tax and surplus 2006 Bond proceeds on any Interest Payment Date on or after March 1, 2014 in whole, or in part (in integral multiples of \$5,000) in 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, without premium.

Mandatory Sinking Fund Redemption. The 2006 Bonds maturing on September 1, 2026 are subject to mandatory sinking payment redemption in part on September 1, 2021, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from sinking fund payments as follows:

<i>Redemption Date (September 1)</i>	<i>Principal Amount</i>
2021	\$ 1,220,000
2022	1,360,000
2023	1,500,000
2024	1,660,000
2025	1,825,000
2026*	1,995,000

* Final Maturity.

The 2006 Bonds maturing on September 1, 2037 are subject to mandatory sinking payment redemption in part on September 1, 2027, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from sinking fund payments as follows:

<i>Redemption Date (September 1)</i>	<i>Principal Amount</i>
2027	\$ 2,185,000
2028	2,375,000
2029	2,585,000
2030	2,800,000
2031	3,035,000
2032	3,275,000
2033	3,540,000
2034	3,810,000
2035	4,100,000
2036	4,405,000
2037*	10,305,000

* Final Maturity.

The amounts in the foregoing tables shall be reduced pro rata by the principal amount of all Term 2006 Bonds which are redeemed as a result of any prior partial redemption of Term 2006 Bonds.

Special Mandatory Redemption From Prepayments and Surplus Bond Proceeds. The 2006 Bonds are subject to special mandatory redemption on any Interest Payment Date from amounts on deposit in the Prepayment Account, and from surplus 2006 Bond proceeds transferred to the Redemption Account pursuant to the Indenture, in whole or in part (in integral multiples of \$5,000), 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, 2007 through March 1, 2014	103%
September 1, 2014 and March 1, 2015	102
September 1, 2015 and March 1, 2016	101
September 1, 2016 and thereafter	100

The Trustee will select 2006 Bonds for special mandatory redemption 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 as specified by the District. The particular Bonds of each maturity of a Series to be redeemed will be selected by lot in whatever manner the Trustee chooses.

Redemption Procedures. The Trustee shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption, to the respective registered owners of 2006 Bonds designated for redemption, at their addresses appearing on the Bond registration books; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such 2006 Bonds.

Upon surrender of 2006 Bonds redeemed in part only, the Trustee shall authenticate and deliver to the registered owner a new 2006 Bond or 2006 Bonds, of the same maturity, of any authorized denomination in aggregate principal amount equal to the unredeemed portion of the 2006 Bond or 2006 Bonds.

Book-Entry-Only System

DTC will act as securities depository for the 2006 Bonds. The 2006 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each maturity of the 2006 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes

in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of 2006 Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the 2006 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2006 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2006 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2006 Bonds, except in the event that use of the book-entry system for the 2006 Bonds is discontinued.

To facilitate subsequent transfers, all 2006 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2006 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2006 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2006 Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2006 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2006 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. Beneficial Owners of 2006 Bonds may wish to ascertain that the nominee holding the 2006 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to Cede & Co. If less than all of the 2006 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2006 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or

voting rights to those Direct Participants to whose accounts the 2006 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and interest on and premium, if any, with respect to the 2006 Bonds will be paid to DTC (or such other nominee as may be requested by an authorized representative of DTC). DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee on the date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services or securities depository with respect to the 2006 Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2006 Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2006 Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

The District cannot and does not give any assurances that DTC Participants or others will distribute payments with respect to the 2006 Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

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

In the event that the book-entry system described above is no longer used with respect to the 2006 Bonds, the principal of the 2006 Bonds is payable upon surrender thereof at the corporate trust office of the Trustee. Interest on the 2006 Bonds is payable on each Interest Payment Date to the registered owner thereof as of the close of business on the Record Date immediately preceding each Interest Payment Date, such interest to be paid by check of the Trustee, mailed by first-class mail to the registered owner at his or her address as it appears on the Register (or at such other address as is furnished to the Trustee in writing by the registered owner). A registered owner of \$1,000,000 or more in principal amount of 2006 Bonds may be paid interest by wire transfer in immediately available funds to an account in the United States if the registered owner makes a written request of the Trustee no later than the applicable Record Date. The principal of and interest on the 2006 Bonds shall be payable in lawful money of the United States of America.

Debt Service Schedule for the Bonds

The table below sets forth the estimated annual debt service payments for the 2006 Bonds assuming no redemptions of 2006 Bonds prior to maturity except scheduled mandatory sinking fund redemptions.

<i>Year Ending September 1</i>	<i>Principal</i>	<i>Interest⁽¹⁾</i>	<i>Total Debt Service</i>
2007	\$ -	\$ 2,022,625.11	\$ 2,022,625.11
2008	-	2,900,976.26	2,900,976.26
2009	110,000.00	2,900,976.26	3,010,976.26
2010	175,000.00	2,896,686.26	3,071,686.26
2011	245,000.00	2,889,686.26	3,134,686.26
2012	315,000.00	2,879,580.00	3,194,580.00
2013	395,000.00	2,866,350.00	3,261,350.00
2014	475,000.00	2,849,365.00	3,324,365.00
2015	565,000.00	2,828,465.00	3,393,465.00
2016	655,000.00	2,803,040.00	3,458,040.00
2017	755,000.00	2,772,910.00	3,527,910.00
2018	860,000.00	2,737,802.50	3,597,802.50
2019	975,000.00	2,697,382.50	3,672,382.50
2020	1,090,000.00	2,651,070.00	3,741,070.00
2021	1,220,000.00	2,598,750.00	3,818,750.00
2022	1,360,000.00	2,537,750.00	3,897,750.00
2023	1,500,000.00	2,469,750.00	3,969,750.00
2024	1,660,000.00	2,394,750.00	4,054,750.00
2025	1,825,000.00	2,311,750.00	4,136,750.00
2026	1,995,000.00	2,220,500.00	4,215,500.00
2027	2,185,000.00	2,120,750.00	4,305,750.00
2028	2,375,000.00	2,011,500.00	4,386,500.00
2029	2,585,000.00	1,892,750.00	4,477,750.00
2030	2,800,000.00	1,763,500.00	4,563,500.00
2031	3,035,000.00	1,623,500.00	4,658,500.00
2032	3,275,000.00	1,471,750.00	4,746,750.00
2033	3,540,000.00	1,308,000.00	4,848,000.00
2034	3,810,000.00	1,131,000.00	4,941,000.00
2035	4,100,000.00	940,500.00	5,040,500.00
2036	4,405,000.00	735,500.00	5,140,500.00
2037	<u>10,305,000.00</u>	<u>515,250.00</u>	<u>10,820,250.00</u>
TOTAL	<u>\$58,590,000.00</u>	<u>\$68,744,165.15</u>	<u>\$127,334,165.15</u>

⁽¹⁾ Bond proceeds deposited into the Interest Account, together with moneys on deposit therein and interest earnings thereon and Special Taxes levied on Developed Property, are expected to be sufficient to pay debt service on the Bonds through September 1, 2008.

The table below sets forth the annual debt service requirements on the Bonds, assuming no redemptions of Bonds prior to maturity except scheduled mandatory sinking fund redemptions, along with estimated annual debt service coverage based on the maximum Special Tax levy on property which is, or which is expected to become, Residential Property. Under no circumstances will the

Special Tax levied against any Parcel of Residential Property within the District be increased by more than 10% per fiscal year as a consequence of a delinquency or default by the owner of any other Parcel within the District. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes.”

<i>Period Ending (September 1)</i>	<i>2006 Bond Debt Service</i>	<i>2005 Bond Debt Service</i>	<i>Total Bond Debt Service⁽¹⁾</i>	<i>Maximum Special Tax Levy on Residential Property⁽²⁾</i>	<i>Debt Service Coverage from Residential Property⁽³⁾</i>
2007	\$ 2,022,625.11	\$ 3,051,213.76	\$ 5,073,838.87	\$ 7,387,278.40	1.46
2008	2,900,976.26	3,141,213.76	6,042,190.02	7,506,644.80	1.24
2009	3,010,976.26	3,202,793.76	6,213,770.02	7,626,680.38	1.23
2010	3,071,686.26	3,266,438.76	6,338,125.02	7,779,213.98	1.23
2011	3,134,686.26	3,331,876.26	6,466,562.52	7,934,798.26	1.23
2012	3,194,580.00	3,398,376.26	6,592,956.26	8,093,494.23	1.23
2013	3,261,350.00	3,465,801.26	6,727,151.26	8,255,364.11	1.23
2014	3,324,365.00	3,538,713.76	6,863,078.76	8,420,471.40	1.23
2015	3,393,465.00	3,607,113.76	7,000,578.76	8,588,880.82	1.23
2016	3,458,040.00	3,679,363.76	7,137,403.76	8,760,658.44	1.23
2017	3,527,910.00	3,751,363.76	7,279,273.76	8,935,871.61	1.23
2018	3,597,802.50	3,827,863.76	7,425,666.26	9,114,589.04	1.23
2019	3,672,382.50	3,902,126.26	7,574,508.76	9,296,880.82	1.23
2020	3,741,070.00	3,984,982.50	7,726,052.50	9,482,818.44	1.23
2021	3,818,750.00	4,064,722.50	7,883,472.50	9,672,474.81	1.23
2022	3,897,750.00	4,143,422.50	8,041,172.50	9,865,924.30	1.23
2023	3,969,750.00	4,228,675.00	8,198,425.00	10,063,242.79	1.23
2024	4,054,750.00	4,309,662.50	8,364,412.50	10,264,507.65	1.23
2025	4,136,750.00	4,396,112.50	8,532,862.50	10,469,797.80	1.23
2026	4,215,500.00	4,487,207.50	8,702,707.50	10,679,193.75	1.23
2027	4,305,750.00	4,572,130.00	8,877,880.00	10,892,777.63	1.23
2028	4,386,500.00	4,665,607.50	9,052,107.50	11,110,633.18	1.23
2029	4,477,750.00	4,756,550.00	9,234,300.00	11,332,845.85	1.23
2030	4,563,500.00	4,856,437.50	9,419,937.50	11,559,502.76	1.23
2031	4,658,500.00	4,951,617.50	9,610,117.50	11,790,692.82	1.23
2032	4,746,750.00	5,051,535.00	9,798,285.00	12,026,506.67	1.23
2033	4,848,000.00	5,150,080.00	9,998,080.00	12,267,036.81	1.23
2034	4,941,000.00	5,256,420.00	10,197,420.00	12,512,377.54	1.23
2035	5,040,500.00	5,359,167.50	10,399,667.50	12,762,625.09	1.23
2036	5,140,500.00	5,467,490.00	10,607,990.00	13,017,877.60	1.23
2037	<u>10,820,250.00</u>	<u>-</u>	<u>10,820,250.00</u>	<u>13,278,235.15</u>	1.23
Total	\$ 127,334,165.15	\$ 124,866,078.88	\$ 252,200,244.03	\$ 310,749,896.94	

(1) Bond proceeds deposited into the Interest Account, together with moneys on deposit therein and interest earnings thereon and Special Taxes levied on Developed Property, are expected to be sufficient to pay debt service on the Bonds through September 1, 2008.

(2) Includes Parcels that are currently Residential Property and Parcels that are expected to become Residential Property. Represents Special Taxes on Phase 1 and Phase 2 units of Zone 1 and maximum Special Taxes for planned residential units that are not yet developed but assuming the Residential Property rates for fiscal year 2006-07, escalated at 2% per year. Net of annual Administrative Expenses paid prior to debt service and capped at \$26,010 per year (escalated 2% annually). Also net of withholding fee retained by the County of 1% of the sum of Administrative Expenses and debt service on the Bonds. Under no circumstances will the Special Tax levied against any Parcel of Residential Property within the District be increased by more than 10% per fiscal year as a consequence of a delinquency or default by the owner of any other Parcel within the District. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes.”

(3) Debt service coverage from maximum Special Taxes based on the current development status of the taxable property within the District is higher than the debt service coverage shown in the table below due to the significant maximum Special Tax on Undeveloped Property.

Source: Underwriters, Special Tax Administrator.

SOURCES OF PAYMENT FOR THE BONDS

General Provisions

Pursuant to the Indenture, the Bonds are equally secured by a first pledge of the Net Taxes and by other amounts held in the Special Tax Fund other than the Administrative Expense Account and Rebate Fund.

“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 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.

“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 the Indenture for the delinquency of 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.

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

“Administrative Expense Cap” means the amount \$26,010, with such amount escalating by 2% per Bond Year beginning September 2, 2007, 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.

Special Taxes

The Special Tax is exempt from the tax rate limitations of California Constitution Article XIII A because, pursuant to Section 4 of Article XIII A, the Special Tax was authorized by a two-thirds vote of the qualified landowner-electors of the Community Facilities District. Consequently, the District has the power and is obligated, pursuant to the covenants contained in the Indenture, to assure the levy of the Special Tax, including without limitation, the enforcement of delinquent Special Taxes. The Special Tax thus levied and collected will be used to pay the principal of and interest on the Bonds and the Administrative Expenses due or coming due and to replenish the Reserve Account, if necessary.

Because the Special Tax levy is limited to the maximum rates set forth in the Rate and Method, no assurance can be given that, in the event of Special Tax delinquencies, the receipts of the Special Tax will, in fact, be in sufficient amounts in any given year to pay debt service on the Bonds and all other obligations of the District. Moreover, pursuant to the Act, under no circumstances will the Special Tax levy against any parcel used for private residential purposes be increased by more than 10% as a consequence or delinquency of default by the owner of any other parcel or parcels in the District.

The Board of Directors, as legislative body of the District, shall fix and levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (a) the principal (including Sinking Fund Payments) of and interest on the Bonds when due, (b) to the extent permitted by law, the Administrative Expenses, and (c) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement. Moreover, during any fiscal year through fiscal year 2024-25 in which the Purchase Price (as defined in Appendix A) has not been paid to the Developer, the maximum Special Tax shall be levied on each Parcel of Developed Property (as such terms are defined in Appendix A). See Appendix A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

The Special Tax shall be payable and be collected in the same manner and at the same time and in the same installments as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the *ad valorem* taxes on real property. However, the Board of Directors may, by resolution, provide for any other appropriate method of collection of the Special Tax, including direct billing to property owners. Special Taxes for fiscal year 2006-07 are being collected on the *ad valorem* property tax bills prepared by the County, except that Special Tax payable by the Developer are being direct billed. Although the County has adopted a “teeter plan” pursuant to which it advances to taxing agencies amounts representing delinquent taxes of such taxing agencies, the County’s teeter plan is not applicable to the levy or collection of Special Taxes or the District.

Although the Special Tax will constitute a lien on the taxed parcels of land within the District, the Special Tax does not constitute a personal indebtedness of the owners of property within the District. There is no assurance that the property owners will be financially able to pay the annual Special Tax or that they will pay such taxes even if financially able to do so. See “SPECIAL RISK FACTORS” herein.

Special Tax Fund

The Trustee shall, on each date on which the Special Taxes are received from the NCSD or the District, deposit the Special Taxes in the Special Tax Fund 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 on the dates and in the amounts set forth in the Indenture, in the following order of priority, 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.

For a discussion of the flow of funds under the Indenture, see Appendix C — “SUMMARY OF INDENTURE — Creation of Funds and Application of Revenues and Gross Taxes.”

Principal Account and Interest Account

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. The Trustee shall make the required transfers from the Special Tax Fund on each Interest Payment Date first to the Interest Account and then to the Principal Account; provided that if amounts in the Special Tax Fund are inadequate then any deficiency shall be made up by an immediate transfer from the Reserve Account.

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

Reserve Account

There shall be maintained in the Reserve Account an amount equal to the Reserve Requirement. 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 upon written direction from the District, and (iii) making any required transfer to the Prepayment Account. 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, 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 as permitted by the Act.

(c) In connection with an optional redemption of the Bonds or a partial defeasance of the Bonds, 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 provisions of the Indenture shall be withdrawn from the Reserve Account on each Interest Payment Date and transferred to the Interest Account.

Administrative Expense Account

In addition to Bond proceeds deposited therein, the Trustee shall, 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 in connection with its services in levying and collecting the Special Tax shall be excluded from the calculation of the Administrative Expense Cap.

Acquisition and Construction Fund

Under the Indenture, there is created an Acquisition and Construction Fund in which there is established a Costs of Issuance Account, an Acquisition Account, a Construction Account and a Surplus Special Tax Account.

After making the transfers required by the Indenture, in any Fiscal Year from and including Fiscal Year 2006-07 through and including Fiscal Year 2024-25 in which the Developer is, or may in the future be, owed money pursuant to the Acquisition and Disclosure Agreement with respect to the 2005 Bonds, or the Acquisition Agreement with respect to the 2006 Bonds, 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 be 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.

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. 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, 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. 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.

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.

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. If so directed in a written instrument from the Developer and a Certificate of an Authorized Representative, the Trustee shall transfer from the Acquisition Account to the Construction Account such amount as may be specified in said documents as no longer being necessary for the purposes of the Acquisition Account.

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 (from proceeds of the Bonds or Parity Bonds) has been completed and that all costs of such portions 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.

Proceeds of Foreclosure Sales

A potential source of funds to pay debt service on the Bonds is the proceeds received following a judicial foreclosure sale of land within the District resulting from the landowner's failure

to pay the Special Tax when due. Pursuant to the Act, in the event of any delinquency in the payment of any Special Tax levied, the District may order the institution of a Superior Court action to foreclose the lien securing such unpaid Special Tax within specified time limits. In such an action, the real property subject to the unpaid Special Tax may be sold at a judicial foreclosure sale.

Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted for the benefit of the Owners of the Bonds that it (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 covenanted 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 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 of an Independent Financial Consultant 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.

No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale for nonpayment of the Special Tax will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment.

Reduction of Maximum Special Taxes

Pursuant to the Indenture, the District found and determined 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 also determined that a reduction in the Maximum Special Tax authorized to be levied on parcels in the District below the levels provided in the Indenture would interfere with the timely retirement of the Bonds. The District

determined 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 covenants 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 Special Tax rates for the District, unless, in connection therewith, (a) 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 (as defined in the Rate and Method) 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, (b) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and (c) the District receives both (i) 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 (ii), and (ii) 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 (A) on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the proposed reduction and (B) on the basis of the future development activity described in the certificate of the Developer described in (i), 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 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.

Parity Bonds

The 2006 Bonds are payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) on a parity with the 2005 Bonds originally issued and currently outstanding in the aggregate amount of \$56,125,000. The District may issue additional 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 Bonds, and any other Parity Bonds theretofore issued for any purposes authorized under the Act. Additional Parity Bonds may be issued subject to the following additional specific conditions, which are made conditions precedent to the issuance of any such Parity Bonds:

(a) The District shall be in compliance with all covenants set forth in the 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 additional 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 the 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 the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the 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) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions

permitted by the 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 the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the 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 the 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 the 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.

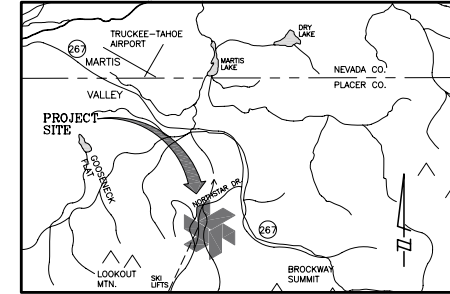
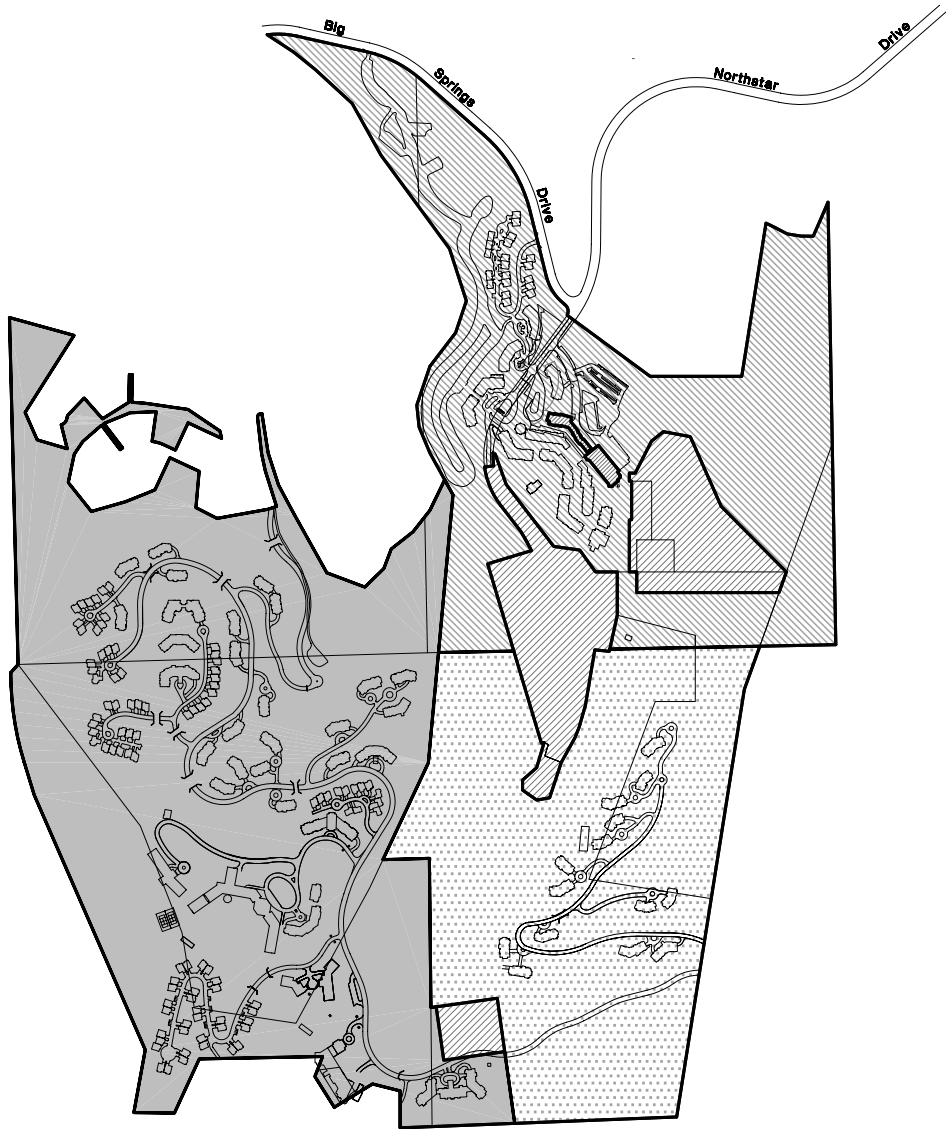
For purposes of the foregoing certificate, all calculations shall consider the Parity Bonds proposed to be issued to be Outstanding.

These provisions 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 the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.





Limited Obligation

The Bonds are limited obligations of the District payable solely from Net Taxes pledged therefor and from certain other amounts held in the Special Tax Fund pursuant to the Indenture. The faith and the credit of neither the District, NCSD, the State of California nor any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The issuance of the Bonds shall not directly, indirectly or contingently obligate the District, NCSD, the State of California or any political subdivision thereof to levy or pledge any form of taxation whatsoever therefor, other than the Special Taxes, or to make any appropriation for their payment other than from Net Taxes and from certain other amounts held in the Special Tax Fund.



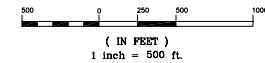
VICINITY MAP
NOT TO SCALE

LEGEND

-  Indicates areas not included within Proposed Community Facilities District
-  Zone 1
-  Zone 2
-  Zone 3



GRAPHIC SCALE



**IDENTIFICATION OF TAX ZONES FOR
PROPOSED COMMUNITY FACILITIES
DISTRICT NO. _____**

NORTHSTAR COMMUNITY SERVICES DISTRICT

Placer County - California
SEPTEMBER, 2004

PSOMAS

THE COMMUNITY FACILITIES DISTRICT

General Description of the District

The District consists of approximately 456.27 acres located west of State Highway 267 in the County of Placer, California in the master planned Northstar community. Subsequent to the formation of the District the Developer reconveyed approximately 52.44 acres to Trimont Land Holdings, LLC, the owner and operator of the Northstar-at-Tahoe Resort; and those acres are expected to be classified as “Ski Property” and to be exempt from the Special Tax. The Developer expects that it will make additional reconveyances, resulting in additional Ski Property, as development of the District proceeds. Most of the development planned for the District is expected to consist of multi-story buildings. As a result of the foregoing, the land area of the District that is expected to be subject to the Special Tax at buildout will consist of approximately 28 acres.

The Village portion of the District is mostly level due to significant site work. The Highlands portion of the District is located at a higher elevation than The Village and consists of steeper mountainland.

Description of Authorized Facilities

The facilities authorized to be acquired by the District with the proceeds of the 2006 Bonds consist of various public improvements described in Table 1 below. These facilities represent certain of the public improvements needed to complete the planned development within the District.

TABLE 1
ESTIMATED COSTS OF PUBLIC IMPROVEMENTS
TO BE FINANCED BY 2006 BOND PROCEEDS

<i>Public Improvement</i>	<i>Estimated Portion to be Paid with 2006 Bond Proceeds</i>
Fire Facilities	\$ 5,218,000
Cal Trans Road Facilities	2,361,000
Northstar Regional Trail	800,000
NCS D Utility Facilities	3,792,000
Investor Owned Utility Facilities	2,326,000
Water and Sewer Facilities	12,263,000
Placer County Road Facilities	<u>20,240,000</u>
TOTAL	<u>\$ 47,000,000</u>

Source: The District.

Taxpayers

With the exception of the 100 residential units in Phase 1 of The Village, as of November 1, 2006, all of the taxable land in the District was owned by the Developer or affiliates of the Developer. Certain open space and other non-taxable land in the District was owned by Trimont or affiliates of Trimont as of November 1, 2006. The Special Tax levy on Developed Property in fiscal year 2006-07 equals approximately \$671,900. Of the Special Tax levy on Developed Property in

fiscal year 2006-07, \$318,113 is being levied on the 100 residential units of Phase 1 of The Village which have been completed and closed escrow to individual purchasers, \$348,254 is being levied on the 113 residential units of Phase 2 of The Village and the remaining \$5,533 is being levied on the Non-Residential space located in Phase 1 of The Village which was completed in 2006. In fiscal year 2006-07, the levy of Special Taxes with respect to the 100 residential units in Phase 1 of The Village which have closed escrow to individual purchasers equals approximately 6.27% of the total estimated 2006-07 debt service on the Bonds. The remainder of the actual fiscal year 2006-07 Special Tax levy will be allocated to the Developer or its affiliates and individuals, if any, that purchase residential units in Phase 2 of The Village. No Special Tax will be levied on Undeveloped Property for such fiscal year. The additional amount required for 2006-07 debt service on the Bonds will be paid from capitalized interest. Bond proceeds deposited into the Interest Account, together with moneys on deposit therein and interest earnings thereon and Special Taxes levied on Developed Property, are expected to be sufficient to pay debt service on the Bonds through September 1, 2008.

For fiscal year 2006-07, the District will directly bill the Developer for Special Taxes on Phase 2 of The Village and the Non-Residential Special Tax Levy in Phase 1 of The Village, but the Special Tax on the 100 residential units and a portion of Non-Residential Property was included in the County tax levy. In subsequent years, the District expects to utilize the County for the levying of Special Taxes.

The following table is a summary of the actual fiscal year 2006-07 Special Tax levy within the District. Because of the availability of capitalized interest, the Special Tax was not levied on the Developer's other property in the District.

TABLE 2
ACTUAL FISCAL YEAR 2006-07 SPECIAL TAX LEVY

<i>Zone</i>	<i>Phase</i>	<i>Development</i>	<i>Owner</i>	<i>2006-07 Actual Special Tax Levy⁽²⁾</i>
1	1	Residential	Individual Purchasers	\$ 318,113
1	2	Residential	Developer ⁽¹⁾	348,254
1	1 and 2	Commercial	Developer ⁽¹⁾	5,533
Total				\$ 671,899

⁽¹⁾ Including affiliates.

⁽²⁾ Numbers rounded to the near dollar.

Source: Special Tax Administrator.

Estimated Direct and Overlapping Indebtedness

Within the District's boundaries are numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes on the parcels within the District and others may have authorized but unissued bonds which, if issued, will be secured by taxes and/or assessments levied on parcels within the District. The approximate amount of the direct and overlapping debt secured by such taxes and assessment on the parcels within the District for fiscal year 2006-07 (based on ratios from fiscal year 2005-06) is shown in Table 3 below (the "Debt Report"). The Debt Report has been derived from data assembled and reported to the District by California Municipal Statistics, Inc. Neither the District, NCSD nor the Underwriters have independently verified the information in the Debt Report or guarantee its

completeness or accuracy. Bonds of local agencies that are authorized but unissued are not shown in Table 3.

TABLE 3
DIRECT AND OVERLAPPING DEBT
NORTHSTAR COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1

2006-07 Local Secured Assessed Valuation: \$172,802,179

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u> ⁽¹⁾	<u>Debt 11/1/06</u>
Sierra Joint Community College District School Facilities Improvement District No. 1	0.352%	\$ 67,760
Tahoe-Truckee Joint Unified School District	0.334	38,452
Tahoe-Truckee Joint Unified School District School Facilities Improvement District No. 1	0.657	194,776
Northstar Community Services District Community Facilities District No. 1	100.00%	114,715,000 ⁽²⁾
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$115,015,988
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Placer County Certificates of Participation	0.091%	\$20,443
Placer County Office of Education Certificates of Participation	0.091	2,625
Sierra Joint Community College District Certificates of Participation	0.066	6,877
Tahoe-Truckee Joint Unified School District Certificates of Participation	0.352	35,834
TOTAL OVERLAPPING GENERAL FUND DEBT		\$65,779
 COMBINED TOTAL DEBT		 \$115,081,767 ⁽³⁾

Ratios to 2006-07 Assessed Valuation:

Direct Debt (\$114,715,000)	66.39%
Total Direct and Overlapping Tax and Assessment Debt	66.56%
Combined Total Debt.....	66.60%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: \$0

⁽¹⁾ Based on fiscal year 2005-06 ratios.

⁽²⁾ Includes the 2005 Bonds and the 2006 Bonds.

⁽³⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

Expected Tax Burden

Table 4 below sets forth an estimated property tax bill for fiscal year 2006-07 for an actual 1,215 square foot unit in Zone 1 of the District. The Special Tax for such a unit will increase at the rate of 2% per year and the applicable *ad valorem* taxes may also increase, subject to the limitations of the California Constitution. The Special Tax for Residential Units varies depending on the size of the Residential Unit and the Tax Zone in which it is located. See Appendix A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

TABLE 4
SAMPLE PROPERTY TAX BILL
FOR FISCAL YEAR 2006-2007

Estimated Assessed Valuation

Assessed Value ⁽¹⁾	\$1,258,740
Ad Valorem Basis	1,258,740

Ad Valorem Property Taxes

	Rate	Amount
Base Property Tax Rate	1.0000%	\$ 12,587
Sierra College SFID #1 B&I 2004 Series A	0.0125	157
Tahoe-Truckee Unified B&I 1993 Series A	0.0038	48
Tahoe-Truckee Unified B&I 1993 Series A 1998	0.0028	35
Tahoe-Truckee Unified B&I 1993 Series B Refunding 2004	0.0020	25
Tahoe-Truckee Unified B&I 1999 A SFID #1	0.0073	92
Tahoe-Truckee Unified B&I 1999 A SFID #1 Refunding 2001	0.0168	211
Tahoe-Truckee Unified B&I 1999 B SFID #1	0.0134	169
<i>Subtotal Ad Valorem Taxes</i>	1.0586%	\$ 13,325

Special Taxes, Assessments, and Charges

Placer Mosquito Abatement	\$ 10
Tahoe-Truckee Unified School Measure A	98
Northstar CSD Sewer	557
Northstar CSD Road	314
The District	3,035
<i>Subtotal Special Taxes & Assessments</i>	\$ 4,013

Total **\$ 17,338**

Total Effective Tax Rate **1.38%**

⁽¹⁾ Based on an average price of \$1,036 per square foot for properties in Phase 1 of Zone 1, as shown in the table "Northstar Unit Pricing Conclusions" in the Appraisal, and assuming a unit size of 1,215 square feet.
Source: Special Tax Administrator.

Appraisal

The Appraiser valued the taxable property within the District primarily based upon the development analysis or discounted cash flow approach and based upon a number of assumptions and limiting conditions contained in the Appraisal as set forth in Appendix B. This method applies the sales comparison approach to estimate the retail value of the product to be sold and applies all appropriate discounts and deductions over a projected sell out period to estimate the market value of the subject property in an "as is" condition. The Appraiser is of the opinion that the aggregate "as is" value of the Residential Property within the District that is subject to the Special Tax levy, assuming the completion of all improvements to be financed with proceeds of the 2005 Bonds and the 2006 Bonds, was \$779,100,000 as of November 1, 2006. The Appraisal allocates \$376,400,000 of the total value to Zone 1, \$88,800,000 to Zone 2, and allocates the remaining \$313,900,000 to Zone 3. Within Zone 1, the Appraisal allocates \$178,000,000 to the completed 100 residential units in

Phase 1, \$132,400,000 to the proposed 113 residential units in Phase 2, and \$66,000,000 to the proposed 137 residential units in Phase 3.

In arriving at its statement of value, the Appraiser also assumed that there are no hidden or unapparent conditions of the property or subsoil that render it more or less valuable, that all required licenses, certificates of occupancy or other legislative or administrative authorizations from governmental agencies or private entities or organizations have been or can be obtained, that no hazardous waste and/or toxic materials are located on the property within the District that would affect the development process, that the improvements to be funded with the 2006 Bonds are completed and that the proposed development is constructed in a timely manner with no adverse delays (i.e., construction will proceed as proposed with no limitations on development occurring). Additionally, it is the Appraiser's understanding that there are wetlands present on portions of Zone 3. The Appraiser was not given a wetlands survey, and the presence of regulated wetlands within the District could materially affect property value within the District. The Appraisal assumes no significant mitigation with respect to wetlands in the District will be required to develop the property within the District as contemplated by the Developer's plans.

The Appraiser made several other assumptions when arriving at the total appraised value set forth in the Appraisal, all as set forth in Appendix B. No assurance can be given that the assumptions made by the Appraiser will, in fact, be realized, and, as a result, no assurance can be given that the property within the District could be sold at the appraised values included in the Appraisal. The Appraisal merely indicates that Appraiser's opinion as to market value of the property referred to therein as of the date and under the conditions specified therein. The Appraiser's opinion reflects conditions prevailing in the applicable market as of the date of value. As set forth in the Appraisal, those market conditions include a rapid escalation in the prices paid for real property in the Lake Tahoe region. The Appraiser's opinion does not predict the future value of the subject property, and there can be no assurance that market conditions will not change adversely in the future. See Appendix B — "COMPLETE APPRAISAL."

Estimated Value-to-Lien Ratios

The value of the property within the District is significant because in the event of a delinquency in the payment of Special Taxes the District may foreclose only against delinquent parcels. Table 5 below estimates the appraised value-to-lien ratios for property in the District based on the principal amount of the Bonds. The assessed value of all land within the District (including land not subject to the Special Tax levy) for fiscal year 2006-07 is \$172,802,179. The estimated assessed value-to-lien ratio of the property within the District following the issuance of the 2006 Bonds based on the fiscal year 2006-07 Assessor's roll and the aggregate principal amount of the Bonds is approximately 1.5-to-1. The appraised value of the property within the District as set forth in the Appraisal is \$779,100,000. The estimated appraised value-to-lien ratios based upon the property values in the Appraisal as of November 1, 2006 and the aggregate principal amount of the Bonds is approximately 6.8-to-1. As set forth in Table 3 above, there is \$300,988 of additional land-secured debt which is payable from taxes levied on property within the District which, if included in the estimated value-to-lien calculations, would lower the ratios somewhat from that stated above and from the ratios in Table 5 below. As discussed under "— Appraisal," value associated with commercial property in the District is excluded from values reported in the Appraisal.

Value-to-lien ratios vary greatly from parcel to parcel. The value-to-lien ratios for the 100 residential units which have closed escrow to individual purchasers are significantly higher than the

value-to-lien ratios of the other property within the District and the District as a whole. See Table 5 below.

The District will provide updated assessed value-to-lien data in its Annual Report prepared pursuant to the District's Disclosure Agreement but will not update the appraised values or appraised value-to-lien estimates.

TABLE 5
ESTIMATED APPRAISED VALUE-TO-LIEN RATIOS

<i>Zone</i>	<i>Location</i>	<i>Development</i>	<i>Owner</i>	<i>Appraised Value</i>	<i>Maximum Special Tax Levy at Buildout⁽¹⁾</i>	<i>Percentage of Total Maximum Special Tax Levy at Buildout</i>	<i>Lien of Bonds⁽²⁾</i>	<i>Estimated Appraised Value-to-Lien Ratio</i>
1	The Village	100 Units – Phase 1	Individual Purchasers	\$ 178,000,000	\$ 318,113	4.3%	\$ 4,920,402	36.2-to-1
1	The Village	113 Units – Phase 2	Developer ⁽³⁾	132,400,000	348,254	4.7	5,386,608	24.6-to-1
1	The Village	137 Units – Phase 3	Developer ⁽³⁾	66,000,000	440,589	5.9	6,814,806	9.7-to-1
2	The Highlands	354 Units	Developer ⁽³⁾	88,800,000	1,354,229	18.3	20,946,524	4.2-to-1
3	The Highlands	<u>1,096 Units</u>	Developer ⁽³⁾	<u>313,900,000</u>	<u>4,955,339</u>	<u>66.8</u>	<u>76,646,660</u>	<u>4.1-to-1</u>
	Totals	1,800 Units		\$ 779,100,000	\$ 7,416,523	100.0%	\$ 114,715,000	6.8-to-1

⁽¹⁾ Represents Maximum Special Taxes anticipated at build-out based on fiscal year 2006-07 Special Tax rates.

⁽²⁾ Allocation of lien of the Bonds based on the applicable Special Tax allocated among the Zone 1, Phase 1 units, Zone 2 units and Zone 3 units only.

⁽³⁾ Including affiliates.

Source: Underwriters, Special Tax Administrator and Appraiser.

THE DEVELOPMENT AND PROPERTY OWNERSHIP

The Developer has provided the information in this section. The information herein regarding ownership of property in the District has been included because it is considered relevant to an informed evaluation of the 2006 Bonds. The inclusion in this Official Statement of information related to existing owners of property should not be construed to suggest that the 2006 Bonds, or the Special Taxes that will be used to pay the 2006 Bonds, are recourse obligations of the property owners. A property owner may sell or otherwise dispose of land within the District or a development or any interest therein at any time.

No assurance can be given that the proposed development within the District will occur as described below. As the proposed land development progresses and units are sold, it is expected that the ownership of the land within the District will become more diversified. No assurance can be given that development of the land within the District will occur, or that it will occur in a timely manner or in the configuration or intensity described herein, or that any landowner described herein or the Developer will obtain or retain ownership of any of the land within the District. The 2006 Bonds and the Special Taxes are not personal obligations of any landowners or the Developer and, in the event that a landowner or the Developer defaults in the payment of the Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of any landowner or the Developer. As a result, other than as provided herein, no financial statements or information is, or will be, provided about the Developer or other landowners. The Bonds are secured solely by the Net Taxes and other amounts pledged under the Indenture. See "SOURCES OF PAYMENT FOR THE BONDS" and "SPECIAL RISK FACTORS."

The Developer

Northstar Mountain Properties, LLC. The Members of the Developer are NMP Holdings, LLC (a subsidiary of EWRDV) and Trimont. NMP Holdings, LLC is the appointed manager of the Developer. EWRDV is a Delaware limited partnership, limited liability limited partnership in a family of related but independent companies formed to build, sell, manage and support high-quality real estate properties. East West Partners, the appointed manager of EWRDV, along with related entities have developed over \$1 billion of residential and commercial real estate. Over the past 20 years, East West Partners and related entities have developed primarily residential planned communities; club, recreation, and hospitality facilities; and resort properties combining residential and recreational facilities. Projects developed by East West Partners and related entities also include destination resorts, hotels, condominiums and fractional ownership units. Projects have been developed in various locations in Colorado including Vail, Beaver Creek, Eagle, Breckenridge, Silverthorne, Bachelor Gulch and Downtown Denver, as well as in Truckee and Lake Tahoe, California, Charleston, South Carolina and Deer Valley, Utah.

The general partner of EWRDV is HF Holding Corp. and the managing limited partner is HF Management LLC. The investor limited partner, Crescent Resort Development, Inc., owns an 89.8989% interest in EWRDV and is the primary source of EWRDV's investor capital.

Crescent. Crescent Resort Development, Inc. ("CRDI"), the investor limited partner of the Developer, is a wholly-owned subsidiary of Crescent Real Estate Equities Company ("Crescent"). Crescent is one of the largest publicly held real estate investment trusts in the United States. Through its subsidiaries and partners, Crescent owns and manages a portfolio of 73 premier office buildings totaling approximately 30 million square feet primarily located in the southwestern United States, with major concentrations in Dallas, Houston and Austin, Texas and Denver, Colorado.

In addition, Crescent invests in resorts and spas and upscale residential developments. Crescent, through CRDI, has been a principal investor in East West Partners and its subsidiaries for the last 8 years and has invested in excess of \$400 million in the partnership. Crescent stock is publicly traded on the New York Stock Exchange under the ticker symbol "CEL."

East West Partners' internet home page is located at www.ewpartners.com. East West Partners' internet home page for the development projects in the North Lake Tahoe area is located at www.tahoemountainresorts.com. Crescent's internet home page is located at www.crescent.com. The Developer's internet page regarding The Highlands is located at www.highlandsatnorthstar.com. These internet addresses are included for reference only and the information on such internet sites is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any internet site.

Projects in Vicinity of District. East West Partners is currently managing the development of several additional projects in the vicinity surrounding the District. Old Greenwood, a destination resort community located in Truckee, currently under construction. When completed, Old Greenwood will include 100 single family lots, 15 townhome-style villas, 74 fractional interest detached cabins, 72 fractional interest attached cottages and four whole ownership log-cabin style homes. The 100 homesites were sold in 2003 and 2004 at an average price of approximately \$348,000. As of November 1, 2006, approximately 20 custom homes had been completed and another 25 custom homes had broken ground and were in various stages of completion. Completed custom homes at Old Greenwood are valued at an average price of approximately \$3,000,000. During 2006, the 15 townhome-style villas were completed and as of October 31, 2006, all 15 villas had closed escrow at an average price of \$1,450,000. Through October 31, 2006, 677 fractional interest ownerships had been sold for a total of approximately \$80,000,000. On-site recreational amenities include a Jack Nicklaus Signature Design 18-hole championship golf course and pro shop as well as a recreation pavilion featuring swim, tennis and fitness facilities. Gray's Crossing, another destination-resort community under development by the East West Partners in Truckee, is planned to include 408 single family lots, 89 single family freestanding cottages, 115 attached townhomes, 21 residential lofts, approximately 40,700 square feet of commercial space and various community space. As of November 1, 2006, over 250 single family lots had been sold with an average sales price of approximately \$300,000. On-site recreational amenities include a Tahoe Mountain Club Members Only (private) Championship golf course designed by Peter Jacobsen and Jim Hardy. The course was completed in 2006 and is expected to open for play in Spring 2007. The Members Only club house and proshop are expected to be completed in Summer 2007.

East West Partners is also developing several recreational facilities throughout the Lake Tahoe region which will be available on a membership basis to residents of various communities developed by East West Partners, including the residents of the District. Such facilities include Coyote Moon Golf Course in Truckee, Wild Goose Restaurant located on the north shore of Lake Tahoe, and Schaffer's Camp and The Alpine Club, both located at the Northstar-at-Tahoe Resort. See "— Development Plan – Tahoe Mountain Club."

Key Staff of East West Partners. Key staff members of the Developer are discussed below.

Blake L. Riva is Managing Partner for East West Partners Lake Tahoe operations. Mr. Riva has extensive mountain resort management and real estate experience as has been the lead visionary behind the sales and marketing strategy of the properties under the Tahoe Mountain Resorts

umbrella. Mr. Riva has been with the company for 17 years and was formerly chief financial officer, responsible for financial reporting related to the consolidated operations of East West Partners and Crescent Real Estate Equities. Mr. Riva worked with East West Partners on the Lakemont project near Seattle, Washington. Mr. Riva has extensive experience in real estate development accounting, finance and project management. Mr. Riva was controller for Seattle-based Lorig Associates, Inc., and began his career in the audit division of Arthur Andersen & Company, where he became a certified public accountant.

Roger W. Lessman is Senior Partner for East West Partners' Lake Tahoe operations. Mr. Lessman has extensive mountain resort management and real estate experience. In his roles as president, CEO, managing partner and general manager, Mr. Lessman has managed commercial and residential real estate development, master planning, land acquisition, entitlement processes, and mountain and infrastructure development. On the operations side, Mr. Lessman has headed resort operations, property management, marketing, sales, financing and joint ventures. Before joining East West Partners, Mr. Lessman served as president and CEO of Valbois, The Resort on Cascade Lake in Idaho; managing partner of Transmontane Development Company and its affiliates in Grand Junction, Colorado; president and CEO of Sugarbush Ski Resort in Vermont; and president of Heritage Mountain Resort in Utah.

Thomas Dunlap serves as a Project Manager with oversight responsibilities of the Highlands, the Hotel as well as Highlands View Road and all Highlands infrastructure and related projects. Prior to joining East West Partners, Mr. Dunlap was a Senior Vice President with Walt Disney Imagineering, the development arm of the Walt Disney Company, overseeing resort development teams responsible for Walt Disney Hotels at its Florida, Paris and Hong Kong properties. Mr. Dunlap is a graduate of Ohio State University.

Joseph S. Malone serves as Village-at-Northstar project manager. Prior to joining East West Partners, he worked for Vail Resorts Development Company. In his 11 years of service with Vail Resorts, he managed development of private clubs and real estate in ski and golf course resort communities located in Vail, Beaver Creek, and Keystone in Colorado as well as Jackson Hole, Wyoming. He has a Bachelor's in Mathematics from Colorado College and a Masters in Business Administration from the University of Denver.

Mark J. Wasley is Vice President of Finance and is responsible for managing the financial aspects of East West Partner's operations in the Lake Tahoe region. Before joining East West Partners, he was the Controller for Parker Development, a developer of high-end communities located in the Sacramento area, specifically Serrano in El Dorado Hills, California. Mr. Wasley earned his CPA while employed in the audit department at KPMG Peat Marwick. He has a Bachelor's in Business Administration-Accounting from California State University - Sacramento.

A. William ("Bill") Fiveash is Vice President of Sales & Marketing for East West Partners real estate projects in Lake Tahoe. He has a broad experience with the East West Partners family of companies, including property management with East West Resorts, and project management for fractional and whole ownership development projects. Prior to joining East West Partners, he worked for Integrated Marketing and Sales, one of the leading resort sales and marketing firms. He has a Bachelor's in Business Administration and Geography from Wittenberg University and a Masters in Business Administration with emphasis of Hospitality Management and Operations from the University of Denver.

Development Plan

Generally. All of the land within the District is located at the Northstar-at-Tahoe Resort (the “Resort”), which provides year-round recreation opportunities. The ski facilities at the Resort include over 2,400 acres of skiable terrain serviced by 18 lifts. Summer activities available at the Resort include golf, hiking and biking with summer chairlift operations providing access to the on-mountain bike park. The Resort’s Internet home page is located at www.northstaratahove.com. This internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any internet site. Over approximately the next 15 years, the Developer intends to develop the land within the District into a master-planned recreation resort community consisting of approximately 1,800 luxury residential units, approximately 100,000 square feet of commercial space in The Villages and a 170-room luxury hotel to be known as “Ritz Carlton Highlands – Lake Tahoe,” with retail, restaurant and spa space, along with associated community space and public amenities. Development is expected to occur in several independent phases. Although the District is approximately 456.27 acres in size, development of the taxable property in the District will be largely vertical and concentrated in less than 28 acres in the ski terrain of the Northstar-at-Tahoe ski resort.

For purposes of administering the levy of Special Taxes, the District has been divided into three taxing zones. As they are developed, all 1,800 residential units planned for the District will be subject to the levy of Special Taxes, as described in Appendix A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” The commercial property in the District will also be subject to the Special Tax levy. However, the total amount of Special Taxes levied on the commercial property in the District is expected to be substantially less than the amount levied on residential property.

Table 6 below presents an overview of the planned development in the District.

TABLE 6
SUMMARY OF DEVELOPMENT

	<i>Number of Residential Units</i>	<i>Estimated Completion Date</i>
Zone 1 – The Village		
Phase 1	100	Completed
Phase 2	113	2007
Phase 3	137	2008-2012
Zone 2 – The Highlands	354	2010-2016
Zone 3 – The Highlands	1,096	2007-2021

Source: The Developer.

Zone 1 – The Village. Zone 1 of the District, also known as “The Village,” is located at the base of the Resort and consists of approximately 123 acres. At final build-out, the Developer expects The Village to include 350 residential units, approximately 100,000 square feet of commercial space and various community amenities. Access to The Village is from Northstar Drive, the existing main

arterial roadway in the immediate area. Development of The Village is anticipated to take place in three phases over the next six years, with final sales of residential units occurring by the end of 2013.

Phase 1 of The Village. The 100 residential condominiums in Phase 1 of The Village were developed by Northstar Iron Horse, LLC, a wholly owned subsidiary of the Developer, and are now owned by individual owners. Phase 1 of The Village includes 100 condominium-style residential units located in four multiple-story buildings. Each building contains commercial space on the ground floor and include a small fitness center for residential owners. Total commercial space in Phase 1 of The Village is approximately 60,000 square feet. Units in Phase 1 range in size from 805 square feet to 5,352 square feet (averaging approximately 1,700 square feet) and were offered with a wide range of amenities. Construction of all 100 units in Phase 1 of The Village has been completed, and all 100 residential units have been conveyed to individual purchasers. Sales prices for Phase 1 of The Village ranged from \$500,000 to \$5,800,000, with an average sales price of approximately \$1,420,000. The average price per square foot for the residential units within Phase 1 of The Village was approximately \$828 per square foot. 80 of the 100 sales contracts for the residential units within Phase 1 of The Village were entered into in April 2004. Sales of the units within Phase 1 of The Village generated revenues of approximately \$142,000,000.

All 100 residential units in Phase 1 of The Village, along with the commercial space, are subject to the levy of Special Taxes.

Phase 2 of The Village. All the land in Phase 2 of The Village is currently owned by Northstar Big Horn, LLC, a wholly owned subsidiary of the Developer. Phase 2 of The Village will include 113 condominium-style residential units located in three multiple-story buildings. Each building will contain commercial space on the ground floor and include a small fitness center for residential owners. Total commercial space in Phase 2 of The Village is expected to be approximately 40,000 square feet. Units in Phase 2 of The Village range in size from 468 square feet to 2,329 square feet (averaging approximately 1,330 square feet) and are being offered with a wide range of amenities. Construction of all 113 units is expected to be completed by Spring 2007 with the first building expected to be complete by the end of 2006. Phase 2 of The Village is expected to be completed and sold out by Summer 2007.

As of November 1, 2006, 83 units of the 113 units in Phase 2 of The Village were under sales contract with individual purchasers (including the 21 units described below that are under contract to a single purchaser). Substantial non-refundable deposits were made by such individual purchasers. The Developer expects all 113 units to have closed escrow to the individual purchasers by the end of December 2007. Sales prices for Phase 2 of The Village range from \$472,500 to \$2,995,000, with an average sales price of approximately \$1,438,000. The average price per square foot for the residential units within Phase 2 of The Village is approximately \$1,082 per square foot. Sales of the residential units within Phase 2 of The Village are expected to generate revenues of approximately \$162,400,000. The 21 condominium units in the One Village Place building in Phase 2 of The Village are under contract between Northstar Big Horn, LLC and 8050 Tahoe, LLC for \$39,100,000. 8050 Tahoe, LLC plans to offer fractional interest opportunities (1/12th shares) in 19 of the 21 units. The Developer expects to close the transaction with 8050 Tahoe, LLC in December 2006.

All 113 residential units in Phase 2 of The Village, along with the commercial space, will be subject to the levy of Special Taxes.

In connection with the development of Phase 1 and Phase 2 of The Village, the Developer has constructed an ice rink, central stage area, skier deck and gondola access point. The ice rink and central stage are owned by the home owners' association and the skier deck and gondola access point will be owned by Booth Creek and will not be subject to the levy of Special Taxes.

Phase 3 of The Village. Development of Phase 3 of The Village, also known as Village North or Northside, is currently in the design phase. Phase 3 is located approximately 100 yards north of Phases 1 and 2 of The Village and the Resort core. Phase 3 is expected to include 137 residential units at buildout. Current planning configurations anticipate 34 townhome-style residential units in duplexes, along with 103 condominium-style residential units in buildings similar to those under construction for Phases 1 and 2 of The Village. The 34 townhome-style residences anticipated within Phase 3 of The Village have been fully planned and are currently in permit review with the County. Planning with respect to the rest of Phase 3 of The Village, however, is not complete and the final unit configurations may change. Concurrent with and incorporated within Phase 3, the Developer will be constructing a recreational amenity facility to service the 350 residential units located within The Village area. Once complete, the recreation amenity will be conveyed to the home owner's association at no cost. No construction activity with respect to Phase 3 has yet commenced. During 2006, the environmental impact report in connection with Phase 3 was approved. Groundbreaking for Phase 3 is anticipated in May 2007 with final sales expected in 2013.

All 137 units in Phase 3 of The Village will be subject to the levy of Special Taxes.

Zones 2 and 3 – The Highlands. Zones 2 and 3 of the District, also known as “The Highlands,” are located further up the mountain from The Village, at an elevation of nearly 7,000 feet. The Highlands consists of approximately 337 acres. At final build-out, The Highlands is expected to include 1,450 residential units, a 170-room Ritz Carlton Highlands – Lake Tahoe luxury hotel, commercial space and various community amenities. Primary access to The Highlands will be from the partially completed Highlands View Road which connects to State Highway 267 to the east and the completed Ridge Line Road which connects to the existing Northstar Drive accessed via State Highway 267 to the east. Such access roads are not yet completed and will be built as part of the development of The Highlands. An environmental impact report pertaining to The Highlands has been completed. Development of The Highlands is expected to take place over the next approximately 15 years.

Zone 2 of The Highlands. Zone 2 of The Highlands is planned for 354 residential units. Unit configurations are still being considered by the Developer and will likely consist of condominium-style residential units, townhome-style residential units and high-end luxury single family homes. Sales of fractional interests in residential units are also being considered. No construction activity is currently taking place in connection with development within Zone 2 of The Highlands. The Developer expects to continue working on design plans with respect to Zone 2 of The Highlands and break ground in 2009. Full development of Zone 2 of The Highlands is expected to take approximately 8 to 10 years.

All 354 units planned in Zone 2 of The Highlands will be subject to the levy of Special Taxes.

Zone 3 of The Highlands. Zone 3 of The Highlands is planned for 1,096 residential units, the Hotel and various commercial uses. Like Zone 2 of The Highlands, unit configurations are still being considered by the Developer and will likely consist of condominium-style residential units, townhome-style residential units and high-end luxury single family homes.

Ritz-Carlton Highlands, Lake Tahoe Resort Complex. The most significant project within Zone 3 of The Highlands is the area known as the “Ritz-Carlton Highlands, Lake Tahoe Resort Complex.” During 2006, the Developer entered into an agreement with Ritz-Carlton Hotel Company to develop and brand through an entity controlled by Crescent and East West Partners, but not including Trimont or Booth Creek, a 170-room Ritz-Carlton Highlands, Lake Tahoe hotel and 84 Ritz-Carlton Residences condominiums. Additionally, the Developer entered into an agreement with Ritz-Carlton Development Company under which the Ritz Carlton Development Company will develop and sell 78 Ritz-Carlton Club fractional-ownership condominiums.

The Hotel is expected to contain approximately 350,000 square feet at completion, including 170 hotel rooms, 23 of the 84 Ritz Residences condominiums as well as approximately 21,500 square foot spa containing 16 treatment rooms, approximately 11,400 square feet of meeting and ballroom space, ski valet and storage facilities, a signature three meal restaurant, deli, wine bar, casual bar, and oversized Ritz-Carlton main lobby and underground parking for approximately 262 vehicles. The 23 Ritz Residences Penthouse units, while physically located in the Hotel, are not included in the 170 hotel room count. As of November 1, 2006, the Hotel was under construction with excavation and a large foundation in place ready for vertical construction in Spring 2007. To date, the Hotel site has been timber harvested and approximately 110,000 cubic yards of dirt and rock have been excavated. Additionally, the internal roads and drives have been mass graded and all foundations for the Hotel and parking garage, as well as the back of house service areas, have been constructed. This work includes completing all slab foundations, micro piles foundations and geopier foundations. The Hotel, including the 23 Ritz Residences, is expected to be completed in the third to fourth quarter of 2009. The remaining 61 Ritz Residences are planned to be developed in two separate buildings located adjacent to the Hotel in two phases with deliveries of the first 31 Ritz Residences in 2009 and the remaining 30 Ritz Residences in 2010. Sales of fractional interests in residential units are also being considered. The 78 Ritz-Carlton Club fractional interest condominiums are planned to be located in a single three phase building adjacent to the Hotel. 28 Ritz-Carlton Club fractional condominiums are planned to be completed in 2009, 25 are planned to be completed in 2011 and 25 are planned to be completed in 2013.

Additional projects underway in Zone 3 of The Highland include the “Trailside Townhomes,” which is planned to contain 16 townhome-style residential units containing approximately 3,400 to 4,000 square feet, and the “Highlands Lodge” which is expected to contain 60 condominium units in two buildings. Trailside Townhomes are being developed within Northstar Trailside Townhomes, LLC, a wholly owned subsidiary of the Developer, and is planned to be developed in two phases. As of November 1, 2006, 6 units within Phase 1 of Trailside were under construction and were expected to be completed in November 2007. Phase 2 of Trailside is expected to be completed in Summer 2008. The Developer also expects to develop the Highlands Lodge in two phases. The Developer plans to begin construction of the Highland Lodge in Spring 2007 with 36 units expected to be completed by the end of 2008 and the remaining 24 units to be completed by the end of 2009.

The Developer expects to continue working on design plans with respect to the rest of Zone 3 of The Highlands. Full development of Zone 3 of The Highlands is expected to take approximately 15 years.

All 1,096 units in Zone 3 of The Highlands, along with the limited commercial space and the Hotel, will be subject to the levy of Special Taxes.

Tahoe Mountain Club. East West Partners has created a private club membership concept for a family of resort properties and amenities located in the vicinity of the District. The club is referred to as the Tahoe Mountain Club. A separate ownership entity of EWRDV, Tahoe Club Company, LLC, funds the development of and operates the amenities for Tahoe Mountain Club.

The benefits of the Tahoe Mountain Club are considered by the Developer to be a key marketing tool in the sales of product at the District. Membership in the Tahoe Mountain Club must be purchased separately by the owners in the District. Facilities offered to members of the Tahoe Mountain Club are located both on-site within the District and off-site within the Truckee/North Lake Tahoe Area. All club facilities are in the vicinity of the District. Amenities in the vicinity of the District include: (i) the Peter Jacobsen/Jim Hardy-designed 18-hole golf course accessible to Full Golf Membership holders in the Tahoe Mountain Club, (ii) the Fitness Center, and (iii) the short game area and driving range located at the golf course accessible to Full Golf Membership holders in the Tahoe Mountain Club. Other privileges include: (i) special privileges at the existing 18-hole Coyote Moon Golf Course in the Town of Truckee, including priority tee times, (ii) special access to the 18-hole Jack Nicklaus Signature Old Greenwood golf course, (iii) access to the existing Pavilion at Old Greenwood (swim, tennis, fitness and dining facility), (iv) member's only access to the Wild Goose Restaurant located on the north shore of Lake Tahoe, (v) valet ski storage and member privileges in the Alpine Club at The Village, and (vi) access to Schaffer's Camp, a members-only, on-mountain restaurant at the Resort. With the exception of the Alpine Club to be located in The Village, none of the assets of the Tahoe Mountain Club are located in the District. Only the Alpine Club will be subject to the levy of Special Taxes of the District.

Commercial Property. As discussed above, commercial property is planned for The Village and The Highlands. The Developer expects to convey commercial property in The Village as it is developed to Booth Creek or a subsidiary thereof at cost. Much of the commercial space to be owned by Booth Creek will be used by Booth Creek in connection with Resort operations. The balance of the commercial property will be leased to tenants. Approximately 91% of the available commercial space in The Village Phase I has already been pre-leased to individual tenants. Tenants include North Face, Oakley, Helly Hansen and Starbucks. Pursuant to the Rate and Method, the amount of Special Taxes that will be levied on commercial property in the District will be substantially less than the amount to be levied on residential property. See APPENDIX A – "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

The Northstar-at-Tahoe Resort. The Northstar-at-Tahoe Resort is both within and outside of the boundaries of the District. The Northstar-at-Tahoe Resort is currently comprised of approximately 2,420 acres, 17 ski lifts, 73 trails, uphill transport capacity of 23,000 skiers per hour and has snowmaking capacity for more than 50% of the skiable terrain. The Northstar-at-Tahoe Resort has an approved Mountain Area Improvement Plan to include an additional 3,500 acres, 11 new lifts and 50 new ski trails on fee title land owned by Trimont and/or other subsidiaries.

Over the past four seasons, the Resort has had skier visit totals ranging from 519,000 to 569,000 with a four year average of 535,000 skier visits between the 2000-01 and 2003-04 ski seasons. Resort skier visits have grown an average of 5% a year since 2002. The Resort manager projects additional growth in skier visits over the next four ski seasons based on the Developer's continued development and additional improvements to the Resort including the construction of intercept parking lots near Highway 267 which are expected to reduce traffic on Northstar Drive leading to the Resort, the construction of four new ski lifts and new ski trails and the construction of new skier services and operations buildings located in The Village. See Appendix B — "COMPLETE APPRAISAL" for additional information regarding the Resort ski market analysis.

Finance Plan. The full development of the property within the District requires the expenditure of substantial amounts of capital. Table 7 below has been provided by the Developer to indicate its present projection of the sources and uses of funds associated with the development of the District. There can be no assurance that the Developer will have timely access to the sources of funds which will be necessary to complete the proposed development. There can also be no assurance that there will be no substantial changes in the sources and uses of funds shown below. Table 7 reflects the Developer's current projections of costs associated with developing the property within the District. Many factors beyond the Developer's control, or a decision by the Developer to alter its current plans, may cause the Developer's actual sources and uses of funds to differ from the projections in Table 7. Table 7 is presented to show that expected revenues make the development proposed feasible and not to guarantee a particular cash flow to the Developer.

**TABLE 7
DEVELOPER'S PRO FORMA CASH FLOW⁽¹⁾**

	<i>thru 10/31/06</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012-2021</i>	<i>Total</i>
Units									
Zone 1-Phase 1	100	-	-	-	-	-	-	-	100
Zone 2-Phase 2	-	21	92	-	-	-	-	-	113
Zone 1-Phase 3	-	-	3	46	15	15	15	43	137
Zone 2	-	-	-	-	-	50	50	254	354
Zone 3	-	-	6	46	106	75	55	808	1,096
Total Units	100	21	101	92	121	140	120	1,015	1,800
Sales Revenue									
Zone 1-Phase 1	\$ 141,692,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 141,692,000
Zone 1-Phase 1- Commercial	4,365,000	26,965,000	-	-	-	-	-	-	31,330,000
Zone 1-Phase 2	-	39,500,000	122,900,000	-	-	-	-	-	162,400,000
Zone 1-Phase 2 - Commercial	-	-	17,000,000	-	-	-	-	-	17,000,000
Zone 1-Phase 3	-	-	8,326,000	127,672,000	46,978,000	48,848,000	51,655,000	159,664,000	443,143,000
Zone 2	-	-	-	-	-	112,599,000	117,103,000	671,035,000	900,737,000
Zone 3	-	-	22,308,000	118,592,000	392,438,000	291,046,000	204,177,000	3,115,324,000	4,143,885,000
Total	\$ 146,057,000	\$ 66,465,000	\$ 170,534,000	\$ 246,264,000	\$ 439,416,000	\$ 452,493,000	\$ 372,935,000	\$ 3,946,023,000	\$ 5,840,187,000
Mello-Roos Reimbursements-Series 2005	2,047,000	23,953,000	3,000,000	-	-	-	-	-	29,000,000
Mello-Roos Reimbursements-Series 2006	-	21,938,000	12,956,000	106,000	-	-	-	-	35,000,000
Mello-Roos Reimbursements-Excess Special Tax	-	-	-	-	-	-	-	19,626,000	19,626,000
Developer Cash Investment	139,421,000	-	-	-	-	-	-	-	139,421,000
Total	\$ 287,525,000	\$ 112,356,000	\$ 186,490,000	\$ 246,370,000	\$ 439,416,000	\$ 452,493,000	\$ 372,935,000	\$ 3,965,649,000	\$ 6,063,234,000
Direct Cost									
Architecture & Other Soft Costs	41,355,000	4,805,000	34,188,000	41,162,000	38,974,000	34,618,000	26,556,000	281,886,000	503,544,000
Construction Cost	220,067,000	17,813,000	84,039,000	154,533,000	171,583,000	181,709,000	149,580,000	1,803,819,000	2,783,143,000
Carry & Other Cost	374,000	93,000	3,547,000	5,290,000	3,921,000	6,890,000	6,332,000	72,635,000	99,082,000
Sales & Marketing (Including Commissions)	15,107,000	3,031,000	39,269,000	43,922,000	46,804,000	53,229,000	51,955,000	352,430,000	605,747,000
Total Direct Cost	\$ 276,903,000	\$ 25,742,000	\$ 161,043,000	\$ 244,907,000	\$ 261,282,000	\$ 276,446,000	\$ 234,423,000	\$ 2,510,770,000	\$ 3,991,516,000
Master Developer Adjustments									
Infrastructure Cost-Public	30,230,000	8,388,000	12,956,000	12,179,000	9,506,000	5,766,000	1,633,000	-	80,658,000
Infrastructure Cost-Private	27,311,000	-	2,000,000	2,500,000	1,000,000	-	3,500,000	7,000,000	43,311,000
Common Cost & Entitlements	24,868,000	-	-	-	-	-	-	-	24,868,000
Mello-Roos Special Tax Carry	-	-	-	427,000	2,265,000	3,382,000	2,858,000	7,543,000	16,475,000
Total	\$ 82,409,000	\$ 8,388,000	\$ 14,956,000	\$ 15,106,000	\$ 12,771,000	\$ 9,148,000	\$ 7,991,000	\$ 14,543,000	\$ 165,312,000
Total Cost	\$ 359,312,000	\$ 34,130,000	\$ 175,999,000	\$ 260,013,000	\$ 274,053,000	\$ 285,594,000	\$ 242,414,000	\$ 2,525,313,000	\$ 4,156,828,000
Net Cash Before Bank	(71,787,000)	78,226,000	10,491,000	(13,643,000)	165,363,000	166,899,000	130,521,000	1,440,336,000	1,906,406,000
Bank Activity ⁽²⁾	71,787,000	5,341,000	22,379,000	71,134,000	(1,208,000)	10,567,000	(10,000,000)	(170,000,000)	-
Net Cash Flow-After Bank	\$ -	\$ 83,567,000	\$ 32,870,000	\$ 57,491,000	\$ 164,155,000	\$ 120,521,000	\$ 120,521,000	\$ 1,270,336,000	\$ 1,906,406,000

⁽¹⁾ Revenues and costs inflated 4% annually.

⁽²⁾ The Developer has obtained the bank loans which the Developer expects to utilize through 2007. The bank loan proceeds shown in Table 7 for the periods after 2007 represent proceeds from bank loans the Developer expects to obtain in the course of development of the District.

Source: The Developer.

The projected sources and uses of funds in Table 7 have been prepared based upon assumptions of future sales revenues, development costs, operating costs, property taxes, public facilities financing and other items. The project's actual sources and uses of funds may vary from the table above. Therefore, there can be no assurance that the actual revenues will not be less than projected or occur later than projected by the Developer.

To the extent that actual revenues are less than projected in Table 7 or are received more slowly than projected in Table 7, other needed financing mechanisms are not put into place or actual expenses are greater than or occur earlier than projected above, there could be a shortfall in the cash required to complete the development as projected above.

Land Use

The District is zoned for the current planned density by virtue of the following land use plans: Martis Valley General Plan (approved in 1967 and 1975), Northstar Master Plan (approved in 1971) and Martis Valley Community Plan (approved in 2003). The planning and development of the area around the Resort has a history dating back to the 1960's. The original master plan proposed total development of 3,700 units. By the mid-1990's, less than one-half of the potential 3,700 units at the Resort had been platted and developed, allowing for the possibility of additional large-scale residential development at the Resort. Booth Creek and East West Partners created a partnership, described previously, for the purposes of completing the real estate build-out at the Resort.

There was opposition to the Martis Valley Community Plan of 2003, of which the District is a part, by various environmental groups, resulting in litigation. On May 3, 2005, a Placer County Superior Court judge ruled (the "Judgment") that the County did not comply with state environmental requirements in connection with its approval of the Martis Valley Community Plan. The Judgment was appealed and while the appeal was pending, the parties reached agreement regarding the terms of a settlement that resolved the litigation (the "Settlement"). The Settlement called for the trial court to reverse the Judgment resulting in the Martis Valley Community Plan remaining in place. The Settlement required approval from both the Court of Appeal and the trial court. On September 6, 2006, both courts approved the Settlement. The time period to appeal the Settlement expired 60 days thereafter. As a result, the Martis Valley Community Plan remains the applicable land-use plan in this portion of the County. The Settlement did not require the County to rescind its approval of the Martis Valley Community Plan, or to amend the Martis Valley Community Plan. As such, the litigation and appeal are now final.

Environmental Compliance

The County has certified final environmental impact reports and filed associated notices of determination with respect to the property in Phases 1, 2 and 3 of The Village and in The Highlands (the "EIRs"). The EIRs set forth several environmental requirements with respect to development in Phases 1 through 3 of The Village and The Highlands. The Developer has reviewed all such requirements and does not believe that any such requirements will result in material delay or impact to the development plan described herein. In connection with the development of The Highlands, several wetlands permits were required and received from the U.S. Army Corps of Engineers. The development plan with respect to The Highlands required receiving such permits.

The Appraiser was not given a wetlands survey, and that the presence of regulated wetlands within the District could materially affect property value within the District. The Appraisal assumes

no significant mitigation with respect to wetlands in the District will be required to develop the property within the District as contemplated by the Developer's plans. See "THE COMMUNITY FACILITIES DISTRICT — Appraisal" and Appendix B — "COMPLETE APPRAISAL."

SPECIAL RISK FACTORS

The purchase of the 2006 Bonds involves a high degree of investment risk and, therefore, the 2006 Bonds are not appropriate investments for many types of investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the 2006 Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the 2006 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See "— Land Values" and "— Limited Secondary Market" below.

Concentration of Ownership

With the exception of the 100 residential units within Phase 1 of The Village that are owned by individual owners, all land subject to the Special Tax levy in the District is currently owned by the Developer or affiliates thereof. In fiscal year 2006-07, the levy of Special Taxes with respect to the 100 residential units in Phase 1 of The Village which have closed escrow to individual purchasers equals approximately 6.27% of the total estimated 2006-07 debt service on the Bonds. (Bond proceeds deposited into the Interest Account, together with moneys on deposit therein and interest earnings thereon and Special Taxes levied on Developed Property, are expected to be sufficient to pay debt service on the Bonds through September 1, 2008.) Until the further sale of units to individuals occurs, the receipt of the Special Taxes is largely dependent on the willingness and the ability of the Developer to pay the Special Taxes when due. Failure of the Developer, or any successor, to pay the annual Special Taxes when due could result in a default in payments of the principal of, and interest on, the 2006 Bonds, when due. See "SPECIAL RISK FACTORS — Failure to Develop Properties" below.

Furthermore, no assurance can be made that the Developer, or its successors, will complete the intended construction and development in the District. See "SPECIAL RISK FACTORS — Failure to Develop Properties" below. As a result, no assurance can be given that the Developer and the other landowners within the District will continue to pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See "SPECIAL RISK FACTORS — Bankruptcy and Foreclosure" below, for a discussion of certain limitations on the District's ability to pursue judicial proceedings with respect to delinquent parcels.

Limited Obligations

The 2006 Bonds and interest thereon are not payable from the general funds of NCSD. Except with respect to the Special Taxes, neither the credit nor the taxing power of the District nor NCSD is pledged for the payment of the 2006 Bonds or the interest thereon, and, except as provided in the Indenture, no Owner of the 2006 Bonds may compel the exercise of any taxing power by the District or NCSD or force the forfeiture of any NCSD or District property. The principal of, premium, if any, and interest on the 2006 Bonds are not a debt of NCSD or a legal or equitable

pledge, charge, lien or encumbrance upon any of NCSD's or the District's property or upon any of NCSD's or the District's income, receipts or revenues, except the Special Taxes and other amounts pledged under the Indenture.

Insufficiency of Special Taxes

If for any reason property within the District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government, another public agency or a religious organization, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within the District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

Moreover, if a substantial portion of land within the District became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining property within the District might not be sufficient to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.

Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, are customarily billed to the properties within the District on the *ad valorem* property tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes," for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Indenture, in the event of delinquencies in the payment of Special Taxes. See "— Bankruptcy and Foreclosure" below, for a discussion of the policy of the Federal Deposit Insurance Corporation (the "FDIC") regarding the payment of special taxes and assessment and limitations on the District's ability to foreclosure on the lien of the Special Taxes in certain circumstances. Moreover, pursuant to the Act, under no circumstances will the Special Tax levy against any parcel used for private residential purposes be increased as a consequence of delinquency of default by the owner of any other parcel or parcels in the District by more than 10%.

Neither the Developer nor EWRDV is currently delinquent in the payment of any special taxes, property taxes or assessments applicable to property within the District.

Failure to Develop Properties

Undeveloped or partially developed land is inherently less valuable than developed land and provides less security to the Bondowners should it be necessary for the District to foreclose on the property due to the nonpayment of Special Taxes. The failure to complete development in the District as planned, or substantial delays in the completion of the development due to litigation or other causes may reduce the value of the property within the District and increase the length of time during which Special Taxes will be payable from undeveloped property, and may affect the

willingness and ability of the owners of property within the District to pay the Special Taxes when due.

Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies, including, in some instances relating to public facilities, NCSD, in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect planned land development. Finally, development of land is subject to economic considerations.

Additionally, the Developer has indicated that it may need to obtain financing to complete the development in the District. See Table 7 under “THE DEVELOPMENT AND PROPERTY OWNERSHIP.” No assurance can be given that the required funding will be secured or that the proposed development will be partially or fully completed, and it is possible that cost overruns will be incurred which will require additional funding beyond what is assumed in the Appraisal. Such funding may or may not be available. Added costs could result in a reduction in the value of the land in the District. See “THE COMMUNITY FACILITIES DISTRICT — Appraisal” herein.

There can be no assurance that land development operations within the District will not be adversely affected by a future deterioration of the real estate market and economic conditions, increases in interest rates applicable to mortgages, or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, or the national economy. In addition, the attractiveness of the area as a location for second homes for people in the San Francisco Bay area could diminish if the price of gasoline continues to increase. A slowdown of the development process and the absorption rate could adversely affect land values and reduce the ability or desire of the property owners to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the Bonds when due.

2006 Bondowners should assume that any event that significantly impacts the ability to develop land in the District would cause the property values within the District to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within the District to pay the Special Taxes when due.

Future Land Use Regulations and Growth Control Initiatives

It is possible that future growth control initiatives could be enacted by the voters or future local, state or federal land use regulations could be adopted by governmental agencies and be made applicable to the development of the vacant land within the District with the effect of negatively impacting the ability of the owners of such land to complete the development of such land if they should desire to develop it. This possibility presents a risk to prospective purchasers of the 2006 Bonds in that an inability to complete desired development increases the risk that the 2006 Bonds will not be repaid when due. The owners of the 2006 Bonds should assume that any reduction in the permitted density, significant increase in the cost of development of the vacant land or substantial delay in development caused by growth and building permit restrictions or more restrictive land use regulations would cause the values of such vacant land within the District to decrease. A reduction in land values increases the likelihood that in the event of a delinquency in payment of Special Taxes a foreclosure action will result in inadequate funds to repay the 2006 Bonds when due.

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

Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits. Because future development of vacant property in the District could occur over many years, if at all, the application of future land use regulations to the development of the vacant land could cause significant delays and cost increases not currently anticipated, thereby reducing the development potential of the vacant property and the ability or willingness of owners of such land to pay Special Taxes when due or causing land values of such land within the District to decrease substantially from those in the Appraisal.

Endangered Species

The Developer is not aware of any threatened or endangered species on property in or adjacent to the District. Any action by the State or federal governments to protect species located on or adjacent to the property within the District could negatively impact the ability of the owners of that land to complete development. This, in turn, could reduce the likelihood of timely payment of the Special Taxes levied against such that land and would likely reduce the value of such land and the potential revenues available at the foreclosure sale for delinquent Special Taxes. See “— Failure to Develop Properties” above.

Natural Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District.

There are several faults in the vicinity of the District, including the Dog Valley Fault which was the source of an earthquake in 1966 measuring 6+ on the Richter scale. However, no faults in the area have been designated as Alquist-Priolo Special Study Zones, a designation used by the State to identify significant hazard zones along faults.

The Developer has implemented an extensive Timber Harvest Management Plan as well as defensible space and fire prevention measures (also called a shaded fuel break) to lessen the possibility of a fire jumping to or from the development at the District.

A natural disaster could result in a substantial portion of the property owners being unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

Hazardous Substances

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

Further, it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel that is realizable upon a delinquency.

NCSD and the Developer are aware of asbestos piping located on property within the District. The Developer plans to remediate such piping and does not expect any delay to development as a result of such remediation.

Parity Taxes and Special Assessments

Property within the District is subject to the lien of several overlapping public agencies. See “THE COMMUNITY FACILITIES DISTRICT — Estimated Direct and Overlapping Indebtedness.”

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

Neither NCSD nor the District has control over the ability of other public agencies and districts to issue indebtedness secured by special taxes or assessments payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of NCSD, petition other public agencies to issue public indebtedness secured by special taxes or assessments. Any such special taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within the District described herein.

Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel to pay the Special Tax may be affected by whether or not the owner was given due notice of the Special Taxes at the time the owner purchased the parcel, whether or not the owner was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy, and the financial ability of an owner to pay Special Taxes as well as pay other expenses and obligations. NCSD has caused a notice of the Special Tax lien to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within the District or lending of money thereon.

The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Non-Cash Payments of Special Taxes

Under the Act, the Board of Directors, as the legislative body of the District, may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a 2006 Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A 2006 Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if 2006 Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a 2006 Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other 2006 Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other 2006 Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of 2006 Bonds in payment of Special Taxes, the Indenture includes a covenant pursuant to which the District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of 2006 Bonds unless the District shall have first obtained a report of an Independent Financial Consultant certifying that doing so would not result in the District having insufficient Net Taxes to pay the principal of and interest on all Outstanding 2006 Bonds when due.

Payment of the Special Tax Is Not a Personal Obligation of the Owners

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

Land Values

The value of the property within the District is a critical factor in determining the investment quality of the 2006 Bonds. If a property owner is delinquent in the payment of Special Taxes, the District's only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT — Estimated Value-to-Lien Ratios" herein.

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

The Appraiser has estimated, on the basis of certain definitions, assumptions and limiting conditions contained in the Appraisal, that as of November 1, 2006 the value of the land within the District was \$779,100,000. The Appraisal is based on the assumptions as stated in Appendix B — "COMPLETE APPRAISAL." The Appraisal does not reflect any possible negative impact which could occur by reason of future slow or no growth voter initiatives, any potential limitations on development occurring due to time delays, the presence of hazardous substances within the District, the existence of wetlands within the District, the listing of endangered species or the determination that habitat for endangered or threatened species exists within the District, or other similar situations. The Appraiser has conditioned the Appraisal on the specific condition that there are no environmental issues which would slow or thwart development of the District.

Prospective purchasers of the 2006 Bonds should not assume that the land within the District could be sold for the appraised amount described above at a foreclosure sale for delinquent Special Taxes. In arriving at the estimates of value, the Appraiser assumes that any sale will be unaffected by undue stimulus and will occur following a reasonable marketing period, which is not always present in a foreclosure sale. See Appendix B for a description of other assumptions made by the Appraiser and for the definitions and limiting conditions used by the Appraiser.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes.

The availability of significant local recreational amenities, including the Resort, is vitally important to the successful sale of residential units in the District. Property values in the District would likely fall if currently existing recreational amenities were to fail or become more limited. For example, if the Resort or Booth Creek were to experience operational difficulties that resulted in more limited access to local recreational amenities, the value of property in the District would be negatively affected. Additionally, many of the amenities proposed to be built in or near the District support the Appraiser's opinion regarding the value of land in the District. If the Developer fails to build such amenities, the values of property in the District could vary materially from the values set forth in the Appraisal.

Although the District is approximately 456.27 acres in size, the development of property subject to the Special Tax levy is expected to be concentrated in less than 28 acres. The Appraisal does not allocate value on a parcel by parcel basis, however, nearly all of the value will be concentrated on the developed parcels in the District. To the extent payment of debt service on the 2006 Bonds becomes reliant on Special Taxes levied on undeveloped parcels, owners of the 2006 Bonds should be aware that such parcels will have little or no value.

FDIC/Federal Government Interests In Properties

The ability of the District to collect interest and penalties specified by state law and to foreclose the lien of a delinquent Special Tax may be limited with respect to properties in which the Federal Deposit Insurance Corporation (the "FDIC") has or obtains an interest. Specifically, in the event that any financial institution making a loan which is secured by a taxable parcel is taken over by the FDIC and the applicable Special Tax is not paid, the remedies available to the District may be constrained. The FDIC has issued a policy statement regarding the payment of state and local real property taxes (the "Policy Statement") which provides that taxes other than *ad valorem* real property taxes which are secured by a valid lien in effect before the FDIC acquired an interest in a property will be paid unless the FDIC determines that abandonment of its interests is appropriate. The Policy Statement provides that the FDIC generally will not pay installments of non-*ad valorem* real property taxes, such as the Special Tax, which are levied after the time the FDIC acquires its fee interest. Moreover, the Policy Statement provides that, with respect to parcels on which the FDIC holds a mortgage lien, the FDIC will not permit its lien to be foreclosed out by a taxing authority without its specific consent, nor will the FDIC pay or recognize liens for any penalties, fines or similar claims imposed for the non-payment of taxes.

The FDIC has filed claims with respect to community facilities district special taxes against the County of Orange in United States Bankruptcy Court and in Federal District Court in which the FDIC has taken a position similar to the position expressed in the Policy Statement. The Bankruptcy Court ruled in favor of the FDIC's position; and, on March 22, 1999, the United States Bankruptcy Appellate Panel of the Ninth Circuit Court of Appeal affirmed the decision of the Bankruptcy Court. On August 28, 2001, the United States Court of Appeal for the Ninth Circuit affirmed the Bankruptcy Appellate Panel decision.

The FDIC does not currently own any of the property in the District. The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to a parcel in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase such parcel at a foreclosure sale. The District has not undertaken to determine whether the FDIC currently has, or is likely to acquire, any interest in any property within the District.

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

Bankruptcy and Foreclosure

Bankruptcy, insolvency and other laws generally affecting creditors rights could adversely impact the interests of owners of the 2006 Bonds in at least two ways. First, the payment of property

owners' taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Secondly, the Bankruptcy Code might prevent moneys on deposit in the Special Tax Fund from being applied to pay interest on the 2006 Bonds and/or to redeem 2006 Bonds if bankruptcy proceedings were brought by or against a landowner and if the court found that any of such landowner had an interest in such moneys within the meaning of Section 541(a)(1) of the Bankruptcy Code.

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount and priority of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in procuring Superior Court foreclosure proceedings. If enough parcels were involved in bankruptcy proceedings, court delays would increase the likelihood of a delay or default in payment of the principal of, and interest on, the 2006 Bonds and the possibility of delinquent tax installments not being paid in full.

The various legal opinions to be delivered concurrently with the delivery of the 2006 Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

No Acceleration Provision

The 2006 Bonds do not contain a provision allowing for the acceleration of the 2006 Bonds in the event of a payment default or other default under the 2006 Bonds or the Indenture.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS," the interest on the 2006 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2006 Bonds as a result of a failure of the District to comply with certain provisions of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2006 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under one of the redemption provisions of the Indenture.

Limitations on Remedies

Remedies available to the owners of the 2006 Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2006 Bonds or to preserve the tax-exempt status of the 2006 Bonds.

Bond Counsel has limited its opinion as to the enforceability of the 2006 Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the

enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners of the 2006 Bonds.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the 2006 Bonds or, if a secondary market exists, that such 2006 Bonds can be sold for any particular price. Although the District and the Developer have committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to 2006 Bondowners on a timely basis. See "CONTINUING DISCLOSURE." The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Proposition 218

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIIC and Article XIID to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The Initiative could potentially impact the Special Taxes available to the District to pay the principal of and interest on the Bonds as described below.

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

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

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

It may be possible, however, for voters or the Board of Directors acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. It may also be possible for voters or the Board of Directors to change the Rate and Method in a manner that would alter the amount of Special Taxes for which various types of properties are responsible (for example, by shifting the order in which various types of property are taxed). Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on taxable parcels within the District on which a completed structure is located to less than an amount equal to 110% of Maximum Annual Debt Service on the Outstanding Bonds. In connection with the foregoing covenant, the District has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds. The District also has covenanted that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

Ballot Initiatives

Article XIII A, Article XIII B and Proposition 218 were adopted pursuant to measures qualified for the ballot pursuant to California’s constitutional initiative process. On March 6, 1995 in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, NCS D or local districts to increase revenues or to increase appropriations or on the ability of the landowners within the District to complete the remaining proposed development. See “SPECIAL RISK FACTORS — Failure to Develop Properties” herein.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement with Goodwin Consulting Group, Inc., as dissemination agent (the “Disclosure Agreement”), the District, has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a “Repository”) certain annual financial information and operating data concerning the District. The Annual Report to be filed by the District is to be filed not later than February 1 of each year, beginning February 1, 2007, and is to include audited financial statements of NCS D (provided that the Annual Report due February 1, 2007 will consist of only the audited financial statements of NCS D). The requirement that NCS D file its audited financial statements as a part of the Annual Report has been included in the Disclosure

Agreement solely to satisfy the provisions of Rule 15c2-12. The inclusion of this information does not mean that the 2006 Bonds are secured by any resources or property of NCS D other than as described hereinabove. See “SOURCES OF PAYMENT FOR THE BONDS” and “SPECIAL RISK FACTORS — Limited Obligations.”

To assist the Underwriters, in complying with Rule 15c2-12(b)(5), the Developer will enter into a certain Continuing Disclosure Agreement (the “Landowner Disclosure Agreement”) covenanting to provide an Annual Report not later than September 1 of each year beginning September 1, 2007, and a Semi-Annual Report each March 1 beginning March 1, 2007. The Annual Reports provided by the Developer are to contain audited financial statements, if any are prepared, and the additional financial and operating data outlined in the Landowner Disclosure Agreement attached in Appendix E.

The Landowner Disclosure Agreement will inure solely to the benefit of the District, any dissemination agent, the Underwriters, and owners or beneficial owners from time to time of the 2006 Bonds.

Both the District and the Developer entered into continuing disclosure agreements in connection with the issuance of the 2005 Bonds. The Developer was late in filing the continuing disclosure report due September 1, 2006. Such report was filed by the Developer approximately 11 days late.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2006 Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2006 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2006 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of corporations. In addition, the difference between the issue price of a 2006 Bond (the first price at which a substantial amount of the 2006 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the 2006 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2006 Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2006 Bond Owner will increase the 2006 Bond Owner’s basis in the applicable 2006 Bond. The amount of original issue discount that accrues to the owner of the 2006 Bond is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income of interest on the 2006 Bonds (and original issue discount) is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the 2006 Bonds to assure that interest on the 2006 Bonds (and original issue discount)

will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest on the 2006 Bonds (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2006 Bonds. The District has covenanted to comply with all such requirements.

The amount by which a 2006 Bond Owner's original basis for determining loss on sale or exchange in the applicable 2006 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the 2006 Bond Owner's basis in the applicable 2006 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a 2006 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2006 Bond to the Owner. Purchasers of the 2006 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2006 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2006 Bonds might be affected as a result of such an audit of the 2006 Bonds (or by an audit of similar bonds).

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2006 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any 2006 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2006 Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the 2006 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2006 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2006 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2006 Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix F.

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 (the "TIPRA Act"). Under Section 6049 of the Internal Revenue Code of 1986, as amended by the TIPRA Act, interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date for this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligations were issued. The purpose of this change was to assist in relevant information gathering for the IRS relating to other applicable tax provisions. The TIPRA Act provides that backup withholding may apply to such

interest payments made after March 31, 2007 to any bondholder who fails to file an accurate Form W-9 or who meets certain other criteria. The information reporting and backup withholding requirements of the TIPRA Act do not affect the excludability of such interest from gross income for federal income tax purposes.

LEGAL OPINION

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation approving the validity of the 2006 Bonds in substantially the form set forth as Appendix F hereto, will be made available to purchasers at the time of original delivery. A copy of the legal opinion for the 2006 Bonds will be provided with each definitive bond.

LITIGATION

No litigation is pending or threatened concerning the validity of the 2006 Bonds or the pledge of Net Taxes to repay the 2006 Bonds and a certificate of the District to that effect will be furnished to the Underwriters at the time of the original delivery of the 2006 Bonds. Neither the District nor NCS D is aware of any litigation pending or threatened which questions the existence of the District or contests the authority of the District to levy and collect the Special Taxes or to issue and retire the 2006 Bonds.

NO RATING

The District has not made and does not contemplate making application to any rating agency for the assignment of a rating of the 2006 Bonds.

UNDERWRITING

The 2006 Bonds are being purchased by the Underwriters. The Underwriters have agreed to purchase the 2006 Bonds at a price of \$58,261,660.10 (being \$58,590,000.00 aggregate principal amount thereof, plus an original issue premium of \$242,912.60, less Underwriters' discount of \$571,252.50). The purchase agreement relating to the 2006 Bonds provides that the Underwriters will purchase all of the 2006 Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the 2006 Bonds to certain dealers and others at prices lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriters.

FINANCIAL INTERESTS

The fees being paid to the Underwriters, Underwriters' Counsel, Financial Advisor and Bond Counsel are contingent upon the issuance and delivery of the 2006 Bonds. From time to time, Bond Counsel represents the Underwriters on matters unrelated to the 2006 Bonds.

PENDING LEGISLATION

The District is not aware of any significant pending legislation which would have material adverse consequences on the 2006 Bonds or the ability of the District to pay the principal of and interest on the 2006 Bonds when due.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the 2006 Bonds. Quotations and summaries and explanations of the 2006 Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions.

The execution and delivery of this Official Statement by the President of the Board of Directors and the General Manager of NCSD has been duly authorized by the Board of Directors acting in its capacity as the legislative body of the District.

NORTHSTAR COMMUNITY SERVICES DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1

By: /s/ Duane Evans
President of the Board of Directors

By: /s/ Mike Staudenmayer
General Manager of
Northstar Community Services District

APPENDIX A

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR NORTHSTAR COMMUNITY SERVICES DISTRICT COMMUNITY FACILITIES DISTRICT NO. 1

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 2.5, (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 NCS D.

“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 NCSO (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 NCSO), 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
NORTHSTAR COMMUNITY SERVICES DISTRICT 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
NORTHSTAR COMMUNITY SERVICES DISTRICT CFD NO. 1
MAXIMUM ANNUAL SPECIAL TAX FOR NON-RESIDENTIAL PROPERTY
(PER SQUARE FOOT OF NON-RESIDENTIAL SQUARE FOOTAGE)

<u>Fiscal Year</u>	<u>Tax Zone #1</u>	<u>Tax Zone #2</u>	<u>Tax Zone #3</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 And Each Fiscal Year Thereafter	Increased by two percent (2%) of the amount in effect in the prior Fiscal Year.	Increased by two percent (2%) of the amount in effect in the prior Fiscal Year.	Increased by two percent (2%) of the amount in effect in the prior Fiscal Year.

3. Final 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, (v) Parcels that are subject to an easement that precludes any other use on the Parcels, and (vi) 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
less	<u>Reserve Fund Credit</u>
Total: equals	Prepayment Amount

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

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.
2. Divide the Maximum Annual Special Tax from Step 1 by the Buildout Revenues.
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”*).
4. Compute the current Remaining Facilities Costs (if any).
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”*).
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”*).
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.

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.
9. Take the amount computed pursuant to Step 7 and subtract the amount computed pursuant to Step 8 (the “*Defeasance Requirement*”).
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*”).
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*”).
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.

APPENDIX B
COMPLETE APPRAISAL

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November 30, 2006

APPRAISAL OF
REAL PROPERTY

Northstar Community Services District
Community Facilities District No. 1
Northstar-at-Tahoe Resort
Placer County, California 96161

IN A SELF-CONTAINED
APPRAISAL REPORT
As of 11/1/06

Prepared For:
Northstar Community Services District
908 Northstar Drive
Truckee, California 96161

Prepared By:
Cushman & Wakefield of Colorado, Inc.
Valuation Services, Capital Markets Group
614 Main Street, Suite 201
P.O. Box 680047
Park City, Utah 84068
C&W File ID: 05-51001-9145

Mr. Mike Staudenmayer
General Manager
Northstar Community Services District
908 Northstar Drive
Truckee, California 96161

Re: Appraisal of Real Property
In a Self-Contained Report

Northstar Community Services District Community Facilities District No. 1
Northstar-at-Tahoe Resort
Placer County, California 96161

C&W File ID: 05-51001-9145

Dear Mr. Staudenmayer:

In fulfillment of our agreement as outlined in the Letter of Engagement, we are pleased to transmit our complete appraisal report on the property referenced above.

The value opinion reported below is qualified by certain assumptions, limiting conditions, certifications, and definitions, which are set forth in the report. We particularly call your attention to the following extraordinary assumptions and hypothetical conditions:

- Extraordinary Assumptions:
- Our analysis assumes completion of the infrastructure to be funded by the proposed Mello-Roos Bonds to be issued through the Northstar Community Services District Community Facilities District No. 1 (CFD).
 - Our analysis assumes that the CFD bonds are issued per the terms and specifications outlined in the CFD report. We anticipate several bond issues over the life of the project and this appraisal contemplates the second bond issue.
 - The report, analysis and conclusions stated herein rely heavily upon information provided by others, including the district, the developers and other consultants involved in the project. The reliability of our conclusions is directly related to the accuracy and reasonableness of the information we have been provided.
 - Our analysis specifically assumes final plat maps will be granted for the various land areas to be platted with individual units.
 - We were provided with the size of existing and

prospective units and planned density by the owner/developer. We assume that the development will, in large part, remain true to the project as related to the appraisers in terms of unit sizing, placement, pricing, and amenities. We acknowledge that there may be future market fluctuations that may necessitate some changes in plans in order to maximize profitability.

- Because of the economic size of the subject, this analysis assumes that the developer is capable of constructing master planned communities of this type and has the financial capabilities for complete community build-out.
- The value estimates are dependent upon completion of construction of the planned improvements (e.g. infrastructure, amenities) in a timely, workmanlike manner and in substantial conformance with the information provided to the appraisers.
- It is assumed that prudent management and aggressive regional marketing will be implemented during all phases of the sellout of the community.
- Our financial analysis is based on estimates and assumptions that were developed in connection with this appraisal engagement. It is, however, inevitable that some assumptions will not materialize and that unanticipated events may occur which will cause actual achieved operating results to differ from the financial analyses contained in this report, and these differences may be material. It should be further noted that we are not responsible for the effectiveness of future management and marketing efforts upon which the projected results contained in this report may depend.

Hypothetical Conditions: This appraisal employs no hypothetical conditions.

This report was prepared for the Northstar Community Services District No. 1 (District) and is intended for use by the District and related parties regarding the issuance of Special Tax Bonds. It may not be distributed to or relied upon by any other persons or entities without the written permission of Cushman & Wakefield of Colorado, Inc.

This appraisal report has been prepared in accordance with our interpretation of your institution's guidelines, Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), and the Uniform Standards of Professional Appraisal Practice (USPAP),

including the Competency Provision. This appraisal is also intended to comply with the California Debt and Investment Advisory Commission (CDIAC) guidelines published in 1994 and updated July 2004.

The property was inspected by and the report was prepared by Christopher T. Donaldson, MAI, CCIM.

This appraisal employs all three typical approaches to value: the Cost Approach, the Sales Comparison Approach and the Income Capitalization Approach. Based on our analysis and knowledge of the subject property type and relevant investor profiles, it is our opinion that all approaches would be considered meaningful and applicable in developing a credible value conclusion.

Based on our Complete Appraisal as defined by the USPAP, we have developed an opinion that the market value of the fee simple estate of the CFD, assuming completion of CFD improvements and reimbursement from the bonds, subject to the assumptions and limiting conditions, certifications, extraordinary assumptions and hypothetical conditions, and definitions, "as-is" on November 1, 2006 is as follows:

Northstar Community Services District Community Facilities District No. 1 Market Value Summary		
	<u>No. of Units</u>	<u>Market Value Conclusion</u>
<u>Zone 1</u>		
Phase 1	100	\$178,000,000
Phase 2	113	\$132,400,000
Phase 3	137	\$66,000,000
Total Zone 1	350	\$376,400,000
<u>Zone 2</u>	354	\$88,800,000
<u>Zone 3</u>		
Trailside Townhomes	16	\$16,800,000
Highlands Lodge	60	\$27,200,000
Ritz Residences	78	\$56,800,000
Ritz Club	84	\$57,100,000
Future Units	858	\$156,000,000
Total Phase 3	1,096	\$313,900,000
Grand Total CFD	1,800	\$779,100,000

The above values represent the majority of the taxable property in CFD No. 1. There is also commercial property and hotel residential property to be developed in the CFD which is taxable but is not included in the values above due to the minimal share of the tax obligation attributable to this component of the subject.

Mr. Mike Staudenmayer
 Northstar Community Services District
 November 30, 2006
 Page 4

Based on recent market transactions, as well as discussions with market participants, a sale of the subject property at the above-stated opinion of market value would have required an exposure time of approximately twelve (12) months. Furthermore, a marketing period of approximately twelve (12) months is currently warranted for the subject property.

This letter is invalid as an opinion of value if detached from the report, which contains the text, exhibits, and Addenda.

Respectfully submitted,

CUSHMAN & WAKEFIELD OF COLORADO, INC.



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SUMMARY OF SALIENT FACTS

Common Property Name:	Northstar Community Services District Community Facilities District No. 1 (CFD)
Location:	Northstar-at-Tahoe Resort Placer County, California 96161 The site is located west of Highway 267 within the master planned Northstar-at-Tahoe Resort
Property Description:	The property consists of a mixed-use, master planned resort development on a 456.27-acre parcel of land. The subject consists of three separate zones for the purposes of applying the special tax in the CFD. Zone 1 is the Village planned to include 350 residential units and 110,000± square feet of commercial space. Zone 1 is located in the core of the resort base area planned to include a total of 7 buildings. The first phase of development is complete with all 100 condominium units which have been sold to individual owners. Phase Two is currently under construction and consist of 113 residential units and commercial space. Phase One has 60,000± square feet of commercial Phase Two 40,000± square feet. Phase Three of Zone 1 is in the construction and design drawing stage with two separate projects. Zone 2 is the eastern portion of The Highlands and is planned to include a total of 354 residential units and limited or no commercial space. Zone 3 is the western portion of The Highlands planned to include a total of 1,096 condominium and townhome style units as well as a Ritz Carlton hotel. The subject is being developed in phases. Currently, Zones 1 and 3 have existing construction and Zone 2 is proposed for future development as discussed herein.
Assessor's Parcel Numbers:	See Real Property Taxes and Assessments section of this report. The subject tax parcels are constantly in change.
Interest Appraised:	Fee Simple Estate
Date of Value:	November 1, 2006
Date of Inspection:	October 18, 2006
Ownership:	Northstar Mountain Properties, LLC and subsidiaries other than the 100 individually owned condominium units in Phase 1 of Zone 1.

Current Property Taxes (As Is)

2006 Total Assessment:	\$35,256,312
2006 Property Taxes:	\$376,776.20

SUMMARY OF SALIENT FACTS

Highest and Best Use

If Vacant: Development of a mixed-use, recreationally oriented residential development.

As Improved: As it is currently being developed or proposed for development

Zoning: Martis Valley General Plan (1967 & 1975), Northstar Master Plan (1971) and Martis Valley Community Plan (2003), The Village at Northstar (2003), The Highlands (2005). The subject's approvals are secure per a recent Placer County Court ruling regarding the Martis Valley General Plan. Further discussion is provided herein.

VALUE INDICATORS

Northstar Community Services District Community Facilities District No. 1 Market Value Summary		
	No. of Units	Market Value Conclusion
Zone 1		
Phase 1	100	\$178,000,000
Phase 2	113	\$132,400,000
Phase 3	137	\$66,000,000
Total Zone 1	350	\$376,400,000
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Zone 3		
Trailside Townhomes	16	\$16,800,000
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Ritz Residences	78	\$56,800,000
Ritz Club	84	\$57,100,000
Future Units	858	\$156,000,000
Total Phase 3	1,096	\$313,900,000
Grand Total CFD	1,800	\$779,100,000

Extraordinary Assumptions and Hypothetical Conditions

Extraordinary Assumptions

An extraordinary assumption is defined by the *USPAP* (2005 Edition, The Appraisal Foundation) as "an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis."

- Our analysis assumes completion of CFD and private improvements necessary for development of the proposed project will be completed in a timely and workmanlike manner per the specifications and descriptions provided by the developer.
- Our analysis assumes that the CFD bonds are issued per the terms and specifications outlined in the CFD report. For the purposes of this appraisal we are contemplating the

SUMMARY OF SALIENT FACTS

second issue of bonds estimated at \$59,405,000 with construction funds of \$48,000,000 available for reimbursement.

- The report, analysis and conclusions stated herein rely heavily upon information provided by others, including the district, the developers and other consultants involved in the project. The reliability of our conclusions is directly related to the accuracy and reasonableness of the information we have been provided.
- Our analysis specifically assumes final plat maps will be granted for the various land areas to be platted with individual units.
- We were provided with the size of existing and prospective units and planned density by the owner/developer. We assume that the development will, in large part, remain true to the project as related to the appraisers in terms of unit sizing, placement, pricing, and amenities. We acknowledge that there may be future market fluctuations that may necessitate some changes in plans in order to maximize profitability.
- Because of the economic size of the subject, this analysis assumes that the developer is capable of constructing master planned communities of this type and has the financial capabilities for complete community build-out.
- The value estimates are dependent upon completion of construction of the planned improvements (e.g. infrastructure, amenities) in a timely, workmanlike manner and in substantial conformance with the information provided to the appraisers.
- It is assumed that prudent management and aggressive regional marketing will be implemented during all phases of the sellout of the community.
- Our financial analysis is based on estimates and assumptions that were developed in connection with this appraisal engagement. It is, however, inevitable that some assumptions will not materialize and that unanticipated events may occur which will cause actual achieved operating results to differ from the financial analyses contained in this report, and these differences may be material. It should be further noted that we are not responsible for the effectiveness of future management and marketing efforts upon which the projected results contained in this report may depend.

Hypothetical Conditions

A hypothetical condition is defined by the *USPAP* (2005 Edition, The Appraisal Foundation) as "that which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis."

This appraisal employs no hypothetical conditions.

SUBJECT PHOTOGRAPHS



Overview of Zone 3 from Intercept Lots Looking West



Intercept Parking Lots Under Construction

SUBJECT PHOTOGRAPHS



Highlands View Road & Village Express Road Tunnel/Skier Overpass



Highlands View Road Construction in Zone 3

SUBJECT PHOTOGRAPHS

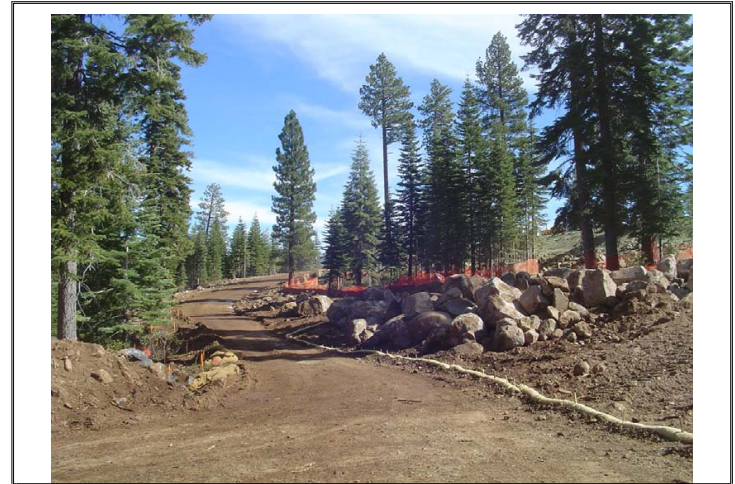


Ritz Carlton Hotel Foundation – Special Tax Zone 3



Trailside Townhomes Phase 1 – Special Tax Zone 3

SUBJECT PHOTOGRAPHS

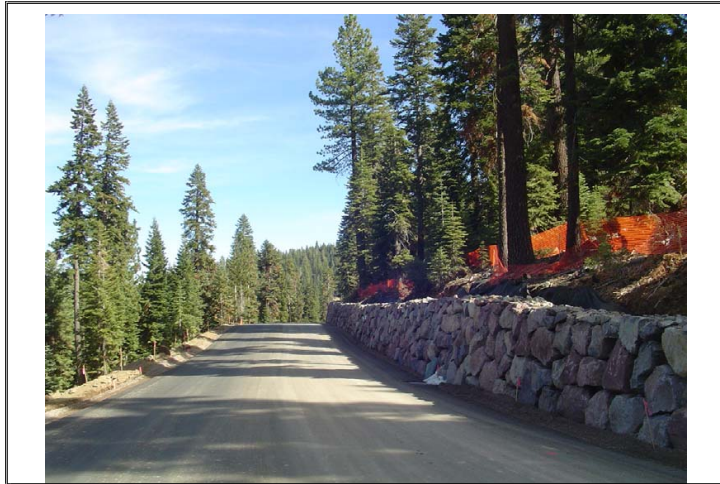


Interior Road for Trailside Townhomes – Special Tax Zone 3

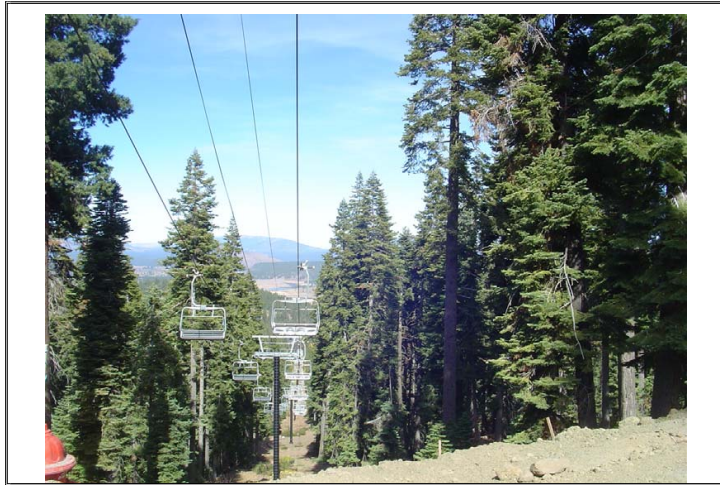


Gondola from Zone 1-Phase 3 to center of Ritz Resort Complex in Zone 3

SUBJECT PHOTOGRAPHS



Highlands View Road in Zone 2 Looking East



Village Express Lift Looking North Through Zone 2

SUBJECT PHOTOGRAPHS

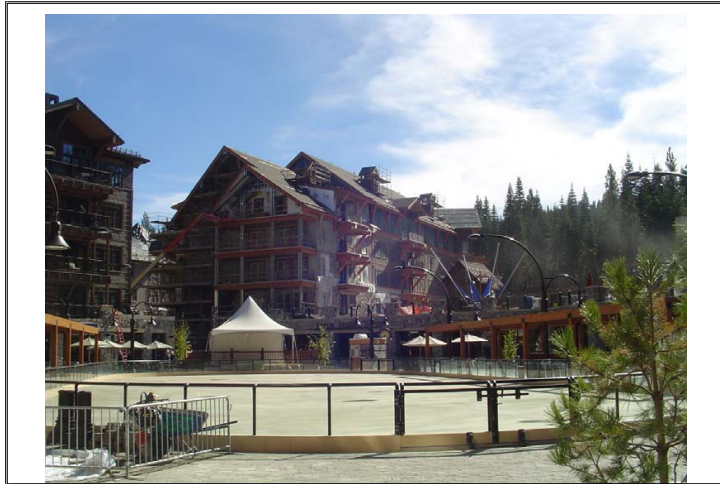


Zone 1 – Phase 1 Iron Horse South



Zone 1 – Phase 1 Iron Horse North

SUBJECT PHOTOGRAPHS



Zone 1 –Phases 1 & 2 – Village Core Ice Skating Rink



Zone 1 – Phase 1 – Great Bear Lodge

SUBJECT PHOTOGRAPHS



Zone 1 Phase 2 – Catamount, Big Horn & One Village Place



Zone 1 – Phase 2 -One Village Place & Gondola Station

SUBJECT PHOTOGRAPHS



Zone 1 – Phase 1 - Iron Horse Model Unit (#1311)



Zone 1 – Phase 1 - Building J – Iron Horse South Model Unit (#1311)

SUBJECT PHOTOGRAPHS



Schaffer's Camp Restaurant – Tahoe Mountain Club Members Only Amenity

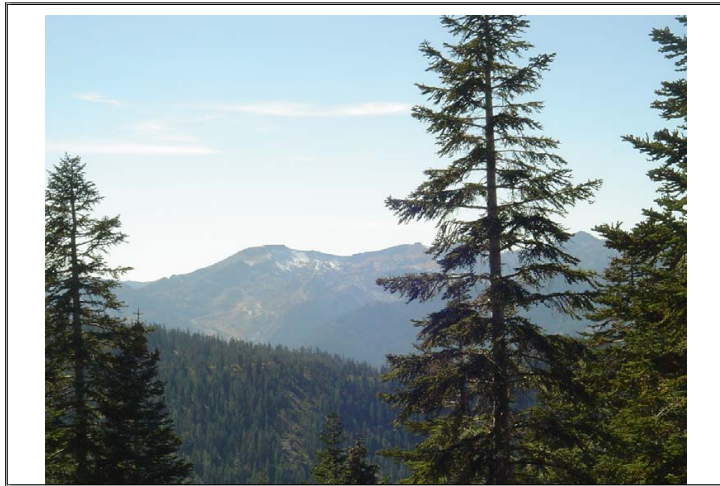


Schaffer's Camp Restaurant Deck - Tahoe Mountain Club Members Only Amenity

SUBJECT PHOTOGRAPHS



Zone 2 - Overview of The Highlands Towards The Village



View of Squaw Valley from Schaffer's Camp

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INTRODUCTION

Identification of Property

Common Property Name: Northstar Community Services District Community Facilities District No. 1 (CFD)

Location: Northstar-at-Tahoe Resort
Placer County, California 96161

The site is located west of Highway 267 within the master planned Northstar-at-Tahoe Resort

Property Description: The subject consists of three tax zones in two development areas at the Northstar-at-Tahoe resort, identified as The Village and The Highlands. The Village is located at the main base area of the ski resort consisting of skier parking, operations buildings, retail/commercial space and residential condominium units. The Village contains Zone 1 of the subject which is planned to include 350 condominium units and 100,000± square feet of commercial space in Phases 1 & 2. The Highlands area is located mid-mountain at the resort and contains Zones 2 and 3 and a total of 1,450 planned residential units and a 170 room Ritz Carlton – Highlands, Lake Tahoe hotel site. The densities and types of real estate described above have been approved by Placer County and 213 residential units and the majority of the commercial space is completed or under construction with the balance planned for future construction. A portion of the foundation for the Ritz Carlton Hotel and the foundations for the first phase of Trailside Townhomes have been constructed.

Land Area Summary:

Land Area Summary by Tax Zone	
Zone	Acreage
1	122.93
2	115.83
3	221.61
Total	460.37

Source: Psomas

INTRODUCTION

Building Summary:

Northstar CFD Building Area Summary					
Zone	Bldg. Name	No. of Residential Units	Residential Sq. Ft.	Average Unit Size	Commercial Sq. Ft.
Zone 1	Phase I				
	Iron Horse South	46			
	Iron Horse North	26			
	Great Bear	28			
	Building "R"	0			
	Subtotal	100	171,600	1,716	60,000
Phase II	Big Horn	52			
	Calenmount	40			
	One Village Place	21			
	Subtotal	113	150,629	1,333	40,000
Phase III	Village Walk Townhomes	34	87,782	2,582	0
	Village North Fractional	103	156,370	1,518	0
	Subtotal	137	244,152	1,782	0
Zone 1 Total		350	566,381	1,618	100,000
Zone 2		354	619,500	1,750	0
Zone 3	Trailside Townhomes	16	57,168	3,573	0
	Highlands Lodge	60	114,638	1,911	0
	Ritz Residences	84	193,948	2,309	0
	Ritz Fractional	78	148,004	1,897	0
	Future Units	858	1,716,000	2,000	0
	Zone 3 Total		1,096	2,229,758	2,034
Grand Total		1,800	3,415,639	1,898	100,000

Assessor's Parcel Numbers: See Real Property Taxes and Assessments section of this report.

Property Ownership and Recent History

Current Ownership: Northstar Mountain Properties, LLC and subsidiaries

Sale History: Northstar Mountain Properties, LLC, is a partnership between East West Partners and Booth Creek Ski Holdings for the purposes of the redevelopment and expansion of the real estate at Northstar-at-Tahoe resort. Booth Creek Ski Holdings is the owner and operator of the Northstar-at-Tahoe resort. Additionally, Booth Creek holds the fee simple ownership in the undeveloped land associated with the Northstar-at-Tahoe master planned development. East West Partners is a development company which has expertise in all types of resort development and real estate sales, including two projects in the subject area of Truckee, Old Greenwood and Gray's Crossing. The subject property is approved for the development of the real estate described herein including residential units, commercial space, a potential hotel site and associated infrastructure. The developer has elected to utilize bond financing offered by California's Mello-Roos Community Facilities Act of 1982, as amended (the "Act"), to fund certain infrastructure at the subject development. For the purposes of the bond financing and this appraisal, the subject is referred to as the CFD. As of the date of appraisal, all 100 residential units in Zone 1 (Phase 1) have been sold to individual owners. There are 84 of the 113 residential units in Phase II under contract to individual retail buyers projected for closing in December 2006 and March 2007. The Ritz-Carlton Hotel and Ritz-Carlton Residences are to be developed by a Crescent East/West entity separate from Northstar Mountain Partners,

INTRODUCTION

LLC. The Ritz-Carlton Club fractional interest condominiums are to be developed and sold by Ritz-Carlton Development Company. There have been no arms-length transfers of any other portions of the subject property within three years of the date of appraisal.

Current Disposition: The overall property is not under contract of sale nor is it being marketed for sale. The individual products are being marketed for sale as the development occurs.

Intended Use and Users of the Appraisal

This appraisal is intended to provide an opinion of the market value of the fee simple interest in the property for CFD bond financing purposes and the intended users of this report are the Northstar Community Services District and parties related to issuing and purchasing bonds. All other uses and users are unintended, unless specifically stated in the letter of transmittal.

Dates of Inspection and Valuation

The value conclusion reported herein is as of November 1, 2006. The property was inspected on October 18, 2006 by Christopher T. Donaldson, MAI, CCIM.

Property Rights Appraised

Fee Simple interest.

Scope of the Appraisal

This is a complete appraisal presented in a self-contained report, intended to comply with the reporting requirements set forth under the *USPAP* for a Self-Contained Appraisal Report. In addition, the report was also prepared to conform to the requirements of the Code of Professional Ethics of the Appraisal Institute and the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), Title XI Regulations.

The scope of this appraisal has the primary function of researching pertinent details and developing an opinion as to the market value of the fee simple interest in the subject property assuming completion of CFD and private improvements in a timely and workmanlike manner. In order to establish the value opinion, the three traditional valuation approaches were considered in this appraisal. These include the cost, sales comparison, and income valuation methods where each is applicable to the various land uses. In addition, the income approach includes a developmental or discounted cash flow analysis. The resultant opinion of value is stated "free and clear" of any existing or proposed financing with the exception of the lien of special taxes securing the proposed CFD bond financing. The extent of the process for the preparation of the appraisal report included the following:

1. Discussions in order to accurately identify the appraisal problem and the objective of the assignment;
2. A preliminary study was conducted in order to determine what information would be required and the sources of the information; i.e., development consultants, title companies, real estate agencies, planning representatives, etc.;

INTRODUCTION

3. General data relating to the subject region, and specific data relating to the immediate subject area and the property itself were then assembled. Sources of this information include the following:

- Subject property ownership and management personnel
- Representatives of city and county government offices
- Area Chamber of Commerce representatives
- State government agencies; i.e., population and economic research divisions;

4. An in-depth analysis of the demographic trends in the subject region was conducted. This information is necessary in forming conclusions as to the intermediate and long-term growth prospects and economic stability of the region;
5. A market overview was conducted, with information assembled pertaining to prevailing market conditions affecting real estate similar to the subject within the Lake Tahoe region, as well as on a national basis. In addition, an extensive analysis of the trade area in which the subject operates was performed;
6. The property itself was analyzed in terms of the overall economics of the development including, but not limited to, the following:
 - Marketability of the proposed product
 - Cost of development and construction
7. Information was assembled in regard to the sales of similar land parcels considered useful in the determination of land value for the subject, as follows:
 - Principals involved in the transactions
 - County records
 - Representatives of local real estate agencies
 - Local real estate appraisers
8. The subject property and, where possible, the comparable properties were physically inspected, with pertinent differences noted. In addition, the appraisers have delineated the market boundaries of the subject and visited the major thoroughfares in order to analyze the land use characteristics of the surrounding area;
9. Based on the market data gathered, an opinion is formulated as to the highest and best use of the subject property both as if vacant and as improved;
10. The results of the various valuation approaches utilized are examined, and a reconciliation, or correlation of final value concluded.

This appraisal employs all three typical approaches to value: the Cost Approach, the Sales Comparison Approach and the Income Capitalization Approach. Based on our analysis and knowledge of the subject property type and relevant investor profiles, it is our opinion that all approaches would be considered meaningful and applicable in developing a credible value conclusion.

INTRODUCTION

Definitions of Value, Interest Appraised and Other Terms

The following definitions of pertinent terms are taken from *The Dictionary of Real Estate Appraisal*, Fourth Edition (2002), published by the Appraisal Institute, as well as other sources.

Market Value

Market value is one of the central concepts of the appraisal practice. Market value is differentiated from other types of value in that it is created by the collective patterns of the market. A current economic definition agreed upon by agencies that regulate federal financial institutions in the United States of America follows, taken from Advisory Opinion-22 of *USPAP* of The Appraisal Foundation:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in US dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

The intent of the above definition is considered similar to the market value defined in the CDIAAC guidelines published in 1994 and updated July 2004. The above definition is employed as it is most widely accepted. The CDIAAC definition of market value is as follows:

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

As stated, we consider both definitions of market value to be consistent with similar intent and the values stated herein are appropriate for either definition.

The CDIAAC guidelines distinguish value further by noting the difference between retail value and bulk value. These are defined as follows:

"**Retail value** is defined as the price an end user, namely a homebuyer or business owner, would pay for a home or completed building under the conditions requisite to a fair sale."

"**Bulk sale value** is the most probable price, in a competitive market, for the sale of all parcels within a tract or development project, to a single purchaser or to multiple buyers, discounted to present value. The bulk sale value reflects the necessary time to sell the land (the absorption period), the cost of developing the land, and the developer's profit from the project."

INTRODUCTION

We have estimated retail value herein for finished product including, attached residential dwellings, fractional condominiums and townhomes. These retail values were employed in the discounted cash flow analysis to estimate the bulk value. The final value conclusions stated herein represent the bulk value conclusions for each component of the subject. Although under common ownership, it was necessary to value the residential and commercial components separately. As all the appropriate discounts and deductions have been applied consistently to each component based on its timing of development, it is appropriate to aggregate them into a total bulk value of the subject.

Fee Simple Estate

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Market Rent

The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the specified lease agreement including term, rental adjustment and revaluation, permitted uses, use restrictions, and expense obligations; the lessee and lessor each acting prudently and knowledgeably, and assuming consummation of a lease contract as of a specified date and the passing of the leasehold from lessor to lessee under conditions whereby:

1. Lessee and lessor are typically motivated.
2. Both parties are well informed or well advised, and acting in what they consider their best interests.
3. A reasonable time is allowed for exposure in the open market.
4. The rent payment is made in terms of cash in United States dollars, and is expressed as an amount per time period consistent with the payment schedule of the lease contract.
5. The rental amount represents the normal consideration for the property lease unaffected by special fees or concessions granted by anyone associated with the transaction.

Cash Equivalence

A price expressed in terms of cash, as distinguished from a price expressed totally or partly in terms of the face amounts of notes or other securities that cannot be sold at their face amounts. Calculating the cash-equivalent price requires an appraiser to compare transactions involving atypical financing to transactions involving comparable properties financed at typical market terms.

Prospective Value Opinion

A forecast of the value expected at a specified future date. A prospective value opinion is most frequently sought in connection with real estate projects that are proposed, under construction, or under conversion to a new use, or that have not achieved sellout or a stabilized level of long-term occupancy at the time the appraisal report is written.

INTRODUCTION

Exposure Time and Marketing Time

Exposure Time

Under Paragraph 3 of the Definition of Market Value, the value opinion presumes that "A reasonable time is allowed for exposure in the open market". Exposure time is defined as the length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at the market value on the effective date of the appraisal. Exposure time is presumed to precede the effective date of the appraisal.

The reasonable exposure period is a function of price, time and use. It is not an isolated opinion of time alone. Exposure time is different for various types of property and under various market conditions. As noted above, exposure time is always presumed to precede the effective date of appraisal. It is the length of time the property would have been offered prior to a hypothetical market value sale on the effective date of appraisal. It is a retrospective opinion based on an analysis of past events, assuming a competitive and open market. It assumes not only adequate, sufficient and reasonable time but adequate, sufficient and a reasonable marketing effort. Exposure time and conclusion of value are therefore interrelated.

Based on our review of national investor surveys, discussions with market participants and information gathered during the sales verification process, a reasonable exposure time for the subject property at the value concluded within this report would have been approximately twelve (12) months. This assumes an active and professional marketing plan would have been employed by the current owner.

Marketing Time

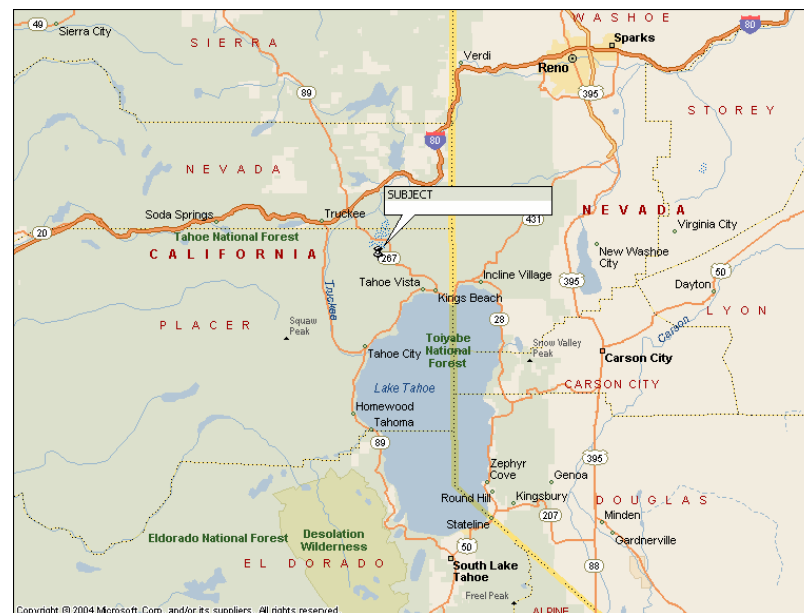
Marketing time is an opinion of the time that might be required to sell a real property interest at the concluded market value level. Marketing time is presumed to start during the period immediately after the effective date of an appraisal. (Marketing time is subsequent to the effective date of the appraisal and exposure time is presumed to precede the effective date of the appraisal). The opinion of marketing time uses some of the same data analyzed in the process of developing a reasonable exposure time opinion as part of the appraisal process and it is not intended to be a prediction of a date of sale or a one-line statement.

We believe, based on the assumptions employed in our analysis, as well as our selection of investment parameters for the subject, that our value conclusion represents a price achievable within twelve (12) months.

Legal Description

See Real Property Taxes and Assessments section of this report.

REGIONAL MAP



Overview

The subject Northstar Community Services District Community Facilities District No. 1 is located at the Northstar-at-Tahoe master planned community in Placer County, California. This location is just north of the Lake Tahoe Basin and generally included in the area referred to as North Lake Tahoe. Truckee, located in eastern Nevada County, is the nearest town to Northstar and the subject property. Truckee is located approximately 5 miles north of Northstar via Highway 267. Reference is made to the location map on the previous page, which shows the location of the subject property in Northern California and in relation to the Lake Tahoe Basin area. The following provides an overview of the area, demographic and market factors for the region and its geographic location, as well as the immediate property surroundings.

The regional analysis provides a brief review of the state of California, the Lake Tahoe Basin and the North Lake Tahoe demographic and economic conditions.

The State of California is among the most dynamic of international communities. California's economic strength is based upon its population, business diversity, strategic location and recent economic restructuring for the 21st century. These positive factors support the future economic performance of business and real estate investment within the state.

California is the most populous state in the United States, with a 2005 population estimate of 36.2 million residents. California's population grew by 13.8 percent from 1990 to 2000, and is projected to grow to over \$39 million by 2010.

California's economic strength has been tied to its diversity of businesses, which includes a wide range of manufacturing, trade, services, and agriculture activities. One factor supporting California's economy has been its strategic location as a gateway to the Pacific and Mexico. California is the center of trade with the Pacific Rim countries, and over 80 percent of all U.S. trade with these nations is through California's airports and harbors.

California consistently out-performed the rest of the country during the 1980s, but was particularly hard hit by the national and regional recession of the early 1990s. During the late 1980s and early 1990s, California lagged the nation's slide into recession, as well as its economic rebound. The recession hit later and harder in California than on the national level. The state and southern California region began measurable economic recovery in mid-1993 and experienced strong growth in late 1990s, particularly the San Francisco Bay area, as a result of immense growth in the technology sector. However, in 2000/2001, the decline in the technology sector greatly affected job growth and the economy in the Northern California area.

Overall, economic forecasts for the California region, including the San Francisco Bay area, project generally favorable job growth trends, and there has been continued strong housing demand.

Lake Tahoe Basin/North Lake Tahoe

The subject property is located in Placer County just south of the Town of Truckee in the North Lake Tahoe Region, which is just north of the Lake Tahoe Basin and accessed by Interstate 80. Truckee is located approximately 35 miles from the Reno/Tahoe Airport, with a drive time of approximately 40 minutes. The Lake Tahoe region is located on the California-Nevada border between the Sierra Nevada Crest and the Carson Mountain Range. Approximately two-thirds of the Lake Tahoe Basin is in California and one-third is in Nevada. The Basin comprises approximately 501 square miles, including the waters of Lake Tahoe, which is 191 square miles. Lake Tahoe is well known for its crystal blue, pure water and beautiful mountain setting. The

lake itself is 22 miles long, 12 miles wide, has 72 miles of shoreline, and a greatest depth of 1,645 feet, making it the third deepest lake in North America.

The Lake Tahoe region includes portions of El Dorado and Placer Counties in California, and Washoe and Douglas Counties in Nevada, as well as the rural areas east of Carson City, Nevada, which are not incorporated in a county. Nevada County is north of the Lake Tahoe Basin, and its eastern portion has a strong association with the Lake Tahoe Basin due to proximity and a wide range of recreational opportunities it offers. The average elevation of the lake is 6,225 feet above sea level, with mountain ranges around the basin going up to 11,200 feet in elevation. There are various populated areas in the Lake Tahoe Basin surrounding the lake. The largest incorporated area is South Lake Tahoe, California, with a population over 23,500 people, and adjacent Stateline, Nevada in the south. Tahoe City, California to the northwest is the next largest, followed by Incline Village, Nevada on Lake Tahoe's northeast shore. There is primarily extensive forest service land and areas of large lakefront summer homes between South Lake Tahoe and Tahoe City along Highway 89. Between Tahoe City and Incline Village on the north shore of the lake are primarily more upscale, retail service-oriented developments, as well as additional lakefront homes, condominiums, and camping areas. Between Incline Village and South Lake Tahoe on the east side of the lake are generally more sparsely populated areas and more residential oriented areas.

The Lake Tahoe Basin has a very sensitive environment, which has led to significant government regulation of development. Tourism generates the majority of income in the area, as it is the primary industry. In particular, the six major casinos in Stateline, Nevada adjacent to the east of South Lake Tahoe generate significant tourism traffic in the area.

Following is a discussion of some of the unique aspects of the area.

Environmental

Lake Tahoe Basin is a sensitive alpine environment with the lake containing very pure water. The entire basin has been categorized as to land capabilities, such as their tolerance for use as it relates to watersheds, unstable soil, runoff, erosion, and other considerations. There are 14 watersheds surrounding the lake, and development within these watersheds is finite in terms of the total allowable impervious coverage and building area.

Wastewater treatment has been one of the most significant factors influencing planning in the Lake Tahoe Basin. Up until the late 1960s, most wastewater was discharged to land leaching systems by small community treatment systems or individual septic tank leach fields. Due to the sensitivity of the water, government authorities mandated the export of all sewage from the Tahoe Basin. These exportation facilities are situated in all areas surrounding the lake and have eliminated many of the problems of lost wastewater leaching into the lake itself.

There is also no disposal of solid waste at the Tahoe Basin. The south shore waste is generally transported to landfills in or near Gardnerville, Nevada or Alpine County. The north shore area has a landfill in Placer County.

Overall, the Lake Tahoe Basin has a sensitive alpine environment that has been addressed by regulations, which add significant barriers to new development.

Governmental Forces

The environmental sensitivity of the Lake Tahoe Basin environment created contentious issues between the neighboring states of Nevada and California as to how to handle development. Development on one side of the state line impacted the environment and properties on the other side. In response to this, the Tahoe Regional Planning Agency (TRPA) was established by an Act of Congress on December 19, 1980. This joint planning agency was created to enhance the

REGIONAL ANALYSIS

efficiency and governmental effectiveness of the region in order to enforce a regional plan and implement ordinances to protect the area; this is governed by the Tahoe Regional Planning Compact. Since its inception, TRPA has created an extensive inventory of soils, watershed, and other environmental properties of the region in order to monitor growth and create guidelines for growth. These guidelines have evolved into very stringent planning policies and have resulted, in some cases, in a finite amount of allowable development within the various planning areas around the lake. The requirements and guidelines of the planning process are onerous to development due to the complexity of environmental issues. This extensive regulation has created significant barriers to entry for future development.

Transportation/Access

The primary transportation linkages for South Lake Tahoe are U.S. Highway 50 and Interstate 80, connecting to the Sacramento area in the west and Carson City and Reno areas to the east. U.S. Highway 50 links with State Highway 89 in the west going north along the west side of Lake Tahoe and connects with State Highway 28 in Nevada on the east side of the lake. Interstate 80 provides access to the Truckee/North Lake Tahoe Region, specifically connecting Truckee and Reno. Interstate 80 continues west to Sacramento, the California Central Valley and the San Francisco Bay Area. State Highways 267 and 89 provide access from Interstate 80 south to the communities in the North Lake Tahoe Basin. The most popular mode of access to South Lake Tahoe is the automobile. Airline transportation is available at the South Lake Tahoe airport and the Truckee-Tahoe Airport, which serve small regional carriers and private flights. Most airport traffic comes through the Reno/Tahoe International Airport. As of 2003, approximately 12,600 passengers arrive/depart daily at the Reno/Tahoe International Airport with approximately 285,000 pounds of cargo handled on a daily basis. Since 1990 passenger traffic has increased 50% with a total passenger count of 4.6 million. A recent press release from the Airport Authority indicates that May 2004 passenger traffic increased over 18.2% over the previous year which continues a positive trend of additional traffic in 2004 with overall year-to-date total passengers up over 15% over 2003. The passenger increase coincides with more available daily flights (88 compared to 75) and available seats (10,457 compared to 8,547) in 2004. The Reno /Tahoe International Airport offers excellent access to the Lake Tahoe Basin and Truckee areas and is approximately 40 minutes from the town of Truckee.

Tourism

Tourism is the major industry in the Lake Tahoe Basin and the North Lake Tahoe Region. There are numerous recreational opportunities in the summer with the lake, hiking, biking and other activities, and skiing in the winter. In addition, there is the gaming attraction of six casinos in Stateline, Nevada on the south side of the lake.

Gaming

The majority of casino development and gaming is located in the South Shore of Lake Tahoe where there are six major casino operators and several smaller gaming establishments. Gaming in the North Shore area is much less developed with Incline Village offering the largest casinos and Crystal Bay also offering some gaming opportunities. Gaming revenues for Tahoe North Shore for the year 2004 were \$41,704,000 compared to \$339,496,000 for the South Shore in 2004 according to the Nevada State Gaming Control Board *Gaming Revenue Report*, year-end 2004.

Skier Days

There are 15 ski resorts in the Lake Tahoe region, with the largest being Heavenly Valley Ski Resort in South Lake Tahoe. Heavenly Valley Ski Resort has over 4,800 acres of skiable terrain, with the summit just over 10,000 feet. Squaw Valley ski area, which is famous for

REGIONAL ANALYSIS

hosting the 1960 Winter Olympics, is in the northwest area approximately halfway between Truckee and Tahoe City on Route 89. Other major ski resort development includes Northstar-at-Tahoe, Alpine Meadows, Sugar Bowl and Boreal which is located west of Truckee on the I-80 corridor. The Lake Tahoe area ski resorts experience approximately 4 million annual skier days.

Conclusion

Overall, the Lake Tahoe Basin area represents an area of significant natural beauty, with tourism as its primary industry. There are a large number of recreational activities offered in the summer and winter, but the area is subject to seasonal fluctuations. The unique environmental considerations of the area have led to strong governmental constraints on growth. This is significant as it relates to potential for new competition in relation to existing properties.

LOCAL AREA ANALYSIS

Truckee Area

The subject is located in eastern Placer County, California. The subject area is closely tied to the town of Truckee and eastern Nevada County to the north. It is noted that the major ski areas in the North Lake Tahoe area, Northstar-at-Tahoe, Squaw Valley and Alpine Meadows, are all located in Placer County. Access to the north shore of Lake Tahoe from Northstar-at-Tahoe and Truckee is via Highway 267 southbound.

Nevada and Placer Counties are generally bound on the west by Sacramento and California's Central Valley, and on the east by the Sierra Nevada Mountains and the Nevada state border. Interstate 80 provides the main access to the western portion of both counties, with Lake Tahoe Basin access provided by State Highways 89 and 267. Nearly 40 percent of the Placer County population lives in unincorporated areas of the county, while 70 percent of the Nevada County population lives in unincorporated areas of the county. The following demographic information on Truckee, Placer County and the State of California is presented as provided by Claritas. It is noted that the Truckee Zip Code includes the subject and all of the Northstar-at-Tahoe master development.

LOCAL AREA ANALYSIS

DEMOGRAPHIC PROFILE TRUCKEE, CALIFORNIA (ZIP 96161)	TRUCKEE	PLACER COUNTY	CALIFORNIA
Population			
2000 Population	15,540	248,399	33,871,648
2005 Population	17,188	300,906	36,216,549
2010 Population	18,802	355,913	38,656,963
% Change 2000 to 2005	2.04%	3.91%	1.35%
% Change 2005 to 2010	1.81%	3.41%	1.31%
Per Capita Personal Income			
2000 Per Capita Personal Income	\$27,892	\$27,963	\$22,711
2005 Per Capita Personal Income	\$33,175	\$32,245	\$25,566
2010 Per Capita Personal Income	\$38,883	\$36,829	\$28,559
% Change 2000 to 2005	3.53%	2.89%	2.40%
% Change 2005 to 2010	3.23%	2.69%	2.24%
Households			
2000 No. Households	5,783	93,382	11,502,870
2005 No. Households	6,399	113,730	12,200,082
2010 No. Households	6,992	135,004	12,951,724
% Change 2000 to 2005	2.05%	4.02%	1.18%
% Change 2005 to 2010	1.79%	3.49%	1.20%
Persons Per Household			
2000 Persons Per Household	2.68	2.63	2.87
2005 Persons Per Household	2.68	2.62	2.9
2010 Persons Per Household	2.68	2.61	2.92
% Change 2000 to 2005	0%	-0.07%	0.18%
% Change 2005 to 2010	0.03%	-0.04%	0.13%
Average Household Income			
2000 Avg Household Income	\$73,968	\$73,432	\$65,680
2005 Avg Household Income	\$88,674	\$84,609	\$74,749
2010 Avg Household Income	\$104,178	\$96,493	\$84,146
% Change 2000 to 2005	3.69%	2.87%	2.62%
% Change 2005 to 2010	3.28%	2.66%	2.40%
Income Ranges			
Median Income	\$69,676	\$66,278	\$54,147
\$150,000 or more	10.50%	10.78%	9.27%
\$100,000 to \$149,000	15.92%	16.91%	13.07%
\$75,000 to \$99,999	18.44%	15.21%	12.27%
\$50,000 to \$74,999	24.13%	20.34%	18.44%
\$35,000 to \$49,999	13.50%	13.64%	14.47%
\$25,000 to \$34,999	8.44%	8.32%	10.21%
\$15,000 to \$24,999	4.92%	7.47%	10.09%
Under \$15,000	4.14%	7.33%	12.17%
2000 Median Income	\$58,403	\$58,424	\$47,945
2010 Median Income	\$81,088	\$74,129	\$60,666
Occupancy			
2000 Occupied Housing Units	11,965	107,302	12,214,549
Owner Occupied	36.25%	63.72%	53.59%
Renter Occupied	12.09%	23.31%	40.58%
Education			
2000 Population 25+ by Education Level	10,344	165,894	21,298,900
Bachelors Degree Only	25.08%	20.73%	17.09%
Graduate Degree	9.13%	9.54%	9.53%

LOCAL AREA ANALYSIS

Population

The subject area offers a good quality of life and proximity to increased employment opportunities as the region continues to grow as a recreation and second-home hot spot. From 2000 to 2005 the Truckee population grew from 15,540 to 17,188 indicating a compound annual growth rate of 2.04%, which is greater than the State of California and less than Placer County over the same period. Growth in Truckee through 2010 is projected at a compound annual rate of 1.81%.

Households

Households in Truckee grew from 5,783 in 2000 to 6,399 in 2005, or at a compound annual rate of 2.05%. The number of households in Placer County has grown considerably from 2000 to 2005, from 93,382 to 113,730, or 4.02% annual compound growth. Much of this growth is attributed to suburban growth in the western portion of the county near Sacramento. Overall, household growth has been consistent with overall population trends and is expected to continue that trend.

Income

Truckee and Placer County have a more affluent population compared to the State of California in terms of both per capita personal income and average household income. This is attributed to the resort lifestyle in the area which tends to attract more affluent residents.

Economy

The Truckee area has a tourism and resort real estate driven economy. There are year round recreational opportunities in the area including skiing, snowmobiling, fishing, golfing, biking, hiking, rafting and boating. The mountain environment and nearby water features including Lake Tahoe and the Truckee River represent the main attractions to the area. The following tables summarize the major employers in Nevada and Placer Counties.

Nevada County Major Employers

Employer Name	Location	Industry
Boreal Ski Area	Soda Springs	Lodging and Recreation
County of Nevada	Multiple	Public Administration/Government
Nevada Joint Union HS District	Grass Valley	Public Education
Northstar-at-Tahoe	Truckee	Lodging and Recreation
Sierra Nevada Memorial Hospital	Grass Valley	Healthcare
Sugar Bowl Ski Area	Norden	Lodging and Recreation
Tahoe-Donner Association	Truckee	Lodging
Tahoe Forest Hospital	Truckee	Healthcare
Thompson Multimedia/Grass Valley Group	Nevada City	Communications Equipment
US Government	Multiple	Public Administration/Government

Source: California Employment Development Department.

LOCAL AREA ANALYSIS

Placer County Major Employers

Employer Name	Location	Industry
Alpine Meadows Ski Resort	Olympic Valley	Lodging & Recreation
Artesyn Solutions, Inc.	Lincoln	Computer & Data Processing Services
City of Roseville	Roseville	Public Administration (Government)
Coherent Inc.	Auburn	Medical Instruments & Supplies
County of Placer	Multiple	Public Administration (Government)
Hewlett-Packard	Roseville	Computer & Office Equipment
NEC Electronics	Roseville	Electronic Components & Accessories
Oracle Corp.	Rocklin	Computer & Data Processing Services
Pride Industries	Roseville	Individual & Family Services
Resort at Squaw Creek	Olympic Valley	Lodging & Recreation
Sierra Community College	Rocklin	Colleges & Universities
Squaw Valley USA Ski Corp.	Olympic Valley	Lodging & Recreation
Surewest Communications	Roseville	Telephone Communications
Sutter Hospitals	Roseville	Hospitals
Union Pacific Railroad Co.	Roseville	Railroads

Source: California Employment Development Department.

LOCAL AREA ANALYSIS

The following table summarizes labor force information for the town of Truckee, Nevada and Placer Counties and the State of California through August 2006 as compared to 2004 and 2005.

Annual Unemployment Rates			
	2004	2005	2006*
Truckee	4.8%	3.7%	3.5%
Placer Co.	4.4%	4.0%	4.1%
Nevada Co.	5.9%	4.6%	4.3%
California	6.7%	5.4%	4.9%

*Preliminary June 2006
Source: California Labor Mkt. Info.

As indicated, the unemployment rates have declined since 2004 in all of the areas.

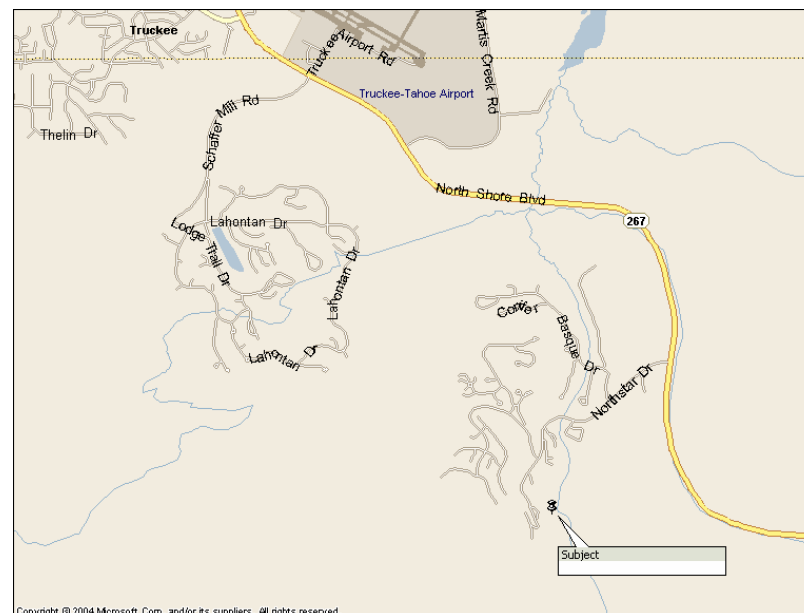
Transportation

A limited range of transportation opportunities are available to businesses located in the subject's area. Interstate 80 is the major highway accessing eastern Nevada and Placer Counties.

Commercial air service to the Truckee area is provided by the Reno/Tahoe Airport, approximately 35 miles east of the subject. Commercial air service in the western portion of Nevada and Placer County is provided via the Sacramento Metropolitan Airport, a 1.5-hour drive west of Truckee. The Tahoe Basin is served by the Lake Tahoe Airport in South Lake Tahoe and the Truckee-Tahoe Airport in Placer County just south of the subject.

Bus service for the Truckee area is provided by Greyhound lines from the Sacramento and Carson City/Reno areas. There are also numerous daily charter services from the Bay Area to the Lake Tahoe area. Freight and passenger train services to the Truckee area are provided by Southern Pacific and Amtrak.

LOCAL AREA ANALYSIS



LOCAL AREA ANALYSIS

Immediate Surroundings

The subject CFD is located throughout the base area of the Northstar-at-Tahoe resort as well as mid-mountain. It is integrated into the surrounding ski area. This resort contains over 8,000 acres of land owned in fee simple by resort operator Booth Creek Ski Holdings. Northstar was originally master-planned and developed in 1972 with approval for several thousand homes, an 18-hole golf course and an alpine skiing resort. The following is a description of the subject's immediate surroundings.

North - Immediately north of the subject Zone 1 are two circular drives leading to Northstar Drive. The circular drives are for skier drop off and bus loading and unloading. Northstar Drive is the main arterial road through the Northstar at Tahoe master planned development leading to Highway 267. It provides the direct access to Zone 1 of the subject. Further north are proposed condominiums in the area referred to as The Village North as well as day skier surface parking lots. Continuing north is single family residential resort development on Big Springs Drive. This is high quality development of homes generally ranging from \$1.5 to \$4.0 million. The Northstar Golf Course is located northeast of the subject on the north boundary of the Northstar master planned development. Further north beyond the boundary of the Northstar development is the Martis Valley. Much of the Martis Valley is currently privately owned vacant land, which is the focus of substantial future development planning. Significant development in the Martis Valley includes the Lahontan Golf Community, which was developed in the late 1990s. This is an 880-acre, exclusive golf and amenity based second-home community with approximately 500 lots, approximately one-half of which have been built with luxury homes. Prices for resale lots in this community range between \$275,000 and \$1,200,000. Future phases of Lahontan and similar style golf course development is planned for the Martis Valley. Martis Camp is another golf community development by DMB Highlands, the same developer as Lahontan. This development is adjacent to Lahontan and Northstar-at-Tahoe on approximately 2,200 acres. At build-out this development will consist of 653 single family estate lots at an average of 2 acres. The featured amenity will be a Tom Fazio designed golf course. Pricing of the lots was estimated to be between \$600,000 and \$2,000,000. Currently there are 170 reservations which have been taken for the first release of 117 lots.

Development in the Martis Valley was challenged by multiple environmental and citizens groups and the Martis Valley Plan was the subject of substantial litigation. This litigation was recently resolved with the Martis Valley Plan approved by Placer County still in tact.

Further North is the Town of Truckee and Interstate 80.

South - Immediately south of the subject beyond The Village is the base station of the Northstar-at-Tahoe Gondola. Further south are ski runs leading to the proposed Highlands area (Tax Zone 2) Further south beyond the improved Northstar-at-Tahoe ski area is vacant, forested mountainland leading to King's Beach, a north shore Lake Tahoe community.

East - Immediately east of the subject is The Village condominium lodge building. This is a 3 story building built in the 1980s with residential condominiums on the upper levels and commercial space on the main pedestrian level. This building will be significantly remodeled on the exterior in conjunction with the new subject development taking place in The Village. Further east is older condominium development located in the Northstar master planned development. Further east is undeveloped areas within the Northstar master planned development leading to Highway 267.

West - Immediately west of Zone 1 of the subject is the proposed J1 Chondola, resort ski runs and single family residential subdivisions in the Big Springs area of the master planned development. Further west is vacant mountain land.

LOCAL AREA ANALYSIS

Trend - The trend of development in the subject's immediate area is for redevelopment of the Northstar-at-Tahoe base area and resort. The subject project represents virtually all of the development within the master planned area with the exception of the on-mountain ski improvements and two single family subdivisions which are both being developed by Booth Creek.

HOUSING MARKET ANALYSIS

HOUSING MARKET ANALYSIS

The subject property consists of proposed residential (condominium stacked flats and town home style residences) units situated in a resort village environment at the base of the Northstar-at-Tahoe Resort as well as ski-in/ski-out on mountain residences located at mid-mountain. The developer intends to market the subject for construction of vacation homes or second homes. This analysis discusses national trends the second home or vacation home ownership as well as a presentation of statistical information from the Tahoe Sierra Multiple Listing Service regarding the area's real estate market and further discussion of competing projects with a ski resort orientation in the greater Truckee area. As a means of perspective we have conducted a brief analysis of market conditions for the national housing market.

National Housing Market Summary

The years 2003 through 2005 were record years for the national housing market. However 2006 has shown a significant and fairly rapid slowdown due in part to rising interest rates, rapid increases in construction costs, unsustainable appreciation levels and overbuilding. While still historically low, mortgage rates have risen about one percentage point since their low point a couple of years ago. According to conventional wisdom, the Federal Reserve Board has plans for possibly one or two more rate increases. Due to this "slow and steady" approach, long-term mortgage rates should remain relatively stable.

However, the housing market's 'landing', so far, is much harder than anticipated. The National Association of Realtors (NAR) is reporting that median home prices in August 2006 dropped 1.7 percent, which was the first in more than 11 years. A second drop of 1.6 percent occurred in September. Some housing experts are warning that prices could continue to fall. Some economists are predicting below-CPI increases in housing for the next three years. The greatest declines, according to a Moody's Economy.com, will be in southwest Florida, and metro areas in California, Arizona, Nevada, and Washington, D.C. The on-going correction could extend into a multi-year phenomenon.

Hanley Wood releases various housing-related indices monthly. We have included the more applicable recent statistics below.

HOUSING MARKET ANALYSIS

Months of New Home Inventory (Seasonally Adjusted)

MOST RECENT STATISTIC: 6.6 Mos.
 GRADE: C-
 PERIOD COVERED: Aug. 2006
 Date Released: 9/27/06

	<u>8/06</u>	<u>7/06</u>	<u>6/06</u>	<u>8/05</u>
New Home Inventory (000)	569	564	567	477
Months of Supply	6.6	7.0	6.3	4.6
<u>Months of Supply by Stage of Completion</u>				
Completed	1.7	1.8	1.5	1.0
Under Construction	<u>3.7</u>	<u>4.0</u>	<u>3.6</u>	<u>2.8</u>
--Speculative (Completed + U/C)	5.4	5.8	5.1	3.8
Not Started	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>	<u>0.8</u>
TOTAL	6.6	7.0	6.3	4.6

Source: Hanley Wood Market Intelligence

The number of new homes for sale increased 19.3 percent in August 2006 versus a year ago, rising to 569,000 units from 477,000 units. The relative months of supply increased to 6.6 from 4.6 from a year ago.

The weakening is partly due to rising inventory levels, higher prices and slightly higher mortgage rates, although other economic factors are involved. With homebuyers' motivation still fueled in large part by low interest rates, sales activity will slowly moderate as high prices compromise the affordability advantages of low rates and as inflation eventually pushes long-term mortgage rates upward. The current 6.6 months of supply is well above the 4.0 average of the past 3 years, although sales and supply rates tend to fluctuate on a month to month basis. New home sales for August 2006 versus the previous month and the two previous Augusts are shown in the following chart.

New Home Sales

	<u>8/06</u>	<u>7/06</u>	<u>8/05</u>	<u>8/04</u>
<u>United States</u>				
Sales (000)	1,050	1,009	1,271	1,175
% Change	-	4.1%	(17.4%)	(10.6%)
<u>South Region</u>				
Sales (000)	582	524	648	551
% Change	-	11.1%	(10.2%)	5.6%
<u>West Region</u>				
Sales (000)	228	277	349	339
% Change	-	(17.7%)	(34.9%)	(32.7%)
<u>Midwest Region</u>				
Sales (000)	156	139	194	220
% Change	-	12.2%	(19.6%)	(29.1%)
<u>Northeast Region</u>				
Sales (000)	84	69	80	65
% Change	-	21.7%	5.0%	29.2%

* Source: The National Association of Realtors and Hanley Woods Market Intelligence

New home sales in May were down 17.4 percent from a year ago and down 10.6 percent from two years ago. On a regional basis, August 2006 new home sales showed a 34.9 percent decline from a year earlier in the Western region and down 32.7 percent from two years ago. The Western region is obviously being hit the hardest of all region's in the U.S.

The previous discussion has outlined the well publicized decline in the primary housing market. There are some particularly hard hit metropolitan areas. This decline in the primary housing markets is not considered to have a huge effect on the second home market and resort real estate such as that which is being developed and sold in the Northstar at Tahoe master planned community. The supply and demand characteristics as well as the buyer profiles for the type of product being sold at the subject property is fundamentally different than the product suffering declining values and marketability in the major metro markets. Following is a brief summary of these differences.

- Supply of mountain resort real estate such as the Northstar at Tahoe area is very limited and finite. This constraint of supply is evident throughout the Western US and the Rocky Mountain area but is particularly acute in the Lake Tahoe area. Most ski resorts have leases on public land with no development potential. The fee owned land of the subject represents the only true on mountain development potential in the Lake Tahoe area. This constraint on supply has allowed for the premium pricing evident in the mountain resort real estate throughout the west.
- Demand for the mountain resort real estate as well as the second home market has continued. The most recent releases of product in other mountain resort areas has continued to sell rapidly in 2006. Specific projects are discussed later in the Developmental Analysis section of this report.
- The price points in Northstar at Tahoe are consistent with other mountain resorts selling condominiums in the \$1,000+ per square foot range. These high price points are appealing to the high net worth individuals who are not nearly as affected by primary housing market declines as more typical buyers
- The short supply continues to make the mountain resort real estate a desirable investment compared to investing in conventional housing in a large metro market. The proximity to the San Francisco Bay area is particularly positive to the subject as it relates to a pool of qualified potential investors.
- The subject project in particular represents a value due to the related Tahoe Mountain Club amenities available to buyers. This greatly enhances the marketability of the subject as well as meeting the desires of buyers in this market segment as it relates to having amenities.
- Overall it is our opinion the luxury second home market in mountain resort areas will continue to experience strong demand. While price increase projections over the next few years cannot occur at the recent record pace into the future, the mountain resort real estate is not likely to experience declines in value evident in the primary housing market in many parts of the country.

Following is a discussion of the second home and vacation home market which provides more insight into the specific market targeted by the subject development.

Second Home/Vacation Home Market

The second home market, including vacation homes and investment property, is strong and thriving. Approximately 6 percent of all homes sold each year are second homes. In recent years, a rising percentage of buyers have been purchasing for investment purposes. The NATIONAL ASSOCIATION OF REALTORS® (NAR) predicts that buyers like these will produce a surge in

demand for second homes that should boost housing starts by 100,000 to 150,000 units a year through 2020. Current estimates are for about 6,000,000 second-homes in the U.S.

The cornerstone of the second home or vacation home market in the U.S. is the boomer generation, which is made up of people born between 1946 and 1964 in a surge of postwar births. The boomers, who now number 78,000,000, fattened the rosters of public schools in the 1960s, snatched up inexpensive starter homes in the 1970s and have started to devour vacation homes in the new millennium.

During this decade, more than 1,000,000 vacation houses, condos and townhomes will be built just to satisfy that generation's desire for second homes, the NAR predicts. A key part of the growth trend is the ability of homebuyers to conduct business from virtually anywhere by telecommuting. Developers say the baby boomer buyers of second homes have completely different attitudes and tendencies than the buyers of the past. "This generation is buying second homes at a faster rate than the generation before," said David Norden, project manager of the Aspen Highlands Village in Aspen, Colorado.

A study performed by the National Association of Realtors showed that sales of second homes surged in 2005 accounting for almost 40 percent of all residential sales transactions. This study which is based on two surveys, show that 27.7 percent of all homes purchased in 2005 were for investment purposes, while another 12.2 percent were for vacation homes. Together, that constitutes 39.9 percent of all the homes sold in the country. Researchers at American Demographics magazine projected the number of US households owning second homes would rise from the 2004 estimate of 6.8 million to 10 million by the end of the decade, a 47 percent increase.

In 2005 3.34 million second homes were sold which was an increase of 16 percent over 2004's total of 2.88 million. The investment home component rose 15.7 percent to a record 2.32 million in 2005, up from the 2.0 million in 2004. Vacation home sales increased to 16.9 percent to a record 1.02 million.

Given the strong demographic demand from baby boomers, combined with a desire to diversify portfolio assets into more secure investments, this market is expected to remain strong for many years to come. Much of the most desirable land for building recreational property has already been developed in established vacation-home destinations. This will support healthy price appreciation in the future, improving the investment considerations for recreational property.

The increase in second home sales coincides with tax-law changes, effective in 1997. That tax change essentially did away with the capital gains tax penalty for most buyers wishing to trade down to a smaller primary residence and use some of their equity to purchase a second home.

Although most buyers are interested in recreational use, the survey demonstrates a growing interest in investment properties, rising steadily from 20 percent of second-home buyers in 1999 to 37 percent of buyers in 2002. Compared to all householders, second-home owners are twice as likely to be ages 55-64. Also, second-home owners are nearly four times as likely as all householders to have any annual income over \$150,000.

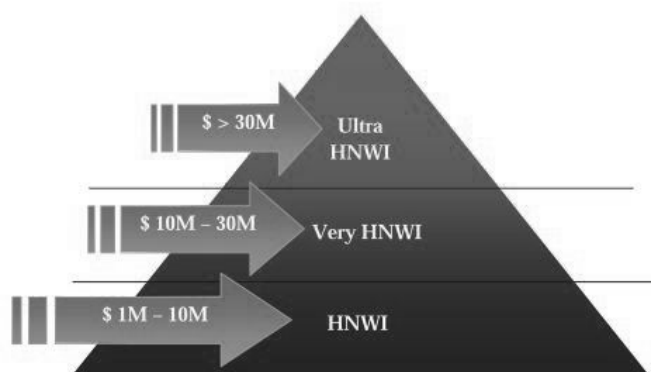
The strong U.S. economy during the 1990s contributed to strong membership sales and prices in other upscale residential communities. Although the stock market decline in 2001-2003 saw a substantial decline in overall stock market valuation, people with high net worth tend to be relatively diversified and less susceptible to major stock market fluctuations. Because of the weak stock market, many wealthy individuals have started investing more in real estate, including investment real estate and second homes. In the minds of many wealthy individuals, second homes are considered an investment as well as a place to vacation.

High Net Worth Individual (HNWI) Market

The target market for the residential units being marketed at the subject development is high net worth individuals.

The segmentation of high net worth individuals (i.e. investable assets over \$1 million, excluding housing) per Personal Elaboration is shown in the following chart. High Net Worth individuals (HNWIs) are those with investable assets between \$1 and \$10 million. Very High Net Worth individuals have investable assets from \$10 to \$30 million, and Ultra High Net Worth individuals have investable assets over \$30 million. Estimates from various sources other than shown in Figure 1 below indicate that there are approximately 2.2 million 'millionaires', roughly 610,000 U.S. households with investable assets over \$5,000,000, and 57,000 Ultra HNWI. According to CapGemini's 2005 World Wealth Report, the number of HNWIs grew 10.2 percent in North America in 2004. Also, the estimated number of new U.S. millionaires in 2004 grew by 226,000.

Figure 1: Segmentation of the "HNWI" family



Source: Personal elaboration

A big part of the second home boom is related to the aging of baby-boomers into the upper income levels and also the continuing wealth transfer between generations. Baby boomers are now 41 to 59 years old, considered the prime earning years and approaching or within the prime years to purchase second homes. According to the Social Welfare Research Institute at Boston College, projections are for between \$41 and \$136 trillion in wealth to be transferred between 2000 and 2050 in the U.S. Much of this wealth will be donated to charitable organizations and pay estate taxes. However, between \$24.6 and \$65.3 trillion is forecast to be passed on to heirs. This should result in a growth rate of Very HNWIs faster than the rate of household or population growth. This is important, because studies have shown that baby-boomers inheriting wealth are more likely to purchase a second home.

As indicated by these charts, there remain a relatively high number of ultrawealthy families in the United States and abroad, and their numbers and wealth are growing.

Over the next decade, more than 1,000,000 vacation homes, condos and townhomes will be built just to satisfy that generations desire for second homes, the National Association of Realtors (NAR)

predicts. A key part of the growth trend is the ability of home buyers to conduct business from virtually anywhere by telecommuting. Developer's say the baby boomer buyers of the second homes have completely different attitudes and tendencies than the buyers of the past. "This generation is buying second homes at a faster rate than the generation before," said David Norden, project manager of the Aspen Highland Village in Aspen, Colorado.

As reported by the Association of Resort Developer's (ARDA), in 2000 approximately 8.6 percent, or 8.9 million US households owned or co-owned some sort of vacation or recreational property, an increase of 1.7 million household since 1990, an increase of 24 percent for the decade. Such getaway communities include resort condominiums, vacation homes, time shares, and campground memberships.

Among those who are most likely to own such a property are those who already own a primary residence: Roughly 14 percent of homeowners have some sort of recreational property, while only one percent of renters hold such ownership.

Older householders and those with higher incomes are also more likely to own a vacation property. For example, 15 percent of householders over age 55 have a getaway as opposed to 4.2 percent of householders under age 40; and 18.4 percent of households with annual incomes over \$50,000 own a second property, compared to only 3.5 percent of households with incomes under \$35,000. Married couples top the list with 11.9 percent claiming to have second properties, nearly 5 percent more than other households. Only 8.5 percent of households with children under 18 have such properties, 2.5 percent fewer than households without minor children.

Most second homeowners (58 percent) have their primary residence just a few hours away from the vacation home. Frequently, second homes are within a three-hour drive of the primary residence. Lakes are another major location factor with 31 percent of second homes are near a lake. Other scenic draws are beaches (33 percent) and mountains (27 percent).

It is expected that second home purchases will increase in the coming years. One report, by the Concord Group, states that 44 percent of households are considering purchasing a second home in the next five years. All studies point to a sharp increase from studies done ten years ago, the most influential factor being the aging baby boomers. The boomers range in age from 41 to 59 and often have money to spend. As they consider retirement, second homes become part of their plan. Many buyers are in their 40's and 50's and experiencing their prime earning capability.

According to the Spectrem Group, a financial services research and consulting firm, there were 600,000 households in 1999 with a net worth over \$5 million in the U.S. This number was expected to grow 46 percent annually (prior to the recent stock market declines). According to Cap Gemini Ernst & Young, there are 57,000 families in the U.S. with over \$30 million or more (ultra high net worth individuals or UHNWIs), and 2.1 million in the U.S. alone with financial assets over \$1 million (excluding real estate) at the end of 2001. People are spending more money on their second homes. A growing, more affluent generation of boomers is willing to spend \$200,000 to \$1 million on such purchases. The National Association of Realtors (NAR) predicts that buyers like these will produce a surge in demand for second homes that should boost housing starts by 100,000 to 150,000 units a year through 2020. The demographics have certainly become more favorable for second home demand. Low interest rates continue to positively impact the housing market, and have served to keep this market relatively strong. Currently, interest rates for owner-occupied homes range from 5.0 to 6.5 percent, depending on term and type of loan.

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In summary, the housing market remains strong despite a weakening job market. This condition is highly unusual. The sustained health of the housing market will depend on strong job growth, which appears uncertain at this time.

Truckee Market Area

This section of the housing market analysis will examine housing price trends, as well as existing/future supply and demand for homes in the subject's market of Truckee.

The following table is focused on condominium sales in the Greater Truckee area (including the communities of Truckee, Truckee River, Tahoe-Donner, Northstar and Squaw Valley) over the last two years including year to date through 8/14/2006.

	2004	2005	2006 YTD
Condominiums/Townhomes			
No. Sales	199	202	92
Avg. Sales Price	\$419,087	\$589,103	\$996,443
Avg. DOM	121	97	119

The above table indicates a strong increase in average sale prices for condominiums/townhomes. It is noted that the 2006 average sale price was heavily influenced by 23 sales at the Village at Northstar with an average sale price over \$2,000,000.

Truckee and the overall Lake Tahoe Region real estate and resort markets draw heavily from the population centers to the west. The primary "feeder markets" include Sacramento and the Bay Area (San Francisco, Oakland and San Jose). These two markets represent, by far, the buyers of Tahoe area second-home properties, as confirmed by conversations with several area real estate brokers and developers. It is estimated that approximately 80 percent of the second-homeowners in the Tahoe area hail from the Bay area. These areas have an estimated combined population of approximately 10,000,000 with generally strong demographics in terms of income and affluence, thus making this a significant market for second home/resort real estate ownership. Furthermore, the Sacramento and Bay Area markets are within a relatively short driving distance to the Tahoe area, ranging from approximately 2 to 4 hours depending on location and traffic. Southern California and Los Angeles represent a secondary market for resort real estate in the Tahoe area. This area represents a massive population base with good demographics as well.

Truckee Housing Inventory

Residential development in Truckee has occurred sporadically in phases over the years since Truckee was first established as a wagon train stop in the late 1800s. The historic area of downtown Truckee has a variety of housing development that contributes to the charm of the town. Most development in Truckee has been single family oriented. The following is a discussion of Truckee's neighborhoods and organized developments per the town of Truckee general plan.

Permit Authorized Construction

Permit authorized construction in Truckee shares similar influences and trends with Martis Valley area and has been consistently strong as evidenced by the following table provided by the town of Truckee Building Department.

HOUSING MARKET ANALYSIS

	2000	2001	2002	2003	2004	2005	2006 7 mos.
Residential	372	187	317	299	335	385	193
Commercial	28 (7.5%)	62 (33%)	122 (38%)	199 (29%)	122 (27%)	128	85
Total	400	249	439	418	457	513	278

Commercial permits have represented between 7.5 to 38 percent of the total building permits issued in Truckee since 2000. The majority of the permits issued in Truckee have been residential. The previous year (2004) saw the most building permits issued over the last 5 years. According to the Town of Truckee Planning Department, recent development trends in Truckee indicate that non-residential development is currently occurring at a much quicker pace than residential development. This is attributed to the strong population growth over the last few years and the need for additional local services, lodging and industrial property.

Future Development

Future development in Truckee is encompassed under the Truckee General Plan, which was first adopted in 1996 and forecasts out to the year 2025. The following table shows the estimated development potential in Truckee per the latest development summary prepared by the Truckee Community Development Department dated December 2004.

	Estimated Sq. Ft.				Residential (Est.)	
	Commercial	Industrial	Other	Total	Units	Vacant Lots ¹
	Development as of 1995²	916,819	180,097	1,203,430	2,300,346	9,039
Development Between 1995 and 2004				299,654	1,864	
Development as of 1/1/2004 ³				2,600,000	10,903	2,750
Development Completed in 2004	102,855	29,573	87,000	219,428	215	423
Existing Development as of 12/1/2004				2,819,428	11,118	3,023
Development Under Construction	192,784	132,457	152,000	477,241	237*	
Existing and Under Construction				3,296,669	11,355	3,023
Approved Development	358,600	131,270	424,000	913,870	850	440
Existing, Under Construction and Approved				4,210,539	12,205	3,163
1996 General Plan Build-Out				5,623,404	18,160	
Remaining Build-Out				1,412,865	5,955	

Source: Town of Truckee, December 2004

¹Subtracts 150 lots developed in 2004 and 300 lots approved for development

²Estimate from 1996 General Plan

³Estimate from General Plan Update Workshops

*Does not include single family homes under construction

Significant development is under construction and in the approval pipeline in Truckee. The Martis Valley is a significant development area adjacent to the south of the town limits of Truckee in Placer County. These developments will use Truckee services and influence traffic and commerce in Truckee proper. Development in the Martis Valley falls under the Martis Valley General Plan, which

HOUSING MARKET ANALYSIS

was first adopted in 1975 with a maximum number of 12,000 residential units. This plan was later revised to a maximum of 8,600 residential dwelling units; a reduction of 28 percent from the original plan. It is anticipated that a large percentage of this development will cater to second-homebuyers.

The following table summarizes the current construction, approved and proposed development in the Martis Valley.

Type	Single Family Lots	Residential Units	Commercial/Recreational (Sq. Ft.)
Under Construction	0	235	180,000
Approved	905	375	229,000
Proposed	18	1,723	268,000
Total	923	2,333	677,000

Other significant development in this area and included in the development totals reported above, pertains to the base area and on-mountain development at Northstar-at-Tahoe Resort, Coldspring, Eaglewood and Siller Ranch (now Martis Camp).

Northern California Feeder Markets

The fact that the subject's primary target markets are the Sacramento and San Francisco Bay metropolitan areas has already been extensively mentioned and discussed herein. The proximity to a population of approximately 10,000,000 people within an average drive time of 3.5-hours is critical as it relates to the market potential for the subject property. The subject is generally going to appeal to the higher income levels, which are quite strong in the Sacramento and San Francisco Bay areas, in particular. Generally, it is considered that most of the subject's potential market is in the income bracket of \$250,000 annually or higher; however, it could also cater to buyers in the \$150,000 to \$250,000 annual income range. The following table summarizes the population, households and income levels for these primary market areas.

HOUSING MARKET ANALYSIS

DEMOGRAPHIC PROFILE	SAN FRANCISCO, OAKLAND, SAN JOSE DMA	SACRAMENTO DMA	CALIFORNIA
Population			
2000 Population	6,680,641	3,425,623	33,871,648
2005 Population	6,829,673	3,842,655	36,216,549
2010 Population	6,982,715	4,277,510	38,656,963
% Change 2000 to 2005	0.44%	2.32%	1.35%
% Change 2005 to 2010	0.44%	2.17%	1.31%
Per Capita Personal Income			
2000 Per Capita Personal Income	\$31,015	\$20,439	\$22,711
2005 Per Capita Personal Income	\$35,595	\$23,532	\$25,566
2010 Per Capita Personal Income	\$40,402	\$26,759	\$28,559
% Change 2000 to 2005	2.79%	2.86%	2.40%
% Change 2005 to 2010	2.57%	2.60%	2.24%
Households			
2000 No. Households	2,443,817	1,209,341	11,502,870
2005 No. Households	2,475,859	1,352,706	12,200,082
2010 No. Households	2,515,808	1,503,663	12,951,724
% Change 2000 to 2005	0.26%	2.27%	1.18%
% Change 2005 to 2010	0.32%	2.14%	1.20%
Persons Per Household			
2000 Persons Per Household	2.68	2.76	2.87
2005 Persons Per Household	2.7	2.77	2.9
2010 Persons Per Household	2.72	2.78	2.92
% Change 2000 to 2005	0.18%	0.11%	0.18%
% Change 2005 to 2010	0.12%	0.07%	0.13%
Average Household Income			
2000 Avg Household Income	\$83,725	\$56,822	\$65,680
2005 Avg Household Income	\$97,137	\$65,882	\$74,749
2010 Avg Household Income	\$111,079	\$75,239	\$84,146
% Change 2000 to 2005	3.02%	3%	2.62%
% Change 2005 to 2010	2.72%	2.69%	2.40%
Income Ranges			
Median Income	\$71,899	\$50,673	\$54,147
\$150,000 or more	16.04%	6.01%	9.27%
\$100,000 to \$149,000	17.80%	12.06%	13.07%
\$75,000 to \$99,999	13.96%	12.60%	12.27%
\$50,000 to \$74,999	17.67%	19.86%	18.44%
\$35,000 to \$49,999	11.80%	15.73%	14.47%
\$25,000 to \$34,999	7.26%	10.92%	10.21%
\$15,000 to \$24,999	6.78%	10.61%	10.09%
Under \$15,000	8.67%	12.20%	12.17%
2000 Median Income	\$62,936	\$44,852	\$47,945
2010 Median Income	\$81,895	\$57,784	\$60,666
Occupancy			
2000 Occupied Housing Units	2,540,253	1,298,463	12,214,549
Owner Occupied	55.47%	58.27%	53.59%
Renter Occupied	40.73%	34.87%	40.58%
Education			
2000 Population 25+ by Education Level	4,544,351	2,138,612	21,298,900
Bachelors Degree Only	23.29%	14.40%	17.09%
Graduate Degree	14.22%	7.15%	9.53%
Retail Trade Potential			
Total Retail Potential	\$110,155,165,460	\$56,022,151,774	\$529,525,020,776
Apparel Accessory	\$5,874,294,344	\$2,009,363,399	\$26,271,155,092
Automotive Dealers	\$20,577,523,983	\$12,604,420,351	\$114,648,248,590
Automotive & Home Supply Stores	\$2,015,771,003	\$1,682,189,682	\$12,674,153,990
Drug & Proprietary Stores	\$4,461,368,622	\$2,656,506,268	\$22,759,617,489
Eating & Drinking Places	\$12,557,422,506	\$4,734,614,058	\$56,823,783,810
Food Stores	\$18,884,909,511	\$8,553,375,906	\$70,457,765,026
Furniture Home Furnishing Stores	\$3,142,266,550	\$1,379,828,130	\$14,063,052,769
Home Appliance, Radio, & T.V. Stores	\$6,050,039,349	\$1,463,842,112	\$20,592,271,189
Gasoline Service Stations	\$2,971,044,211	\$3,291,668,317	\$19,852,910,204
General Merchandise	\$9,956,436,346	\$6,713,423,235	\$63,486,855,988
Department Store	\$5,992,216,569	\$4,577,487,096	\$41,728,328,509
Hardware, Lumber & Garden Stores	\$10,199,896,435	\$6,111,944,013	\$50,117,796,663

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The above table illustrates that as of 2005, the total population of these two primary metropolitan areas is 10,672,328 people and 3,828,565 households. The above table indicates that in the San Francisco/Oakland/San Jose area, 16.04% of the households have an income in excess of \$150,000, and 6.01% in the Sacramento area. This totals 614,102 households which will represent the primary target market for the subject. This information illustrates there is a large, viable marketplace within driving distance to the subject. The subject's remaining 1,500+ units represent .25 percent (1/4 of 1%) of the potential household purchasers within driving distance. The subject's potential buyer market is much greater due to the fly in market serviced by the Reno airport approximately 30 to 40 minutes east of the subject. In addition it is important to note that there is greater wealth available than income. As discussed previously the "baby boomers" are expected to receive record amounts of inheritance wealth which will result in additional wealth allowing for second home purchases.

Conclusion

The Lake Tahoe region has been experiencing strong levels of population and housing growth over the last decade. Growth on the Nevada side is most influenced by the metropolitan Reno area. Growth in Truckee is generally consistent with area trends, although it is experiencing a larger share of growth in the higher value housing market. This is assumed to be driven by the area's resort oriented developments such as Lahontan, Martis Camp, Northstar and the East West Partners developments in the area.

FRACTIONAL OWNERSHIP OVERVIEW

Fractional ownership is a product that allows consumers to own flexible vacation time use and benefits without having to purchase a second home. Fractional ownership in the timeshare industry evolved from a single week use right to owning two to four weeks of time allowing owners to transfer use to guests and family as well as give themselves plenty of time for vacationing in any given year. The CFD currently has one fractional project nearing completion and two others proposed. The 8050 Private Residence Club is in Phase 2 of The Village and is offering 1/12 shares (4 weeks) in 21 units. The Village North Fractional project is proposed to offer 1/20 shares (2.6 weeks) and may be built with a well known operator. The Ritz Club fractional project in The Highlands will be offering 1/12 shares. All of the fractional projects are intended to be the highest quality luxury product.

The following discussion characterizes the fractional industry and identifies current trends. The information presented is from our experience in the market, field research, and the 2006 Fractional Interest Leisure Real Estate Market Report prepared by Ragatz Associates on behalf of Northcourse Leisure Real Estate Solutions.

Product Profile

Statistically, second home owners use less than five weeks a year after the first few years of ownership, but have 52 weeks a year of responsibility for long distance property management, liability, and expense. For many, whole ownership is becoming less appealing in a society that suffers from "time poverty." The well-educated affluent baby boomer is typically more concerned about time than money and demands services over savings. This market is less price-sensitive than others as long as time is preserved by conveniences and services, and quality is not spared. The quality offered by many of these fractional resorts have positioned them to compete with the overall "experience" provided by a top tier luxury hotel.

It is estimated that high-end fractionals will eventually comprise 20% of the total timeshare marketplace. Elite tier product growth initially exploded with the rise in wealth generated by the securities markets and global economic development. As of March 2001, there were 50 high-end fractional projects in existence, including several projects in the construction and planning stages. Of these 50 projects, 19 are located in Colorado and only 1 in Utah according to Ragatz Associates.

Fractional ownership and the recently introduced concept of a Private Residence Club (PRC) are enticing resort developers possessing prime real estate parcels in exclusive communities with high barriers to residential development. A form of fee fractional sharing, the PRC differs from conventional interval ownership by offering a truly private "second home alternative" product. The number of intervals per unit is substantially less, ranging from seven to ten owners, and cost per interval rivals that of a primary, suburban residence. Until recently, exchange privileges were not available, ensuring owner occupancy and a higher standard of use. A number of private residence clubs have been developed in mountain resort communities such as Telluride and Vail, Colorado and Deer Valley, Utah. In addition to ski resorts, other popular fractional product destinations include golf and beach resorts where real estate prices are very high.

Some organizations in the vacation ownership industry still use the terms high-end fractional and PRC interchangeably when, in fact, they are different products for different consumers. A high-end fractional product can be easily integrated into a multi-use development that includes a hotel, timeshare, condominium ownership, etc. In some cases a high-end fractional product will affiliate with one of the exchange companies that traditionally facilitate timeshare exchanges to offer a value added utilization benefit to their owners who want to travel elsewhere using their ownership. A PRC truly is a luxury residence with furniture, fixtures and equipment that would

FRACTIONAL OWNERSHIP OVERVIEW

be found in an upscale property. Many prospects for this product typically have their own service personnel at their primary residence, have their own private transportation, including air transport, and have multiple vacation residences or accommodations throughout the country or the world to visit. This market does not want to be a part of a multi-use community. They want to be surrounded by the same people they would see in other luxury destinations. They can easily afford multiple residences full time but see a value in not having to manage the maintenance efforts for a shorter length of stay in each home.

The following characteristics distinguish high-end fractional and/or PRC buyers from traditional timeshare purchasers.

- Fractional buyer is a repeat visitor to the area, more than once a year.
- While mass marketing is the method used for traditional timeshare, fractional sales are more relationship based.
- Fractional purchases include extensive amenities and services, more typical of a luxury hotel, with significant added association costs.
- Fractional buyers who are often capable of affording a wholly owned vacation home, cannot justify the investment due to their lack of use.
- Buyers of PRC's are at the highest end of the market, with incomes often in excess of \$250,000.

The fractional ownership product has changed the landscape of interval sales as they were previously known. Interval ownership started in the United States in the early 1970s with single intervals being sold with a timesharing concept. "Timeshare" can be defined as "divided interest among many people with rights for each to occupy a unit for a contracted period of time". In this respect, fractional ownership products are no different than timeshare products. Timesharing was born out of an awareness that people wanted to visit certain destinations repeatedly without having to purchase a second home or stay in a hotel room for extended stays with their families. The first timeshare product was a "fixed" unit, "fixed" week usage concept, which meant that the buyer stayed in the same unit that they purchased for the same week each year. The product has evolved over the years to include "floating" units and usage periods, the sale of points either backed by deeded real estate or sold as a "lease" membership which is determined by local regulation, and the sale of multi-week packages, or "fractions" of interval ownership. These fractional packages are generally one-tenth or one-quarter deeded interest.

The fractional ownership product was born of the same awareness that the timeshare offering was built on, for a very different demographic market. Fractional ownership pioneers recognized that a large number of their clientele owned multiple residences with an average stay of four weeks a year in all but their primary residence. These prospects also spend several hundred thousand dollars a year on multiple golf memberships at the best clubs in the country. Golf club memberships that allow members to receive reciprocal privileges between clubs owned by different entities became a product created by this demand. Golf clubs that included even a small lodging component became popular and created a way for members to visit for extended periods of time without purchasing another residence. What seemed to be missing for these members was the sense of community that they felt and created in residential projects situated within a multi-use golf club project during the weeks that they resided there each year with their families. The first developers of fractional ownership projects recognized the need for divided occupancy in a single dwelling that is developed and designed like a luxury second home with the inclusion of the country club benefits that this market requires. This is a major distinction from the timeshare product.

Other variations between timeshare resorts and fractional ownership resorts include the resort service offering and the exchange service benefits. With respect to resort service offerings, the

FRACTIONAL OWNERSHIP OVERVIEW

average timeshare resort features limited property amenities such as pools and/or whirlpools, fitness center, and a sundry shop. With the recent entry of the major hotel chains into the timeshare industry we are seeing enhanced service offerings including spas, restaurants, tennis courts, and golf courses, among others; however, this is still rare for the timeshare industry at large. On the other hand, fractional ownership resorts maintain a staff similar to that of a luxury hotel and features extensive property amenities such as full-service restaurant pools and whirlpools; fitness center and spa facilities; direct access to beach and/or ski-in/ski-out; concierge services; valet/shuttle services; and daily maid service, among others.

With respect to exchange service benefits, traditional timeshare resort developments evolved from home resort usage once a year, to depositing your week with an exchange company in trade for a week at another member's home resort elsewhere in the world. This has become big business with two large exchange companies accommodating the majority of the exchange demand today, Resort Condominiums International (RCI) and Interval International (TI). Each of these companies generates over \$1 billion dollars a year performing exchanges for the timeshare industry. Conversely, it is not a valuable benefit to high-end fractional ownership and/or PRC developers to be affiliated with these exchange companies as the majority of the properties available for exchange are not equal in design, quality and amenity offering with the properties in the exchange pool and would not be well received by the high-end fractional ownership and/or PRC clientele.

The industry has seen the demand in the high-end fractional ownership and/or PRC market and has implemented a five-star affiliation and exchange segment that allows fractional ownership developers to affiliate with them and offers their members an opportunity to exchange guaranteeing that they will be confirmed and accommodated into five-star resorts solely. RCI created a subsidiary called Global Registry, LLC which has recently formed an alliance with Abercrombie & Kent, Inc. to announce the launch of a new company called Abercrombie & Kent Registry which allows owners of fractional ownership/PRC properties to exchange their time with other members who own similar property. Clubs participating in this system also receive a personal concierge service by Abercrombie & Kent Registry to confirm other travel arrangements.

For those fractional ownership developers who wish to operate independently, there are reciprocal relationships that are being initiated with similar resort properties offering the same product to accommodate the members that would like to travel outside of their home resort for usage any year. Lastly, there are developers that wish to create a real community with their fractional ownership products and will not offer exchange to sister properties. Their desire is to have the same families back year after year and create lifelong relationships with the property acting as the catalyst for that. Occupancy levels are more consistent and are higher where there is an exchange benefit available, however most fractional ownership developers don't care if occupancy is low as long as the integrity of the product and the service levels are not compromised for owners who visit.

The first fractional ownership projects are less than ten years old and demand for this product has exploded over the last four years. It will take many evolutions before a long-term, standard product can be discussed and analyzed. There is little historical information to base opinions and project forecasts from and so it becomes the developer's responsibility to be literate about the region the property is located in, the competition and the desired demographic group that will generate the demand for their product.

Industry Size

As of March 2006, some 188 resorts offered fractional interests, including 156 in the United States, 17 in Canada, 5 in Mexico, 6 in the Caribbean, and 4 elsewhere. These counts include

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only significant offerings, and not properties with a small handful of condominium units or homes sold on a fractional basis, as is fairly common.

Fractional interest resorts may be arbitrarily classified by aggregate retail sales price per unit, including 99 in the "traditional fractional interest" tier at less than \$500 per square foot, 33 in the "high-end fractional" tier at \$500 to \$999 per square foot, and 33 "private residence clubs" at \$1,000 or higher per square foot. The latter two tiers show particularly strong growth in recent years, from just six resorts in 1996. Among resorts in active sales during 2003, 10 were traditional fractional interests, 26 were high-end fractional interests, and 29 were private residence clubs.

Fractional interest resorts in active sales during 2005 offered about 4,700 built units, with about 2,700 (57%) of these in private residence clubs and high-end fractional interest resorts, and 2,000 (43%) in traditional fractional interest resorts.

Fractional interest sales by developers totaled about \$1,531,900 in North America during 2005. Included in the \$1,531.9 million were about \$366.4 million in the traditional fractional tier and \$440.0 million in the PRC tier, and \$725.5 million in the Destination Club tier. This represents a 27.5% growth over total sales volume in 2004. The largest percentage increase was in the traditional fractional interests at 68.2% and Destination Clubs at 42.5%.

In addition to the \$1,531,900 million in developer sales volume, \$47.9 million of resales and \$388 million of presales were generated in 2005. Resales activity is up over 50% from 2005.

Product Characteristics

Prices at traditional fractional interest resorts averaged about \$115,650 overall, or \$10,500 per week of annual use in 2005. High-end fractional interests average about \$187,500 overall, or \$29,425 per week of annual use. Private residence clubs average about \$290,000 per interest, or \$59,335 per week of annual use.

Price per square foot is another unit of comparison use by the fractional market. This unit is essentially the aggregate sales price per square foot which is calculated by multiplying the total fractions sold by the retail value of each share then divided by the unit square footage. The average price per square foot was \$385 at traditional fractional projects, \$765 at high end fractional projects, and \$1,785 at private residence clubs.

Average share size declines the higher the price tier. Traditional fractionals average one-fifth shares, or 9 to 10 weeks of annual use. High-end fractionals average one-seventh shares, or seven weeks annually. Private residence clubs average one-ninth shares, or five to six weeks annually.

The majority of fractional interest resorts are in ski destinations – 51 percent. Beach locations are second most common – 27 percent. Golf locations, urban locations, and clubs selling either memberships or deeded ownership in single-family homes in various locations make up the remainder.

The most common reservation method for high-end fractionals (56 percent) and private residence clubs (50 percent) is a rotating priority system (owners select their choice of week based on rotating priority). The rotating calendar system (weeks assigned each owner change on pre-determined basis) is equally as common as rotating priority among traditional fractionals (53 percent).

Two-bedroom units are most common among fractional interests overall. Traditional fractional units average about 1,220 square feet, versus about 1,830 square feet for high-end fractionals and 1,600 square feet for private residence clubs. Private residence club units tend to be smaller than high-end fractionals due to locations featuring exceptionally high land values.

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Maintenance fees average \$350 per week of annual use for traditional fractional interests, \$775 for high-end fractionals and \$1,480 for private residence clubs. Fees vary significantly by unit size, resort features, and other characteristics.

The majority of fractional interest resorts selling during 2005 are affiliated with an external exchange, company and most percent offer internal exchange through a club or private relationship between independent developers. Rental programs are offered at over half of most resorts and resale programs at most.

Purchasing Process

High-end fractional and private residence club owners purchase primarily for the certainty of quality accommodations (96 percent), location (89 percent), and quality compared to other options of a similar price (88 percent). Traditional fractional interest owners also purchase for the certainty of quality accommodations (86 percent) and location (84 percent), but are much more motivated by the opportunity to exchange with other resorts (74 percent). Among all fractional interest purchasers, financial concerns are the primary reason for hesitating to purchase.

Overall, almost half of high-end fractional and private residence club owners, and over two thirds of traditional fractional interest owners, attend more than one sales presentation before buying. These figures do not include other sales-related interactions between the developer or sales staff and the consumer.

Satisfaction, Use, And Future Plans

A full 96 percent of high-end fractional and private residence club owners and 89 percent of traditional fractional interest owners report satisfaction with their purchases.

High-end fractional and private residence club owners use a relatively high 68 percent of their available time personally, and visit their resorts a relatively few 2.2 times per year. Traditional fractional interest owners visit their resorts a more frequent 4.6 times annually, but exchange, rent, or give away some 55 percent of their time. This is because traditional fractional interest owners tend to own larger share sizes than their counterparts in the other two segments, and live closer to their resorts.

Despite the amount of time they already own, about one-third (34 percent) of high-end fractional and private residence club owners report interest in purchasing more time at another resort area, as do about one-fourth (26 percent) of traditional fractional interest owners.

Consumer Characteristics

The primary distinguishing characteristic of high-end fractional and private residence club owners are their high household incomes, at a median of approximately \$250,000. Traditional fractional interest owners are also relatively affluent, with a median income over \$100,000. Aside from this, both groups tend to be middle-aged, married-couple homeowners with no children living at home.

Five Looking Glass Cohorts® comprise 93 percent of the high-end fractional and private residence club market, and 78 percent of the traditional fractional interest market. The focus on these few segments (out of the total 30 segments among U.S. households) provides significant opportunities for targeted marketing.

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Market Depth

It is arbitrarily assumed that income-eligibility for a high-end fractional interest begins at \$250,000 and for a private residence club at \$500,000. There are about 2.1 million households and 450,000 households, respectively, with such incomes in the U.S. Currently, it is estimated that only about 20,000 households own one of these two products.

If we assume a conservative penetration rate of only 5.0 percent, it means that the remaining affected market demand for the two products over the next 10 years could be over 100,000 purchases and a sales volume of over \$20 billion.

Terminology - Four Fractional Categories

Four categories of product have emerged in the fractional industry. Different price tiers of fractional interest product exist, based on aggregate selling price per square foot of living unit or ownership type.

- Traditional Fractionals: Product selling for less than \$500 per square foot. These are usually resort homes or condominiums of average quality, in regional resort areas, with typical resort amenities and services. Often characterized as at the "three star" level of quality.
- High-End Fractionals (HFIs): Product selling for \$500 to \$999 per square foot. This product represents a step up from the preceding category, typically due to some combination of more desirable location, lower density, larger unit size, higher construction and furnishings quality, or additional amenities or services. Often characterized as "four star" quality.
- Private Residence Clubs (PRCs): Product selling for \$1,000 or more per square foot. These represent the pinnacle of quality -- not just among fractional interests but in comparison with virtually any resort accommodations available - due to a combination of locations in the top tier of resort destinations on prime sites, extraordinary architecture and design, and the highest levels of services and amenities. "Five star" quality in every way. This product type has emerged into its own industry in the past five to ten years.
- Destination Clubs (DC's) differ from the above three types in that they are based on selling deeded real estate in a particular resort home or development while Destination Clubs involve selling memberships in an equity or non-equity club. Membership allows access to a network of resort homes in a variety of locations.

Number of Resorts

As of March 2006 some 188 fractional interest resorts that had begun sales prior to December 31, 2003 could be identified. Of these, 42 were high-end fractionals (HFIs), 47 were private residence clubs (PRCs), and 99 were traditional fractionals. Of the 188 total, locations include: 156 in the United States, 17 in Canada, 5 in Mexico, 6 in the Caribbean, and four elsewhere such as the UK and Fiji.

In addition to the 188 resorts that had begun sales prior to December 31, 2003, another 33 resorts were identified in various stages of planning. Of these planned resorts, 24 will be located in the United States, three in the Caribbean, three in Mexico, two in Canada and one in Fiji. A full list of the existing and proposed fractional interest projects has been kept in the files of the appraisers.

As previously mentioned, as of 2006, 188 resorts were in active sales; i.e., were closing sales, taking pre-construction reservations with a refundable deposit, or taking non-refundable deposits on contracts that will close at the time a certificate of occupancy is issued.

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The growth rate among HFIs and PRCs has been steady since these product types were introduced in the mid to late 1990s, increasing from just six in 1996 to 66 by the end of 2003 and 89 as of March 2006. Between 1995 and 2006, the annual growth in number of HFI/PRC resorts has averaged 27.8 percent. Because the traditional fractional market was not studied between 1989 and 2003, growth trends in this segment are not available for this time period.

The majority of fractional interest resorts are in ski destinations - 35 percent of the HFI tier, 62 percent of the PRC tier, and 53 percent of the traditional fractional interest tier. Beach locations are second most common - 37 percent of the traditional fractional interest tier, 35 percent other HFI tier, and 18 percent of the PRC tier. Less than a quarter of fractional interest projects are located in golf resorts or urban areas or are resort clubs with homes in multiple locations.

South Carolina, Oregon, Colorado, and California have more traditional fractional resorts than any other U.S. state or Canadian territory, containing over half of resorts in these two countries. Colorado (28 %) and California (17 %) contain 45 of the HFI's and PRC's.

Number of Units

As of March 2006 there were an estimated 4,700 fractional interest units in North America. Of these, approximately 2,000 were at traditional fractional interest resorts and approximately 2,700 were at HFI and PRC resorts. Among the 4,700 total, approximately 4,100 were located in the United States, with the remaining in Canada.

The 2006 study examined only the resorts active in sales. The estimated number of built units at fractional interest projects selling during 2005 was 3,555. Of these, 1,195 were at traditional fractional interest projects, 1,170 were at HFIs projects and 1,190 were at PRCs.

The average size of traditional fractional interest resorts in active sales was 45 units. If all under construction and planned units are built, the average traditional fractional interest resort will contain 57 units. The average size of an HFI resort in active sales was 45 units. If under-construction and planned units are completed, the average HFI resort will contain 42 units. The average size of a PRC resort in active sales was 35 units. If under-construction and planned units are completed, the average PRC resort will contain 75 units.

Sales Volume

Fractional interest sales by developers totaled about \$1,531,900 during 2005, including about \$366.4 million in the traditional fractional tier (23.9 percent), \$440.0 million in the HFI tier (28.7 percent), and \$725.5 million in the PRC tier (47.4 percent).

A significant increase occurred between 1999 and 2000, but then the U.S. economy and the threat of war and of homeland terrorism began to impact sales performance over the next few years. With the popularity and reported success of the membership club companies in 2003, the fractional interest industry had a boom year. These membership club companies were responsible for approximately 27 percent of the 2003 developer sales volume. Including these companies, the increase over 2003 was roughly 37.6 percent. As of March 2006 the percentage change in overall sales was 42.5 percent from 2004 to 2005. The majority of this increase was in traditional fractional product and destination clubs. Private residence clubs had growth of 8.1 percent of sales.

Across all fractional resorts selling in 2006, developer sales volume at each resort averaged \$11 million. Hotel companies average much higher at \$24 million and other public companies averaged \$14.

Approximately 74 percent of the 2003 sales volume was generated by independent, or private, development companies. Another 18 percent was generated at resorts developed by hotel

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companies. The remaining 8 percent was generated by other public companies. Among independently developed projects, the average sales volume in 2006 was highest among hotel company projects, \$24 million. Resorts developed by independent companies averaged \$11 million in sales and other public companies only \$14 million.

Prior to 2003, no data had been collected on fractional interest resale volume. In 2005, however, some \$47.9 million of resale inventory was reported. With a few exceptions, inventory on the resale market sold for at least the same price as current developer inventory at each resort, which represented an increase in value from the time the fractional interest was originally purchased from the developer. The exceptions occurred when outside brokers, rather than the developer, handled resales for owners.

In addition to the \$1,531.9 million of developer inventory and the \$47.9 million of resale inventory sold in 2005, another \$388 million of presales were generated in 2005. These sales will not close until the projects obtain their certificates of occupancy. Some of the \$388 million involved presale reservations (with refundable deposits) and some presale contracts (with non-refundable deposits).

While total sales volume is a good indicator of industry growth, sales pace adds another dimension to sales performance. Traditional timeshare resorts sell an average of 80 intervals per month. In comparison, fractional interest sales centers see many fewer sales leads, leading to an average monthly sales pace in 2005 of seven fractional interests. The average sales pace over the sales life of the project, among resorts selling in 2005, was eight interests per month.

Because there were not an exceptionally large number of fractional interest resorts in sales during 2005, average monthly sales pace was influenced a great deal by a few extreme cases. To hone in on the factors that influence sales pace, segmenting the resorts into various groups is helpful. As shown in the list below, the fastest selling segments are private residence clubs, hotel-branded resorts, resorts located outside the U.S., and clubs selling deeded ownership or membership use at homes in multiple locations.

- HFI's & PRCs - 7 per month; traditional fractionals - 3 per month, and HFIs - 7 per month
- Resorts owned by hotel companies - 8 per month; resorts owned by other public companies – 6 per month; and resorts owned by independent developers - 6 per month

Conclusion

Given the increasing awareness of fractional ownership, the industry continues to realize strong growth. While the costs of high-end fractional or PRC products are significantly higher than traditional timeshare, the amenities and services offered justify the costs. In addition, the limited use by the owner makes it a more favorable investment, as compared to a wholly owned vacation home.

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Supply Analysis-Existing Competitive Supply

The best comparable product for a fractional ownership private residence club is another PRC, within a proximate geographical area and offering the same level of quality, services, and amenities. The most advanced fractional project in Northstar in terms of completion is the 8050 Private Residence Club which will consist of a 21-unit, private residence club located above the gondola in Phase 1 of The Village. The developer has pre-sold 36 shares as of the date of appraisal.

Following is a discussion of the competitive fractional properties in the area as well as other areas. There are very few competitive fractional properties in the Lake Tahoe area and thus it is appropriate to compare to other areas with similar ski or resort orientation in the western U. S. Furthermore, a comparison with the luxury whole ownership condominium market and second home residential market also provides a suitable frame of reference for determining how the subject's share pricing compares with the whole ownership value of units at the subject property. Based on our fieldwork and analysis, we surveyed PRCs both in the local area, as well as in neighboring ski-area resort destinations, as well as luxury condominiums projects in other competitive resorts.

Comparable Private Residence Club Analysis

The table on the following table outlines relevant operating statistics for selected PRC in market areas considered competitive to the subject which are currently marketing product.

Comparable Fractional Projects													
#	Project	Location	Total Shares	Shares/ Unit	Weeks Owned	Unit Type	Unit Sq. Ft.	Share Price	Price/Week	Price/Sq. Ft.	Start Date	% Sold	Sales/Mo.
1	Calistoga Ranch	Calistoga, CA	270	10	5	2 BR	1,600	\$435,000	\$87,000	\$2,719	May-04	19	2
2	Tonopalo	Tahoe Vista, CA	133	7	6	3 BR	1,768	\$369,999	\$61,667	\$1,465	Dec-03	100	4.8
				7	6	4 BR		3,022	\$899,000	\$128,429	\$2,082		
3	Old Greenwood	Truckee, CA	1,224	17	3	Cottage	1,515	\$90,000	\$30,000	\$1,010	Jun-04	22	21.6
			1,258	17	3	Cabin	2,651	\$165,000	\$55,000	\$1,058			
4	80/50	Mammoth, CA	224	8	6	1 BR	1,200	\$300,000	\$50,000	\$2,000	Sep-04	54	5
				8	6	2 BR	1,900	\$425,000	\$53,125	\$1,789			
				8	6	3 BR	3,000	\$610,000	\$76,250	\$1,627			
5	Sky Lodge	Park City, UT	176	8	6	2 BR	1,313	\$259,900	\$43,317	\$1,584	Jul-05	44	5.6
				8	6	3 BR	2,409	\$474,560	\$79,093	\$1,576			

The comparable fractional sales summarized above ranged from roughly \$1,010 to \$2,719 per square foot, with an average of \$1,633 per square foot. The most recent competitor for the subject is Calistoga Ranch in the wine country northwest of the San Francisco Bay area. This is the newest luxury fractional project currently being marketed in the Napa Valley market which is driven by the same feeder market as the subject. The other fractional projects which are summarized above represent fractional alternatives to the feeder markets of the San Francisco bay area. Two are located in the Lake Tahoe area which is a well established vacation area for bay area residents. Another is in the Mammoth, California area which is competitive to a lesser degree.

Calistoga Ranch is a unique 157 acre private vineyard retreat and luxury resort project located near the subject which has been in the planning and development process for quite some time. The project has been built in a former mobile home park and due to the strict planning and zoning regulations enforced by Napa County the property had to be re-developed as such. Therefore each unit has wheels and a VIN number like a mobile home rather than real estate. This situation also affected the design of the units which have three separate buildings with outdoor living space modeled in between the structures. This project is an Auberge Resort and is operated as a full service hotel with full amenities. The two bedroom lodges contain approximately 1,600 square feet

COMPARABLE FRACTIONAL PROJECT MAP



of living area and 900 square feet of outdoor living area. Due to the difficulties of getting the resort approved and built the sales manager reports a very soft marketing campaign for the fractional sales occurred in the 2004 and 2005 time period. The primary marketing launch took place in March 2006. The original pricing for a 1/10th share, or 5 weeks was \$425,000 and goes to \$435,000 in September 2006. The sales manager intends to raise the price in \$25,000 increments after 30 share sales are made. Due to the low profile marketing effort the rate of sales was 2 shares per month. The developer projects this to be the off season rate and high season they project 8 shares per month sales for an overall project average of 5 to 6 shares per month. Phase 1 of this development entailed 6 of the 27 lodges planned. Phase 2 went underway in August 2006 for another six lodges.

Tonopah is a luxury fractional resort on the shore of Lake Tahoe. This project has a wide range of pricing due to beach frontage. This project began marketing in December 2003 and sold out in April 2006. The high quality of this project and its lake location were strong selling points. This property has excellent amenities including boat docking buoys, and common watercraft. The sale prices for re-sales of share's in this project currently range from \$369,000 to \$899,000 for 7 weeks. This project is considered a good comparable to the subject as it is generally dependent on the same feeder market and is the closest luxury project to the subject.

Old Greenwood is a golf and ski oriented fractional project in the Town of Truckee south of I – 80 and approximately 15 miles north of the lake. This property is affiliated with the subject through the Tahoe Mountain Club and is also a competitor as it relates to the Bay area feeder markets. The Jack Nicklaus golf course is the centerpiece of this project which offers a variety of product. The cottage and cabin units in this project provide a different price point and experience. The shares at this project are smaller. This is a much larger project in scope intended to be more long term. The larger scope of this project and its more average quality and appointments make this comparable an indication of the lower end of the range of pricing at \$1,000 per square foot for the luxury product proposed for the subject.

8050 Mammoth is a ski oriented project in the base area of Mammoth ski resort. It is affiliated with the Northstar 8050 project. Two buildings have been completed offering 1/8th shares in the range of \$300,000 to \$610,000 for 1 to 3 bedroom units. This project experienced construction delays and will get their first occupancy in October 2006 with 121 shares out of 224 sold. The developer intends to start a third building in the spring of 2007. The pricing is in the range of \$1,600 to \$2,000 per share and this property has experienced generally good sales velocity. Mammoth generally draws more from the Southern California feeder markets but this is considered a relevant indicator of pricing for the proposed

The Sky Lodge is a relevant comparable as Park City, Utah is a popular destination from the bay area. It has similar size units and smaller share sizes. The pricing on this property is currently over \$1,500 square feet per unit. Some share prices for the penthouse units have exceeded \$2,000 per square foot. This project has a unique location in the old town historic district of Park City. It is currently under construction and has sold 78 of its 176 shares. In our opinion the Park City market is a relevant comparison for the subject as it also regards the San Francisco Bay Area as a feeder market. The short flight time and drive time from the airport make this a competitor for bay area residents.

Other Market Comparables

We have included discussion regarding other fractional projects in the west to further characterize the current market activity for this product type in resort areas.

The Residences at The Chateaux is currently under construction in the Silver Lake Village area of Deer Valley Resort. This project is the third and last phase of The Chateaux condominiums. The first two phases were sold as whole ownership and have been operated as a hotel. This last phase

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is being developed as a private membership owned equity residence club similar to the subject ownership. There are 19 units in this property which are being sold as 1/6th shares, which equates to approximately 8.6 weeks of use. The property has three and four bedroom units being sold at \$306,500 for the three bedroom units, \$410,000 for the four bedroom units and \$475,000 for the four bedroom penthouse units. This property began marketing in January 2005 and as of June 2006 had pre-sold approximately 50 percent of its 114 1/6th shares which equates to absorption of 3.1 units per month. This property has superior ski access to Deer Valley. This property also has 10,000 square feet of meeting space. It will offer private amenities to the fractional units including a members lounge, ski locker room, fitness center, teen and toddler rooms, and a heated parking garage.

The Grand Summit Lodge at The Canyon's is an eight story condominium building constructed at the base of the gondola in the resort core of The Canyon's resort. Built by American Ski Corporation in 2000 this 212 unit property sold ¼ shares or 13 weeks in studio, 1, 2 and 3 bedroom units. The 848 shares available sold over the 1998 to 2005 time frame ending in February 2005 with an auction of the last shares. The pricing ranged from \$61,400 for a low end studio to \$820,000 for the penthouse units. Overall this property is quite different from the subject.

St. Regis Deer Crest Resort is located adjacent to Deer Valley Resort. It is selling as whole ownership and is not offering fractional shares. It is discussed here to demonstrate demand for the type of quality product proposed for the subject. The first release of this project was in April 2005 for 24 condominiums and 8 residences. These units sold out in one day per a lottery style offering with 50 offers made for the 32 units available. Pricing was from \$1,500,000 for the smallest two bedroom unit to \$2,950,000 for the largest four bedroom unit. The 24 condominiums sold at an average price per square foot of \$1,052 per square foot and the residences at \$1,337 per square foot with an overall price of \$1,142 per square foot.

St. Regis Residence Club is a comparable residence club, due to its prime location and quality of product and services. The club is part of a St. Regis Hotel (previously a Ritz-Carlton Hotel), which is converting 90 hotel rooms into 25 two- and three-bedroom condo units in downtown Aspen, Colorado. Residences are being sold in 1/11th shares, and each member receives three guaranteed weeks usage per year plus space available time. The project was completed in December 2004. Although not located with direct ski access, this property does have a prime location in the heart of downtown Aspen. This project has a similar ownership structure to the one that will be offered at the subject. Membership pricing at St. Regis for the Premier Program averages \$475,000 for all units and membership types. Prices have increased by approximately 30 percent since the reservations process began in mid-December 2003. Reportedly, the project is 50 percent sold out.

The Residences at Little Nell is located at the base of Aspen Mountain with good ski access and walking distance to downtown. This project will have 26 units offering 1/8 shares. Although they are not yet officially marketing there are reportedly 72 of the 208 shares under contract. Completion of this project is set for 3rd quarter 2007. This project is offering significant amenities with 5 star services, rooftop pool, spa and fitness center. Pricing is \$1,200,000 for the 3 bedroom units with an average size of 2,800 square feet and \$1,750,000 for a 4,000 square foot average size 4 bedroom unit.

The **Hyatt Grand Aspen** will be a four-star fractional property and is currently under construction one block from the ski lifts, adjacent to the St. Regis. More reminiscent of timeshare than a PRC with regards to fraction size and price, the Hyatt Grand Aspen will offer 50 units in 1/20th fixed intervals for approximately \$200,000 each (an average price of \$2,154/sf.). The club opened in December 2005.

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Future Competition

The subject is not likely to experience large amounts of future competition due to the barriers to entry in the Lake Tahoe area. The primary competition is essentially from other resort areas.

Sales Price Analysis and Conclusions

In the previous sections, data was provided with regard to fractional ownership sales at several resort locations. It is important to note that this data does not lend itself to a typical sales comparison approach analysis where grid adjustments could be applied to comparable sales to arrive at an adjusted sales price for the subject property. Instead, the data needs to be compared and contrasted in a more subjective manner. The subject property has several unique attributes, including:

- Direct ski access
- Access to golfing and other amenities

In order to estimate the fractional share price for the Northstar projects, we reviewed the sales price per square-foot of comparable projects. The comparable PRCs presented earlier indicated prices per square foot ranging from a low \$1,010 to a high of \$2,719 per square foot, with an average of \$1,663. As mentioned above there are no condominium projects to provide benchmarks for whole ownership pricing of the subject condominium units. We have reviewed the pricing currently being achieved by the 8050 Northstar Private Residence Club and the proposed pricing for the future Village North and Ritz Club Fractional condominiums which are summarized in the following tables.

8050 Northstar Fractional Pricing Summary						
Unit Type	# Units	Shares/Unit	# Shares	Sq. Ft.	Pricing/Share	Price/SF
1 Br/2 Ba	3	12	36	1,200	\$285,000	\$2,850
2 BR/2.5 Ba	6	12	72	1,550	\$375,000	\$2,903
3 Br/3.5 Ba	12	12	144	1,900	\$435,000	\$2,747
Total/Avg.	21	12	252	1,700	\$396,429	\$2,798

Village North Fractional Pricing						
2 & 3 BR	103	20	2,060	1,518	\$151,816	\$2,000

Ritz Club Fractional Pricing						
2, 3 & 4 BR	78	12	936	1,897	\$450,000	\$2,847

The pricing shown in the above table is currently being achieved in the marketplace in the 8050 Northstar project with 36 executed contracts and 9 in process. The above pricing is well above the range exhibited previously by the comparables. The pricing is \$2,747 to \$2,850 which is well above most of the comparable fractional projects. It is most consistent with the extremely upscale Auberge property called Calistoga Ranch and is appropriately above the pricing for Old Greenwood which is a more traditional fractional project.

The above tables indicate the average Ritz Club fractional condominiums are proposed to be sold at \$2,801 per square foot which is consistent with other Ritz projects. The Village North Fractional is currently in negotiation with a national brand with pricing proposed at an average of \$2,000 per square foot. These are the developer's proposed pricing levels.

The subject is considered to have excellent market appeal due to the excellent ski and amenity access. Given the amenities and quality planned for the subject the developer's pricing appears

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well in line with the market. Therefore we will use this pricing in our discounted cash flow analysis of the bulk value of the fractional sales assuming completion.

Sale Pace/Absorption Analysis

We have based our absorption projections for the subject based on historical sales pace at comparable projects (as discussed with management representatives) as well as information included in our database. In addition the 2006 Fractional Interest Report referenced previously. The developer of the 8050 Northstar development has projected sales to average 10 shares per month. The 36 contracts in place have been sold in the last four months indicating 9 sales per month. The comparables generally indicate overall sales in the range of 5 to 6 shares per month. The Northstar at Tahoe projects will have some product differentiation which should allow for more extensive absorption. The developers of the Ritz Carlton have an effective marketing plan and project stronger sales of 30 shares per month. We have forecast the sales pace for the fractional projects at approximately 25 shares per month which is essentially in the middle of the range between the developers projections and the market indications provided previously. Our concluded sale pace applied in the discounted cash flow is applied annually based on the equivalent whole ownership unit absorption.

SKI MARKET ANALYSIS

National Ski Market

The subject is being marketed as a second-home real estate development that offers year-round recreational amenities. One of the key amenities offered at the subject is excellent ski-in/ski-out access to alpine skiing at Northstar-at-Tahoe and good proximity to ski resorts in the Lake Tahoe region. The Lake Tahoe area is home to the largest concentration of ski resorts in North America with 15 resorts within close range of the Lake Tahoe Basin, including world-class resorts such as Squaw Valley and Heavenly. The presence of ski resorts is a major economic force in mountain communities. Over the past ten years, the ski industry growth in the United States has been stable, as evidenced by the following table of skier visits in the U.S. by market.

U.S. Ski Industry Skier/Snowboarder Visits

Season	United States		Northeast	Southeast	Midwest	Rocky Mountain	Pacific West	
	Skiers	% Change	Skiers	Skiers	Skiers	Skiers	% Change	Skiers
1993-94	54,637	1.1%	13,718	5,808	7,364	17,503	--	10,244
1994-95	52,677	-3.6%	11,265	4,746	6,907	18,412	5.2%	11,346
1995-96	53,983	2.5%	13,825	5,693	7,284	18,148	-1.4%	9,033
1996-97	52,520	-2.7%	12,407	4,231	7,137	18,904	4.2%	9,841
1997-98	54,122	3.1%	12,712	4,343	6,707	19,191	1.5%	11,169
1998-99	52,089	-3.8%	12,299	4,261	6,005	13,439	-30.0%	11,084
1999-00	52,198	0.2%	12,025	5,191	6,422	18,109	34.8%	10,451
2000-01	57,337	9.8%	13,697	5,458	7,580	19,324	6.7%	11,277
2001-02	54,410	-5.1%	12,188	4,994	6,980	18,123	-6.2%	12,126
2002-03	57,594	5.9%	13,991	5,833	8,129	18,728	3.3%	10,913
2003-04	57,067	-1.32%	12,892	5,588	7,773	18,868	0.7%	11,946
2004-05	56,882	-0.32%	13,661	5,504	7,533	19,606	3.9%	10,579
2005/06	58,897	3.4%	12,505	5,839	7,787	20,717	5.7%	12,049

Source: National Ski Areas Association

Skier visits in 2005/2006 for the United States were 58.8 million, which is an all-time national skier visit record according to the National Ski Areas Association. Based on the past six seasons the industry appears to have established a new performance range since 2000/01. It is noted that regional skier visit data for 2005/06 was not available as of October 2006.

Resorts in the Pacific West region are generally smaller in scope than resorts in the Rocky Mountains (Colorado, Utah, Wyoming and Idaho) and have experienced less investment of capital in base facilities, on-mountain improvements and real estate development compared to larger resorts in the Rocky Mountains. The Tahoe area has some of the larger resorts in the Pacific West region including Squaw Valley and Heavenly. Recent trends in Tahoe area resort development have been toward greater capital improvements and resort development, including the following:

SKI MARKET ANALYSIS

Squaw Valley - Intrawest's development of 13 acres of a base area village approved for 640 total units and 80 boutique retail shops, Phase I of which is complete (139 condos, 17 shops). Phase 2 of this development, 22 Station, which consists of 151 condominium units is also complete for a total of 290 new units. The development of the remaining approved units is currently uncertain due to the expiration of entitlements and water rights issues, according to the most recent information from Intrawest sources. The delays with the ongoing development in this area are more entitlement driven and not a function of the market.

Heavenly - \$250 million redevelopment, including Marriott's Grand Residence and Timber Lodge, retail, and Heavenly gondola station development in 2002.

Sugar Bowl - \$34 million dollar expansion including six new quad lifts, Mt. Judah entrance and lodge.

Kirkwood - \$250 million in base area and multi-family unit development since 1994.

Mammoth Mountain - South of the subject in the Central Sierras, Mammoth is currently undergoing major real estate development. Intrawest, a Vancouver BC based resort real estate developer, is developing a resort village with 3 base area condominium buildings, support commercial space and other resort improvements. Additional investment and development at Mammoth includes the proposed Westin Monache, the first luxury hotel property at Mammoth. This hotel is being developed as a "condotel" and sold out all 141 phase I condominium suites in less than four hours. The second phase of 89 suites was released in May 2005 with similar results. A St. Regis hotel located Mammoth was recently announced. The Westin Monache, scheduled to open in summer 2007, will be the first full-service, luxury brand in the Mammoth region and one of the first flagged "condominium hotel" concepts to open in California. The activity at Mammoth demonstrates strong demand for ski resort amenity real estate in the California market. It is noted that southern California is considered Mammoth's primary market area.

The proximity of strong feeder and drive-in markets in Sacramento and San Francisco has spurred much of the recent capital investment in the Tahoe area resorts.

Tahoe Area Resorts

As noted, there are 15 alpine ski resorts in the Lake Tahoe Region. These resorts range from small community resorts to world-class resort destinations. The following table contains an inventory of the area resorts, including the number of lifts and general location in the Lake Tahoe region.

Lake Tahoe Area Ski Resorts

Resort	No. of Lifts	Location
Soda Springs	2	8 miles east of Truckee
Boreal Ski Area	9	9 miles west of Truckee
Sugar Bowl Ski Resort	12	10 miles west of Truckee
Donner Ski Ranch	6	10 miles west of Truckee
Tahoe Donner Downhill	4	Truckee
Squaw Valley USA	31	11 miles south of Truckee/West of Tahoe City
Alpine Meadows	14	13 miles south of Truckee
Northstar-at-Tahoe	15	4 miles south of Truckee
Granlibakken Ski Resort	2	South of Tahoe City
Homewood Mountain Resort	8	5 miles south of Tahoe City

SKI MARKET ANALYSIS

Mount Rose Ski Area	5	Reno area
Diamond Peak	6	Incline Village
Heavenly Ski Resort	29	South Lake Tahoe
Sierra-at-Tahoe	12	12 miles south of South Lake Tahoe
Kirkwood	12	35 miles south of South Lake Tahoe

Source: www.Skitahoe.com

Of the Tahoe area resorts listed above, Squaw Valley represents the most major resort in the vicinity of the subject, famous for its vast and challenging terrain, as well as hosting the 1960 Winter Olympic alpine skiing events. The next tier of resorts in the subject's vicinity is represented by Alpine Meadows, Sugar Bowl and Northstar-at-Tahoe, all of which are quality resorts oriented toward family skiing; however, they lack the sheer scope and reputation of Squaw Valley and Heavenly in South Lake Tahoe. We have conducted a further analysis of Northstar due to its association as a subject property amenity.

Northstar-at-Tahoe

Northstar-at-Tahoe is a master-planned community originally developed in the 1970's on the site of a former tree farm previously owned by the Fibreboard Company now owned by Booth Creek Ski Holdings. Booth Creek is the fourth largest owner/operator of ski resorts in North America with 6 resorts in various regions of the country including two resorts in the Lake Tahoe area. Booth Creek's resorts are typically mid-market resorts in terms of size and skier days and are all positioned within close proximity to major metropolitan market areas (Bay Area/Sacramento, Seattle and Boston). Booth Creek has expertise in resort operations as well as real estate development and is headquartered in Truckee.

The master-planned community at Northstar consists of over 1,500 existing private homes and single family lots and condominiums, 2,420 skiable acres with a vertical drop of over 2,200 feet, an 18-hole golf course and a base area village. Summer activities at the resort include lift served mountain biking and hiking. Northstar is unique in the ski resort industry in that all of the land is privately owned by the resort owner and operator, Booth Creek Ski Holdings Inc., which purchased the resort in 1996. Typically, resorts in the U.S. are operated on land leased from the USDA Forest Service, with only a small percentage of privately owned land available for development. The private ownership situation at Northstar-at-Tahoe allows for large-scale development opportunities, as well as increased ski terrain.

In conjunction with the real estate development (the subject) occurring at Northstar, Booth Creek is implementing a \$50 million Mountain Improvement Plan which includes new ski lifts, increased snow making to cover 50% of the total groomed trails at the resort and ski terrain expansion. The plan is considered a five year plan and will address the anticipated increase in skier days driven by the increased lodging base resulting from the redevelopment by East West Partners. The plan is also intended to elevate the overall ski experience at Northstar to make it competitive with larger western resorts. 13 new ski trails have recently been completed and a new \$10 million lift was installed to service the mid-mountain and the new Schaffer's Camp restaurant.

Over the past four seasons Northstar has had skier visit totals ranging from 519,000 to 569,000 with a four year average of 535,500 skier visits between the 2000-01 and 2003-04 seasons. The 2006 season was 15 percent higher than the Big 7 average. Northstar skier visits have grown an average 5 percent a year since 2002. Northstar management is projecting an increase in skier days to the 700,000 to 750,000 range by 2009 after the implementation of the new mountain village, certain

SKI MARKET ANALYSIS

intermediate term mountain improvements, the mid-mountain hotel and the initial phases of real estate development.

The previous 4 year skier visit totals and a 4 year skier visit projection for Northstar are shown in the table below.

Northstar-at-Tahoe Annual Skier Visits			
Ski Season	Skier Visits	Difference	% Change
Historical			
2001/2002	520,000	--	--
2002/2003	570,000	50,000	9.60%
2003/2004	535,000	-35,000	-6.10%
2004/2005	592,000	47,000	10.65%
2005/2006	589,000	-3,000	-0.51%
Projections			
2006/2007	615,000	26,000	4.41%
2007/2008	650,000	35,000	5.70%
2008/2009	720,000	70,000	10.80%

Source: Booth Creek Ski Holdings

The 2004/2005 season at Northstar represented a record number of skier visits (590,000). For the purposes of comparison, Heavenly reported 586,000 skier visits in 2004/2005 (through April 30), which represents a 17.7 percent increase from the previous year at Heavenly. Kirkwood, south of the Lake Tahoe Basin, reported skier visits of 375,000 for 2004/2005, 15,000 more than its previous record season. Skier visits for Alpine Meadows and Squaw Valley were not available for comparison. The record skier numbers for the Tahoe area resorts is attributed to the excellent snow year and continued commitment to on-mountain improvements, real estate and amenities at the area resorts as well as strong overall interest in skiing and snowboarding. Booth Creek's projected growth in skier visits at Northstar-at-Tahoe over the next four seasons is based on several specific resort improvements listed below.

- Construction of the intercept parking lots near Highway 267 to reduce traffic on Northstar Drive
- Planned construction of 4 new ski lifts and new ski trails to optimize on-mountain skier flow
- Expanded on-mountain bed base (the subject development)
- Construction of new skier services and operations buildings located in The Village (main level of the subject buildings)

Overall, Northstar-at-Tahoe is undergoing a major upgrade in all aspects of the resort. In addition the growth in membership to the Tahoe Mountain Club (through real estate sales at Old Greenwood and Gray's Crossing) will contribute to an increase in skier visits at Northstar-at-Tahoe as the Northstar-at-Tahoe ski amenity is a major component of East West's Tahoe Mountain Club. The Tahoe Mountain Club is described in detail in the following section of this report.

The well established success of Booth Creek Ski Holdings is a favorable factor for the future expansion as well. They are a privately held company which, in addition to Northstar owns Sierra – at –Tahoe in California, Waterville Valley, Cranmore Mountain Resort, and Loon Mountain in New

SKI MARKET ANALYSIS

Hampshire, and the Summit at Snoqualmie in Washington. The company had \$115.4 million in sales in 2004.

Conclusion

The Lake Tahoe region has the largest concentration of ski areas in North America, ranging from mostly small, family oriented resorts to an Olympic caliber venue. Overall, the Lake Tahoe area resorts have followed national trends in the stabilization of skier days over the last ten years. Recently, there has been a trend of intensive capital investment in the region's resort lodging, amenities and infrastructure, illustrated by the proposed development at Northstar-at-Tahoe by East West Partners. The Lake Tahoe area resorts have some of the most direct access to a major airport by virtue of the Reno/Tahoe International Airport approximately 35 miles east of Truckee on Interstate 80. The subject's association with Northstar-at-Tahoe is considered an excellent amenity, as Northstar-at-Tahoe just recorded a record year in terms of skier visits and is well positioned as a quality resort with a strong future.



The subject developer, East West Partners, has recently created a private club membership concept to a family of resort properties and amenities located in the Truckee/North Lake Tahoe region, referred to as the Tahoe Mountain Club. This is considered a unique offering, which encompasses many of the year-round recreational and resort experiences that make the Lake Tahoe area a unique destination. A separate ownership entity of the subject development company called the Tahoe Club Company funds and operates the amenities for their group of resorts in the region. The benefits of the Tahoe Mountain Club are a marketing tool used in the marketing of the product at The Village at Northstar and made available to Village property owners and owners of real estate in other East West Partners developments. The following is a brief discussion of the Tahoe Mountain Club amenities and facilities offered.

At Old Greenwood

- Special privileges at the 18-hole, Jack Nicklaus Signature Golf Course.
- Private access to the 18,000 square foot swim, tennis, fitness pavilion and spa.
- Golf Digest Academy with short game teaching center and double-ended driving range.
- Fly fishing teaching and practice area.

All on-site amenities at Old Greenwood were completed and open in August 2004 with the exception of the golf academy, which was completed in 2006.

Other Club Privileges in the Tahoe Area

- Special privileges at Gray's Crossing, an 18-hole, Peter Jacobsen designed, private golf club developed and operated by East West Partners. This golf course is expected to be completed in spring 2007, with similar on-site club amenities as Old Greenwood.
- Special privileges at the 18-hole, highly acclaimed, Coyote Moon Golf Course (opened in 2000), operating under a 58 year lease and management agreement to East West Partners.
- Members only dining at the Wild Goose Restaurant located on the Lake Tahoe waterfront in Tahoe Vista. This is a fine dining restaurant purchased by East West Partners and remodeled in 2003. It is approximately 8 miles south of the subject via State Highway 267.
- Members only valet ski storage in the Alpine Club at the Village at Northstar as well as dining, cocktails and special event hosting.
- Schaffer's Camp, a members-only, on-mountain, restaurant/ski lodge at Northstar (estimated completion in December 2006).

The Northstar-at-Tahoe amenities offered to Tahoe Mountain Club members are a result of the development partnership between East West Partners and Booth Creek. There are various levels of club membership ranging from limited to full use of the amenities described above, with initiation fees ranging from \$30,000 to \$175,000. The Tahoe Mountain Club is a unique package of resort amenities, which has been carefully conceived by East West Partners to include most of the key resort elements of the Lake Tahoe region and is considered to contribute to the marketability of the real estate products at The Village at Northstar. It is significant to note that several of these amenities are already in place. This enhances the marketability of the product compared to trying to sell a product before any of the amenities are built.

The Tahoe Mountain Club memberships are currently being offered at sports membership or signature golf membership levels. Property owners at The Village at Northstar are not required

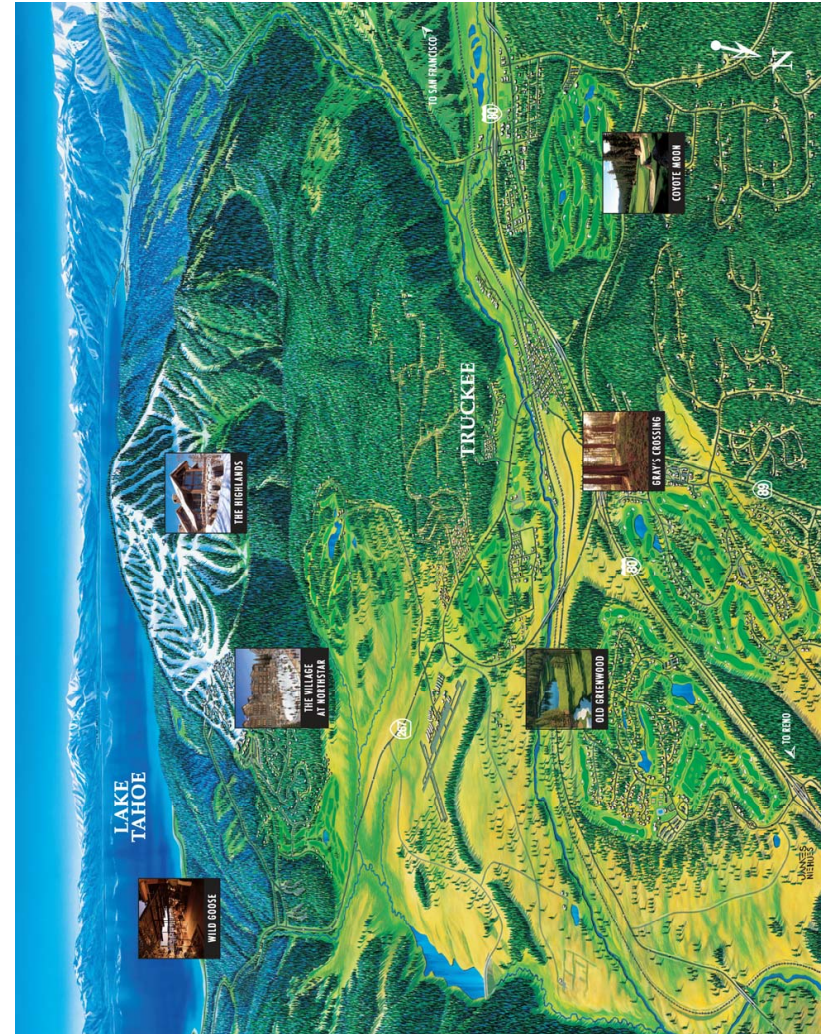
TAHOE MOUNTAIN CLUB

to purchase a membership, but have the exclusive opportunity to purchase membership in several different forms. The cost and some of the privileges of this club are summarized in the following table.

Membership Plan Overview		
	Sports	Signature Golf
Membership Price	\$35,000	\$75,000
Monthly Dues:	\$250	\$600
		Full Golf \$175,000
Golf Privileges	Coyote Moon	Old Greenwood
Signature Golf Membership:		
Advance Tee Times	60 Days in Advance	60 Days in Advance
Greens Fee Discount	Cart Fee Only	Cart Fee Only
Sports Membership:		
Advance Tee Times	45 Days in Advance	45 Days in Advance
Greens Fee Discount	10%	10%

The Tahoe Mountain Club is a separate, but related, entity of East West Partners. The amenities on-site within the CFD will be available to members of the Tahoe Mountain Club who have purchased property off-site in other related projects. Thus, the cost of construction of these amenities is shared by the other projects. Therefore, as stated previously, our analysis recognizes only the costs attributable to the taxable property in the CFD, and specifically assumes the Tahoe Mountain Club entity will pay the costs attributable to the other projects. Some of the amenity buildings at Gray's Crossing remain to be built but the club amenities are largely complete with over \$100 million spent on amenities through October 2006.

TAHOE MOUNTAIN CLUB



SITE DESCRIPTION

Location: Northstar-at-Tahoe Resort
Placer County, California 96161

The site is located west of Highway 267 within the master planned Northstar-at-Tahoe Resort

Shape: Irregular

Topography: The Village area is mostly level due to significant site work. The Highlands area is steeper mountainland at approximately 7,000 feet in elevation and will require significant site work.

Land Area: 456.27 acres, based on Placer County Parcel Maps and records. It is noted that there has been consolidation of some parcels within the subject property and some new parcels have been "spun off" from previous parcels. It is possible that the configuration of the parcels within the CFD could change. A summary of the subject land area by Tax Zone is provided below:

Land Area Summary by Tax Zone	
<u>Zone</u>	<u>Acreage</u>
1	122.93
2	115.83
3	221.61
Total	460.37

Source: Psomas

It is noted that the total acreage by zone varies slightly (4.10 acres) from the total acreage determined by the sum of the subject parcels. Psomas Engineering has provided the acreage for the summary of the subject land area by Tax Zone due to the fact that a land area breakdown by zone was not possible based on the subject Assessor Parcels. Overall the Placer County records have been relied on for the total land area of the subject property and the Psomas generated calculations have been utilized for the purposes of allocating the subject land area among the three tax zones. The acreage discrepancy is not considered material to the valuation herein of the subject property. A revised survey of the subject property and respective tax zones by a qualified engineer is recommended.

SITE DESCRIPTION

Access: Access to The Village is from Northstar Drive, the main arterial roadway within the Master Plan Area. Primary access to The Highlands is from the proposed Highlands Drive. Highlands View Road, (formerly Highlands Drive) will provide direct access to Highway 267 and will also be connected to Northstar Drive. Highlands View Road is well under way with the grading and paving completed from Northstar Drive to the Highlands at mid mountain and temporary paved past the Ritz-Carlton Hotel and Trilside Townhomes for winter access. The connector to Highway 267 in the Sawmill Flats area has been paved as of December 2006..

Soil/Environmental Conditions: The subject developer has contracted with Pacific Municipal Consultants of Rancho Cordova California to provide Environmental Impact Reports (EIR) for The Village and The Highlands. These are detailed and comprehensive documents which take into account all environmental issues associated with land development as required by California State Law. The Village at Northstar EIR was approved in 2003 and is available for review. We have reviewed a Draft EIR dated July 2004 and a Final EIR dated February 2005 for the Highlands. The Highlands Final EIR was approved February 23, 2005. All of the environmental impacts and issues identified in the EIR require mitigation which the subject developer is responsible for per the approval of the EIR. Discussion of the specific issues identified in the EIR's is beyond the scope of this report.

Utilities

Water: Northstar Community Services District

Sewer: Northstar Community Services District

Electricity: Sierra Pacific Power Company

Gas: Southwest Gas

Telephone: AT & T

Site Improvements: Due to the fact that Zone 1 of the subject is located in a redevelopment area, there are extensive existing site improvements, including asphalt paved parking areas, curbing, signage, landscaping, yard lighting and drainage. Further site improvements are planned for both The Village and The Highlands, which will be suitable for the mountain resort environment. The Northstar-at-Tahoe ski resort is the most significant improvement in the Master Plan Area and is the central amenity of the development. The ski area improvements are not a part of the CFD or subject property. There is a new ice rink serving as a village focal point. The golf course is another major improvement/amenity in the area (not a part of the CFD).

SITE DESCRIPTION

Land Use Restrictions: A title report of the subject property was not provided to the appraisers. A thorough review of a title report by an attorney is recommended to determine whether any adverse conditions exist.

Flood Map: National Flood Insurance Rate Map Community Panel Number 06061C0100 F dated June 8, 1998.

Flood Zone: Zone X, Areas determined to be outside 500-year flood-plain.

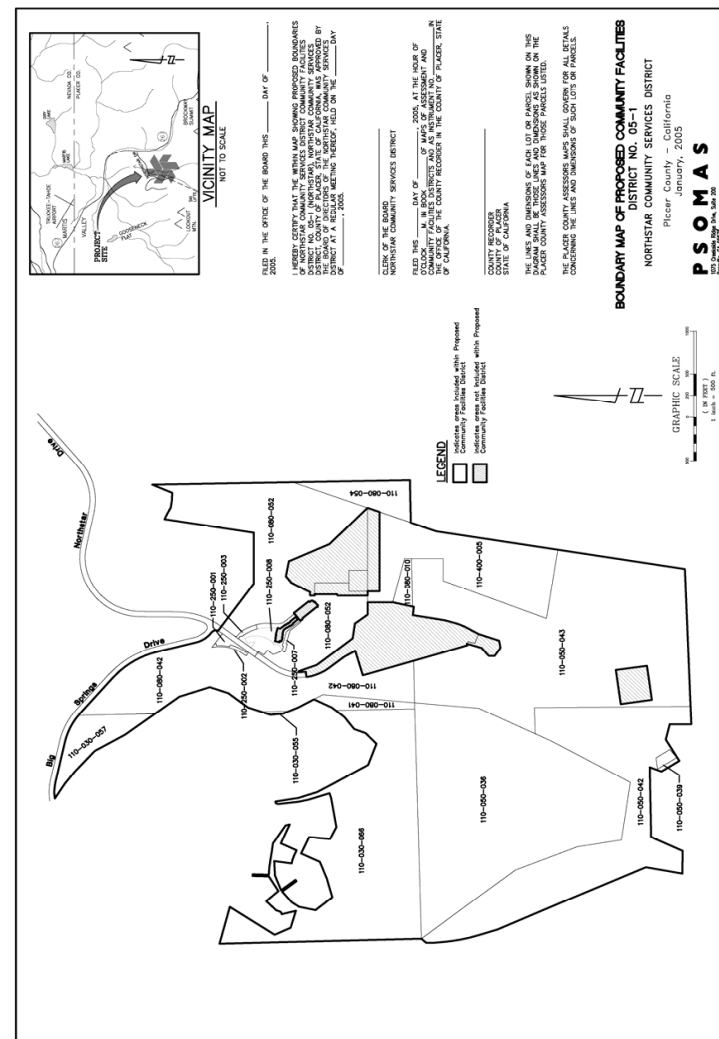
Wetlands: We were not given a Wetlands survey. If subsequent engineering data reveal the presence of regulated wetlands, it could materially affect property value. We recommend a wetlands survey by a competent engineering firm. It is our understanding there are wetlands present on portions of the Tax Zone 3 parcel. Given the large acreage of this parcel and the master planning involved with the ski area and the clustered development it is reasonable to assume that all wetlands issues can be addressed in the planning process without requiring substantial mitigation.

Seismic Hazard: The site is not located in a Special Study Zone as established by California's Alquist-Priolo Geological Hazards Act. Figure 4H of the Alquist-Priolo Index to Maps, which contains Placer County, did not identify any fault zones in the area of the subject property.

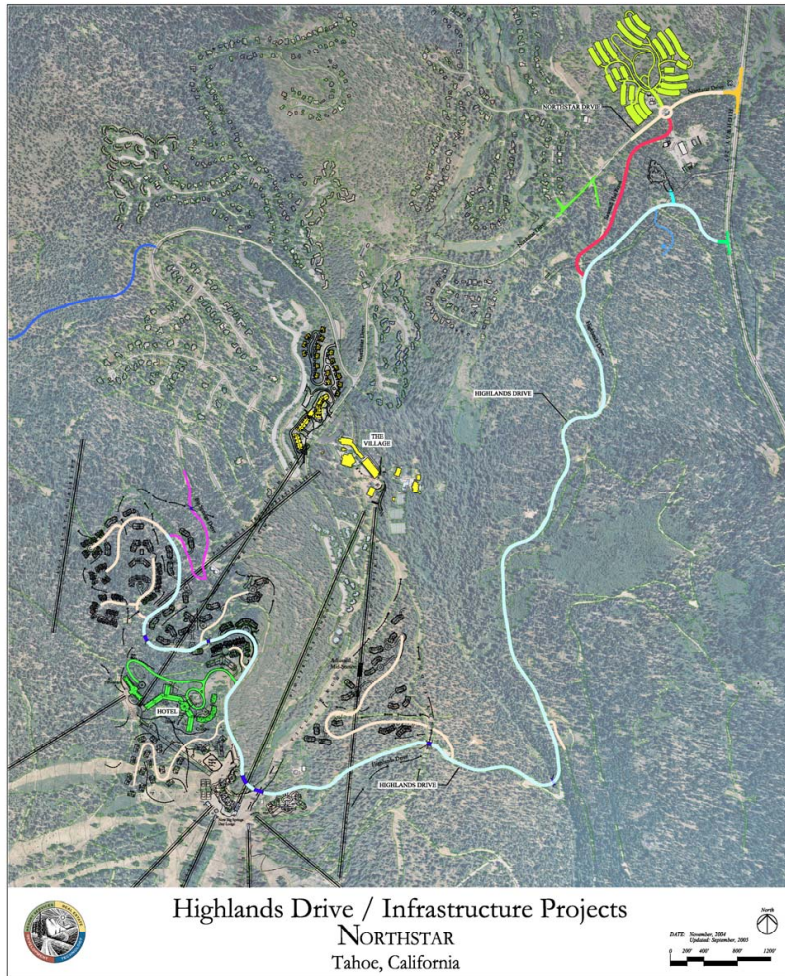
Hazardous Substances: We observed no evidence of toxic or hazardous substances during our inspection of the site. However, we are not trained to perform technical environmental inspections and recommend the services of a professional engineer for this purpose. It is our understanding there are potential hydrocarbons and asbestos related to the existing ski maintenance facility. These types of substances are common in previously developed areas and typically can be mitigated at minimal costs with no significant impact on the surrounding area. If further testing were to reveal more substantial contamination the mitigation costs could impact the value conclusions stated herein. As no in-depth environmental survey of this specific area was available we have assumed this is not a factor which could be detrimental to the proposed development plan.

Overall Functionality: The subject site is functional for its current and proposed use.

SITE DESCRIPTION



SITE DESCRIPTION



IMPROVEMENTS DESCRIPTION

The following description of improvements is based upon a physical inspection of the current construction, marketing material and information provided by the subject developer.

General Description

The following table summarizes the subject improvements.

Northstar CFD Building Area Summary					
Zone	Bldg. Name	No. of Residential Units	Residential Sq. Ft.	Average Unit Size	Commercial Sq. Ft.
Zone 1	Phase I				
	Iron Horse South	46			
	Iron Horse North	26			
	Great Bear Building "R"	28			
	Subtotal	100	171,600	1,716	60,000
Phase II	Big Horn	52			
	Catamount	40			
	One Village Place	21			
	Subtotal	113	150,600	1,333	40,000
Phase III	Village Walk Townhomes	34	87,782	2,582	0
	Village North Fractional	103	158,370	1,518	0
	Subtotal	137	244,152	1,782	0
	Zone 1 Total	350	566,352	1,618	100,000
Zone 2		354	619,500	1,750	0
Zone 3	Trailside Townhomes	16	57,168	3,573	0
	Highlands Lodge	60	114,838	1,911	0
	Ritz Residences	94	193,948	2,309	0
	Ritz Club Fractional	78	148,004	1,897	140,000
	Future Units	858	1,716,000	2,000	0
	Zone 3 Total	1,096	2,229,758	2,034	140,000
	Grand Total	1,800	3,415,610	1,898	240,000

The square footages above are subject to change and variations among projects and sources, but are generally accurate for the purposes of our analysis.

Zone 1 - Condominiums

The Village Core

Phase I of The Village consists of 100 units in 3 buildings, Iron Horse South (46 Units), Iron Horse North (26 Units) and Great Bear (28 Units). The Great Bear Lodge represents the higher end units in The Village with better quality finishes, standard upgrades and gas kitchen appliance packages.

Phase 2 of The Village consists of 113 units in 3 buildings, Big Horn (52 Units), Catamount (40 Units) and One Village Place (21 Units). These units have incorporated many of the upgrade items in Phase 1 as standard items.

Phase I has been completed and occupied. Phase II is currently under construction with completion projected by December 2006 for the One Village Place building and February 2007 for the other buildings.

IMPROVEMENTS DESCRIPTION

The Northside	The Northside represents the third phase of development at The Village and is slightly north of the resort core. The Northside consists of 137 condominiums and townhomes in several buildings. The latest unit mix is for 103 condominiums and 34 townhomes. The Northside Environmental Impact Report was certified unanimously by the Placer County Board of Supervisors in June 2006.
Zone 1 – Commercial Space	There is approximately 100,000± square feet of commercial space planned for The Village. This space will be located in the main pedestrian level of the condominium buildings as well as Building R in the village core. Approximately 91 percent of this space is occupied by various retail and service tenants such as Oakley and North Face. A large portion of this space will be used by Booth Creek for ski resort support retail and some resort operations.
Zone 2 – The Highlands	This area is planned for 354 condominium units. Building configurations for this area have not been prepared as of this writing.
Zone 3 – The Highlands	This area is planned for 1,096 condominium units and a 170 key hotel. As of this writing the Ritz-Carlton Hotel was underway with all foundations including hotel and parking garage as well as back of house service areas in place. This foundation work includes completing all slab foundations, micro piles foundations, geo-pier foundations. In addition Phase 1 of the Trailside Townhomes was under construction with 6 units projected for completion in September 2007. Phase 2 with an additional 10 units will be completed in Summer 2008. Additional projects in the initial planning stages include 78 Fractional Condominium Residences called the Ritz Club containing 255,000 square feet proposed in three phases to be built by Ritz Carlton Development Company. The Ritz Carlton, Highlands will be a 170 room hotel. A 60 unit lodge containing 175,000 square feet and 61 condominium residences containing approximately 200,000 square feet. There will be approximately 140,000 square feet of commercial space.
Construction Detail	
Basic Construction:	Fireproof steel frame.
Floors:	Galvanized steel decking with 4 to 6 inch concrete slab.
Roof Cover:	Composite asphalt shingles.
Windows:	Metal clad, thermal pane with interior wood trim.
Doors:	Solid wood exterior and interior doors.
Exterior Finish:	Hardi plank with some wood/log siding trim and fiberglass faux siding.

Mechanical Detail

IMPROVEMENTS DESCRIPTION

Heating & Cooling:	Heat: gas fired forced air and boilers; Cooling: forced air with heat pumps and chilled water.
Interior Detail	
Floor Covering:	Combination of carpet, slate floors, standard.
Walls:	Painted textured sheetrock.
Balconies:	All units have exterior balconies
Design Features:	Stained wood cabinets, fireplace with stone hearth, terrazzo tile and/or granite counters, crown molding trim, stained wood base molding, electric kitchen appliance package with gas upgrade in Great Bear.
Parking	All of the buildings have underground parking with 1.25 spaces per unit.
Summary	Overall, the improvements in the subject development represent good quality buildings with excellent craftsmanship. Furthermore the buildings are integrated into a resort village setting with excellent access to the resort amenities..

Americans With Disabilities Act

The Americans With Disabilities Act (ADA) became effective January 26, 1992. We have not made, nor are we qualified to make, a compliance survey of this property to determine whether or not it is in conformity with the requirements of the ADA. It is possible that a compliance survey could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. It is our understanding that building permits would not be issued without ADA compliance and thus it is reasonable to expect all subject improvements will comply with ADA requirements.

Hazardous Substances

We are not aware of any potentially hazardous materials (such as formaldehyde foam insulation, asbestos insulation, radon gas emitting materials, or other potentially hazardous materials) which may have been used in the construction of the improvements. However, we are not qualified to detect such materials and urge the client to employ an expert in the field to determine if such hazardous materials exist.

REAL PROPERTY TAXES AND ASSESSMENTS

Current Property Taxes

The subject property is assessed by the Placer County Assessor's Office. Reassessment will occur based on future transfers of the parcel. Taxes in the state of California are subject to Proposition 13, with assessments based on the most recent transaction price at the time of purchase, with increases in taxes limited to 2 percent per year. The property is reassessed at such time in the future that it is sold. The general tax levy determined by state law is \$1.00 per \$100.00 of assessed value of a property. In addition, the property is subject to taxes related to local schools, hospital and fire districts. As of the date of value, the subject's total tax rate varied somewhat by parcel with an overall average of \$1.0587 per \$100.00 of assessed value (or a rate of 0.01053923). In addition to the tax rate, there are special assessments related to voter bonded assessments related to the additional school assessments, snow removal, etc. The following table summarizes the portion of the subject which is developer owned. The taxes for individually owned parcels are not relevant to this analysis. However for the purposes of defining the district all of the parcels in the district have been identified in the addenda to this report. Reassessment will occur based on future transfers of the parcels. The assessment and taxes for the property are presented below:

REAL PROPERTY TAXES AND ASSESSMENTS

PROPERTY TAX DATA

Developer Owned & Exempt Parcel Summary, Assessed Value and Taxes as of January 2006					
Developer Owned Parcels					
Parcel Number	Parcel Acreage	Assessed Value	Real Estate Taxes	Agency, Voter Tax and Special Assessments	Total Annual Tax
110-030-055	0.31	\$15,434	\$163.40	\$101.44	\$264.84
110-030-066	63.40	\$950,103	\$10,058.74	\$98.00	\$10,156.74
110-050-036	91.70	\$1,687,040	\$17,860.70	\$111.78	\$17,972.48
110-050-042	57.00	\$130,817	\$1,384.96	\$425.32	\$1,810.28
110-050-043	102.30	\$1,341,009	\$14,197.28	\$425.32	\$14,622.60
110-080-010	2.10	\$151,059	\$1,599.26	\$101.44	\$1,700.70
110-080-059	48.20	\$2,462,060	\$26,065.84	\$164.46	\$26,230.30
110-080-065	0.38	\$185,887	\$1,967.98	\$101.44	\$2,069.42
110-080-070	1.00	\$506,970	\$5,367.32	\$101.44	\$5,468.76
110-080-072	3.80	\$17,850	\$178.50	\$111.90	\$290.40
110-250-001	1.51	\$40,290	\$426.54	\$101.30	\$527.84
110-250-002	0.25	\$90,414	\$957.26	\$98.54	\$1,055.80
110-250-009*	1.30	\$382,908	\$4,053.84	\$101.44	\$4,155.28
110-250-010	1.90	\$938,987	\$9,941.06	\$607.36	\$10,548.42
110-400-005	<u>25.80</u>	<u>\$76,272</u>	<u>\$807.50</u>	<u>\$133.58</u>	<u>\$941.08</u>
Totals	400.95	\$ 8,977,100	\$95,030.18	\$2,784.76	\$97,814.94
Exempt Ski Property within CFD					
110-050-039*	0.74	\$24,360,931	\$257,909.16	\$439.12	\$258,348.28
110-080-054*	9.00	\$702	\$7.44	\$1.24	\$8.68
110-080-063*	2.40	\$1,536,630	\$16,268.30	\$101.44	\$16,369.74
110-080-075*	<u>39.00</u>	<u>\$380,949</u>	<u>\$4,033.12</u>	<u>\$101.44</u>	<u>\$4,134.56</u>
Totals	51.14	\$26,279,212	\$278,218	\$643	\$278,861

*Under Trimont Land Co. ownership and includes fixtures related to Northstar-at-Tahoe ski operations.

The above assessed value for the subject reflects the raw land value. The estimate of taxes for the various subject product types at completion will be discussed later in the discounted cash flow section of the Developmental Analysis section of this report. It is noted that the entitlements associated with the subject property occurred after the parcels were conveyed to the Northstar Mountain Properties LLC partnership and therefore have not been subject to Proposition 13 re-assessments. The assessed value of the subject property will be more consistent with appraised value herein when future property ownership transfers take place.

ZONING

The property is zoned for the current planned density by virtue of the following historical land use plans: Martis Valley General Plan (1967 & 1975), Northstar Master Plan (1971) and Martis Valley Community Plan (2003), The Village at Northstar (2003), The Highlands (2005). The planning and development of the Northstar Master Plan has a long history which dates back to the inception of the resort in the late 1960's. The original Master Plan included total development of 3,700 units. At the time of Booth Creek's acquisition of Northstar in the mid 1990's, less than one half of the potential 3,700 units at Northstar had been platted and developed, allowing for the possibility of large scale residential development at Northstar. Booth Creek and East West Partners created a partnership, described previously, for the purposes of completing the real estate build-out at Northstar. A specific developed plan was created by Northstar Mountain Properties, LLC which has resulted in the current and proposed improvements described herein. There was opposition to the 2003 Martis Valley Community Plan, of which the subject development was a part, by various conservation and citizens groups, thus, development in the Martis Valley essentially came to stand still as a result of litigation brought on by the opposition groups. All of the subject development was excluded from the decision in favor of the opposition groups per a ruling issued by a Placer County Superior Court judge on June 21, 2005. The litigation regarding the Martis Valley Plan was resolved in November 2006 and the plan remains in tact.

There are several underlying zoning designations on the subject property, however the specific approvals which the subject developer has received from Placer County supercede and/or have created the zoning designations and overall are consistent with the Master Plan. It is noted that the subject development represents a reduction from the total allowable units per the original Northstar Master Plan from 3,700 to 3,300 total development units.

It is noted that the The Village at Northstar EIR (2003) was approved by Placer County and the Final EIR (2005) for the Highlands was approved February 23, 2005.

Our analysis assumes that the subject property represents a conforming use with the current zoning and that all approvals are in place with Placer County planning and zoning authorities.

HIGHEST AND BEST USE

Definition Of Highest And Best Use

According to *The Dictionary of Real Estate Appraisal*, Fourth Edition (2002), a publication of the Appraisal Institute, the highest and best use is defined as:

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.

Highest And Best Use Criteria

We have evaluated the site's highest and best use both as currently improved and as if vacant. In both cases, the property's highest and best use must meet four criteria. That use must be (1), legally permissible (2) physically possible, (3) financially feasible, and (4) maximally productive.

Legally Permissible

The first test concerns permitted uses. According to our understanding of the zoning ordinance, noted earlier in this report is specific to the subject development based on a master plan development concept and development approvals per Placer County. While legally permissible uses for the subject, as if vacant, are related to the underlying zoning as defined by the Northstar Master Plan (1971) and the Martis Valley Community Plan (2003), the most recent specific approvals (The Village at Northstar-2003, and The Highlands-2005) now take precedence in determining the highest and best use for these zones. The current uses recently completed, under construction, or proposed are all legally permissible uses.

Physically Possible

The second test is what is physically possible. As discussed in the "Site Description," section of the report, the site's size, soil, topography, etc. do not physically limit its use. The subject site is of adequate shape and size to accommodate almost all resort residential uses proposed for the site.

Financial Feasibility and Maximal Productivity

The third and fourth tests are what is financially feasible and what will produce the highest net return. After analyzing the physically possible and legally permissible uses of the property, the highest and best use must be considered in light of financial feasibility and maximum productivity. For a potential use to be seriously considered, it must have the potential to provide a sufficient return to attract investment capital over alternative forms of investment. A positive net income or acceptable rate of return would indicate that a use is financially feasible.

Highest and Best Use of Site As Though Vacant

Considering the subject site's physical characteristics and location, as well as the state of the local market, it is our opinion that the Highest and Best Use of the subject site as though vacant is development of a mixed-use, recreationally oriented residential development. The subject land as though vacant represents a unique ownership of private land adjacent to a ski area in the Lake Tahoe region. Most of the larger ski resorts are on government land with very little

HIGHEST AND BEST USE

opportunity for development. The integration of real estate with skiing has been a highly popular real estate development opportunity as discussed in the Market Analysis section.

Highest and Best Use of Property As Improved

According to the Dictionary of Real Estate Appraisal, highest and best use of the property as improved is defined as:

The use that should be made of a property as it exists. An existing improvement should be renovated or retained "as is" so long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one.

In conclusion, it is our opinion that the Highest and Best Use of the subject property as improved is as it is currently being developed or proposed for development. The development which has already occurred and which is ongoing in the Northstar at Tahoe master planned project has been well received in the marketplace.

OVERVIEW OF COMMUNITY FACILITIES DISTRICT NO. 1

The purpose of this appraisal is to estimate the market value of the fee simple interest in the subject property assuming completion of the infrastructure, which is to be partially funded by the CFD. The bonds are issued under the jurisdiction of the Mello-Roos Community Facilities Act of 1982. Following is a summary of the CFD report as it applies to the subject, as well as the rate of apportionment and applicable taxes, which will be applied to the taxable property within the subject district.

Facilities

The facilities to be installed in the CFD are briefly summarized as follows:

- Water supply and distribution and fire suppression facilities.
- Electrical supply and distribution facilities.
- Public roadways and associated curbs, gutters, sidewalks, landscaping, signage, etc.
- Public access parks and trails.
- Sanitary sewer facilities.
- Storm drains and flood control facilities.
- Public administration building improvements
- Maintenance building improvements
- Fire station improvements and related equipment
- Parcels of land for location of public facilities
- Natural gas, telephone, electric and telecommunications facilities and appurtenant work.

The boundaries of the CFD were described previously in this report as approximately 460.51 acres.

Development Costs

The remaining cost of infrastructure and resort amenities, as well as other development costs, for the Northstar-at-Tahoe master planned community have been estimated by the developer to be \$84,978,000 of which to date \$63,978,000 is available from the CFD. There are specific costs within this total development budget which are allowed to be financed by the CFD bond proceeds. The cost estimates for the public facilities to be included in the CFD are summarized in the following table.

Northstar Community Facilities District	
Public Infrastructure	Cost
Fire	\$7,034,000
Road	\$541,000
Trail	\$800,000
Utility	\$3,554,000
Water/Sewer	\$26,819,000
County Road	\$25,230,000
Total CFD	\$63,978,000

The above estimates for the district funded construction costs represent only a portion of the total costs of the project, with the developer of the subject responsible for the balance. Reference is made to the following discussion and tables which outline the potential development costs to be reimbursed with bond proceeds and those which are to be paid by the developer.

OVERVIEW OF COMMUNITY FACILITIES DISTRICT NO. 1

The bond debt service calculations applied in this appraisal are based on a projected total bond amount of approximately \$115,530,000 with \$56,125,000 from the first issue in 2005 and \$59,405,000 from the second bond issue contemplated in 2006. Of this amount, approximately \$44,362,000 was funded to acquisition and development for the developer and the district in the first issue and approximately \$48,000,000 is estimated to be reimbursed from the second issue. In addition to the District costs noted above there are additional infrastructure costs required to complete the development which are to be installed by the developer, East West Partners. The developer reports total infrastructure and master developer costs remaining are projected to be approximately \$84,978,000 including the District costs summarized above. For the purposes of this analysis we have allocated these costs as well as the bond reimbursements to each of the respective tax zones. We have considered allocation of expenses and revenues among the zones based on the Special Tax revenue to be generated by the special tax in each zone. The following table summarizes this ratio and the resulting allocation for each tax zone.

Tax Zone Allocations - 2006				
Total/Allocation by Zone	Total	Zone 1	Zone 2	Zone 3
by Mello-Roos Tax Revenue Allocation				
Mello-Roos Tax Revenue	\$7,416,522	\$1,085,250	\$1,327,550	\$4,857,800
Percent Allocation	100.0%	15.0%	18.0%	67.0%
Mello-Roos Reimbursement	\$48,000,000	\$7,200,000	\$8,640,000	\$32,160,000

These ratios for allocation are applied to the overall development costs for the project and are summarized in the following table.

Development Costs & Mello-Roos Reimbursement Allocation - 2006				
	Allocation %	Zone 1 15%	Zone 2 18%	Zone 3 67%
Cost Item	Total			
Fire	\$7,034,000	\$1,055,100	\$1,266,120	\$4,712,780
Road	\$541,000	\$81,150	\$97,380	\$362,470
Trail	\$800,000	\$120,000	\$144,000	\$536,000
Utility	\$3,554,000	\$533,100	\$639,720	\$2,381,180
Water/Sewer	\$26,819,000	\$4,022,850	\$4,827,420	\$17,968,730
County Road	\$25,230,000	\$3,784,500	\$4,541,400	\$16,904,100
Total CFD Funded Costs	\$63,978,000	\$9,596,700	\$11,516,040	\$42,865,260
Mello-Roos Reimbursement 2nd Issue - 2006	\$48,000,000	\$7,200,000	\$8,640,000	\$32,160,000
Developer Costs Future Reimbursable	\$15,978,000	\$2,396,700	\$2,876,040	\$10,705,260
Developer Costs Non-Reimbursable	\$21,000,000	\$3,150,000	\$3,780,000	\$14,070,000
Total Development Costs	\$84,978,000	\$12,746,700	\$15,296,040	\$56,935,260

The above costs will be applied in the Developmental Analysis Section of this report. As we are appraising Zone 1 as three separate phases it is necessary to provide a further allocation of this reimbursement to each phase of Zone 1 which is summarized in the following table. The Non-Reimbursable development costs noted in the above table include Homeowners Association Amenities, Private Common Infrastructure, and various carry costs. These costs are appropriately allocated over the entire project as are the infrastructure cost which are for the benefit of the entire project.

OVERVIEW OF COMMUNITY FACILITIES DISTRICT NO. 1

Zone 1 Allocation - 2006			
Mello Roos Reimbursement			\$7,200,000
Phase	# Units	Per Unit	Total
1	0	\$0	\$0
2	113	\$28,800	\$3,254,400
3	137	\$28,800	\$3,945,600
	250		\$7,200,000

Zone 3 Allocation - 2006			
Mello Roos Reimbursement			\$32,160,000
Phase	# Units	Per Unit	Total
Trailside	16	\$29,343	\$469,489
Highlands I	60	\$29,343	\$1,760,584
Ritz Res.	84	\$29,343	\$2,464,818
Ritz Club	78	\$29,343	\$2,288,759
Future	858	\$29,343	\$25,176,350
Total	1,096	\$29,343	\$32,160,000

Maximum Special Tax

The following table summarizes the projected maximum tax for the taxable property in CFD in Fiscal Year 2006-2007. Such maximum tax will increase by 2% each year in the case of residential property. The Non-Residential taxes do not escalate at a constant 2% until 2015.

OVERVIEW OF COMMUNITY FACILITIES DISTRICT NO. 1

Maximum Annual Special Tax for Residential Property Fiscal Year 2006-07* (Per Residential Unit)			
Square Footage of Residential Unit	Tax Zone # 1	Tax Zone # 2	Tax Zone # 3
Less than 1,001 Sq. Ft.	\$2,907	\$3,519	\$4,131
1,001 to 1,400 Sq. Ft.	\$3,035	\$3,647	\$4,259
1,401 to 1,800 Sq. Ft.	\$3,162	\$3,774	\$4,386
1,801 to 2,200 Sq. Ft.	\$3,290	\$3,902	\$4,514
2,201 to 2,600 Sq. Ft.	\$3,417	\$4,029	\$4,641
2,601 to 3,000 Sq. Ft.	\$3,545	\$4,157	\$4,769
More than 3,000 Sq. Ft.	\$3,672	\$4,284	\$4,896

Maximum Annual Special Tax for Non-Residential Property (Per Square Foot)			
Fiscal Year	Tax Zone #1	Tax Zone #2	Tax Zone #3
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 (2%) of the amount in effect in the prior Fiscal Year.	Increased by two percent (2%) of the amount in effect in the prior Fiscal Year.	Increased by two percent (2%) of the amount in effect in the prior Fiscal Year.
And Each Fiscal Year Thereafter			

The above special taxes for CFD costs represent annual amounts that will escalate at 2 percent annually for the 30-year term of the bond and 30 years for each future series of bonds. In order to recognize this encumbrance, it is necessary to make an adjustment to the market pricing that will be analyzed later herein. We have calculated the potential adjustment by recognizing the full 30-year obligation. The Year One tax is escalated at 2 percent annually for the residential property. We have discounted the 30 payments at a "safe rate" of 5 percent, which is reasonable in relation to 10-year treasuries, which have recently been in the range of 5.0± percent. Reference is made to the following summary of market adjustments to be considered herein, as well as the calculations on the following pages. It is noted the required adjustment could increase as future bond issues extend beyond the initial 30 years of the first and second series. In our opinion it is reasonable to apply just the adjustment from the first issue.

Mello-Roos Discount Summary

	Average
Zone 1	\$61,000
Zone 2	\$74,000
Zone 3	\$88,000

OVERVIEW OF COMMUNITY FACILITIES DISTRICT NO. 1

The above Mello-Roos Discounts are based on the full issuance of all proceeds approved for the CFD. The proceeds are to be distributed through several bond issues to be determined. The use of the full special tax discount is utilized in our analysis to project the sales revenue for the Northstar project as all buyers of developed property will be subject to the maximum special tax. The first issue of bonds occurred in December 2005 and the next issue is projected for December 2006. The construction funds available from the first issue were estimated at \$44,362,000 and the construction funds for the next issue are projected at \$48,000,000.

Special Tax Revenue

The previous summary of development cost indicated the subject developer will be financing development costs which qualify for reimbursement from bond proceeds. These costs can also be reimbursed from special tax revenues which exceed the debt service required of the bond issue. The District is allowed to levy the maximum allowable tax for each developed unit. Given the lower debt service from the first two bond issues and the number of units to be sold in the near term there will be excess special tax revenues for the reimbursement of the allowable development cost. We have reviewed the tax revenue projections made by the developer and incorporated them into the following table. According to the Rate and Method of Apportionment the subject can collect the excess special tax revenues for a period of up to 20 years or until the balance of the allowable costs have been reimbursed. We have shown the allowable Special Tax Reimbursement for the balance of the first series bond term ending in 2025. We have calculated the net present value of these payment projections which incorporate the actual debt service from the first and second bond issues as well as the maximum special taxes provided for in the Rate and Method of Apportionment. The net present value of the special tax revenues to be reimbursed to the developer will be added to the discounted cash flow values. This is allowable income to the developer per the bond agreement. The excess special tax calculations are summarized in the following table.

Excess Special Tax Calculations								
Period Year	14 2019	15 2020	16 2021	17 2022	18 2023	19 2024	20 2025	Total
Zone 1 Tax	\$31,000	\$118,000	\$209,000	\$257,000	\$262,000	\$268,000	\$273,000	\$1,418,000
Discount Factor	0.2046	0.1827	0.1631	0.1456	0.1300	0.1161	0.1037	
PV Tax	\$6,343	\$21,558	\$34,092	\$37,431	\$34,070	\$31,117	\$28,301	\$192,912
Zone 2 Tax	\$38,000	\$145,000	\$256,000	\$315,000	\$320,000	\$327,000	\$334,000	\$1,735,000
Discount Factor	0.2046	0.1827	0.1631	0.1456	0.1300	0.1161	0.1037	
PV Tax	\$7,776	\$26,491	\$41,759	\$45,878	\$41,613	\$37,967	\$34,625	\$236,108
Zone 3 Tax	\$138,700	\$529,300	\$936,500	\$1,151,300	\$1,172,300	\$1,197,300	\$1,215,000	\$17,340,400
Discount Factor	0.2046	0.1827	0.1631	0.1456	0.1300	0.1161	0.1037	
PV Tax	\$28,381	\$96,701	\$152,763	\$167,680	\$152,445	\$139,015	\$1,266,290	\$2,003,275
Discount Rate	12.00%							

OVERVIEW OF COMMUNITY FACILITIES DISTRICT NO. 1

Mello Roos Tax Adjustments Zone 1 - Units			
Mello Roos Increases per Year		2.00%	
Discount Rate		5.00%	
Assigned Special Tax		\$3,163	
Year	Disc Factor	Mello Tax W/2% Inc	PV Mello Tax
1	0.95238	\$3,163	\$3,012
2	0.90703	\$3,226	\$2,926
3	0.86384	\$3,291	\$2,843
4	0.82270	\$3,357	\$2,761
5	0.78353	\$3,424	\$2,683
6	0.74622	\$3,492	\$2,606
7	0.71068	\$3,562	\$2,531
8	0.67684	\$3,633	\$2,459
9	0.64461	\$3,706	\$2,389
10	0.61391	\$3,780	\$2,321
11	0.58468	\$3,856	\$2,254
12	0.55684	\$3,933	\$2,190
13	0.53032	\$4,011	\$2,127
14	0.50507	\$4,092	\$2,067
15	0.48102	\$4,174	\$2,008
16	0.45811	\$4,257	\$1,950
17	0.43630	\$4,342	\$1,894
18	0.41552	\$4,429	\$1,840
19	0.39573	\$4,518	\$1,788
20	0.37689	\$4,608	\$1,737
21	0.35894	\$4,700	\$1,687
22	0.34185	\$4,794	\$1,639
23	0.32557	\$4,890	\$1,592
24	0.31007	\$4,988	\$1,547
25	0.29530	\$5,087	\$1,502
26	0.28124	\$5,189	\$1,459
27	0.26785	\$5,293	\$1,418
28	0.25509	\$5,399	\$1,377
29	0.24295	\$5,507	\$1,338
30	0.23138	\$5,617	\$1,300
Totals		\$128,317	\$61,245
Estimated Mello Roos Adjustment:			\$61,000

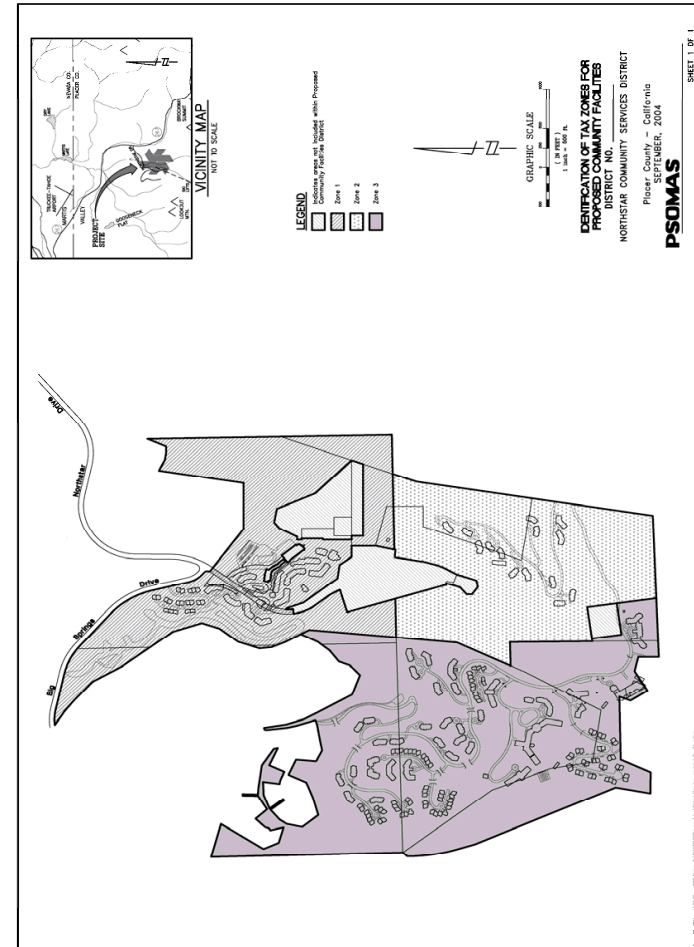
OVERVIEW OF COMMUNITY FACILITIES DISTRICT NO. 1

Mello Roos Tax Adjustments Zone 2 - Units			
Mello Roos Increases per Year		2.00%	
Discount Rate		5.00%	
Assigned Special Tax		\$3,826	
Year	Disc Factor	Mello Tax W/2% Inc	PV Mello Tax
1	0.95238	\$3,826	\$3,644
2	0.90703	\$3,903	\$3,540
3	0.86384	\$3,981	\$3,439
4	0.82270	\$4,060	\$3,340
5	0.78353	\$4,141	\$3,245
6	0.74622	\$4,224	\$3,152
7	0.71068	\$4,309	\$3,062
8	0.67684	\$4,395	\$2,975
9	0.64461	\$4,483	\$2,890
10	0.61391	\$4,572	\$2,807
11	0.58468	\$4,664	\$2,727
12	0.55684	\$4,757	\$2,649
13	0.53032	\$4,852	\$2,573
14	0.50507	\$4,949	\$2,500
15	0.48102	\$5,048	\$2,428
16	0.45811	\$5,149	\$2,359
17	0.43630	\$5,252	\$2,292
18	0.41552	\$5,357	\$2,226
19	0.39573	\$5,464	\$2,162
20	0.37689	\$5,574	\$2,101
21	0.35894	\$5,685	\$2,041
22	0.34185	\$5,799	\$1,982
23	0.32557	\$5,915	\$1,926
24	0.31007	\$6,033	\$1,871
25	0.29530	\$6,154	\$1,817
26	0.28124	\$6,277	\$1,765
27	0.26785	\$6,402	\$1,715
28	0.25509	\$6,531	\$1,666
29	0.24295	\$6,661	\$1,618
30	0.23138	\$6,794	\$1,572
Totals		\$155,213	\$74,083
Estimated Mello Roos Adjustment:			\$74,000

OVERVIEW OF COMMUNITY FACILITIES DISTRICT NO. 1

Mello Roos Tax Adjustments Zone 3 - Units				
Mello Roos Increases per Year				2.00%
Discount Rate				5.00%
Assigned Special Tax				\$4,522
Year	Disc Factor	Mello Tax W/2% Inc	PV Mello Tax	
1	0.95238	\$4,522	\$4,307	
2	0.90703	\$4,612	\$4,184	
3	0.86384	\$4,705	\$4,064	
4	0.82270	\$4,799	\$3,948	
5	0.78353	\$4,895	\$3,835	
6	0.74622	\$4,993	\$3,726	
7	0.71068	\$5,093	\$3,619	
8	0.67684	\$5,194	\$3,516	
9	0.64461	\$5,298	\$3,415	
10	0.61391	\$5,404	\$3,318	
11	0.58468	\$5,512	\$3,223	
12	0.55684	\$5,623	\$3,131	
13	0.53032	\$5,735	\$3,041	
14	0.50507	\$5,850	\$2,954	
15	0.48102	\$5,967	\$2,870	
16	0.45811	\$6,086	\$2,788	
17	0.43630	\$6,208	\$2,708	
18	0.41552	\$6,332	\$2,631	
19	0.39573	\$6,459	\$2,556	
20	0.37689	\$6,588	\$2,483	
21	0.35894	\$6,719	\$2,412	
22	0.34185	\$6,854	\$2,343	
23	0.32557	\$6,991	\$2,276	
24	0.31007	\$7,131	\$2,211	
25	0.29530	\$7,273	\$2,148	
26	0.28124	\$7,419	\$2,086	
27	0.26785	\$7,567	\$2,027	
28	0.25509	\$7,719	\$1,969	
29	0.24295	\$7,873	\$1,913	
30	0.23138	<u>\$8,030</u>	<u>\$1,858</u>	
Totals		\$183,449	\$87,560	
Estimated Mello Roos Adjustment:				\$88,000

OVERVIEW OF COMMUNITY FACILITIES DISTRICT NO. 1



VALUATION PROCESS

Methodology

There are three generally accepted approaches available in developing an opinion of value: the Cost, Sales Comparison and Income Capitalization approaches. We have considered each in this appraisal to develop an opinion of the market value of the subject property. In appraisal practice, an approach to value is included or eliminated based on its applicability to the property type being valued and the quality of information available. The reliability of each approach is dependent upon the availability and comparability of the market data uncovered as well as the motivation and thinking of purchasers in the market for a property such as the subject. The Village at Northstar has two product types, residential units and commercial space. The taxable property that is the subject of this appraisal has been outlined previously. In order to determine the "as is bulk value" of the subject, it is necessary to value each component. Following is a description of the methodology to be applied to each part of the subject.

Residential Property

The residential portion of the subject will be valued by the developmental, or discounted cash flow, analysis. This technique requires that the retail value of each product type be estimated assuming completion of the end product. This is done primarily by the sales comparison approach, with a review of the cost approach. An average unit value for the residential units is estimated. An average value is most appropriate for use in the discounted cash flow as it is not reasonable to apply a specific value to each of the units. The discounted cash flow will then take into account the necessary discount for absorption over time, as well as the deductions for development costs and holding costs. There will be a separate analysis for Zones 1, 2 and 3 of the taxable property. The value indicated by this analysis represents the value of the underlying land and entitlements as of the date of value.

Commercial Property

The commercial component of the subject includes approximately 100,000 square feet of retail/commercial space. The commercial space value contribution will be determined primarily by a simple land residual analysis. The basis for the completed value is primarily the income approach, with the cost approach and sales comparison approach also considered.

The values of the various components of the subject are reported separately for the purposes of this appraisal. The total value of the CFD is the sum of its various parts. No further discounting is necessary for bulk value due to the discounting applied in each separate approach.

Summary

This appraisal employs all three typical approaches to value: the Cost Approach, the Sales Comparison Approach and the Income Capitalization Approach. Based on our analysis and knowledge of the subject property type and relevant investor profiles, it is our opinion that all approaches would be considered meaningful and applicable in developing a credible value conclusion.

SALES COMPARISON APPROACH

The majority of the real estate product to be sold at the subject is in the form of stacked flat condominiums and town homes. We have surveyed recent sales of condominium units in similar resort settings located in the Lake Tahoe area as well as established resorts in the western United States for the purposes of establishing an average unit price for the subject condominiums. Reference is made to the following pages, which summarize and discuss the data used in our analysis.

Lake Tahoe Area Comparables

Condominium Comparable No. 1	The Village @ Northstar (Phase I and II)		
Location:	Northstar-at-Tahoe		
Description:	Stacked flats - 1 to 5 bedrooms		
Year Built:	2004-2005		
Total No. of Units:	213 (100 in Phase I, 113 in Phase II)		
Unit Size (SF)			
Range:	528- 5,532		
Average:	1,495		
Mello-Roos Special Tax:	Yes		
Unit Sales Data	Phase I	Phase II	
Sales/Marketing Start Date:	Mar-04	Mar-05	
Total Units Sold to Date:	100	84	
Monthly Absorption:	6.2	4.2	
Summary of Sales and Listings			
		Phase I	Phase II
Average Unit Size (SF):		1,713	1,332
Average Sale Price:		\$1,416,850	\$1,437,346
Average Price/SF:		\$827	\$1,079
No. of Units Sold:		100	84
Sales Price Range:		\$536,750 - \$5,800,000	\$525,000- \$2,995,000
Comments:	Phase I sales reflect a blend of launch sales pricing (\$770/sf) with post launch sales pricing of (\$1,010/sf). The Phase I launch produced 83 of the 100 Phase I sales. The Phase II sales are through October 2006.		

This represents the sales activity to date in The Village at the subject. Phase I of The Village has sold out of 100 units over a 16 month period, however 83 of these sales resulted from a sales launch event that occurred on April 3, 2004. Sales from the launch event averaged \$766 per square foot, while post-launch sales in Phase I averaged \$1,026 per square foot and reached as high as \$1,204 per square foot for a 2,181 square foot, three bedroom unit. Phase II sales began on March 19, 2005 with an offering of 92 units in the Big Horn and Catamount buildings. Phase II sales have averaged \$1,079 per square foot. It is noted that the larger units offered in The Village have achieved the highest per square foot prices, reaching as high as \$1,156 per square foot for a 1,647 square foot unit in Big Horn. The floor level, view and overall orientation of the units in The Village buildings are all sales price considerations. It would appear that of the buildings offered for sale thus far in The Village all appear to be equally desirable with respect to location within the village core and ski access. Great Bear Lodge, centrally located in the village core, was conceived as the premium lodge building in The Village with superior quality finishes and private elevator access to each unit. The other five subject buildings in The Village are of comparable in design and quality. Overall, the sales activity which has occurred thus far in The Village is considered the best comparable indication of achievable sales pricing and absorption for the condominium product in the subject

SALES COMPARISON APPROACH

development. The most emphasis has been placed on the post-launch sales in Phase I and Phase II sales at \$1,026 and \$1,079 per square foot respectively.

Condominium Comparable No. 2	The Village @ Squaw Valley	
Location:	Squaw Valley USA	
Description:	Stacked flats - Studio to 3 bedrooms	
Year Built:	2000-2004	
Total No. of Units:	280	
Unit Size (SF)		
Range:	580-1,767	
Average:	1,000	
Mello-Roos Special Tax:	No	
Unit Sales Data	Phase I	Phase II
Sales/Marketing Start Date:	Jan-01	Jun-02
Total Units Sold to Date:	139	151
Monthly Absorption:	139.0	8.4
Summary of Sales and Listings		
	Phase I	Phase II
Average Unit Size (SF):	1,000	1,000
Average Price/SF:	\$600	\$750
No. of Units Sold:	139	151
Comments:	This represents the initial sales of condominiums at The Village @ Squaw Valley by Intrawest. Phase I sold out in 6 hours and 80% of Phase II sold out in one day with the balance selling out in the next 18 months.	

The Village at Squaw Valley is a similar development concept to the subject development located at a nearby, North Lake Tahoe ski resort. Squaw Valley as a resort is a significantly larger and superior resort in terms of ski terrain, size and overall scope, however the real estate product offered at the village is generally similar to the subject. The sales information summarized above is from the first two phases of the most recent base area condominium development at Squaw Valley as provided by a real estate development representative from Intrawest, the developer. The sales information from Squaw Valley is considered somewhat dated, going back to 2001, under inferior market conditions compared to the current market. However, due to the relatively recent development activity, proximity to the subject, draw from the same Bay Area market and similar village concept, the sales data from Squaw Valley is considered relevant. Furthermore, the data is a good indication of absorption and market demand for similar ski-in/ski out condominiums like the subject development. Overall The Village at Squaw Valley has been successful in the first two phases with short sell-out periods which were bolstered by sales launch events. The average pricing in Phase I and II was \$600 and \$750 per square foot respectively, which is significantly lower than the sales price per square foot currently being achieved at the subject development. Due to the older sale dates of the Squaw Valley sales we have surveyed the more recent re-sales at The Village at Squaw Valley and the Resort at Squaw Creek, which is not located at the Village, which provide indications of per square foot sales pricing from \$815 to \$1,294 per square foot. The re-sales are summarized in the following table.

SALES COMPARISON APPROACH

Recent Squaw Valley Condominium Sales							
Sale Date	Bldg. Name	Unit No.	Bed/Bath	Yr Built	Unit Sq. Ft.	Sale Price	Sale Price/Sq. Ft.
Mar-06	Resort @ Squaw Creek	954/856	3/3.5	1991	1,777	\$2,300,000	\$1,294
Oct-06	Village @ Squaw	224	2/2	2003	890	\$725,000	\$815
Sep-06	Village @ Squaw	314	1/1	2001	586	\$481,000	\$821
Jul-06	Village @ Squaw	402	1/1	2003	1,026	\$931,666	\$908

Source: Tahoe Sierra MLS

The selected sales support the current sale prices being achieved at the subject for similar Lake Tahoe area resort based condominiums. While it is noted that Squaw Valley is generally considered a superior ski resort than Northstar, Northstar has developed a strong niche in the Tahoe area resort market as a family friendly resort and is in the process of significant on-mountain improvements which will provide a better ski experience at Northstar. Furthermore, the subject development represents newer construction in a master planned community with excellent proximity to the amenities in nearby Truckee and access to the Tahoe Mountain Club. The Village at Squaw Valley has the potential for 320 more units in what is currently surface parking lots adjacent to the existing village. The future phases of the village are uncertain due to the legal issues involving water rights, entitlements and entitlement expiration from a previous agreement. The uncertainty of the future development at Squaw is considered beneficial to the subject as it represents a delay in the potential competitive supply to the subject property.

SALES COMPARISON APPROACH

Regional Comparables

Mammoth Resort, in the Central Sierras, has recently experienced a surge of real estate development over the last 4 years. Intrawest is the master developer at Mammoth and has developed a village concept similar to Squaw Valley and Northstar-at-Tahoe. Mammoth is the largest resort in the Central Sierras and relies on Southern California (San Diego to Santa Barbara) for approximately 90% of its market. The Southern California market has similar demographics to the subject's Bay Area market in terms of population and income. It is worthy to note that Mammoth is almost exclusively a drive market, being a 4 to 7 hour drive from the primary Southern California feeder markets. The following summary of sales data from the Village at Mammoth was provided by Intrawest real estate personnel at Mammoth.

Condominium Comparable No. 3	The Village @ Mammoth	
Location:	(Sierra Lodge, White Mtn. Lodge, Lincoln House) Mammoth Resort, Mammoth Lakes California	
Description:	Stacked flats, Studio to 3 bedroom	
Year Built:	2001-2004	
Total No. of Units:	274 (Sierra 110, White Mtn. 89, Lincoln 75)	
Unit Size (SF)		
Range:	595 to 1,942	
Average:	1,000	
Mello-Roos Special Tax:	None	
Unit Sales Data	Sierra Lodge	White Mtn./Lincoln
Sales/Marketing Start Date:	Nov-03	Apr-01
Total Units Sold to Date:	110	164
Monthly Absorption to Date:	37.0	41
Summary of Sales and Listings		
Average Unit Size (SF):	1,000	
Average Price/SF:	\$740	
No. of Units Sold:	274	
Sales Price Range:	\$344,900 - \$1,385,000	
Comments:	This represents the 3 buildings in the Village at Mammoth developed by Intrawest. Between 60% to 90% of the units sold at release events with the balance of the inventory selling out in four months, therefore the absorption is based on a 4 month time frame from the release dates. Current re-sales in these buildings are in the \$850 to \$900 per square foot range.	

The sales data summarized above is dated, similar to the Squaw Valley sales information, however it demonstrates that similar ski resort real estate product to the subject is in strong demand regionally with high per square foot values for second home/vacation residences. It is noted that in terms of real estate and amenities, Mammoth has been evolving from a mid-market resort to an up-scale resort over the past few years, in part fueled by real estate development. This is a similar trend to what has occurred at Northstar. The average per square foot pricing in the village condominium product at Mammoth was originally \$740. All 274 units in three buildings sold out in four months with strong launch event sales of between 60%

SALES COMPARISON APPROACH

to 90% of the total units. There has been little re-sale activity in the village units as it was reported that the primary market was users not investors. Recent re-sale activity has been in the range of \$850 to \$900 per square foot in The Village. Other development news of note at Mammoth includes the pre sell-out of the 230 unit Westin Monache, the first branded luxury condo/hotel at Mammoth at sales prices in excess of \$1,000 per square foot and the announcement of a St. Regis Hotel property planned for Mammoth. It was also reported that direct air service will soon be servicing the Mammoth area with flights from Los Angeles and Las Vegas. This will be the first time air service has been available to Mammoth and positions Mammoth for excellent real estate value and skier visitation growth.

Deer Valley Resort in Park City, Utah is also in the process of major real estate development in the form of stacked flat condominium buildings, townhomes, single family homes and single family lots. The development is focused in the master planned Village at Empire Pass being developed primarily by East West Partners, a related development group to the subject developer. The development at Deer Valley has been included in our comparable data set for the following reasons.

- Deer Valley is an established resort with an excellent reputation for luxury and service, ranking among the top 3 North American resorts overall by various ski publications
- Proximity to a major airport (Salt Lake City) and short commuting time from the Bay Area, one of several key markets for Deer Valley and Utah resorts
- Current and similar development activity/real estate product to the subject development

Of the current real estate available and selling in Deer Valley we have focused on the stacked flat units in various developments, which are summarized below.

SALES COMPARISON APPROACH

Condominium Comparable No. 4	The Village at Empire Pass (Arrowleaf A, Arrowleaf B and Grand Lodge) Deer Valley Resort, Park City, Utah		
Location:			
Description:	Stacked flats - 2 to 6 bedrooms		
Year Built:	2006-2007		
Total No. of Units:	83 total, Arrowleaf A & B (56 units), Grand Lodge (27 units)		
Unit Size (SF)			
Range:	1,442 to 3,200		
Average:	2,000		
Mello-Roos Special Tax:	No		
Unit Sales Data			
Sales/Marketing Start Date:	Jun-05		
Total Units Sold to Date:	65		
Monthly Absorption to Date:	11.8		
Summary of Sales and Listings	<u>Arrowleaf A</u>	<u>Arrowleaf B</u>	<u>Grand Lodge</u>
Average Unit Size (SF):	1,744	1,926	2,380
Average Price/SF:	\$900	\$1,232	\$973
No. of Units Sold/Pending:	28	12	25
Sales Price Range:	\$1,050,000 - \$2,457,000	\$1,966,000 - \$2,805,000	\$1,549,000 - \$3,995,000
Comments:	The projects summarized above are located in the Village at Empire Pass with excellent ski-in/ski-out access at Deer Valley. All of the activity summarized represents pending contracts. Currently there are 16 Arrowleaf B Units available and 2 Grand Lodge units available.		

The indications of the total units and the absorption shown above are based on the combined totals of the three developments, which are being developed simultaneously. All of these developments are excellent quality with premier ski access to Deer Valley's Northside ski lift. Arrowleaf and Shooting Star, being developed by East West Resorts, represent complete pre-sales sell-outs. Arrowleaf B is the most recent project launching in July 2005. The Grand Lodge is being developed by a Vail based group which has one completed townhome project in Deer Valley. Grand Lodge has larger units ranging from 1,794 to 3,441 square feet with a 2,444 square foot average and includes 6 penthouse units. There have been several penthouse sales over \$1,000 per square foot. The larger units at Grand Lodge have sold for higher per square foot values than the smaller units, similar to the sales trends for units at the subject. The other types of residential real estate at Empire Pass are also experiencing excellent sales absorption and strong sales pricing per square foot.

Recent real estate activity at Vail, Colorado has been included in our analysis due to Vail's reputation within the ski resort industry. The Arrabelle at Vail Square is a redevelopment located at the Lionshead area of Vail. The project is located on a 2.27 acre site former gondola building site proposed for 67 condominium units, an ice skating rink and a pedestrian mall with retail/restaurant commercial space. The project was first offered for sale on December 25, 2004 with an overwhelming response of 573 reservations with \$100,000 deposit checks. A summary of the offering prices and unit mix is provided below.

SALES COMPARISON APPROACH

Condominium Comparable No. 5	Arrabelle at Vail Square	
Location:	Vail Square (Lionshead) Vail, Colorado	
Description:	Stacked Flat 2 to 5 bedrooms	
Year Built:	2006	
Total No. of Units:	67	
Unit Size (SF)		
Range:	1,622 to 6,121	
Average:	2,928	
Mello-Roos Special Tax:	None	
Unit Sales Data		
Sales/Marketing Start Date:	Dec-04	
Total Units Sold to Date:	66	
Monthly Absorption to Date:	66.0	
Summary of Sales and Listings		
Average Unit Size (SF):	2,849	
Average Sale Price:	\$3,210,152	
Average Price/SF:	\$1,155	
No. of Units Sold:	66	
Sales Price Range:	\$1,295,000- \$9,100,000	
Comments:	This is a redevelopment project at the site of the old gondola station in Lionshead. All of the units were purchased upon offering, with over 500 reservations with a \$100,000 deposit for the first units offered. Seven units have been held by the developer for future release and 10 were purchased by a vacation residence club. There is a large penthouse unit which is not included in our summary.	

The overall average unit reservation price for Arrabelle was \$1,155 per square foot, with an average unit size of 2,849 square feet. Sales representatives for Arrabelle indicated that 40% of the 573 reservations were for the 2 and 3 bedroom units, with the 5 bedroom units being in less demand. Overall, the sales activity at Arrabelle is considered strong market support for ski resort based condominium units in a village setting at sales prices over \$1,000 per square foot.

The Village Walk at Bachelor Gulch is a recently completed project by East West Resorts in the Vail Valley market. The following table summarizes that projects activity.

SALES COMPARISON APPROACH

Condominium Comparable No. 6	Village Walk - Beaver Creek
Location:	Beaver Creek, Colorado
Description:	Duplex Townhomes
Year Built:	2006
Total No. of Units:	26
Unit Size (SF)	
Range:	4,663 to 5,411
Average:	4,936
Mello-Roos Special Tax:	None
Unit Sales Data	
Sales/Marketing Start Date:	Feb-05
Total Units Sold to Date:	22
Monthly Absorption to Date:	1.2
Summary of Sales and Listings	
Average Unit Size (SF):	4,850
Average Sale Price:	\$5,252,602
Average Price/SF:	\$1,083
No. of Units Sold:	22
Sales Price Range:	\$4,350,000- \$6,795,000
Comments:	This is a new development project fronting on Beaver Creek with ski access from the Dally Ski Way in the Beaver Creek Resort. This project is in walking distance to the Beaver Creek Village area.

SALES COMPARISON APPROACH

Summary/Conclusion

The sales data from the comparables included in our analysis are summarized below.

Condominium Sales Summary						
Data No.	Development	Yr. Built	No. of Sales	Avg Unit Size (SF)	Avg Total Sale Price	Avg. Price/SF
1	The Village @ Northstar (Phase II)	2006	84	1,332	\$1,437,346	\$1,079
2	The Village @ Squaw Valley	2001-2003	280	1,000	\$700,000	\$700
3	The Village @ Mammoth	2001-2004	274	1,000	\$740,000	\$740
4	Empire Pass @ Deer Valley	2005	65	2,000	\$2,500,000	\$1,000
5	Arrabelle @ Vail	2005-2006	66	2,849	\$3,290,595	\$1,155
6	Village Walk - Beaver Creek	2007	22	4,850	\$5,252,602	\$1,083

Overall, the comparable condominium sales surveyed ranged from \$700 to \$1,155 per square foot. It is noted that the Phase II sales in the subject development and the Vail/Beaver Creek and Deer Valley sales provide indications of condominium sales pricing over \$1,000 per square foot. While we recognize that the locations of the comparables and the specific aspects of the developments and associated resorts surveyed vary greatly, the comparables share ski-in/ski-out village locations in major, western United States resorts. This similar feature renders the sales data meaningful and relevant to the subject development. Overall we consider the most recent sale activity at the subject development, at approximately \$1,079 per square foot, and the current listings of the Iron Horse and Great Bear units at \$1,006 and \$1,303 per square foot, respectively, to be the best indication of value for the subject units. This is supported by the high end of the range of value from the comparables on a per square foot basis. It is noted that the comparables which represent the low end of the range are the most dated comparables, having occurred primarily between 2001 and 2003 under inferior market conditions.

Following is a summary of the pricing conclusions for each component of the subject master planned community.

Zone 1

Zone 1 of the subject is the most developed portion of the Northstar Community Services District Community Facilities District No. 1 Facilities District as of the date of appraisal. Phase 1 of this zone has already been completed and sold to individual owners. We have reviewed the individual sale prices and sale dates for each of these units. We have also reviewed the re-sales which have already occurred in this phase as well as the current askings. This information is summarized in the following table.

SALES COMPARISON APPROACH

Zone 1 - Phase 1 Sales Summary						
By Building	# Units	Total Sales Revenue	Avg. Unit Price	Total Sq. Ft.	Avg. Unit Size	Avg. Price/Sq. Ft.
Iron Horse North	46	\$52,861,250	\$1,149,158	63,765	1,386	\$829
Iron Horse South	26	\$22,224,000	\$854,769	33,900	1,304	\$656
Great Bear	28	\$67,397,375	\$2,407,049	74,073	2,645	\$910
Grand Total Ph. 1	100	\$142,482,625	\$1,424,826	171,738	1,717	\$830
By Contract Date						
Launch Sales 4/04	82	\$99,223,375	\$1,210,041	129,582	1,580	\$766
Post Launch Sales 12/04 - 5/06	18	\$43,259,250	\$2,403,292	42,156	2,342	\$1,026
	100	\$142,482,625	\$1,424,826	171,738	1,717	\$830
Re-Sales - 2006						
Iron Horse (North & South)	7	\$7,093,813	\$1,013,402	8,135	1,162	\$872
Great Bear	3	\$9,800,000	\$3,266,667	7,917	2,639	\$1,238
Current Listings						
Iron Horse (North & South)	14	\$18,443,000	\$1,317,357	18,341	1,310	\$1,006
Great Bear	6	\$18,693,995	\$3,115,666	14,350	2,392	\$1,303

The individual ownership of these units does not allow for a bulk sale scenario on an "as is" basis as it is no longer developer owned and the need for a bulk sale discount is gone, as is the likelihood that this could occur. Therefore the valuation of Phase 1 in Zone 1 will be based on an average price per square foot applied to each unit. The individual valuations and total Phase 1 valuation are summarized in the following table.

SALES COMPARISON APPROACH

Zone 1 - Phase 1 Valuation by Unit											
Iron Horse North				Iron Horse South				Great Bear			
Unit	Sq. Ft.	Price/Sq. Ft.	Unit Value	Unit	Sq. Ft.	Price/Sq. Ft.	Unit Value	Unit	Sq. Ft.	Price/Sq. Ft.	Unit Value
1102	1,380	\$900	\$1,242,000	2101	1,635	\$900	\$1,471,500	4201	2,780	\$1,200	\$3,336,000
1104	1,235	\$900	\$1,111,500	2103	1,455	\$900	\$1,309,500	4202	3,274	\$1,200	\$3,928,800
1106	1,215	\$900	\$1,093,500	2105	1,215	\$900	\$1,093,500	4203	2,317	\$1,200	\$2,780,400
1108	1,630	\$900	\$1,467,000	2107	1,205	\$900	\$1,084,500	4205	2,347	\$1,200	\$2,816,400
1201	1,550	\$900	\$1,395,000	2109	830	\$900	\$747,000	4206	3,292	\$1,200	\$3,950,400
1202	1,365	\$900	\$1,228,500	2201	1,645	\$900	\$1,480,500	4207	2,820	\$1,200	\$3,384,000
1203	805	\$900	\$724,500	2202	1,625	\$900	\$1,462,500	4301	2,780	\$1,200	\$3,336,000
1204	1,235	\$900	\$1,111,500	2203	1,455	\$900	\$1,309,500	4302	2,534	\$1,200	\$3,040,800
1205	805	\$900	\$724,500	2204	1,675	\$900	\$1,507,500	4303	2,181	\$1,200	\$2,617,200
1206	1,205	\$900	\$1,084,500	2205	1,215	\$900	\$1,093,500	4304	2,213	\$1,200	\$2,655,600
1208	1,590	\$900	\$1,431,000	2206	1,205	\$900	\$1,084,500	4305	2,175	\$1,200	\$2,610,000
1209	1,750	\$900	\$1,575,000	2207	1,205	\$900	\$1,084,500	4306	2,594	\$1,200	\$3,112,800
1210	1,215	\$900	\$1,093,500	2208	1,205	\$900	\$1,084,500	4307	2,820	\$1,200	\$3,384,000
1301	1,550	\$900	\$1,395,000	2209	830	\$900	\$747,000	4401	2,780	\$1,200	\$3,336,000
1302	1,365	\$900	\$1,228,500	2210	810	\$900	\$729,000	4402	2,534	\$1,200	\$3,040,800
1303	805	\$900	\$724,500	2212	1,800	\$900	\$1,620,000	4403	2,181	\$1,200	\$2,617,200
1304	1,235	\$900	\$1,111,500	2301	1,645	\$900	\$1,480,500	4404	2,213	\$1,200	\$2,655,600
1305	805	\$900	\$724,500	2302	1,625	\$900	\$1,462,500	4405	2,175	\$1,200	\$2,610,000
1306	1,205	\$900	\$1,084,500	2303	1,455	\$900	\$1,309,500	4406	2,594	\$1,200	\$3,112,800
1308	1,590	\$900	\$1,431,000	2304	1,675	\$900	\$1,507,500	4407	2,820	\$1,200	\$3,384,000
1309	1,750	\$900	\$1,575,000	2305	1,215	\$900	\$1,093,500	4501	2,780	\$1,200	\$3,336,000
1310	1,215	\$900	\$1,093,500	2306	1,205	\$900	\$1,084,500	4502	2,534	\$1,200	\$3,040,800
1311	1,955	\$900	\$1,759,500	2307	1,205	\$900	\$1,084,500	4503	2,181	\$1,200	\$2,617,200
1312	2,120	\$900	\$1,908,000	2308	1,205	\$900	\$1,084,500	4504	2,213	\$1,200	\$2,655,600
1401	1,550	\$900	\$1,395,000	2309	830	\$900	\$747,000	4505	2,175	\$1,200	\$2,610,000
1402	1,365	\$900	\$1,228,500	2310	830	\$900	\$747,000	4506	2,594	\$1,200	\$3,112,800
1403	805	\$900	\$724,500	26	1,304	\$900	\$1,173,462	4507	2,820	\$1,200	\$3,384,000
1404	1,235	\$900	\$1,111,500	Total			\$30,510,000	4601	5,352	\$1,200	\$6,422,400
1405	805	\$900	\$724,500					28	2,645	\$1,200	\$3,174,567
1406	1,205	\$900	\$1,084,500					Total			\$88,887,600
1408	1,590	\$900	\$1,431,000								
1409	1,750	\$900	\$1,575,000								
1410	1,215	\$900	\$1,093,500								
1411	1,955	\$900	\$1,759,500								
1412	2,120	\$900	\$1,908,000								
1501	1,550	\$900	\$1,395,000								
1502	1,365	\$900	\$1,228,500								
1503	805	\$900	\$724,500								
1504	1,235	\$900	\$1,111,500								
1505	805	\$900	\$724,500								
1506	1,205	\$900	\$1,084,500								
1508	1,590	\$900	\$1,431,000								
1509	1,750	\$900	\$1,575,000								
1510	1,215	\$900	\$1,093,500								
1511	1,955	\$900	\$1,759,500								
1512	2,120	\$900	\$1,908,000								
46	1,386	\$900	\$1,247,576								
Total			\$57,388,500								

The above table summarizes the valuation of each of the units in Phase 1 of Zone 1 as well as the totals for each building. For the purposes of this appraisal and the valuation for the Community Facilities District the Phase 1 value can be summarized in the following table.

SALES COMPARISON APPROACH

Total Valuation Conclusion Zone 1 - Phase 1					
Building	# Units	Avg. Unit Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Value
Iron Horse North	46	1,386	\$900	\$1,247,576	\$57,388,500
Iron Horse South	26	1,304	\$900	\$1,173,462	\$30,510,000
Great Bear	28	2,645	\$1,200	\$3,174,557	\$88,887,600
Totals	100	1,717	\$1,029	\$1,767,861	\$176,786,100
Phase 1 - Total Valuation				Rounded to,	\$176,800,000

Phase 2 of the tax Zone 1 is nearing completion with the One Village Place building owned by 8050 Northstar project for completion in December 2006 and the Catamount and Big Horn buildings to be completed in February 2007. The following table summarizes the sales for this phase.

Zone 1 - Phase 2 Sales Summary						
By Building	# Units	Total Sales Revenue	Avg. Unit Price	Total Sq. Ft.	Avg. Unit Size	Avg. Price/Sq. Ft.
Big Horn	36	\$47,600,500	\$1,322,236	45,417	1,262	\$1,048
Catamount	27	\$34,036,550	\$1,260,613	31,826	1,179	\$1,069
One Village Place	21	\$39,100,000	\$1,861,905	34,677	1,651	\$1,128
Ph. 2 Contracts	84	\$120,737,050	\$1,437,346	111,920	1,332	\$1,079
Available Units						
Big Horn	16	\$25,750,000	\$1,609,375	23,006	1,438	\$1,119
Catamount	13	\$15,917,000	\$1,224,385	15,199	1,169	\$1,047
Ph. 2 Available	29	\$41,667,000	\$1,436,793	38,205	1,317	\$1,091
Grand Total Ph. 2	113	\$162,404,050	\$1,437,204	150,125	1,329	\$1,082

The One Village Place building was sold in bulk to a developer who is marketing these units as fractional ownership and is called 8050 Northstar. The fractional pricing for these units was discussed previously in the Fractional Sales and Absorption Analysis. The fractional pricing allows for revenues which equate to \$2,798 per square foot on average. This suggests a multiple of 2.58 of the whole ownership price. Historically the fractional industry has been in the range of 1.5 to 2 times the whole ownership price. The average unit price applied in the discounted cash flow for this phase is \$1,437,000 which is consistent with the overall average indicated in the above table, of which 74 percent are under contract.

The Village Walk townhomes are proposed to begin construction in 2007 with completion by year end 2008. Although these are larger units than those in Phase 1 we have projected the pricing for these units to be \$1,000 per square foot.

The Village North Fractional Condominiums are proposed to be developed in phases. We have applied the pricing per square foot based on the fractional sell off proposed for these units. The developer has proposed pricing of \$2,000 per square foot. This would suggest a multiple of 2 times the \$1,000 per square foot whole ownership pricing discussed above. This is based on an average per share price of \$151,816 for a 1/20th share. We have concluded an average price of \$1,850 per square foot for use in our analysis which fits well within the range of the fractional sales comparables presented previously in our analysis. The fractional share pricing was analyzed previously in the Fractional Sale and Absorption Analysis.

The following table summarizes the pricing conclusions and resulting total revenues for the various components of the CFD Tax Zone 1. The average unit prices calculated in the following table are applied in the discounted cash flows for each respective project.

SALES COMPARISON APPROACH

Northstar Unit Pricing Conclusions						
Zone 1						
Village Phase 1						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2, 3, & 4BR	100	1,717	171,700	\$1,036	\$1,779,657	\$177,965,700
Village Phase 2						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2, 3, & 4BR	113	1,329	150,177	\$1,082	\$1,437,204	\$162,404,050
Village Walk Townhomes Pricing						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
Downhill 3 BR	28	2,651	74,228	\$1,000	\$2,651,000	\$74,228,000
Uphill 3 BR	6	2,259	13,554	\$1,000	\$2,259,000	\$13,554,000
Totals/Average	34	2,582	87,782	\$1,000	\$2,581,824	\$87,782,000
Village North Fractional Pricing Per Whole Unit						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2 BR	38	1,250	47,500	\$1,850	\$2,312,500	\$87,875,000
3 BR Small	47	1,650	77,550	\$1,850	\$3,052,500	\$143,467,500
3 BR Large	18	1,740	31,320	\$1,850	\$3,219,000	\$57,942,000
Totals/Average	103	1,518	156,370	\$1,850	\$2,808,587	\$289,284,500

Zone 2

CFD Tax Zone 2 is situated in the area referred to as The Highlands portion of the Northstar Master Plan. This area has no specific projects proposed as of this writing. There has been outside developer interest in this area which has excellent ski access with the Village Express chairlift and various ski runs. The direct ski access for this zone is favorable. In addition Highlands Drive is completed and paved to this zone. We have concluded a market value for the 1,750 square foot average unit size currently projected at \$1,100 per square foot. This is slightly above the conclusion for the Village units in Zone 1 due to the on mountain ski access and views from this parcel. The following table summarizes the pricing proposed for this zone.

Zone 2 Units						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
1-2-3 BR	354	1,750	619,500	\$1,100	\$1,925,000	\$681,450,000

Zone 3

Tax Zone 3 of the CFD is in The Highlands area of the mountain. This area is the focus of several proposed projects. The most significant of these is The Ritz Carlton Hotel which broke ground the summer of 2006 and currently has a completed foundation ready for vertical construction in Spring 2007. The following table summarizes the proposed projects in The Highlands.

Highlands Development Summary									
	# Units	Sq. Ft.	2007	2008	2009	2010	2011	2012	2013
Trailside Townhomes	16	67,387	Phase 1-Q4	Phase 2-Q4					
Lodge-Condominiums	60	175,000		Phase 1-Q4	Phase 2-Q2				
Residences-Condominiums	61	200,000			Phase 1-Q4	Phase 2-Q4			
Fractional Residences	78	255,000			Phase 1-Q4		Phase 2-Q4		Phase 3-Q4
Ritz Carlton Hotel	170	430,000			Q4				
Ritz Carlton Residences	23	Incl. Above			Q4				
Total	408	1,127,387							

SALES COMPARISON APPROACH

The above table notes the quarter of which year the above projects are slated for completion. All of these projects will have excellent ski access and are to be of high quality construction. The pricing for the Trailside Townhomes has been concluded to be \$1,000 to \$1,025 per square foot. This is slightly lower than the \$1,100 per square foot concluded for Zone 2 due to the much larger size of these units at over 3,500 square foot on average. The Highlands Lodge units are projected to have a market value of \$1,150 per square foot consistent with the previous analysis. This is slightly below the developers projections of \$1,175 per square foot. A slightly higher price is applied from the Trailside townhomes given the smaller average unit size and proximity to the Ritz Carlton Hotel.

The Ritz Residences have a concluded market value at \$1,600 per square foot. The subject developer has proposed \$1,800 per square foot. In addition to the condominium comparables presented previously we have also reviewed sale prices at branded projects in resort areas. It is significant to note that quality branded projects such as Ritz Carlton command a premium as they bring services and amenities to the owners in addition to the real estate. These amenities allow for the price premiums. The Ritz Carlton Residences in Bachelor Gulch sold out 23 units in 1 day in 2002 at prices ranging from \$2.5 to \$7.5 per unit or \$1,282 to \$1,726 per square foot. The Four Seasons Residences in Whistler, British Columbia sold out 36 units in one day at prices ranging from \$2.1 to \$7.5 million averaging \$1,829 per square foot. The St. Regis Residences at Deer Valley in Park City, Utah have had two successful releases selling out in one day at an average price of \$1,563 per square foot. This project is just under construction. Given these indications and the developer's projections we consider it reasonable to conclude \$1,600 per square foot for these units.

The Ritz Club fractional units are concluded to have a market value of \$2,550 per square foot. The developer has projected the pricing at \$2,800 per square foot based on the pricing achieved by the 8050 Northstar fractional project currently marketed in The Village. The per share price projected by the developer is \$425,000 to \$450,000. We concluded a lower pricing in the range of \$2,500 to \$2,600 per square foot which implies a share price of approximately \$400,000 per 1/12th.

The future units proposed in Zone 3 are projected to have an average unit size of 2,000 square feet. We have concluded a market value for these units at \$1,150 per square foot. We have applied slight premium to these units which will have excellent mountainside locations and views as well as prime ski in/ski out access.

The following table summarizes the market value conclusions for the projects in The Highlands.

SALES COMPARISON APPROACH

Northstar Unit Pricing Conclusions						
Zone 1						
Village Phase 1						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2, 3, & 4BR	100	1,717	171,700	\$1,036	\$1,779,657	\$177,965,700
Village Phase 2						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2, 3, & 4BR	113	1,329	150,177	\$1,082	\$1,437,204	\$162,404,050
Village Walk Townhomes Pricing						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
Downhill 3 BR	28	2,651	74,228	\$1,000	\$2,651,000	\$74,228,000
Uphill 3 BR	6	2,259	13,554	\$1,000	\$2,259,000	\$13,554,000
Totals/Average	34	2,582	87,782	\$1,000	\$2,581,824	\$87,782,000
Village North Fractional Pricing Per Whole Unit						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2 BR	38	1,250	47,500	\$1,850	\$2,312,500	\$87,875,000
3 BR Small	47	1,650	77,550	\$1,850	\$3,052,500	\$143,467,500
3 BR Large	18	1,740	31,320	\$1,850	\$3,219,000	\$57,942,000
Totals/Average	103	1,518	156,370	\$1,850	\$2,808,587	\$289,284,500
Zone 2						
Zone 2 Units						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
1-2-3 BR	354	1,750	619,500	\$1,100	\$1,925,000	\$681,450,000
Zone 3						
Trailside Townhomes Pricing						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
Townhome	8	3,266	26,128	\$1,025	\$3,347,650	\$26,781,200
Townhome w/Media Rm	8	3,880	31,040	\$1,000	\$3,880,000	\$31,040,000
Totals/Average	16	3,573	57,168	\$1,011	\$3,613,825	\$57,821,200
Highlands Lodge						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2 BR	13	1,460	18,980	\$1,150	\$1,679,000	\$21,827,000
3 BR	35	1,902	66,570	\$1,150	\$2,187,300	\$76,555,500
4 BR	12	2,425	29,100	\$1,150	\$2,788,750	\$33,465,000
Totals/Average	60	1,911	114,650	\$1,150	\$2,197,458	\$131,847,500
Ritz Resort Residences						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2 BR	23	1,565	35,995	\$1,600	\$2,504,000	\$57,592,000
3 BR Small	31	2,107	65,317	\$1,600	\$3,371,200	\$104,507,200
3 BR Large	24	2,577	61,848	\$1,600	\$4,123,200	\$98,956,800
Penthouses	6	5,127	30,762	\$1,600	\$8,203,200	\$49,219,200
Totals/Average	84	2,309	193,922	\$1,600	\$3,693,752	\$310,275,200
Ritz Club Fractional Pricing Per Whole Unit						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2 BR	26	1,812	47,115	\$2,550	\$4,620,880	\$120,142,876
3 BR Small	43	1,834	78,877	\$2,550	\$4,677,587	\$201,136,237
3 BR Large	9	2,446	22,012	\$2,550	\$6,236,787	\$56,131,087
Totals/Average	78	1,897	148,004	\$2,550	\$4,838,592	\$377,410,200
Zone 3 Future Units						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
1-2-3 BR	858	2,000	1,716,000	\$1,150	\$2,300,000	\$1,973,400,000
Northstar CFD Grand Totals - Retail Market Values						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
Grand Totals	1,800	1,897	3,415,273	\$1,244	\$2,360,911	\$4,249,640,350

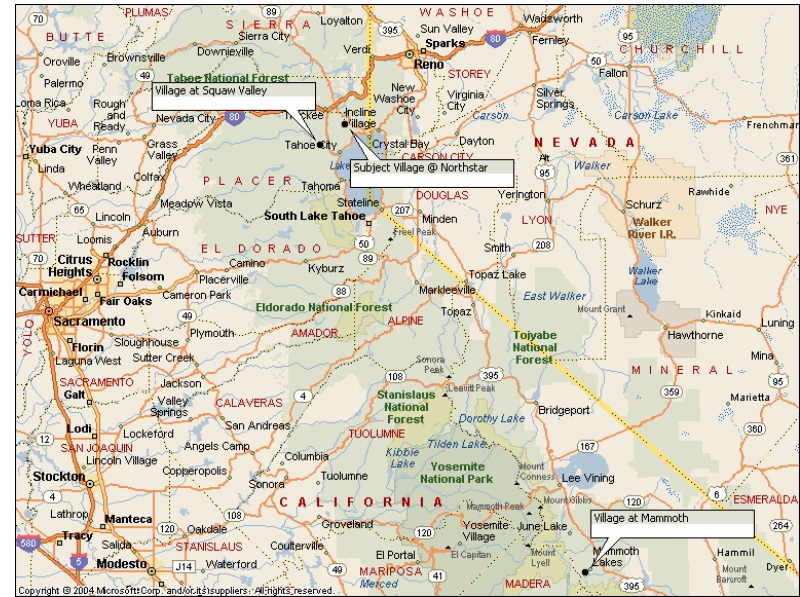
SALES COMPARISON APPROACH

The previous conclusions for all three tax zones are summarized in the following table.

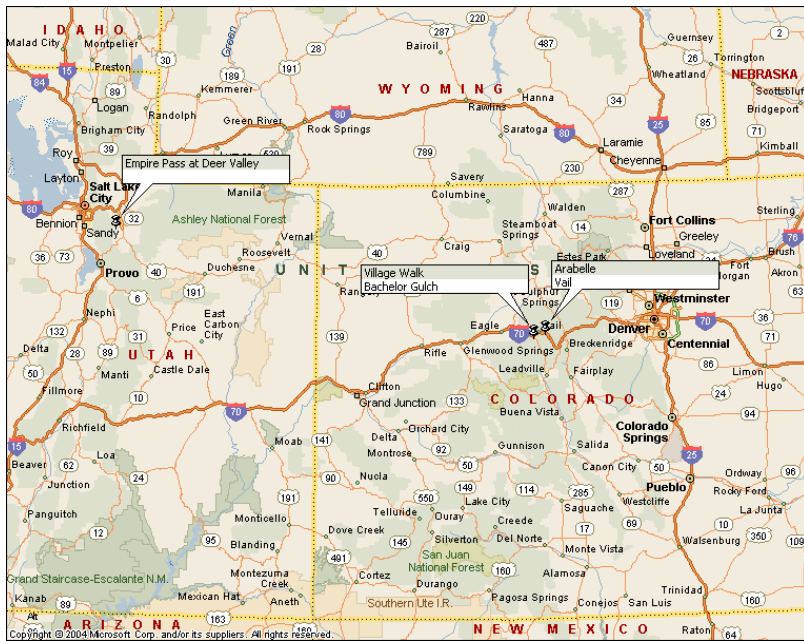
Northstar CFD Grand Totals - Retail Market Values						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
Grand Totals	1,800	1,897	3,415,273	\$1,244	\$2,360,911	\$4,249,640,350

The amount of revenues achievable in the subject development are significant. These types of projections are consistent with other large scale projects.

SALES COMPARISON APPROACH



SALES COMPARISON APPROACH



SALES COMPARISON APPROACH

We have not applied a Sales Comparison Approach to the entire Northstar project as there is no such comparable sales data in the marketplace. It is very unusual to have large master planned project's sell at the subject's level. In addition there are very few such projects nationwide with similar amenities and services. As discussed previously the Developmental Analysis or Discounted Cash Flow is considered the best methodology for application to the subject. However as a cross check to the discounted cash flows for each portion of the subject we have reviewed sales prices for development parcels in other ski resort locations. These sales are presented on the following page.

The summary of sales below indicates per unit pricing ranging from \$288,176 to \$636,364 per unit with one exception at \$1,269,117 per unit. The developmental analysis applied for the various components of the subject has indicated a wide range depending on the status of development. Those projects underway have much higher values per unit due to the costs expended to date. The per unit indications for the future development parcels not yet underway are \$475,182 per unit for Phase 3 of Zone 1 and \$246,893 per unit for Zone 2. These prices appear reasonable in relation to the data shown on the following sales summary. In Zone 3 the Highlands Lodge is \$450,000 per parcel, the Ritz Residences at \$721,795 (foundation work partially completed), The Ritz Club fractional at \$669,048 per unit and the large number of Future Units at \$173,543 per unit.

In our opinion the per unit prices that have resulted from the discounted cash flows are reasonable and supported by market indications.

SUMMARY OF LAND SALES							
No.	Location	Grantor	Price	Site SqFt	SF Building Area	Price/SF Bldg Area	COMMENTS
		Grantee	Date	Site Acres	No. of Units	Price/Unit	
1	Silver Strike Lodge-Empire Pass Deer Valley, Utah	Talisker Deer Valley Corp.	\$9,798,000	36,590 SF	71,000 SF	\$138.00	This is the sale of a development parcel in Empire Pass at Deer Valley. This parcel has excellent ski access.
		Ironwood Partners (Jack Koson)	Oct-05	0.8400 Ac	34	\$288,176	
2	Residences at Little Nell Aspen, Colorado	Various	\$36,804,405	66,714	103,000	\$357.32	This parcel has the prime location at the base of Aspen Mountain next to gondola. Developer is constructing 26 fractional condo units and 8 hotel units, plus affordable units. Demolition costs included in purchase price. Assemblage took three years to acquire during a rising market. Sloping site. Total salable area will be 103,000 SF, and equivalent number of condo units is 29.
		Aspen Land Fund, LLC	May-05	1.5300 Ac	29	\$1,269,117	
3	Chateau at Vail Vail, Colorado	Doramair Hotels, et at	\$29,000,000	111,949	105,000	\$259.05	This site will contain a 116-room Four Seasons Hotel, 16 whole ownership condo, 19 fractional interest condos, 34 employee housing units, hotel support amenities such as a spa and meeting space. The estimated number of equivalent condo units is based on 3 hotel rooms per 1 condo unit. There is an estimated 103,000 SF of salable space. Sales price includes recorded sales price (\$20,200,000) plus payment to option holder and business buyout of service station, and demolition costs.
		Vail Development	Feb-05	2.5700 Ac	74	\$391,892	
4	Grand Lodge-Empire Pass Deer Valley, Utah	United Park City Mines Co.	\$8,600,000	58,370	66,000	\$130.30	This is the second development by Ironwood Partners in the Village at Empire Pass at Deer Valley Resort. This site was developed with a stacked flat project with excellent ski-in/ski-out access to the Northside Express Chairlift.
		Ironwood Partners (Jack Koson)	Oct-04	1.3400 Ac	27	\$318,519	
5	One Willow Bridge Road Vail, Colorado	Sonnenalp Properties, Inc.	\$14,000,000	45,738	52,500	\$266.67	This sale is the former Swiss House wing of the Sonnenalp Hotel. The planned One Willow Bridge Road project will have 22 condos (fractional and whole ownership) with 52,500 SF of salable space, including retail space. Sales price includes recorded price of \$13,675,000 plus estimated demolition costs.
		Vail Dover Associates, LLC	Mar-04	1.0500 Ac	22	\$636,364	
6	Lot B, Pod B-1-Empire Pass Deer Valley, Utah	Capital Growth Partners	\$7,200,000	740,084	90,000	\$80.00	This site is one of the first sales of a development parcel in the Village at Empire Pass to East West Partners.
		East West Partners	Jul-03	16.9900 Ac	18	\$400,000	
7	Dancing Bear/Chart House Aspen, Colorado	MSE Aspen Holdings, Ltd	\$12,410,000	23,036	40,419	\$538.72	This sale represents two parcels in downtown Aspen one block from the ski area and 3 blocks from the gondola. Plans are for 20 fractional condominiums and retail. Demolition costs and entitlements/plans are included with the sale price of \$11,040,000.
		LCH LLC a& Divener Aspen Holdings	12/04 to 8/05	0.5300 Ac	20	\$620,500	

	Price	Site SF	Price/SF
	Date	Site Acres	Price/Acre
Survey Low	\$7,200,000	23,036 SF	\$80.00
Survey High	\$36,804,405	740,084 SF	\$538.72
Average	\$16,830,344	154,840 SF	\$352.87
Survey Low	7/03	0.5300 Ac	\$288,176
Survey High	10/05	20,000 Ac	\$1,269,117
Average	10/04	5.6062 Ac	\$560,653
Subject Property		259,618	
		5.9600	

COST APPROACH

Methodology

The Cost Approach is based on the principle of substitution, which states that no prudent person will pay more for a property than the cost of acquiring a site and constructing, without undue delay, an equally desirable and useful property. The steps have been outlined in the Valuation Process section of this report.

Replacement Cost New (RCN)

Replacement Cost New is typically based on actual cost budgets in relation to industry standards such as Marshall Valuation Service, a nationally recognized publication containing construction costs for all types of improvements. Base costs in this national publication are revised monthly and adjustment factors are provided to reflect regional and local cost variations. The subject represents a unique property which in a remote resort area. National cost manuals are less reliable in this situation. Our analysis has relied most heavily on the construction cost estimates provided by the developer. This is appropriate given the developers experience with two other master planned communities in the nearby Truckee area as well as their experience in Colorado and Utah. The following table summarizes the construction costs projected for each Zone of the subject.

Construction Cost Summary			
	Zone 1	Zone 2	Zone 3
# Units	350	354	1,096
Total Sq. Ft.	566,381	619,500	2,229,758
Total Construction Costs	\$378,747,900	\$612,503,000	\$2,315,086,000
Per Unit	\$1,082,137	\$1,730,234	\$2,112,305
Per Sq. Ft.	\$669	\$989	\$1,038
Aggregate Sell-Out	\$733,345,453	\$904,294,401	\$4,041,413,745
Per Unit	\$2,095,273	\$2,554,504	\$3,687,421
Per Sq. Ft.	\$1,295	\$1,460	\$1,812
Cost % of Sales	51.65%	67.73%	57.28%

The above table has indicated the subject costs on the basis of per unit, per square foot and as a percentage of revenue derived from the developmental analysis. All of the costs appear reasonable in relation to the projected selling prices. A ratio of costs in the range of 60 to 70 percent is reasonable relative industry standards. This leaves room for profit and sell-off. The lower ratio for Zone 1 is due to completion of Phase 1 prior to the date of appraisal at less construction costs in relation to the higher revenues for the remaining projects to be built. We have reviewed information on development costs in other resort areas such as Park City, Utah and Aspen, Colorado. Overall the developers cost estimates are considered reasonable and appropriate for use in our analysis. The above costs are comprehensive and include extensive marketing and contingency costs.

The site development costs are addressed later in the Developmental Analysis section of this report. Given the new or proposed construction depreciation is not a factor in this analysis.

Due to the complexity of the subject development and the mix of commercial and residential space it is difficult to prepare a meaningful value conclusion of each property type or tax zone

COST APPROACH

by the cost approach. The cost figures applied in the developmental analysis are based primarily on the developer's projections which are generally derived from actual contracts.

ZONE 3 NON-RESIDENTIAL PROPERTY ANALYSIS

There is non-residential property in Zone 3 associated with the Ritz Carlton Hotel. The property does not carry a very high level of debt service burden related to the bonds to be issued in favor of the CFD. A complete appraisal of the proposed hotel is not necessary to address the minimum valuation required for this non-residential property as it relates to compliance with the 2005 Trust Indenture requiring an additional bonds test. The following table summarizes the non-residential area subject to special tax.

Ritz Hotel Building Area for CFD Special Tax	
	Total
Guestroom Area	91,327
Guestroom Cooridors	33,773
	125,100
Public Area	12,800
Lobby, Retail, Guest Services	
Spa & Fitness	21,500
Restuarants & Bars	8,300
Ballrooms / Meeting Rooms	11,400
Ski Shop & Valet	4,600
Circulation	27,280
Back of House	49,100
Offices, Kitchens, Employee Areas	
Function Support, Laundry / Housekeeping,	
Maintenance, Mechanical & Electrical	
Receiving / Purchasing / Loading Dock	10,300
Parking	79,400
	349,780

The projected annual special tax for this project based on the above square footage is approximately \$35,000 which would support approximately \$700,000 of bonds. This would require a value of approximately \$2,800,000 for the hotel. The purpose of this analysis is to determine that the value "as is" as well as upon completion is not less than \$3,000,000.

The Ritz Carlton hotel is a major name brand with the highest quality properties. Upon completion and achievement of stabilized operations this property will be of significant value, well above the required minimum value. Reference is made to the following summary of luxury hotel sales in the northern California market which are considered indicative for a new luxury

ZONE 3 NON-RESIDENTIAL PROPERTY ANALYSIS

resort hotel in proximity to Lake Tahoe and in driving distance to the San Francisco Bay area. The data suggests the Ritz Carlton could reflect a value of \$136,000 to \$400,000 a room. This would suggest a total value of \$23,120,000 to \$68,000,000. This provides the valuation framework for determining the potential site value as is. The property is currently a partially completed foundation and could be considered as land value as of the date of appraisal. The land value can be addressed by the land sales information presented previously in the Sales Comparison section of this report. For the purposes of comparison we have summarized these sales based on the price per square foot of building area as shown in the following table.

Mountain Resort Land Sales Summary		
Sale #	Sale Date	Price/Sq. Ft. of Building Area
1	Oct-05	\$138.00
2	May-05	\$357.32
3	Feb-05	\$259.05
4	Oct-04	\$130.30
5	Mar-04	\$266.67
6	Jul-03	\$80.00
7	Dec-04	\$538.72

The hotel building area (non-residential) that is taxable is 349,780 square feet. By applying the lowest price per square foot indication from the comparables of \$80.00 per square foot of building area to the subjects 349,780 square feet a conclusion of \$27,982,400 of land value is indicated for the subject. The lowest whole dollar price for a development site in the previous sales was \$7,200,000.

Conclusion

In our opinion the previous review of hotel sales and mountain resort lodging land sales is adequate to conclude that the Ritz Carlton hotel site is not worth less than \$3,000,000.

ZONE 3 NON-RESIDENTIAL PROPERTY ANALYSIS

SUMMARY OF IMPROVED SALES										
No.	Property Name	Grantor	Yr. Built	Sales Price	Date	No of Rooms	Price Per Room	RevPAR	Cap. Rate	RRM
	City, State	Grantee	Condition							
1	Pan Pacific Hotel	Ashford Hospitality Trust	1987	\$95,000,000	Pending	338	\$281,065	NA	6.5%	NA
	San Francisco, CA	W2001 Pac Realty, LLC	Good							
2	Campton Place Hotel	Kor Hotel Group	1909	\$44,000,000	Nov-05	110	\$400,000	\$189	1.6%	5.8
	San Francisco, CA	Southbourne, Inc	Good							
3	Ritz Carlton Half Moon Bay	Strategic Hotel Capital, Inc.	2001	\$124,400,000	Jul-04	261	\$476,628	\$200	4.7%	6.5
	Half Moon Bay, CA	Lend Lease	Good							
4	Clift Hotel	Divco West Properties	1915	\$71,000,000	Jun-04	360	\$197,222	\$131	4.0%	4.1
	San Francisco, CA	Clift Holdings LLC	Good							
5	Pan Pacific Hotel	Oxford Lodging Advisory & Investment Group, LLC	1987	\$45,000,000	Oct-03	329	\$136,778	\$124	5.9%	3.0
	San Francisco, CA	Tokyu Corporation and San Francisco 109, Inc.	Good							
6	Mandarin Oriental Hotel	San Francisco Hotel Group, LLC	1987	\$41,500,000	Jun-01	158	\$262,658	\$318	11.0%	2.3
	San Francisco, CA	L&L (USA), Inc.	Good							
Survey Minimum				\$41,500,000	Jun-01	110	\$136,778	\$123.87	1.6%	2.3
Survey Maximum				\$124,400,000	Nov-05	360	\$476,628	\$317.56	11.0%	6.5
Survey Average				\$70,150,000	Dec-03	259	\$282,392	\$192.24	5.6%	4.3

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DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

The developmental analysis or discounted cash flow conducted in this section assumes the Community Facilities District Special Tax Bonds improvements are in place, as well as developer funded improvements. This assumption is the basis for projecting finished unit sales. We have then applied the appropriate discounts and deductions for sell-out and development costs. In our opinion, this is how a typical purchaser would look at the subject property "as is" as of the date of value. The developmental analysis represents the valuation method, which most closely simulates the analysis conducted by a knowledgeable buyer of development acreage such as the subject. This analysis is also consistent with the Recommended Practices in the Appraisal of Real Estate for Land-Secured Financing published by the California Debt and Investment Advisory Commission (CDIAC). In particular this assumes that all infrastructure and improvements to be funded and built for the Northstar CFD No. 1 are completed. The assumptions on which the discounted cash flow analysis is based are discussed in this section of the report. We have prepared separate discounted cash flows for each of the three tax zones as well as a discounted cash flow for each of the phases within Zone 1. The value of the entire district is represented by the sum of the values for each zone as all necessary discounts and deductions are addressed in each separate analysis. The purpose of the three analyses is to segment the values by tax zone. The inputs for each of these analyses are discussed in this section of the report.

Revenues

The land residual analysis applied to each tax zone incorporates the revenues from the entire residential product in each zone. The individual retail values of each unit type for each zone have all been determined previously by the Sales Comparison Approach. These previously concluded market values for the subject units are briefly restated here for the purposes of a complete description of revenue and expenses in the developmental analysis. Revenue will be calculated based on the values summarized in the following table.

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Northstar Unit Pricing Conclusions						
Zone 1						
Village Phase 1						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2, 3, & 4BR	100	1,717	171,700	\$1,036	\$1,779,657	\$177,965,700
Village Phase 2						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2, 3, & 4BR	113	1,329	150,177	\$1,082	\$1,437,204	\$162,404,050
Village Walk Townhomes Pricing						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
Downhill 3 BR	28	2,651	74,228	\$1,000	\$2,651,000	\$74,228,000
Uphill 3 BR	6	2,259	13,554	\$1,000	\$2,259,000	\$13,554,000
Totals/Average	34	2,582	87,782	\$1,000	\$2,581,824	\$87,782,000
Village North Fractional Pricing Per Whole Unit						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2 BR	38	1,250	47,500	\$1,850	\$2,312,500	\$87,875,000
3 BR Small	47	1,650	77,550	\$1,850	\$3,052,500	\$143,467,500
3 BR Large	18	1,740	31,320	\$1,850	\$3,219,000	\$57,942,000
Totals/Average	103	1,518	156,370	\$1,850	\$2,808,587	\$289,284,500
Zone 2						
Zone 2 Units						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
1-2-3 BR	354	1,750	619,500	\$1,100	\$1,925,000	\$681,450,000
Zone 3						
Trailside Townhomes Pricing						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
Townhome	8	3,266	26,128	\$1,025	\$3,347,650	\$26,781,200
Townhome w/Media Rm	8	3,880	31,040	\$1,000	\$3,880,000	\$31,040,000
Totals/Average	16	3,573	57,168	\$1,011	\$3,613,825	\$57,821,200
Highlands Lodge						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2 BR	13	1,460	18,980	\$1,150	\$1,679,000	\$21,827,000
3 BR	35	1,902	66,570	\$1,150	\$2,187,300	\$76,555,500
4 BR	12	2,425	29,100	\$1,150	\$2,788,750	\$33,465,000
Totals/Average	60	1,911	114,650	\$1,150	\$2,197,458	\$131,847,500
Ritz Resort Residences						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2 BR	23	1,565	35,995	\$1,600	\$2,504,000	\$57,592,000
3 BR Small	31	2,107	65,317	\$1,600	\$3,371,200	\$104,507,200
3 BR Large	24	2,577	61,848	\$1,600	\$4,123,200	\$98,956,800
Penthouses	6	5,127	30,762	\$1,600	\$8,203,200	\$49,219,200
Totals/Average	84	2,309	193,922	\$1,600	\$3,693,752	\$310,275,200
Ritz Club Fractional Pricing Per Whole Unit						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
2 BR	26	1,812	47,115	\$2,550	\$4,620,880	\$120,142,876
3 BR Small	43	1,834	78,877	\$2,550	\$4,677,587	\$201,136,237
3 BR Large	9	2,446	22,012	\$2,550	\$6,236,787	\$56,131,087
Totals/Average	78	1,897	148,004	\$2,550	\$4,838,592	\$377,410,200
Zone 3 Future Units						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
1-2-3 BR	858	2,000	1,716,000	\$1,150	\$2,300,000	\$1,973,400,000
Northstar CFD Grand Totals - Retail Market Values						
Unit Type	# Units	Avg. Unit Sq. Ft.	Total Sq. Ft.	Price/Sq. Ft.	Avg. Unit Price	Total Revenue
Grand Totals	1,800	1,897	3,415,273	\$1,244	\$2,360,911	\$4,249,640,350

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

The above table summarizes the average price per unit to be applied in each of the respective discounted cash flow analyses. It is appropriate to apply an average as it is not feasible to project a unit by unit type of sales revenue. The valuation of Phase 1 was presented previously and was completed using mass appraisal techniques and the application of averages for the 100 individually owned units. The analysis of Phase 2 in Zone 1 has been applied using the actual contract prices for those units. It is noted that 15% of the purchase price has been collected and retained by the developer as non-refundable earnest money on the 84 units under contract in Phase 2. We have considered the possibility of a small percentage of the 84 contracts, not closing or "falling out". This is unlikely given the limited fall out in Phase 1. We have surveyed marketing specialist in ski resort areas who have indicated that the buyers of ski properties tend to be more users than speculators. We did review the subject contracts for duplicate buyers in Phase 1 and found these to be less than ten percent of the units.

The average applied in Phase 2 of Zone 1 also incorporates the reservations on units made in that phase. Phase 3 of Zone 1 and Zones 2 and 3 are future phases without any current sales or reservations.

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Absorption

The absorption of the various types of residential product being offered at the subject property has been projected primarily from comparables with similar resort characteristics. Given the regional type of draw for skiing and golf course amenitized projects, we have also reviewed unit sales in ski or resort areas of the western United States. We have utilized primarily mountain oriented resort areas. The following table summarizes the absorption indicated by the Truckee area developments, which we have presented in detail previously in the Sales Comparison Approach section of this report, as well as regional data we have researched in other golf course master planned projects in the mountain resort areas around Park City, Utah, Jackson Hole, Wyoming, and Sun Valley, Idaho.

Condominium Absorption Summary				
Identification	Start Date	Total Units	Units Sold	Monthly Absorption
Lake Tahoe Area				
Squaw Valley First Ascent	10/01	139	139	139
Squaw Valley, 22 Station	6/02	151	151	8.4
Mammoth Mountain, Sierra Lodge	2001-2004	110	110	37
Northstar at Tahoe Village, Truckee, CA	4/04 Phase 1	100	99	99/7.1
Northstar at Tahoe Village, Truckee, CA	Phase 2	92	57	31
Average – Truckee Area				62.9
Regional Data				
Grand Lodge, Deer Valley, Park City, UT	2/05	27	22	4.4
Elkhorn Springs, Sun Valley, ID	12/04	55	55	9.2
Shooting Star, Deer Valley, Park City, UT	2/05	21	21	5.5
Escala, The Canyons, Park City, UT	11/04	63	52	6.5
Ritz Carlton Residences Bachelor Gulch, CO	11/02	23	23	23
Four Seasons Residences Whistler, BC	5/03	36	36	36
Westin Riverfront Beaver Creek, CO	9/06	210	47	24
Average – Regional Data				15.5

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

The above table indicates a wide range of absorption from 4.4 to 9.2 with generally consistent absorption of approximately five to eight units per month which has taken place over the life of a project. It is significant to note that the concept of a sales launch has been very effective for these types of properties and these launches tend to skew absorption averages. The absorption projections for the subject will reflect an average although there is a high likelihood there will be more successful sales events similar to those already conducted in the Village in Phases 1 and 2 of Zone 1. There are various factors that affect absorption including competition, amenities, transportation linkages, product quality and others.

We have also reviewed absorption from a newly created ski and golf development called Tamarack in McCall, Idaho. Tamarack's first release was in January 2004 and consisted of 104 properties, including 63 estate lots, 11 cottages, 20 chalets and 10 chalet lots. This first release sold out in a 3-day weekend and totaled \$46 million in sales. The first release was of ski-in/ski-out properties. Estate lots ranged in price from \$319,000 to \$600,000 for ½ to 1.3 acre sites. The average lot price was about \$400,000 with an average size of 8/10 acre. The eleven cottages had an average price of \$429,000 with an average size of 1,200 square feet. The 20 chalets sold at prices from \$630,000 to \$810,000, with sizes from 1,800 to 2,400 square feet, or about \$350 per square foot and up. Chalet lots are 1/6 to 1/8 acre in size and started at \$231,000.

The second release of properties, including 36 lots and 18 chalets, was in June 2004 and sold out in a single day. This release raised \$33.4 million. These are golf-oriented properties, with most on the golf course. The golf estate lots average about \$450,000 for an average 0.8-acre home sites (+/- \$13.00 per square foot), with a range of \$380,000 to \$680,000. The golf chalets will be similar in size to the ski-in/ski-out chalets (1,800 – 2,400 square feet), with a similar price range of \$350 per square foot with view premiums. The golf view lots average about \$260,000 in price, or about \$7.50 per square foot.

The third release, a 'whitewater' release, followed the ski and golf releases, and sold out in one day in January 2005. The release totaled 134 properties, 31 more than planned due to heavy demand. This release totaled more than \$91 million in sales, including Lodge & Spa condominiums, chalets, chalet lots, estate homesites, and townhomes.

In May 2005, Tamarack hosted its fourth release (Whitewater 2.2), in which 44 properties were sold, netting \$25.7 million. The release included some ski-in/ski-out property with the breakdown including nine estate homesites (\$599,000 to \$849,000), 12 custom chalet homesites (\$299,000 to \$379,000), a resort-built chalet at \$1.2 million, eight resort-built cottages (\$699,000), and 14 resort-built townhomes from \$479,000 to \$799,000.

A release was The Village Plaza 3.1 in the fall of 2005, and included 129 condominiums in Tamarack's Village Plaza, a mixed-use six-building complex that will be the centerpiece of Tamarack's Village to include boutique shops, restaurants, and services. Completion is slated for early 2008. Pricing ranged from \$350,000 to \$2,780,000, with an average of slightly over \$1.0 million, or slightly over \$800 per square foot.

Tamarack's developer has two sites comprising about 10 acres and 247 developable units under contract to a third-party development entity comprising Bayview Financial and Andre Agassi's group. One site, located in the Village, is known as the Belvedere Ridge parcel and is planned to be developed with a five-star Fairmont condo hotel. The other parcel is a ski-in/ski-out site along the slopes that will also include a Fairmont Hotel.

The latest release was in April 2006, known as Whitewater 2.3, consists of 47 lots and homes, including nine ski-in/ski-out estate lots, 11 villa lots, four chalet lots, 11 cottages, and 12 townhomes. The estate lot prices have been increased significantly from earlier releases, and range from \$749,000 to \$1,099,000, with an average of \$862,000. The 1/3-acre ski-access villa

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

lots, which allow a larger home than chalet lots, range from \$450,000 to \$675,000, with a mean of \$582,000.

The best indications of absorption are from the sales within the subject development. The rate of sales in the other high end ski condominium projects are also relevant. Reference is made to the previous comparables as well as the market analysis. There are numerous examples of strong demand for ski product such as the proposed Westin Monache, the first luxury hotel property at Mammoth. This hotel is being developed as a "condotel" and sold out all 141 phase I condominium suites in less than four hours. The second phase of 89 suites was released in May 2005 with similar results. The St. Regis announced in the Deer Valley area of Park City had 50 reservations for the first 32 units released in April 2005. The had similar response for the second release of 34 units in November 2005.

The subject has experienced two effective sales launch events with 80 units sold in one day in April 2004 for Phase 1 in the Village and 57 units sold in one day in March of 2005 in Phase 2. There have been continued sales since that time with one unit remaining in Phase 1 and 35 remaining in Phase 2. These units are projected to be sold over the next 12 months which includes both a winter and summer selling season.

Reference is also made to the discussion of second-home ownership in the previously presented Market Analysis section of this report. Second-home sales had increased substantially in 2003, according to the profile of second-home owners prepared by the National Association of Realtors. The subject's location in California ranks it first in terms of the states for primary residences of second-home owners and ranks third in terms of the most popular states for out-of-state second-home buyers. The advantage of proximity to San Francisco has already been discussed. Overall, second-home ownership trends also support the previously concluded rate of absorption. It is significant to note that this strong demand trend is national in scope and not just focused in the Lake Tahoe area. The large scope of this trend further supports the estimates of absorption discussed herein.

The subject will also benefit from the lack of significant competition for recreational property which has direct ski access. There is very little of this type of product available in the Lake Tahoe area as well as the mountain west. The most significant competition was discussed previously in the market analysis. The subject is marketable on a national basis with proximity to the Reno Airport as well as to the large population base in the San Francisco Bay Area within driving distance. The strong demographic trends supporting the second home market are anticipated to continue. Overall it is our opinion the subject is well positioned for positive absorption trends throughout the duration of the project.

One of the primary concerns in an exceptionally strong market is the sustainability of the demand and the price increases. Recognition of the cyclical nature of real estate is one of the reasons we apply averages in the discounted cash flow. We believe the demand for second homes and ski property is driven by demographics and that it will continue based on the projections for demand discussed in the market analysis. The baby boom generation is now approaching the years where retirement money such as IRA's will become accessible and will also coming into record amounts of inheritance. It is this type of wealth that should sustain the second home demand in spite of rising interest rates or slowing of the economy.

Product diversity is a significant factor in absorption. Phase 1 of the subject had some differing product in that the Great Bear building was upgraded in quality from the Iron Horse building. The real diversity of product will be over time as townhome units on the Northside of The Village are built. Zones 2 and 3 are proposed to have stacked flat condominiums, townhomes, fractional condominiums and hotel condominiums. This diversity of product should enhance the sell out of the property.

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

We have reviewed the recent absorption trends at the subject, the developer's projections, and competitive recreational projects in other market areas to estimate the subject's absorption. In addition we have considered the underlying demographic and financial trends which impact the subject. The lack of competition for such prime ski access property as the subject is a very positive factor. Overall we consider it reasonable to project a sell-out of the subject units at an average of 8.8 units per month, or approximately 105 units per year over an 18 year period. This fits well within the range indicated by the comparables. As discussed the recent absorption trends at the subject are much higher due to the sales events. While the sustainability of such demand is always questionable the subject should continue to be successful. Our projection of absorption is considered reasonable in relation to the recent trends at the subject and the long term nature of the project. These projections are intended as averages, as it is likely there will be fluctuations related to construction and product availability as well economic considerations. The following table summarizes our projections for the subject's absorption.

Northstar Absorption Projections																				
Fiscal Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total	
Zone 1																				
Phase 1	71	29																		100
Phase 2		21	92																	113
Village Walk				34																34
Village North				15	15	15	15	15	15	13										103
Total Zone 1	71	50	92	49	15	15	15	15	15	13										350
Zone 2						45	50	50	50	50	50	50	54	5						354
Zone 3																				
Trailside			6	10																16
Lodge				34	26															60
Ritz Res.				15	34															84
Ritz Club				15	13	13	13	13	11											78
Future				10	30	40	40	40	50	50	50	100	100	100	100	100	100	100	48	858
Total Zone 3	6	44	101	77	53	53	53	61	50	50	100	100	100	100	100	100	100	100	48	1,096
Grand Total	71	50	98	93	116	137	118	118	118	124	100	104	105	100	100	100	100	100	48	1,800
Monthly Avg.	5.9	4.2	8.2	7.8	9.7	11.4	9.8	9.8	9.8	10.3	8.3	8.7	8.8	8.3	8.3	8.3	8.3	8.3	4.0	8.8

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Expenses

There are numerous expenses and costs associated with marketing, holding and development of the proposed Northstar Village property. These are discussed in this section of the report.

Sales Commissions/Marketing Costs

The cost of sales for the subject is related to sales commission and marketing costs. The developer has projected sales commissions at a blended rate of approximately 3.5 percent. The in-house marketing commission is 2 percent and the outside broker fee to be paid is also 2 percent. The blended rate assumes 30 percent of the sales are made in-house. For the purposes of our analysis we have projected a 7 percent commission and marketing expense. Additional marketing costs include print, staff and administrative costs. There are also marketing fees paid to a sales manager.

Our analysis of the phases in Zone 1 are based on the actual commissions and expenditures already made and remaining for these phases which have sold units. The developer has pre-paid commissions on a portion of the Phase 2 units and we have applied 3 percent for that analysis. Given the marketing effort already expended for Zone 1 and the sales office in place in the Village we have used 5.0 percent for the townhomes in Phase 3 of The Village. The fractional units proposed in Phase 3 will require substantially more marketing effort and we have projected commissions and marketing costs to be 25 percent for the Village North Fractional condominiums.

The future units in Tax Zones 2 and 3 are more speculative and will require a full marketing effort which we have projected at a cost of 7 percent of sales revenue. It is noted that there is significant marketing associated with the Tahoe Mountain Club and previous East West Partners developments in the Truckee area which provide additional and residual marketing benefits to The Village at Northstar.

Closing Costs

We have estimated closing costs at 0.25 percent of the sale price. This is consistent with the developers estimate and is adequate on a whole dollar basis generally ranging from \$4,000 to \$9,200 per unit.

Homeowner's Association Fees

Homeowner's association fees are part and parcel of virtually every type of master planned development such as the subject. The subject units will have homeowner's dues estimated at approximately \$1,000 per month. These homeowner's association fees are for the following costs:

- Administrative costs, such as accounting, management, office supplies, and salaries and wages associated with management personnel.
- Operating expenses, including transportation, pest control and telephone.
- Maintenance expenses, including landscaping, snow removal and repairs and maintenance, including labor.
- Common area utilities expense.
- Fixed expenses, including insurance, master associations in the case of the subject as well as common area taxes.
- Master association dues for the Northstar-at-Tahoe master planned community include snow removal and the shuttle transportation system.
- The subject HOA dues will also include the utilities for each unit including heating/cooling, water, sewer, and gas.

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

It is our understanding that the developer is finalizing a detailed budget of homeowner's association dues for The Village as of the date of appraisal. The developer's preliminary estimates noted above are reasonable particularly as they include utilities to the individual units and are consistent with the preliminary homeowner's dues budget .submitted to the Department of Real Estate by the developer. Due to the timing of sales and the limited amount of standing inventory projected in our analysis the homeowners dues does not represent a significant expense.

Homeowners Association Dues Projections

Unit Type	Projected Monthly Range of Dues
Studio	\$700 to \$850
One Bedroom	\$750 to \$900
Two Bedroom	\$800 to \$950
Three Bedroom	\$900 to \$1,100
Concluded Average for Analysis	\$1,000/month, \$12,000/year

As noted in the table, we will be applying \$12,000 annual HOA dues in our analysis.

Real Estate Taxes

Real estate taxes represent a significant holding cost for a project that has an extended sellout period such as the subject. The current real estate taxes applicable to the subject were discussed previously in the Assessed Valuation and Taxes section of this report. For the purposes of our analysis, we have utilized the current tax rate of \$.010587 as applied to the average unit price for each zone. The tax rate will be applied only to the completed unsold inventory for each year. In our opinion, this is a conservative methodology, as oftentimes the 12 to 18 month lag time with the assessor's office allows for product to be sold prior to actually being assessed to the developer. However, we consider it the best methodology to apply the current tax rate, as mentioned previously.

The developer will also be responsible for the taxes on undeveloped land. The valuation premise applied herein is that all infrastructure is in place to allow for immediate vertical construction. This has resulted in high values on the basis of value per acre. The price per acre for the zones varies. We have applied the current tax rate noted above to an range of values per acre between \$500,000 and \$700,000. This results in estimated taxes in the middle of the range of approximately \$5,000 per acre which is applied in our analysis. This is considered a conservative approach to the valuation of the subject. There is no actual basis from the current assessed values or any past conveyances of the property into the current partnership. The assessor's values are often below market values and overall it is difficult to project what values the assessor would utilize. This estimate is considered reasonable for use in our analysis as it adequately recognizes a potential holding cost in the discounted cash flow. A definitive estimate of future taxes based on fact is not available. The taxes have been allocated to each Tax Zone based on the units per acre. As the units are sold off the developer's tax obligation diminishes.

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Mello-Roos Tax

The Mello-Roos tax applicable to the subject property was discussed previously. The following table summarizes the applicable Mello-Roos tax for each product type. Although there are a variety of taxes applicable to the various unit sizes, our analysis has utilized the average special tax per unit in each tax zone as calculated in the following table. The Mello-Roos tax represents a holding cost to the developer on the unsold inventory and similar to real property taxes, the Mello-Roos tax becomes the obligation of the unit buyer at purchase.

Mello-Roos Tax Summary by Zone and Unit Mix For Fiscal Year 2006-07													
		Zone 1			Zone 2			Zone 3			Total		
From	To	Units	Max Tax	Revenue	Units	Max Tax	Revenue	Units	Max Tax	Revenue	Units	Revenue	
-	1,000	37	\$2,907	\$107,559	42	\$3,519	\$147,798	51	\$4,131	\$210,681	130	\$466,038	
1,001	1,400	111	\$3,035	\$336,830	52	\$3,647	\$189,618	128	\$4,259	\$545,088	291	\$1,071,536	
1,401	1,800	114	\$3,162	\$360,468	90	\$3,774	\$339,660	216	\$4,386	\$947,376	420	\$1,647,504	
1,801	2,200	31	\$3,290	\$101,975	89	\$3,902	\$347,234	287	\$4,514	\$1,295,375	407	\$1,744,583	
2,201	2,600	18	\$3,417	\$61,506	53	\$4,029	\$213,537	202	\$4,641	\$937,482	273	\$1,212,525	
2,601	3,000	36	\$3,545	\$127,602	28	\$4,157	\$116,382	146	\$4,769	\$696,201	210	\$940,185	
3,001	-	3	\$3,672	\$11,016	-	\$4,284	\$0	66	\$4,896	\$323,136	69	\$334,152	
		350		\$1,106,955	354		\$1,354,229	1,096		\$4,955,339	1,800	\$7,416,522	
From	To	Units	Average Unit Size	Total Sq. Ft.	Units	Average Unit Size	Total Sq. Ft.	Units	Unit Size	Total Sq. Ft.	Units	Total Sq. Ft.	
-	1,000	37	700	25,900	42	700	29,400	51	700	35,700	130	91,000	
1,001	1,400	111	1,200	133,200	52	1,200	62,400	128	1,200	153,600	291	349,200	
1,401	1,800	114	1,600	182,400	90	1,600	144,000	216	1,600	345,600	420	672,000	
1,801	2,200	31	2,000	62,000	89	2,000	178,000	287	2,000	574,000	407	814,000	
2,201	2,600	18	2,400	43,200	53	2,400	127,200	202	2,400	484,800	273	655,200	
2,601	3,000	36	2,800	100,800	28	2,800	78,400	146	2,800	408,800	210	588,000	
3,001	-	3	3,500	10,500	-	3,500	-	66	3,500	231,000	69	241,500	
		350	1,594	558,000	354	1,750	619,400	1,096	2,038	2,233,500	1,800	3,410,900	

The maximum special taxes outlined in the above table represent the amounts to be paid by each unit type in each zone. It is noted that the district will be allowed to apply the maximum special tax to allow for income beyond debt coverage. For the purposes of our analysis we have analyzed the debt service for the CFD based on the first bond issue of \$56,125,000 and the proposed second bond issue of \$59,405,000 with a net construction funding of \$48,000,000. The rapid absorption to be experienced in Zone 1 of the CFD and the application of the maximum special tax results in reduced exposure to the developer. Our analysis also recognizes the capitalized interest intended to cover the first two years of interest only debt service.

The cumulative tax payments shown previously in the Overview of Community Facilities District No. 1 are based on the receipt of the maximum special tax for each owner. This results in revenues beyond debt service. According to the terms of the bonds to be issued the developer will be entitled to these additional revenues as an offset to the infrastructure investment made by the developer. The table from the Overview section has calculated the net present value of the special tax reimbursements applicable to each zone.

Development Costs

The subject property represents a large master planned development with a substantial infrastructure and construction budget. As has been mentioned throughout this report, Northstar-at-Tahoe is being developed by a partnership of East West Partners and Booth Creek Ski Holdings. In addition to the ongoing construction in Northstar since 2004 East West Partners recently completed the Old Greenwood development project to the north and is currently developing the Gray's Crossing project also in Truckee. The developer has extensive

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experience in the subject's immediate area with land development as well as condominium projects nationwide and in other mountain resort communities. Thus, we consider it reasonable to place greatest weight on the developer's budget in projecting these construction and infrastructure costs. The developer has reportedly contemplated inflation for these costs over the projection period for the project.

Cost approach figures utilizing standard cost manuals are less applicable and accurate with regards to specialized master planned developments in resort areas. The following tables summarize the construction cost budgets to be applied in the discounted cash flow, as derived from the budgets provided by the subject developer. The next two tables summarize only the construction costs for the building projects and do not include the master development costs or the infrastructure improvements to be funded by the CFD.

Northstar Development Budget Summary											
Status	Completed		Under Construction			Proposed		Zone 1 - Remaining Costs			
	Zone 1 - Phase 1		Zone 1 - Phase 2			Zone 1 - Northside		250 Units			
	100 Units		113 Units			137 Units		Remaining			
	Costs Expended										
	Total	Per Unit	Total	Remaining	Per Unit	Total	Per Unit	Total	Cost to Date	Remaining Costs	Per Unit
Soft Costs	\$6,258,000	\$62,580	\$4,194,000	\$724,829	\$37,115	\$9,651,860	\$70,452	\$20,103,860	\$9,727,171	\$10,376,689	\$41,507
Building Construction Costs	\$110,402,200	\$1,104,022	\$99,000,000	\$17,109,688	\$876,106	\$121,776,600	\$888,880	\$331,178,800	\$192,292,512	\$138,886,288	\$555,545
Permits, Fees, COA, Taxes	\$4,617,300	\$46,173	\$4,208,000	\$727,248	\$37,239	\$21,131,600	\$154,245	\$29,956,900	\$8,098,052	\$21,858,848	\$87,435
Legal/Financial	\$641,900	\$6,419	\$1,377,000	\$237,980	\$12,186	\$8,714,500	\$63,609	\$10,733,400	\$1,780,920	\$8,952,480	\$35,810
Project Management	\$4,221,000	\$42,210	\$4,906,000	\$847,880	\$43,416	\$13,293,000	\$97,029	\$22,420,000	\$8,279,120	\$14,140,880	\$56,564
Insurance	\$4,248,000	\$42,480	\$4,356,000	\$752,826	\$38,549	\$0	\$0	\$8,604,000	\$7,851,174	\$752,826	\$3,011
Marketing	\$2,368,500	\$23,685	\$3,241,000	\$560,126	\$28,681	\$47,642,000	\$347,752	\$53,251,500	\$5,049,374	\$48,202,126	\$192,809
Contingency	\$1,000,000	\$10,000	\$3,289,000	\$568,422	\$29,106	\$8,372,000	\$61,109	\$12,661,000	\$3,720,578	\$8,940,422	\$35,762
Total	\$133,756,900	\$1,337,569	\$124,571,000	\$21,529,000	\$1,102,398	\$230,581,560	\$1,683,077	\$427,077,900	\$236,798,900	\$190,279,000	\$761,116
Less Commercial Space	\$31,330,000	\$313,300	\$17,000,000	\$0	\$150,442	\$0	\$0	\$48,330,000	\$0	\$0	\$0
Total Residential Cost	\$102,426,900	\$1,024,269	\$107,571,000	\$21,529,000	\$951,956	\$230,581,560	\$1,683,077	\$378,747,900	\$236,798,900	\$190,279,000	\$761,116

Northstar Development Budget Summary				
	Zone 1 - Phase 3			
	34 Units		103 Units	
	Village Walk Townhomes		Fractional Condominiums	
	Total	Per Unit	Total	Per Unit
Soft Costs	\$2,546,860	\$7,195	\$7,105,000	\$8,281
Building Construction Costs	\$36,318,800	\$102,595	\$85,457,800	\$99,601
Permits, Fees, COA, Taxes	\$3,445,600	\$9,733	\$17,686,000	\$20,613
Legal/Financial	\$1,585,500	\$4,479	\$7,129,000	\$8,309
Project Management	\$2,724,000	\$7,695	\$10,569,000	\$12,318
Insurance	\$0	\$0	\$0	\$0
Marketing	\$5,365,000	\$15,155	\$42,277,000	\$49,274
Contingency	\$2,287,000	\$6,460	\$6,085,000	\$7,092
Warranty Reserves	\$0	\$0	\$0	\$0
Total	\$54,272,760	\$153,313	\$176,308,800	\$205,488
Less Commercial Space	\$0	\$0	\$0	\$0
Total Residential Cost	\$0	\$0	\$0	\$0

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Northstar Development Budget Summary				
	Zone 2 - Highlands		Zone 3 - Highlands	
	354 Units Future Units		858 Units Future Units	
	Total	Per Unit	Total	Per Unit
Soft Costs	\$72,059,000	\$203,556	\$234,082,000	\$272,823
Building Construction Costs	\$450,369,000	\$1,272,229	\$1,463,015,000	\$1,705,146
Permits, Fees, COA, Taxes	\$0	\$0	\$0	\$0
Legal/Financial	\$18,015,000	\$50,890	\$58,520,000	\$68,205
Project Management	\$0	\$0	\$0	\$0
Insurance	\$0	\$0	\$0	\$0
Marketing	\$72,060,000	\$203,559	\$234,082,000	\$272,823
Contingency	\$0	\$0	\$0	\$0
Warranty Reserves	\$0	\$0	\$0	\$0
Total	\$612,503,000	\$1,730,234	\$1,989,699,000	\$2,318,997
Less Commercial Space	\$0	\$0	\$0	\$0
Total Residential Cost	\$0	\$0	\$0	\$0

Northstar Development Budget Summary - Zone 3													
Status	Proposed		Under Construction			Proposed		Proposed		Zone 3 - Highlands		Total	
	Highlands Lodge 60 Units		Trailside Townhomes 16 Units			Ritz Residences 84 Units		Ritz Club 78 Units		858 Units		238 Units	
	Total	Per Unit	Total	Remaining	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit
Soft Costs	\$10,957,000	\$182,617	\$1,593,000	\$405,000	\$99,563	\$25,972,000	\$309,190	\$8,305,000	\$98,869	\$234,082,000	\$272,823	\$280,909,000	\$1,180,290
Building Construction Costs	\$68,484,000	\$1,141,400	\$25,055,000	\$17,163,000	\$1,565,938	\$162,328,000	\$1,932,476	\$121,654,500	\$1,448,268	\$1,463,015,000	\$1,705,146	\$1,840,536,500	\$7,733,347
Permits, Fees, COA, Taxes	\$0	\$0	\$2,240,000	\$1,267,000	\$140,000	\$0	\$0	\$19,847,000	\$236,274	\$0	\$0	\$22,087,000	\$92,803
Legal/Financial	\$0	\$0	\$2,185,000	\$1,263,000	\$136,563	\$0	\$0	\$16,573,000	\$197,298	\$58,520,000	\$68,205	\$77,278,000	\$324,697
Project Management	\$4,108,000	\$68,467	\$1,785,000	\$714,000	\$111,563	\$9,742,000	\$115,976	\$14,524,000	\$172,905	\$0	\$0	\$30,159,000	\$126,718
Insurance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Marketing	\$10,956,000	\$182,600	\$3,469,000	\$2,024,000	\$216,813	\$25,972,000	\$309,190	\$58,598,000	\$697,595	\$234,082,000	\$272,823	\$333,077,000	\$1,399,483
Contingency	\$685,000	\$11,417	\$1,878,000	\$1,184,000	\$117,375	\$1,623,000	\$19,321	\$12,408,000	\$147,714	\$0	\$0	\$16,594,000	\$69,723
Total	\$95,190,000	\$1,586,500	\$38,205,000	\$24,020,000	\$2,387,813	\$225,637,000	\$2,686,155	\$251,909,500	\$2,998,923	\$1,989,699,000	\$2,318,997	\$2,600,640,500	\$10,927,061
Less Commercial Space	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Residential Cost	\$95,190,000	\$1,586,500	\$38,205,000	\$24,020,000	\$2,387,813	\$225,637,000	\$2,686,155	\$251,909,500	\$2,998,923	\$0	\$0	\$610,941,500	\$2,566,981

The above tables summarize the construction costs related to the vertical construction of the proposed units. There are substantial public improvements and infrastructure which also must be built. The subject developer has estimated the total development costs to complete all infrastructure and public improvements at \$84,978,000 including inflation, over the next eleven years. This amount includes the road to The Highlands area and the other public improvements outlined previously in the summary of the CFD section. The following table summarizes the developers estimated infrastructure costs as it is allocated among the various tax zones for the purposes of our analysis.

Master Developers Costs - 2006													Totals	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
Developer's Cost Projection	\$21,938,000	\$14,956,000	\$15,179,000	\$11,006,000	\$6,266,000	\$5,633,000	\$500,000	\$500,000	\$4,000,000	\$500,000	\$500,000	\$4,000,000	\$84,978,000	
# Units													\$0	
Zone 1 - Phase 1	100	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Zone 1 - Phase 2	113	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Zone 1 - Phase 3	137	\$1,878,441	\$1,291,098	\$979,290	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$4,148,829	
Zone 2	354	\$4,853,783	\$3,336,121	\$3,466,688	\$2,511,228	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$14,167,819	
Zone 3	1,096	\$15,027,530	\$10,328,781	\$10,733,022	\$8,494,772	\$6,266,000	\$5,633,000	\$500,000	\$500,000	\$4,000,000	\$500,000	\$4,000,000	\$66,483,105	
Totals	1,800	\$21,938,000	\$14,956,000	\$15,179,000	\$11,006,000	\$6,266,000	\$5,633,000	\$500,000	\$500,000	\$4,000,000	\$500,000	\$4,000,000	\$84,978,000	
Zone 3 Allocation	Units	\$13,711	\$9,424	\$9,793	\$7,751	\$5,717	\$5,140	\$456	\$456	\$3,650	\$456	\$456	\$3,650	
Trailside	16	\$219,380	\$150,785	\$156,686	\$124,011	\$91,474	\$82,234	\$7,299	\$7,299	\$58,394	\$7,299	\$7,299	\$58,394	\$970,556
Highlands Lodge	60	\$822,675	\$565,444	\$587,574	\$465,042	\$343,029	\$308,376	\$27,372	\$27,372	\$218,978	\$27,372	\$27,372	\$218,978	\$3,639,586
Ritz Residential	84	\$1,151,745	\$791,622	\$822,604	\$651,059	\$480,241	\$431,726	\$38,321	\$38,321	\$306,569	\$38,321	\$38,321	\$306,569	\$5,095,420
Ritz Fractional	78	\$1,069,478	\$735,078	\$763,846	\$604,555	\$445,938	\$400,889	\$35,584	\$35,584	\$284,672	\$35,584	\$35,584	\$284,672	\$4,731,462
Future	858	\$11,764,253	\$8,085,853	\$8,402,311	\$6,650,104	\$4,905,318	\$4,409,776	\$391,423	\$391,423	\$3,131,387	\$391,423	\$391,423	\$3,131,387	\$52,046,080
Totals	1,096	\$15,027,530	\$10,328,781	\$10,733,022	\$8,494,772	\$6,266,000	\$5,633,000	\$500,000	\$500,000	\$4,000,000	\$500,000	\$4,000,000	\$66,483,105	

The master developer costs noted above include the \$63,978,000 estimated as the cost for the district improvements as well as common amenities such as the ice rink as well as the road to the Highlands portion of the development. In order to determine the adequacy of these costs we

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have reviewed infrastructure costs at other master planned development projects. These are summarized as follows.

Residential Subdivision Costs - On Mountain

Project/ Location	Acres	No. Of Units	Utility and Roadway Infrastructure Costs	Cost/ Unit	Cost/ Acre
Valaqua Gypsum, CO	1,000	500	\$33,361,755	\$66,724	\$33,362
Spanish Peaks	3,675	900	\$45,368,681	\$50,410	\$12,345
Big Sky, MO					
Empire Pass Park City, UT	184	490	\$22,772,999	\$46,476	\$123,766
Proposed Ski Development, Colorado	5,300	1,700	\$85,000,000	\$50,000	\$16,038
Northstar	460	1,800	\$105,000,000	\$58,000	\$228,261

The developer's infrastructure and construction costs are considered reasonable in relation to the proposed product and pricing and appropriate for use in our analysis. These costs are allocated within the discounted cash flow to reflect the most probable timing of expenditure in relation to anticipated completion of the various units and their respective tax zones.

In addition to the Master Developer Costs summarized above the developer will have carry costs associated with the special tax on the undeveloped property. The Zone 1 special tax cost to the developer is projected to be \$3,878,000 and Zone 2 is \$4,746,000. The Zone 3 special tax carry projected of the developer is \$17,357,600 which is allocated among the various projects as summarized in the following table.

Master Developers Costs - 2006														
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Totals	
Zone 3 Allocation	Units	\$0	\$0	\$302	\$1,692	\$2,616	\$2,322	\$2,046	\$1,795	\$1,558	\$1,295	\$1,013	\$1,089	
Trailside	16	\$0	\$0	\$4,839	\$27,073	\$41,854	\$37,153	\$32,733	\$28,723	\$24,928	\$20,718	\$16,212	\$17,431	\$251,664
Highlands Lodge	60	\$0	\$0	\$18,148	\$101,524	\$156,953	\$139,325	\$122,748	\$107,710	\$93,482	\$77,693	\$60,794	\$65,365	\$943,741
Ritz Residential	84	\$0	\$0	\$26,407	\$142,133	\$219,736	\$195,055	\$171,847	\$150,794	\$130,874	\$108,771	\$85,111	\$91,511	\$1,321,237
Ritz Fractional	78	\$0	\$0	\$23,592	\$131,981	\$204,038	\$181,122	\$159,573	\$140,023	\$121,526	\$101,001	\$79,032	\$84,974	\$1,226,863
Future	858	\$0	\$0	\$269,514	\$1,451,789	\$2,244,422	\$1,992,345	\$1,755,299	\$1,540,251	\$1,336,789	\$1,111,016	\$869,351	\$934,719	\$13,495,495
Totals	1,096	\$0	\$0	\$331,500	\$1,854,500	\$2,867,000	\$2,545,000	\$2,242,200	\$1,967,500	\$1,707,600	\$1,419,200	\$1,110,500	\$1,194,000	\$17,239,000

Mello-Roos Funds Reimbursement

The development costs noted above will be partially funded by the proceeds from the Mello-Roos bonds. The premise of this appraisal per CDIAAC guidelines is "that appraisals for properties take into consideration the infrastructure improvements that will be funded by the proposed bond issue." Therefore our analysis has assumed that these public improvements are in place and the developer will be reimbursed accordingly. It is anticipated that the bonds to construct the public improvements will be issued over time. The first bond issue in 2005 resulted in construction reimbursement of approximately \$44,362,000 which has been spent. The second issue being contemplated in 2006 is for \$59,405,000 with a construction reimbursement

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of approximately \$48,000,000. Our analysis will recognize only the reimbursements attributable to the second bond issue with net construction funds of \$48,000,000. However this necessitates further deductions for the infrastructure costs to be paid by the developer. We have analyzed the Mello-Roos costs and reimbursements in the following table. The ratios applied for allocation of the costs were discussed and calculated in a previous section of this report, Overview of Community Facilities District No. 1.

Development Costs & Mello-Roos Reimbursement Allocation - 2006				
Cost Item	Allocation %	Zone 1	Zone 2	Zone 3
		15%	18%	67%
Total				
Fire	\$7,034,000	\$1,055,100	\$1,266,120	\$4,712,780
Road	\$541,000	\$81,150	\$97,380	\$362,470
Trail	\$800,000	\$120,000	\$144,000	\$536,000
Utility	\$3,554,000	\$533,100	\$639,720	\$2,381,180
Water/Sewer	\$26,819,000	\$4,022,850	\$4,827,420	\$17,968,730
County Road	\$25,230,000	\$3,784,500	\$4,541,400	\$16,904,100
Total CFD Funded Costs	\$63,978,000	\$9,596,700	\$11,516,040	\$42,865,260
Mello-Roos Reimbursement 2nd Issue - 2006	\$48,000,000	\$7,200,000	\$8,640,000	\$32,160,000
Developer Costs Future Reimbursable	\$15,978,000	\$2,396,700	\$2,876,040	\$10,705,260
Developer Costs Non-Reimbursable	\$21,000,000	\$3,150,000	\$3,780,000	\$14,070,000
Total Development Costs	\$84,978,000	\$12,746,700	\$15,296,040	\$56,935,260

As mentioned previously, the Mello-Roos discounts applied to the retail market values in our analysis reflect the maximum special tax based on all proceeds approved for the CFD. However, for the purposes of this analysis we are only including the Mello-Roos reimbursements for the second bond issue planned for December 2006. This reimbursement amount is estimated at \$48,000,000. The allocation by zone is made based a comparison of gross sales revenues as well as Mello-Roos tax revenues attributable to the units in each zone. We have recognized the additional developers cost applicable in each zone. The following tables summarize the allocation within the zones with multiple projects.

Zone 1 Allocation - 2006			
Mello Roos Reimbursement			\$7,200,000
Phase	# Units	Per Unit	Total
1	0	\$0	\$0
2	113	\$28,800	\$3,254,400
3	137	\$28,800	\$3,945,600
	250		\$7,200,000

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Zone 3 Allocation - 2006			
Mello Roos Reimbursement			\$32,160,000
Phase	# Units	Per Unit	Total
Trailside	16	\$29,343	\$469,489
Highlands I	60	\$29,343	\$1,760,584
Ritz Res.	84	\$29,343	\$2,464,818
Ritz Club	78	\$29,343	\$2,288,759
Future	858	\$29,343	\$25,176,350
Total	1,096	\$29,343	\$32,160,000

Developer's Overhead

We have allowed for developer's overhead and a contingency allowance in our analysis in order to account for the administrative and oversight duties involved in coordinating a large development such as the subject property. This is intended to allow for any legal or financial expenses, professional fees and general expenses. In addition, we consider this an appropriate category to recognize the need for a construction contingency. Our experience in the marketplace is that this allocation can range anywhere from 1 to 5 percent for developer's overhead. As substantial work is yet to be required, we have estimated this expense at 3 percent for the various components of the subject. The dollar amounts resulting from this percentage allocation are sufficient given the large sales volume projections.

Developer's Profit

We have not utilized a separate line item for developer's profit. We have projected the appropriate profit in the discount rate of the net cash flows. In our opinion, either methodology is reasonable and appropriate. In this analysis, we are going to apply an appropriate discount rate, which provides for recognition of developer's profit, as well as time value of money.

Internal Rate of Return/Discount Rate

The internal rate of return (IRR) takes into consideration all elements of the cash flow, including profits, time value of money and income and expenses involved in the determination of the cash flow. The following table summarizes the range of discount rates or internal rates of return, including developer's profit, as published in the Korpacz Real Estate Investor Survey.

	Discount Rates (IRRs)	
	Including Developer's Profit	
	Second Quarter 2006	
	Second Quarter 2006	Fourth Quarter 2005
Free and Clear		
RANGE	12.00% - 25.00%	11.00% - 25.00%
AVERAGE	18.15%	18.05%
CHANGE	----	+10

Source: Korpacz Real Estate Investor Survey, Second Quarter 2006 and Fourth Quarter 2005.

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The above table indicates that discount rate expectations have remained stable over the past year. The average is 18.15 percent. There are numerous factors to be considered in concluding the appropriate discount rate for the subject. Given the differences in development status for the subject's various zones and phases we have applied different discount rates to recognize the risk characteristics of each phase or zone.

In addition to the Korpacz Survey we have also reviewed another well regarded investor survey related to land and resort developments. This report is published by Realty Rates.com. Reference is made to the following two pages which present the data from this report for national averages as well as the California region. The averages for discount rate expectations in the California/Pacific Islands market for Resort & Second Home developments are 16.63% for Hi-Rise and 16.07% for Garden/Townhouse with a range of generally 12% to 20%. The California region tends to be below the national averages which are shown to be 19.16% and 18.51% for the same respective categories with a general range of 12% to 26%. The rates from this survey generally support those in the previously presented Korpacz survey.

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California/Pacific Islands - CA, Guam, HI

RealtyRates.com DEVELOPERS SURVEY - 2nd Quarter 2006*						
California/Pacific Islands - Subdivisions & PUDs						
	Actual Rates			Pro-Forma Rates		
	Min	Max	Avg	Min	Max	Avg
Site-Built Residential	13.63%	34.92%	22.46%	13.09%	33.52%	21.56%
-100 Units	13.63%	30.10%	21.43%	13.09%	28.90%	20.57%
100-500 Units	13.98%	33.11%	22.60%	13.42%	31.79%	21.70%
500+ Units	14.32%	34.62%	23.00%	13.74%	33.23%	22.08%
Mixed Use	14.66%	34.92%	22.80%	14.07%	33.52%	21.89%
Manufactured Housing	13.68%	34.62%	22.37%	13.13%	33.23%	21.47%
-100 Units	13.68%	30.10%	21.45%	13.13%	28.90%	20.60%
100-500 Units	14.02%	33.11%	22.63%	13.46%	31.79%	21.72%
500+ Units	14.36%	34.62%	23.02%	13.79%	33.23%	22.10%
Business Parks	13.77%	34.62%	22.41%	13.22%	33.23%	21.52%
-100 Acres	13.77%	30.10%	21.50%	13.22%	28.90%	20.64%
100-500 Acres	14.12%	33.11%	22.67%	13.55%	31.79%	21.76%
500+ Acres	14.46%	34.62%	23.07%	13.88%	33.23%	22.14%
Industrial Parks	13.77%	34.62%	22.41%	13.22%	33.23%	21.52%
-100 Acres	13.77%	30.10%	21.50%	13.22%	28.90%	20.64%
100-500 Acres	14.12%	33.11%	22.67%	13.55%	31.79%	21.76%
500+ Acres	14.46%	34.62%	23.07%	13.88%	33.23%	22.14%

*1st Quarter 2006 Data

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RealtyRates.com DEVELOPERS SURVEY - 2nd Quarter 2006*						
California/Pacific Islands - Condominiums & Co-Ops						
	Actual Rates			Pro-Forma Rates		
	Min	Max	Avg	Min	Max	Avg
Primary Residential	11.50%	20.16%	15.30%	11.02%	19.36%	14.61%
Hi-Rise/Urban Townhouse	11.94%	20.13%	15.72%	11.47%	19.33%	15.09%
Garden/Suburban Townhouse	11.50%	19.23%	14.75%	11.04%	18.46%	14.16%
Mixed Use	11.98%	20.16%	15.43%	11.02%	19.36%	14.58%
Resort & Second Home	12.72%	21.06%	16.35%	12.22%	20.22%	15.69%
Hi-Rise	12.87%	21.06%	16.63%	12.36%	20.22%	15.96%
Garden/Townhouse	12.72%	20.75%	16.07%	12.22%	19.92%	15.43%
Commercial/Industrial	12.01%	20.95%	15.60%	11.53%	20.11%	14.98%
Urban Office	12.11%	19.80%	15.64%	11.62%	19.01%	15.01%
Suburban Office	12.04%	19.89%	15.32%	11.55%	19.09%	14.71%
Retail	12.37%	20.95%	15.99%	11.87%	20.11%	15.35%
Industrial	12.01%	20.20%	15.46%	11.53%	19.39%	14.84%

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DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

National Sell-Out Property Discount Rates

Subdivisions and PUDs

The following summarizes discount rates for conventionally financed subdivisions and planned unit developments (PUDs) nationwide. Actual Rates are historical rates achieved by survey respondents, while Pro-Forma Rates reflect forward-looking revenue and expenses. Developer's profit is not treated as an expense.

RealtyRates.com DEVELOPERS SURVEY - 2nd Quarter 2006*						
National - Subdivisions & PUDs						
	Actual Rates			Pro-Forma Rates		
	Min	Max	Avg	Min	Max	Avg
Site-Built Residential	13.63%	45.13%	26.05%	13.09%	43.32%	24.84%
-100 Units	13.63%	38.90%	24.85%	13.09%	37.35%	24.71%
100-500 Units	13.98%	42.80%	27.25%	13.33%	41.08%	26.12%
500+ Units	14.32%	44.74%	28.35%	13.35%	42.95%	26.46%
Mixed Use	14.66%	45.13%	28.70%	13.67%	43.32%	26.22%
Manufactured Housing	13.68%	44.74%	25.94%	13.13%	42.95%	24.75%
-100 Units	13.68%	38.90%	25.24%	13.13%	37.35%	24.74%
100-500 Units	14.02%	42.80%	27.27%	13.37%	41.08%	26.14%
500+ Units	14.36%	44.74%	28.37%	13.40%	42.95%	26.48%
Business Parks	13.77%	44.74%	25.99%	13.22%	42.95%	24.80%
-100 Acres	13.77%	38.90%	25.29%	13.22%	37.35%	24.78%
100-500 Acres	14.12%	42.80%	27.32%	13.46%	41.08%	26.18%
500+ Acres	14.46%	44.74%	28.42%	13.49%	42.95%	26.53%
Industrial Parks	13.77%	44.74%	25.94%	13.22%	42.95%	24.75%
-100 Acres	13.77%	38.90%	25.29%	13.22%	37.35%	24.73%
100-500 Acres	14.12%	42.80%	27.26%	13.46%	41.08%	26.13%
500+ Acres	14.46%	44.74%	28.36%	13.49%	42.95%	26.47%

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Condominiums and Co-Ops

The following summarizes discount rates for conventionally financed condominium and co-op projects nationwide. Actual Rates are historical rates achieved by survey respondents, while Pro-Forma Rates reflect forward-looking revenue and expenses and developer's profit is treated as an expense.

RealtyRates.com DEVELOPERS SURVEY - 2nd Quarter 2006*						
National - Condominiums & Co-Ops						
	Actual Rates			Pro-Forma Rates		
	Min	Max	Avg	Min	Max	Avg
Primary Residential	11.50%	26.06%	17.71%	10.97%	25.02%	16.86%
Hi-Rise/Urban Townhouse	11.94%	26.02%	18.60%	11.39%	24.98%	17.82%
Garden/Suburban Townhouse	11.50%	24.85%	17.45%	10.97%	23.85%	16.72%
Mixed Use	11.98%	26.06%	18.26%	11.02%	25.02%	17.30%
Resort & Second Home	12.72%	27.22%	18.92%	12.13%	26.13%	18.07%
Hi-Rise	12.87%	27.22%	19.64%	12.27%	26.13%	18.82%
Garden/Townhouse	12.72%	26.82%	18.98%	12.13%	25.75%	18.18%
Commercial/Industrial	12.01%	27.08%	18.07%	11.45%	25.99%	17.25%
Urban Office	12.11%	25.59%	18.47%	11.55%	24.57%	17.70%
Suburban Office	12.04%	25.70%	18.12%	11.48%	24.68%	17.35%
Retail	12.37%	27.08%	18.93%	11.79%	25.99%	18.14%
Industrial	12.01%	26.11%	18.30%	11.45%	25.06%	17.53%

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DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Zone 1 of the subject has three phases. Phase 1 is sold out with individual owners. Phase 2 is 74 percent sold out with construction completion of approximately 70 percent. This phase holds little risk associated with construction and sales. All units will be completed within four months and it is anticipated all units will be sold within 6 months. In our opinion it would be reasonable to conclude an annual discount rate of 10 percent for this analysis. Given the closings within four months it is appropriate to apply only half of this annual rate and so our analysis of Phase 1 will utilize a 5 percent discount rate.

Phase 3 of Zone 1 is also referred to as the Northside and is further from development. We consider it reasonable to apply a 18% discount rate to this phase. This rate is consistent with the averages indicated by the Realty Rates.com survey for California developments. Phase 3 has limited construction risk related to infrastructure and is well located adjacent to the village. While even a lower rate could be appropriate for this component of the subject we have used the 18% rate to reflect the slightly higher risk associated with marketing fractional condominiums.

Zone 2 of the subject is 354 units in The Highlands portion of the property. This portion of the project has access to the proposed Highland Drive which is already paved to Zone 2. This area of the project will have excellent on-mountain ski access. In our opinion it is reasonable to apply an 18% discount rate to this phase.

Zone 3 of the subject is The Highlands area with 1,096 units which will require an extended marketing period to sell out. The scope of this area is quite large. Highlands Drive is paved to the edge of Zone 3 with much of the road cut and graded within the zone. In addition to the road completion there is substantial construction underway on the Trailside condominiums and the Ritz Carlton Hotel. The presence of the Ritz Carlton is a very positive factor for Zone 3 as it relates to future marketing and pricing in the Highlands. Another factor enhancing the Highlands are the new lifts and on-mountain improvements. Given the infrastructure in place and the likelihood of additional bond financing we consider it reasonable to apply a rate near the averages indicated by the investor surveys. Therefore we have applied an 18% discount rate in the Zone 3 discounted cash flows.

Conclusions

Reference is made to the following pages for the discounted cash flow calculations that are based on the previous discussion. The following table summarizes the value conclusions for the subject's residential uses.

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Northstar Community Facilities District No. 1 Market Value Summary		
	<u>No. of Units</u>	<u>Market Value Conclusion</u>
<u>Zone 1</u>		
Phase 1	100	\$178,000,000
Phase 2	113	\$132,400,000
Phase 3	<u>137</u>	<u>\$66,000,000</u>
Total Zone 1	350	\$376,400,000
<u>Zone 2</u>	354	\$88,800,000
<u>Zone 3</u>		
Trailside Townhomes	16	\$16,800,000
Highlands Lodge	60	\$27,200,000
Ritz Residences	78	\$56,800,000
Ritz Club	84	\$57,100,000
Future Units	<u>858</u>	<u>\$156,000,000</u>
Total Phase 3	1,096	\$313,900,000
 Grand Total Northstar CFD # 1	 1,800	 \$779,100,000

The respective discounted cash flows for each of the above components of the subject are shown on the following pages. Each separate analysis typically contains 3 to 4 pages which show the assumptions, cash flows and value summary for each individually valued component of the subject.

Reference is made to the following discounted cash flows, which outline the cash flows and anticipated internal rate of return for each zone and each phase.

ZONE 1 DISCOUNTED CASH FLOWS

Summary of Assumptions	
Community Facilities District No. 1	
Special Tax Zone 1 - Phase 2	
Valuation Rates	
Projection Start Date	Nov-06
Discount Rate	5.00%
Inflation Rates	
Annual Appreciation rate	4.00%
Expense Inflation Rate (Ann)	3.50%
Tax Inflation Rate	2.00%
No. Periods/Year	1
Units & Acreage	
No. of Acres	123
No. of Units-Phase 2	113
Pricing	
Average base price/Phase 2	\$1,437,204
Estimated Costs	
Commissions/Marketing Phase 2	3.00%
Closing costs	0.25%
Periods until Sellout	1
RE Tax/acre/undeveloped land	\$0
RE Tax/Unit-Ph.2/year	\$15,000
Mello Roos Tax/Unit/year	\$3,081
Infrastructure Cost:	\$0
Direct Construction Cost/Unit	\$190,522
HOA Dues/Unit Phase 2	\$12,000
Developer's Overhead/Contingency %	2.00%
Loan Assumptions	
Original Loan	\$0
Annual interest rate	7.500%
Release %	98.00%
Original Mortgage Balance:	\$0
Mortgage Balance Per Unit:	\$0
Release Percent:	98%
Release Price Per Unit:	\$469,487
Interest Rate Per Period:	7.50%

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Cash Flow Analysis

**Community Facilities District No. 1
Special Tax Zone 1 - Phase 2**

Period	1	
Month / Year	Totals	Nov-06
Phase 2 - Units Completed	113	113
Cumulative Sales Completed:		113
Average Sales Price / Unit:	\$1,437,204	\$1,437,204
Unit Sales per Period:	113	113
Cumulative Units Sold:	113	113
Unsold Inventory:	0	0
Sales Income:	\$162,404,052	\$162,404,052
Other Income	0	0
Mello Roos Reimbursement	3,254,400	3,254,400
Total Income	\$165,658,452	\$165,658,452
Estimated Costs:		
Sales Commissions/Marketing:	\$4,872,122	\$4,872,122
Closing Costs:	406,010	406,010
Property Taxes- Undeveloped land:	0	0
Property Taxes- Improved Property:	0	0
Infrastructure Costs	0	0
Direct Construction Costs Phase 2	21,528,986	21,528,986
HOA Dues	0	0
Mello Roos Taxes (Developer share)	0	0
Developer's Overhead/Contingency:	3,248,100	3,248,100
Interest Expense:	0	0
Total Expenses:	(30,055,218)	(30,055,218)
Assumed Loan Draw:	30,055,218	30,055,218
Net Revenue Before Release:	165,658,452	165,658,452
Cash Flow Before Release:	165,658,452	165,658,452
Release Payment:	30,055,218	30,055,218
Net Cash Flow:	\$135,603,234	\$135,603,234
Discount Factor:	0.97590	
Discounted Cash Flow:	\$132,335,206	\$132,335,206
Mortgage Schedule:		
Beginning Mortgage Balance:		\$0
Interest Expense Per Period:		0
Unit Sales Per Period:		113
Additional Loan Draw:		30,055,218
Intermediate Loan Balance:		30,055,218
Total Release Payment:		30,055,218
Ending Mortgage Balance:		0

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Valuation Summary

**Community Facilities District No. 1
Special Tax Zone 1 - Phase 2**

Description	Total	Total Per Unit	Percent of Sales
Total Units Sold	113		
Income			
Total Gross Sales Revenue	\$162,404,052	\$1,437,204	100.00%
Mello Roos Reimbursement	3,254,400		
Total Income	\$165,658,452		
Estimated Costs:			
Sales Commissions/Marketing:	\$4,872,122	\$43,116	3.00%
Closing Costs:	406,010	3,593	0.25%
Property Taxes- Undeveloped land:	0	0	0.00%
Property Taxes- Improved Property:	0	0	0.00%
Infrastructure Costs	0	0	0.00%
Direct Construction Costs Phase 2	21,528,986	190,522	13.26%
HOA Dues	0	0	0.00%
Mello Roos Taxes (Developer share)	0	0	0.00%
Developer's Overhead/Contingency:	3,248,100	28,744	2.00%
Interest Expense:	0	0	0.00%
Total Deductions	\$30,055,218	\$265,975	18.51%
Present Value of Cash Flow			
Discounted at	5.00%	\$132,335,206	
Present Value of Mortgage		\$0	
Present Value of Special Tax		\$87,196	
Value to Single Purchaser:	\$132,422,402		
Value Per Unit:		\$1,171,880	
Value Per Acre:		\$1,077,218	
TOTAL INDICATED VALUE	\$132,400,000		
INTERNAL RATE OF RETURN		5.00%	

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Summary of Assumptions	
Community Facilities District No. 1 Special Tax Zone 1 - Phase 3	
Valuation Rates	
Projection Start Date	Nov-06
Discount Rate	18.00%
Inflation Rates	
Annual Appreciation rate	3.00%
Expense Inflation Rate (Ann)	3.00%
Tax Inflation Rate	2.00%
No. Periods/Year	1
Units & Acreage	
No. of Acres	123
No. of Units- Phase 3	137
Pricing	
Average base price/Townhomes	\$2,581,824
Average base price/Fractional	\$2,808,587
Estimated Costs	
Commissions/Marketing Townhomes	5.00%
Commissions/Marketing Fractional	25.00%
Closing costs	0.25%
Periods until Sellout	9
RE Tax/acre/undeveloped land	\$5,000
RE Tax/Unit-Townhome	\$27,000
RE Tax/Unit-Fractional	\$29,000
Mello Roos Tax/Unit-TH/year	\$3,453
Mello Roos Tax/Unit-FR/year	\$978
Infrastructure Cost:	\$4,148,829
Direct Construction Cost/Unit-Townhomes	\$1,244,449
Direct Construction Cost/Unit-Fractional	\$1,070,377
HOA Dues/Unit Phase 2	\$12,000
HOA Dues/Unit Phase 3	\$12,000
Developer's Overhead/Contingency %	4.00%
Loan Assumptions	
Original Loan	\$0
Annual interest rate	6.000%
Release %	98.00%
Original Mortgage Balance:	\$0
Mortgage Balance Per Unit:	\$0
Release Percent:	98%
Release Price Per Unit:	\$2,641,301
Interest Rate Per Period:	6.00%

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DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

**Community Facilities District No. 1
Special Tax Zone 1 - Phase 3**

Period Month / Year	Totals	1 Nov-06	2 Nov-07	3 Nov-08	4 Nov-09	5 Nov-10	6 Nov-11	7 Nov-12	8 Nov-13	9 Nov-14
Phase 2 - Units Completed	34	0	0	34	0	0	0	0	0	0
Cumulative Units Completed:		0	0	34	34	34	34	34	34	34
Average Sales Price / Unit:	\$2,581,824	\$2,581,824	\$2,659,278	\$2,739,057	\$2,821,228	\$2,905,865	\$2,993,041	\$3,082,832	\$3,175,317	\$3,270,577
Unit Sales per Period:	34	0	0	34	0	0	0	0	0	0
Cumulative Units Sold:	113	0	0	34	34	34	34	34	34	34
Unsold Inventory:	0	0	0	0	0	0	0	0	0	0
Phase 3 - Units Completed	103	0	0	33	36	0	34	0	0	0
Cumulative Units Completed:	103	0	0	33	69	69	103	103	103	103
Average Sales Price / Unit:	\$2,808,587	\$2,808,587	\$2,892,845	\$2,979,630	\$3,069,019	\$3,161,090	\$3,255,923	\$3,353,600	\$3,454,208	\$3,557,834
Unit Sales per Period:	103	0	0	15	15	15	15	15	15	13
Cumulative Units Sold:	0	0	0	15	30	45	60	75	90	103
Unsold Inventory:	165	0	0	18	39	24	43	28	13	0
Sales Income:	\$428,481,828	\$0	\$0	\$137,822,379	\$46,035,289	\$47,416,348	\$48,838,838	\$50,304,003	\$51,813,123	\$46,251,848
Other Income	0	0	0	0	0	0	0	0	0	0
Mello Roos Reimbursement	3,945,600	3,945,600	0	0	0	0	0	0	0	0
Total Income	\$432,427,428	\$3,945,600	0	\$137,822,379	\$46,035,289	\$47,416,348	\$48,838,838	\$50,304,003	\$51,813,123	\$46,251,848
Cumulative Income:	\$3,945,600	\$3,945,600	\$3,945,600	\$141,767,979	\$187,803,268	\$235,219,616	\$284,058,454	\$334,362,457	\$386,175,580	\$432,427,428
Estimated Costs:										
Sales Commissions/Marketing:	\$88,494,872	\$0	\$0	\$15,830,010	\$11,508,822	\$11,854,087	\$12,209,710	\$12,576,001	\$12,953,281	\$11,562,962
Closing Costs:	1,071,205	0	0	344,556	115,088	118,541	122,097	125,760	129,533	115,630
Property Taxes- Undeveloped land:	1,241,593	614,650	626,943	0	0	0	0	0	0	0
Property Taxes- Improved Property:	299,063	0	0	32,625	70,688	43,500	77,938	50,750	23,563	0
Infrastructure Costs	4,148,829	1,878,441	1,291,098	979,290	0	0	0	0	0	0
Direct Construction Costs Townhomes	44,888,022	0	0	44,888,022	0	0	0	0	0	0
Direct Construction Costs Fractional	121,769,503	0	0	37,473,578	42,106,675	0	42,189,250	0	0	0
HOA Dues	495,000	0	0	54,000	117,000	72,000	129,000	84,000	39,000	0
Mello Roos Taxes (Developer share)	124,695	0	0	0	19,071	23,472	42,054	27,384	12,714	0
Developer's Overhead/Contingency:	17,139,600	1,904,400	1,904,400	1,904,400	1,904,400	1,904,400	1,904,400	1,904,400	1,904,400	1,904,400
Interest Expense:	1,945,249	0	263,849	509,027	0	643,630	0	528,743	0	0
Total Expenses:	(281,617,630)	(4,397,491)	(4,086,290)	(102,015,508)	(55,841,743)	(14,659,629)	(56,674,448)	(15,297,038)	(15,062,490)	(13,582,992)
Assumed Loan Draw:	281,617,630	4,397,491	4,086,290	102,015,508	55,841,743	14,659,629	56,674,448	15,297,038	15,062,490	13,582,992
Net Revenue Before Release:	432,427,428	3,945,600	0	137,822,379	46,035,289	47,416,348	48,838,838	50,304,003	51,813,123	46,251,848
Release Payment:	281,617,630	0	0	110,499,289	45,114,583	25,386,790	47,862,061	24,109,425	15,062,490	13,582,992
Cash Flow Before Release:	150,809,798	3,945,600	0	27,323,090	920,706	22,029,558	976,777	26,194,578	36,750,633	32,668,856
Total Developer's Profit :	0	0	0	0	0	0	0	0	0	0
Net Cash Flow:	150,809,798	\$3,945,600	\$0	\$27,323,090	\$920,706	\$22,029,558	\$976,777	\$26,194,578	\$36,750,633	\$32,668,856
Discount Factor:	1.00000	0.84746	0.71818	0.60863	0.51579	0.43711	0.37043	0.31393	0.26604	
Discounted Cash Flow:	65,849,951	\$3,945,600	\$0	\$19,623,018	\$560,370	\$11,362,601	\$426,958	\$9,703,298	\$11,536,944	\$8,691,163
Mortgage Schedule:				1,08628						
Beginning Mortgage Balance:		\$0	\$4,397,491	\$8,483,781	\$0	\$10,727,160	\$0	\$8,812,387	\$0	\$0
Interest Expense Per Period:		0	263,849	509,027	0	643,630	0	528,743	0	0
Unit Sales Per Period:		0	0	49	15	15	15	15	15	13
Additional Loan Draw:		4,397,491	4,086,290	102,015,508	55,841,743	14,659,629	56,674,448	15,297,038	15,062,490	13,582,992
Intermediate Loan Balance:		4,397,491	8,483,781	110,499,289	55,841,743	25,386,790	56,674,448	24,109,425	15,062,490	13,582,992
Total Release Payment:		0	0	110,499,289	45,114,583	25,386,790	47,862,061	24,109,425	15,062,490	13,582,992
Ending Mortgage Balance:		4,397,491	8,483,781	0	10,727,160	0	8,812,387	0	0	0

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DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Valuation Summary			
Community Facilities District No. 1 Special Tax Zone 1 - Phase 3			
Description	Total	Total Per Unit	Percent of Sales
Total Units Sold	137		
Income			
Total Gross Sales Revenue	\$428,481,828	\$3,127,605	100.00%
Mello Roos Reimbursement	3,945,600	28,800	
Total Income	\$432,427,428		
Estimated Costs:			
Sales Commissions/Marketing:	\$88,494,872	\$645,948	20.65%
Closing Costs:	1,071,205	7,819	0.25%
Property Taxes- Undeveloped land:	1,241,593	9,063	0.29%
Property Taxes- Improved Property:	299,063	2,183	0.07%
Infrastructure Costs	4,148,829	30,283	0.97%
Direct Construction Costs Townhomes	44,888,022	327,650	10.48%
Direct Construction Costs Fractional	121,769,503	888,828	28.42%
HOA Dues	495,000	3,613	0.12%
Mello Roos Taxes (Developer share)	124,695	910	0.03%
Developer's Overhead/Contingency:	17,139,600	125,107	4.00%
Interest Expense:	1,945,249	14,199	0.45%
Total Deductions	\$281,617,630	\$2,055,603	65.72%
Present Value of Cash Flow			
Discounted at	18.00%	\$65,849,951	
Present Value of Mortgage		\$0	
Present Value of Special Tax		\$105,716	
Value to Single Purchaser:	\$65,955,667		
Value Per Unit:		\$481,428	
Value Per Acre:		\$536,530	
TOTAL INDICATED VALUE	\$66,000,000		
INTERNAL RATE OF RETURN	18.00%		

ZONE 2 – DISCOUNTED CASH FLOWS

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Summary of Assumptions	
Community Facilities District No. 1 Special Tax Zone 2	
Valuation Rates	
Projection Start Date	Nov-06
Discount Rate	18.00%
Inflation Rates	
Annual Appreciation rate	4.00%
Expense Inflation Rate (Ann)	3.50%
Tax Inflation Rate	2.00%
No. Periods/Year	1
Units & Acreage	
No. of Acres	115.83
No. of Attached Units	354
Average base price/unit	\$1,925,000
Estimated Costs	
Sale Comm & Promo % Units	7.00%
Closing costs	0.2500%
Periods until Sellout	12
RE Tax/acre/undeveloped land	\$5,000
RE Tax/unit/year	\$20,000
Mello Roos Tax per unit/year	\$3,750
Onsite Road & Utility Cost:	\$14,167,820
Developer's Overhead/Contingency %	3.00%
Loan Assumptions	
Original Loan	\$0
Annual interest rate	7.500%
Release %	98.00%
Original Mortgage Balance:	\$0
Mortgage Balance Per Unit:	\$0
Release Percent:	98%
Initial Release Price Per Unit:	\$1,886,500
Interest Rate Per Period:	7.50%

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Cash Flow Analysis

Community Facilities District No. 1
Special Tax Zone 2

Period Month / Year	Totals	1 Nov-06	2 Nov-07	3 Nov-08	4 Nov-09	5 Nov-10	6 Nov-11
Units Complete	354	0	0	0	0	50	50
Cumulative Units Completed:		0	0	0	0	50	100
Average Sales Price / Unit:	\$1,925,000	\$1,925,000	\$2,002,000	\$2,082,080	\$2,165,363	\$2,251,978	\$2,342,057
Unit Sales per Period:	354	0	0	0	0	45	50
Cumulative Units Sold:	354	0	0	0	0	45	95
Unsold Inventory:	35	0	0	0	0	5	5
Sales Income:	\$904,294,401	\$0	\$0	\$0	\$0	\$101,338,998	\$117,102,842
Mello Roos Reimbursement	\$8,640,000	4,320,000	4,320,000	0	0	0	0
Total Income	\$912,934,401	4,320,000	4,320,000	0	0	101,338,998	117,102,842
Estimated Costs:							
Sales Commissions/Marketing:	\$63,300,608	\$0	\$0	\$0	\$0	\$7,093,730	\$8,197,199
Closing Costs:	2,260,736	0	0	0	0	253,347	292,757
Property Taxes- Undeveloped land:	4,571,923	579,150	590,733	620,400	642,114	570,720	493,541
Property Taxes- Improved Property:	892,705	0	0	0	0	114,752	118,769
Infrastructure Cost:	14,167,820	4,853,783	3,336,121	3,466,688	2,511,228	0	0
Direct Construction Costs (Attached Units)	497,194,332	0	0	0	0	63,113,765	65,322,747
HOA Dues	535,623	0	0	0	0	68,851	71,261
Mello Roos Taxes (Developer share)	4,746,000	0	0	91,000	507,000	784,000	695,000
Developer's Overhead/Contingency:	27,128,400	2,260,700	2,260,700	2,260,700	2,260,700	2,260,700	2,260,700
Interest Expense:	6,029,940	0	577,022	1,084,366	1,648,602	2,216,326	503,624
Total Expenses:	(620,828,086)	(7,693,633)	(6,764,576)	(7,523,154)	(7,569,644)	(76,476,191)	(77,955,597)
Assumed Loan Draw:	620,828,086	7,693,633	6,764,576	7,523,154	7,569,644	76,476,191	77,955,597
Net Revenue Before Release:	912,934,401	4,320,000	4,320,000	0	0	101,338,998	117,102,842
Cash Flow Before Release:	912,934,401	4,320,000	4,320,000	0	0	101,338,998	117,102,842
Release Payment:	620,828,086	0	0	0	0	99,312,218	84,670,578
Net Cash Flow:	292,106,314	\$4,320,000	\$4,320,000	\$0	\$0	\$2,026,780	\$32,432,264
Discount Factor:		1.00000	0.84746	0.71818	0.60863	0.51579	0.43711
Discounted Cash Flow:	88,574,501	\$4,320,000	\$3,661,017	\$0	\$0	\$1,045,391	\$14,176,441
Mortgage Schedule:							
Beginning Mortgage Balance:		\$0	\$7,693,633	\$14,458,209	\$21,981,363	\$29,551,007	\$6,714,981
Interest Expense Per Period:		0	577,022	1,084,366	1,648,602	2,216,326	503,624
Unit Sales Per Period:		0	0	0	0	45	50
Additional Loan Draw:		7,693,633	6,764,576	7,523,154	7,569,644	76,476,191	77,955,597
Intermediate Loan Balance:		7,693,633	14,458,209	21,981,363	29,551,007	106,027,199	84,670,578
Total Release Payment:		0	0	0	0	99,312,218	84,670,578
Ending Mortgage Balance:		7,693,633	14,458,209	21,981,363	29,551,007	6,714,981	0

Cash Flow Analysis

Community Facilities District No. 1
Special Tax Zone 2

Period Month / Year	Totals	7 Nov-12	8 Nov-13	9 Nov-14	10 Nov-15	11 Nov-16	12 Nov-17
Units Complete	354	50	50	50	50	54	0
Cumulative Units Completed:		150	200	250	300	354	354
Average Sales Price / Unit:	\$1,925,000	\$2,435,739	\$2,533,169	\$2,634,495	\$2,739,875	\$2,849,470	\$2,963,449
Unit Sales per Period:	354	50	50	50	50	54	5
Cumulative Units Sold:	354	145	195	245	295	349	354
Unsold Inventory:	35	5	5	5	5	5	0
Sales Income:	\$904,294,401	\$121,786,956	\$126,658,434	\$131,724,771	\$136,993,762	\$153,871,393	\$14,817,245
Mello Roos Reimbursement	\$8,640,000	0	0	0	0	0	0
Total Income	\$912,934,401	121,786,956	126,658,434	131,724,771	136,993,762	153,871,393	14,817,245
Estimated Costs:							
Sales Commissions/Marketing:	\$63,300,608	\$8,525,087	\$8,866,090	\$9,220,734	\$9,589,563	\$10,770,998	\$1,037,207
Closing Costs:	2,260,736	304,467	316,646	329,312	342,484	384,678	37,043
Property Taxes- Undeveloped land:	4,571,923	410,261	320,547	224,050	120,406	1	0
Property Taxes- Improved Property:	892,705	122,926	127,228	131,681	136,290	141,060	0
Infrastructure Cost:	14,167,820	0	0	0	0	0	0
Direct Construction Costs (Attached Units)	497,194,332	67,609,043	69,975,359	72,424,497	74,959,354	83,789,566	0
HOA Dues	535,623	73,755	76,337	79,009	81,774	84,636	0
Mello Roos Taxes (Developer share)	4,746,000	613,000	538,000	467,000	388,000	303,000	360,000
Developer's Overhead/Contingency:	27,128,400	2,260,700	2,260,700	2,260,700	2,260,700	2,260,700	2,260,700
Interest Expense:	6,029,940	0	0	0	0	0	0
Total Expenses:	(620,828,086)	(79,919,239)	(82,480,908)	(85,136,983)	(87,878,572)	(97,734,639)	(3,694,950)
Assumed Loan Draw:	620,828,086	79,919,239	82,480,908	85,136,983	87,878,572	97,734,639	3,694,950
Net Revenue Before Release:	912,934,401	121,786,956	126,658,434	131,724,771	136,993,762	153,871,393	14,817,245
Cash Flow Before Release:	912,934,401	121,786,956	126,658,434	131,724,771	136,993,762	153,871,393	14,817,245
Release Payment:	620,828,086	79,919,239	82,480,908	85,136,983	87,878,572	97,734,639	3,694,950
Net Cash Flow:	292,106,314	\$41,867,716	\$44,177,526	\$46,587,789	\$49,115,190	\$56,136,754	\$11,122,295
Discount Factor:		0.37043	0.31393	0.26604	0.22546	0.19106	0.16192
Discounted Cash Flow:	88,574,501	\$15,509,123	\$13,868,431	\$12,394,130	\$11,073,318	\$10,725,739	\$1,800,911
Mortgage Schedule:							
Beginning Mortgage Balance:		\$0	\$0	\$0	\$0	\$0	\$0
Interest Expense Per Period:		0	0	0	0	0	0
Unit Sales Per Period:		50	50	50	50	54	5
Additional Loan Draw:		79,919,239	82,480,908	85,136,983	87,878,572	97,734,639	3,694,950
Intermediate Loan Balance:		79,919,239	82,480,908	85,136,983	87,878,572	97,734,639	3,694,950
Total Release Payment:		79,919,239	82,480,908	85,136,983	87,878,572	97,734,639	3,694,950
Ending Mortgage Balance:		0	0	0	0	0	0

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Valuation Summary			
Community Facilities District No. 1 Special Tax Zone 2			
Description	Total	Total Per Unit	Percent of Sales
Total Units Sold	354		
Income			
Total Gross Sales Revenue	\$904,294,401	\$2,554,504	100.00%
Mello Roos Reimbursement	8,640,000		
Total Income	\$912,934,401		
Estimated Costs:			
Sales Commissions/Marketing:	\$63,300,608	\$178,815	7.00%
Closing Costs:	2,260,736	6,386	0.25%
Property Taxes- Undeveloped land:	4,571,923	12,915	0.51%
Property Taxes- Improved Property:	892,705	2,522	0.10%
Infrastructure Cost:	14,167,820	40,022	1.57%
Direct Construction Costs (Attached Units)	497,194,332	1,404,504	54.98%
HOA Dues	535,623	1,513	0.06%
Mello Roos Taxes (Developer share)	4,746,000	13,407	0.52%
Developer's Overhead/Contingency:	27,128,400	76,634	3.00%
Interest Expense:	6,029,940	17,034	0.67%
Total Deductions	\$620,828,086	\$1,753,752	68.65%
Present Value of Cash Flow			
Discounted at	18.00%	\$88,574,501	
Present Value of Mortgage		\$0	
Present Value of Special Tax		\$236,108	
Value to Single Purchaser:		\$88,810,609	
Value Per Unit:		\$250,877	
Value Per Acre:		\$766,732	
TOTAL INDICATED VALUE		\$88,800,000	
INTERNAL RATE OF RETURN		18.00%	

ZONE 3 – DISCOUNTED CASH FLOWS

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Summary of Assumptions	
Community Facilities District No. 1 Special Tax Zone 3 - Trailside Townhomes	
Valuation Rates	
Projection Start Date	Nov-06
Discount Rate	18.00%
Inflation Rates	
Annual Appreciation rate	4.00%
Expense Inflation Rate (Ann)	3.50%
Tax Inflation Rate	2.00%
No. Periods/Year	1
Units & Acreage	
No. of Acres	4
No. of Units	16
Pricing	
Average base price/Trailside TH	\$3,613,825
Estimated Costs	
Commissions/Marketing Phase 2	7.00%
Closing costs	0.25%
Periods until Sellout	3
RE Tax/acre/undeveloped land	\$0
RE Tax/Unit/Year	\$40,000
Mello Roos Tax/Unit/year	\$4,800
Infrastructure Cost:	\$970,556
Direct Construction Cost/Unit	\$1,805,000
HOA Dues/Unit	\$12,000
Developer's Overhead/Contingency %	3.00%
Loan Assumptions	
Original Loan	\$0
Annual interest rate	7.500%
Release %	98.00%
Original Mortgage Balance:	\$0
Mortgage Balance Per Unit:	\$0
Release Percent:	98%
Release Price Per Unit:	\$1,180,516
Interest Rate Per Period:	7.50%

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Cash Flow Analysis

**Community Facilities District No. 1
Special Tax Zone 3 - Trailside Townhomes**

Period		1	2	3
Month / Year	Totals	Nov-06	Nov-07	Nov-08
Trailside - Units Completed	16	0	6	10
Cumulative Sales Completed:	0	0	6	16
Average Sales Price / Unit:	\$3,613,825	\$3,613,825	\$3,613,825	\$3,758,378
Unit Sales per Period:	16	0	6	10
Cumulative Units Sold:	113	0	6	16
Unsold Inventory:	0	0	0	0
Sales Income:	\$59,266,730	\$0	\$21,682,950	\$37,583,780
Mello Roos Reimbursement	469,489	469,489	0	0
Total Income	\$59,736,219	469,489	21,682,950	37,583,780
Estimated Costs:				
Sales Commissions/Marketing:	\$4,148,671	\$0	\$1,517,807	\$2,630,865
Closing Costs:	148,167	0	54,207	93,959
Property Taxes- Undeveloped land:	0	0	0	0
Property Taxes- Improved Property:	0	0	0	0
Infrastructure Costs	970,556	219,380	150,785	600,391
Direct Construction Costs	30,544,661	0	11,209,050	19,335,611
HOA Dues	0	0	0	0
Mello Roos Taxes (Developer share)	251,664	0	0	251,664
Developer's Overhead/Contingency:	1,778,100	592,700	592,700	592,700
Interest Expense:	60,906	0	60,906	0
Total Expenses:	(37,902,725)	(812,080)	(13,585,455)	(23,505,190)
Assumed Loan Draw:	37,902,725	812,080	13,585,455	23,505,190
Net Revenue Before Release:	59,736,219	469,489	21,682,950	37,583,780
Cash Flow Before Release:	59,736,219	469,489	21,682,950	37,583,780
Release Payment:	37,902,725	0	14,397,535	23,505,190
Net Cash Flow:	\$21,833,494	\$469,489	\$7,285,415	\$14,078,590
Discount Factor:	1.00000	0.84746	0.71818	
Discounted Cash Flow:	\$16,754,594	\$469,489	\$6,174,081	\$10,111,024
Mortgage Schedule:				
Beginning Mortgage Balance:		\$0	\$812,080	\$0
Interest Expense Per Period:		0	60,906	0
Unit Sales Per Period:		0	6	10
Additional Loan Draw:		812,080	13,585,455	23,505,190
Intermediate Loan Balance:		812,080	14,397,535	23,505,190
Total Release Payment:		0	14,397,535	23,505,190
Ending Mortgage Balance:		812,080	0	0

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Valuation Summary			
Community Facilities District No. 1 Special Tax Zone 3 - Trailside Townhomes			
Description	Total	Total Per Unit	Percent of Sales
Total Units Sold	16		
Income			
Total Gross Sales Revenue	\$59,266,730	\$3,704,171	100.00%
Mello Roos Reimbursement	469,489		
Total Income	\$59,736,219		
Estimated Costs:			
Sales Commissions/Marketing:	\$4,148,671	\$259,292	7.00%
Closing Costs:	148,167	9,260	0.25%
Property Taxes- Undeveloped land:	0	0	0.00%
Property Taxes- Improved Property:	0	0	0.00%
Infrastructure Costs	970,556	60,660	1.64%
Direct Construction Costs	30,544,661	1,909,041	51.54%
HOA Dues	0	0	0.00%
Mello Roos Taxes (Developer share)	251,664	15,729	0.42%
Developer's Overhead/Contingency:	1,778,100	111,131	3.00%
Interest Expense:	60,906	3,807	0.10%
Total Deductions	\$37,902,725	\$2,368,920	63.95%
Present Value of Cash Flow			
Discounted at	18.00%	\$16,754,594	
Present Value of Mortgage		\$0	
Present Value of Special Tax		<u>\$29,245</u>	
Value to Single Purchaser:		\$16,783,839	
Value Per Unit:		\$1,048,990	
Value Per Acre:		\$4,144,158	
TOTAL INDICATED VALUE		\$16,800,000	
INTERNAL RATE OF RETURN		18.00%	

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Summary of Assumptions	
Community Facilities District No. 1 Special Tax Zone 3-Highlands Lodge	
Valuation Rates	
Projection Start Date	Nov-06
Discount Rate	18.00%
Inflation Rates	
Annual Appreciation Rate	4.00%
Expense Inflation Rate (Ann)	3.50%
Tax Inflation Rate	2.00%
No. Periods/Year	1
Units & Acreage	
No. of Acres	5.00
No. of Units	60
Pricing	
Average base price/attached unit	\$2,197,650
Estimated Costs	
Sale Comm & Promo % Units	7.00%
Closing costs	0.25%
Periods until Sellout	4
RE Tax/acre/undeveloped land	\$5,000
RE Tax/attached unit/year	\$20,000
Mello Roos Tax per unit/year	\$4,352
Infrastructure Costs:	\$3,639,586
Direct Construction Costs/Attached unit	\$1,324,017
HOA Dues	\$12,000
Developer's Overhead/Contingency %	3.00%
Loan Assumptions	
Original Loan	\$0
Annual interest rate	7.500%
Release %	98.00%
Original Mortgage Balance:	\$0
Mortgage Balance Per Lot:	\$0
Release Percent:	98%
Release Price Per Unit:	\$2,153,697
Interest Rate Per Period:	7.50%

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Cash Flow Analysis

**Community Facilities District No. 1
Special Tax Zone 3-Highlands Lodge**

Period Month / Year	Totals	1 Nov-06	2 Nov-07	3 Nov-08	4 Nov-09
Units Complete	60	0	0	36	24
Cumulative Units Completed:	0	0	0	36	60
Average Sales Price / Unit:	\$2,197,650	\$2,197,650	\$2,285,556	\$2,376,978	\$2,472,057
Unit Sales per Period:	60	0	0	34	26
Cumulative Units Sold:	60	0	0	34	60
Unsold Inventory:		0	0	2	0
Sales Income:	\$145,090,752	\$0	\$0	\$80,817,260	\$64,273,492
Mello Roos Reimbursement	1,760,584	586,862	586,861	586,861	0
Total Income	\$146,851,336	586,862	586,861	81,404,121	64,273,492
Cumulative Income:		\$586,862	\$1,173,723	\$82,577,844	\$146,851,336
Estimated Costs:					
Sales Commissions/Marketing:	\$10,156,353	\$0	\$0	\$5,657,208	\$4,499,144
Closing Costs:	362,727	0	0	202,043	160,684
Property Taxes- Undeveloped land:	50,500	25,000	25,500	0	0
Property Taxes- Improved Property:	40,000	0	0	40,000	0
Infrastructure Costs	3,639,586	822,675	565,444	587,574	1,663,893
Direct Construction Costs	86,290,596	0	0	51,059,524	35,231,072
HOA Dues	24,000	0	0	24,000	0
Mello Roos Taxes (Developer share)	943,741	0	0	18,148	925,593
Developer's Overhead/Contingency:	4,352,800	1,088,200	1,088,200	1,088,200	1,088,200
Interest Expense:	427,206	0	145,191	282,016	0
Total Expenses:	(106,287,508)	(1,935,875)	(1,824,335)	(58,958,713)	(43,568,586)
Assumed Loan Draw:	106,287,508	1,935,875	1,824,335	58,958,713	43,568,586
Net Revenue Before Release:	146,851,336	586,862	586,861	81,404,121	64,273,492
Cash Flow Before Release:	146,851,336	586,862	586,861	81,404,121	64,273,492
Release Payment:	106,287,508	0	0	62,718,923	43,568,586
Cash Flow After Release:	40,563,827	586,862	586,861	18,685,198	20,704,906
Net Cash Flow:	40,563,827	\$586,862	\$586,861	\$18,685,198	\$20,704,906
Discount Factor:		1.00000	0.84746	0.71818	0.60863
Discounted Cash Flow:	27,105,265	\$586,862	\$497,340	\$13,419,419	\$12,601,645
Mortgage Schedule:					
Beginning Mortgage Balance:		\$0	\$1,935,875	\$3,760,210	\$0
Interest Expense Per Period:		0	145,191	282,016	0
Unit Sales Per Period:		0	0	34	26
Additional Loan Draw:		1,935,875	1,824,335	58,958,713	43,568,586
Intermediate Loan Balance:		1,935,875	3,760,210	62,718,923	43,568,586
Total Release Payment:		0	0	62,718,923	43,568,586
Ending Mortgage Balance:		1,935,875	3,760,210	0	0

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Valuation Summary

**Community Facilities District No. 1
Special Tax Zone 3-Highlands Lodge**

Description	Total	Total Per Unit	Percent of Sales
Total Units Sold	60		
Income			
Total Gross Sales Revenue	\$145,090,752	\$2,418,179	100.00%
Mello Roos Reimbursement	1,760,584	29,343	
Total Income	\$146,851,336		
Estimated Costs:			
Sales Commissions/Marketing:	\$10,156,353	\$169,273	7.00%
Closing Costs:	362,727	6,045	0.25%
Property Taxes- Undeveloped land:	50,500	842	0.03%
Property Taxes- Improved Property:	40,000	667	0.03%
Infrastructure Costs	3,639,586	60,660	2.51%
Direct Construction Costs	86,290,596	1,438,177	59.47%
HOA Dues	24,000	400	0.02%
Mello Roos Taxes (Developer share)	943,741	15,729	0.65%
Developer's Overhead/Contingency:	4,352,800	72,547	3.00%
Interest Expense:	427,206	7,120	0.29%
Total Deductions	\$106,287,508	\$1,771,458	73.26%
Present Value of Cash Flow			
Discounted at	18.00%	\$27,105,265	
Present Value of Mortgage		\$0	
Present Value of Special Tax		\$124,920	
Value to Single Purchaser:		\$27,230,185	
Value Per Unit:		\$453,836	
Value Per Acre:		\$5,446,037	
TOTAL INDICATED VALUE	\$27,200,000		
INTERNAL RATE OF RETURN		18.00%	

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Summary of Assumptions	
Community Facilities District No. 1 Special Tax Zone 3-Ritz Residences	
Valuation Rates	
Projection Start Date	Nov-06
Discount Rate	18.00%
Inflation Rates	
Annual Appreciation Rate - Yrs. 1-9	4.00%
Expense Inflation Rate (Ann)	3.50%
Tax Inflation Rate	2.00%
Prior to appreciation	1
No. Periods/Year	1
Units & Acreage	
No. of Acres	5.00
No. of Units	84
Pricing	
Average base price/unit	\$3,693,752
Estimated Costs	
Sale Comm & Promo % Units	7.00%
Closing costs	0.25%
Periods until Sellout	5
RE Tax/acre/undeveloped land	\$5,000
RE Tax/attached unit/year	\$20,000
Mello Roos Tax per attached unit/year	\$4,352
Mello Roos Tax per loft unit/year	\$4,352
Infrastructure Costs:	\$5,095,420
Direct Construction Costs/Attached unit	\$2,241,667
HOA Dues	\$12,000
Developer's Overhead/Contingency %	3.00%
Loan Assumptions	
Original Loan	\$0
Annual interest rate	7.500%
Release %	98.00%
Original Mortgage Balance:	\$0
Mortgage Balance Per Lot:	\$0
Release Percent:	98%
Release Price Per Unit:	\$3,619,877
Interest Rate Per Period:	7.50%

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Cash Flow Analysis						
Community Facilities District No. 1						
Special Tax Zone 3-Ritz Residences						
Period		1	2	3	4	5
Month / Year	Totals	Nov-06	Nov-07	Nov-08	Nov-09	Nov-10
Units Complete	84	0	0	0	54	30
Cumulative Units Completed:		0	0	0	54	84
Average Sales Price / Unit:	\$3,693,752	\$3,693,752	\$3,841,502	\$3,995,162	\$4,154,969	\$4,321,167
Unit Sales per Period:	84	0	0	0	50	34
Cumulative Units Sold:	84	0	0	0	50	84
Unsold Inventory:		0	0	0	4	0
Sales Income:	\$354,668,124	\$0	\$0	\$0	\$207,748,432	\$146,919,691
Special Tax Reimbursement	0	0	0	0	0	0
Mello Roos Reimbursement	2,464,818	821,606	821,606	821,606	821,606	0
Total Income	\$357,132,942	821,606	821,606	821,606	207,748,432	146,919,691
Cumulative Income:		\$821,606	\$1,643,212	\$2,464,818	\$210,213,250	\$357,132,942
Estimated Costs:						
Sales Commissions/Marketing:	\$24,826,769	\$0	\$0	\$0	\$14,542,390	\$10,284,378
Closing Costs:	886,670	0	0	0	519,371	367,299
Property Taxes- Undeveloped land:	50,500	25,000	25,500	0	0	0
Property Taxes- Improved Property:	80,000	0	0	0	80,000	0
Infrastructure Costs	5,095,420	1,151,745	791,622	822,604	651,059	1,678,390
Direct Construction Costs	206,420,790	0	0	0	167,835,324	38,585,467
HOA Dues	48,000	0	0	0	48,000	0
Mello Roos Taxes (Developer share)	1,321,237	0	0	25,407	142,133	1,153,697
Developer's Overhead/Contingency:	10,640,000	2,128,000	2,128,000	2,128,000	2,128,000	2,128,000
Interest Expense:	1,482,265	0	247,856	487,329	747,080	0
Total Expenses:	(250,851,651)	(3,304,745)	(3,192,978)	(3,463,340)	(186,693,357)	(54,197,231)
Assumed Loan Draw:	250,851,651	3,304,745	3,192,978	3,463,340	186,693,357	54,197,231
Net Revenue Before Release:	357,132,942	821,606	821,606	821,606	207,748,432	146,919,691
Cash Flow Before Release:	357,132,942	821,606	821,606	821,606	207,748,432	146,919,691
Release Payment:	250,851,651	0	0	0	196,654,420	54,197,231
Cash Flow After Release:	106,281,291	821,606	821,606	821,606	11,094,013	92,722,460
Total Developer's Profit :	0	0	0	0	0	0
Net Cash Flow:	106,281,291	\$821,606	\$821,606	\$821,606	\$11,094,013	\$92,722,460
Discount Factor:		1.00000	0.84746	0.71818	0.60863	0.51579
Discounted Cash Flow:	56,685,319	\$821,606	\$696,276	\$590,065	\$6,752,159	\$47,825,213
Mortgage Schedule:						
Beginning Mortgage Balance:		\$0	\$3,304,745	\$6,497,723	\$9,961,063	\$0
Interest Expense Per Period:		0	247,856	487,329	747,080	0
Unit Sales Per Period:		0	0	0	50	34
Additional Loan Draw:		3,304,745	3,192,978	3,463,340	186,693,357	54,197,231
Intermediate Loan Balance:		3,304,745	6,497,723	9,961,063	196,654,420	54,197,231
Total Release Payment:		0	0	0	196,654,420	54,197,231
Ending Mortgage Balance:		3,304,745	6,497,723	9,961,063	0	0

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Valuation Summary			
Community Facilities District No. 1 Special Tax Zone 3-Ritz Residences			
Description	Total	Total Per Unit	Percent of Sales
Total Units Sold	84		
Income			
Total Gross Sales Revenue	\$354,668,124	\$4,222,240	100.00%
Mello Roos Reimbursement	2,464,818	29,343	
Total Income	\$357,132,942		
Estimated Costs:			
Sales Commissions/Marketing:	\$24,826,769	\$295,557	7.00%
Closing Costs:	886,670	10,556	0.25%
Property Taxes- Undeveloped land:	50,500	601	0.01%
Property Taxes- Improved Property:	80,000	952	0.02%
Infrastructure Costs	5,095,420	60,660	1.44%
Direct Construction Costs	206,420,790	2,457,390	58.20%
HOA Dues	48,000	571	0.01%
Mello Roos Taxes (Developer share)	1,321,237	15,729	0.37%
Developer's Overhead/Contingency:	10,640,000	126,667	3.00%
Interest Expense:	1,482,265	17,646	0.42%
Total Deductions	\$250,851,651	\$2,986,329	70.73%
Present Value of Cash Flow			
Discounted at	18.00%	\$56,685,319	
Present Value of Mortgage		\$0	
Present Value of Special Tax		\$153,536	
Value to Single Purchaser:		\$56,838,855	
Value Per Unit:		\$676,653	
Value Per Acre:		\$11,367,771	
TOTAL INDICATED VALUE	\$56,800,000		
INTERNAL RATE OF RETURN	18.00%		

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Summary of Assumptions	
Community Facilities District No. 1 Special Tax Zone 3-Ritz Fractionals	
Valuation Rates	
Projection Start Date	Nov-06
Discount Rate	18.00%
Inflation Rates	
Annual Appreciation Rate - Yrs. 1-9	4.00%
Annual Appreciation Rate - Yrs.10-18	3.50%
Expense Inflation Rate (Ann)	3.50%
Tax Inflation Rate	2.00%
No. Periods/Year	1
Units & Acreage	
No. of Acres	5.00
No. of Units	84
Pricing	
Average base price/unit	\$4,840,000
Estimated Costs	
Sale Comm & Promo % Units	25.00%
Closing costs	0.25%
Periods until Sellout	9
RE Tax/acre/undeveloped land	\$5,000
RE Tax/attached unit/year	\$52,000
Mello Roos Tax per attached unit/year	\$4,352
Infrastructure Costs:	\$4,731,464
Direct Construction Costs/Attached unit	\$1,920,596
HOA Dues	\$12,000
Developer's Overhead/Contingency %	3.00%
Loan Assumptions	
Original Loan	\$0
Annual interest rate	7.500%
Release %	98.00%
Original Mortgage Balance:	\$0
Mortgage Balance Per Lot:	\$0
Release Percent:	98%
Release Price Per Unit:	\$4,743,200
Interest Rate Per Period:	7.50%

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

**Cash Flow Analysis
Community Facilities District No. 1
Special Tax Zone 3-Ritz Fractionals**

Period Month / Year	Totals	1 Nov-06	2 Nov-07	3 Nov-08	4 Nov-09	5 Nov-10	6 Nov-11	7 Nov-12	8 Nov-13	9 Nov-14
Units Complete	78	0	0	0	18	15	15	15	15	0
Cumulative Units Completed:		0	0	0	18	33	48	63	78	78
Average Sales Price / Unit:	\$4,840,000	\$4,840,000	\$5,033,600	\$5,234,944	\$5,444,342	\$5,662,115	\$5,888,600	\$6,124,144	\$6,369,110	\$6,623,874
Unit Sales per Period:	78	0	0	0	15	13	13	13	13	11
Cumulative Units Sold:	78	0	0	0	15	28	41	54	67	78
Unsold Inventory:		0	0	0	3	5	7	9	11	0
Sales Income:	\$467,099,344	\$0	\$0	\$0	\$81,665,126	\$73,607,501	\$76,551,801	\$79,613,873	\$82,798,428	\$72,862,616
Special Tax Reimbursement	0	0	0	0	0	0	0	0	0	0
Mello Roos Reimbursement	2,288,758	762,920	762,919	762,919	0	0	0	0	0	0
Total Income	\$469,388,102	762,920	762,919	762,919	81,665,126	73,607,501	76,551,801	79,613,873	82,798,428	72,862,616
Cumulative Income:		\$762,920	\$1,525,839	\$2,288,758	\$83,953,884	\$157,561,385	\$234,113,186	\$313,727,058	\$396,525,486	\$469,388,102
Estimated Costs:										
Sales Commissions/Marketing:	\$116,774,836	\$0	\$0	\$0	\$20,416,282	\$18,401,875	\$19,137,950	\$19,903,468	\$20,699,607	\$18,215,654
Closing Costs:	1,167,748	0	0	0	204,163	184,019	191,380	199,035	206,996	182,157
Property Taxes- Undeveloped land:	50,500	25,000	25,500	0	0	0	0	0	0	0
Property Taxes- Improved Property:	2,189,709	0	0	0	156,000	298,356	432,318	575,291	727,744	0
Infrastructure Costs	4,731,464	1,069,478	735,078	763,846	604,555	445,938	400,889	35,584	35,584	640,512
Direct Construction Costs	175,545,658	0	0	0	52,733,654	16,529,461	34,215,984	35,413,543	36,653,017	0
HOA Dues	505,317	0	0	0	36,000	68,851	99,766	132,760	167,941	0
Mello Roos Taxes (Developer share)	1,226,862	0	0	23,592	131,981	204,038	181,122	159,573	140,023	386,533
Developer's Overhead/Contingency:	14,013,000	1,557,000	1,557,000	1,557,000	1,557,000	1,557,000	1,557,000	1,557,000	1,557,000	1,557,000
Interest Expense:	1,501,470	0	198,861	387,594	592,496	322,519	0	0	0	0
Total Expenses:	(317,706,565)	(2,651,478)	(2,516,439)	(2,732,032)	(76,432,131)	(38,012,057)	(56,216,408)	(57,976,254)	(60,187,912)	(20,981,856)
Assumed Loan Draw:	317,706,565	2,651,478	2,516,439	2,732,032	76,432,131	38,012,057	56,216,408	57,976,254	60,187,912	20,981,856
Net Revenue Before Release:	469,388,102	762,920	762,919	762,919	81,665,126	73,607,501	76,551,801	79,613,873	82,798,428	72,862,616
Cash Flow Before Release:	469,388,102	762,920	762,919	762,919	81,665,126	73,607,501	76,551,801	79,613,873	82,798,428	72,862,616
Release Payment:	317,706,565	0	0	0	80,031,824	42,312,312	56,216,408	57,976,254	60,187,912	20,981,856
Cash Flow After Release:	151,681,537	762,920	762,919	762,919	1,633,303	31,295,188	20,335,393	21,637,619	22,610,516	51,880,761
Total Developer's Profit:	0	0	0	0	0	0	0	0	0	0
Net Cash Flow:	151,681,537	\$762,920	\$762,919	\$762,919	\$1,633,303	\$31,295,188	\$20,335,393	\$21,637,619	\$22,610,516	\$51,880,761
Discount Factor:	1.00000	0.84746	0.71818	0.60863	0.51579	0.43711	0.37043	0.31393	0.26604	0.22604
Discounted Cash Flow:	56,897,480	\$762,920	\$646,542	\$547,917	\$994,078	\$16,141,710	\$8,888,788	\$8,015,256	\$7,098,007	\$13,802,262
Mortgage Schedule:										
Beginning Mortgage Balance:		\$0	\$2,651,478	\$5,167,917	\$7,899,949	\$4,300,255	\$0	\$0	\$0	\$0
Interest Expense Per Period:		0	198,861	387,594	592,496	322,519	0	0	0	0
Unit Sales Per Period:		0	0	0	15	13	13	13	13	11
Additional Loan Draw:		2,651,478	2,516,439	2,732,032	76,432,131	38,012,057	56,216,408	57,976,254	60,187,912	20,981,856
Intermediate Loan Balance:		2,651,478	5,167,917	7,899,949	84,332,079	42,312,312	56,216,408	57,976,254	60,187,912	20,981,856
Total Release Payment:		0	0	0	80,031,824	42,312,312	56,216,408	57,976,254	60,187,912	20,981,856
Ending Mortgage Balance:		2,651,478	5,167,917	7,899,949	4,300,255	0	0	0	0	0

VALUATION SERVICES



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DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Valuation Summary			
Community Facilities District No. 1 Special Tax Zone 3-Ritz Fractionals			
Description	Total	Total Per Unit	Percent of Sales
Total Units Sold	78		
Income			
Total Gross Sales Revenue	\$467,099,344	\$5,988,453	100.00%
Mello Roos Reimbursement	2,288,758		
Total Income	\$469,388,102		
Estimated Costs:			
Sales Commissions/Marketing:	\$116,774,836	\$1,497,113	25.00%
Closing Costs:	1,167,748	14,971	0.25%
Property Taxes- Undeveloped land:	50,500	647	0.01%
Property Taxes- Improved Property:	2,189,709	28,073	0.47%
Infrastructure Costs	4,731,464	60,660	1.01%
Direct Construction Costs	175,545,658	2,250,585	37.58%
HOA Dues	505,317	6,478	0.11%
Mello Roos Taxes (Developer share)	1,226,862	15,729	0.26%
Developer's Overhead/Contingency:	14,013,000	179,654	3.00%
Interest Expense:	1,501,470	19,250	0.32%
Total Deductions	\$317,706,565	\$4,073,161	68.02%
Present Value of Cash Flow			
Discounted at	18.00%	\$56,897,480	
Present Value of Mortgage		\$0	
Present Value of Special Tax		\$162,396	
Value to Single Purchaser:		\$57,059,876	
Value Per Unit:		\$679,284	
Value Per Acre:		\$11,411,975	
TOTAL INDICATED VALUE		\$57,100,000	
INTERNAL RATE OF RETURN		18.00%	

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Summary of Assumptions	
Community Facilities District No. 1 Special Tax Zone 3-Future Units	
Valuation Rates	
Projection Start Date	Nov-06
Discount Rate	18.00%
Inflation Rates	
Annual Appreciation Rate - Yrs. 1-9	4.00%
Annual Appreciation Rate - Yrs.10-18	3.50%
Expense Inflation Rate (Ann)	3.50%
Tax Inflation Rate	2.00%
No. Periods/Year	1
Units & Acreage	
No. of Acres	221.61
No. of Units	858
Pricing	
Average base price/attached unit	\$2,300,000
Estimated Costs	
Sale Comm & Promo % Units	7.00%
Closing costs	0.25%
Periods until Sellout	17
RE Tax/acre/undeveloped land	\$5,000
RE Tax/attached unit/year	\$20,000
Mello Roos Tax per attached unit/year	\$4,352
Infrastructure Costs:	\$52,766,081
Direct Construction Costs/Attached unit	\$1,300,000
HOA Dues	\$12,000
Developer's Overhead/Contingency %	3.00%
Loan Assumptions	
Original Loan	\$0
Annual interest rate	7.500%
Release %	98.00%
Original Mortgage Balance:	\$0
Mortgage Balance Per Lot:	\$0
Release Percent:	98%
Release Price Per Unit:	\$2,254,000
Interest Rate Per Period:	7.50%

DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Cash Flow Analysis
Community Facilities District No. 1
Special Tax Zone 3-Future Units

Period Month / Year	Totals	1 Nov-06	2 Nov-07	3 Nov-08	4 Nov-09	5 Nov-10	6 Nov-11	7 Nov-12	8 Nov-13	9 Nov-14
Units Complete	858	0	0	0	10	40	40	40	40	20
Cumulative Units Completed:					10	50	90	130	170	50
Average Sales Price / Unit:	\$2,300,000	\$2,300,000	\$2,392,000	\$2,487,880	\$2,587,187	\$2,690,675	\$2,798,302	\$2,910,234	\$3,026,643	\$3,147,709
Unit Sales per Period:	858	0	0	0	10	30	40	40	40	20
Cumulative Units Sold:	858	0	0	0	10	40	80	120	160	50
Unsold Inventory:	0	0	0	0	0	10	10	10	10	10
Sales Income:	\$3,015,288,795	\$0	\$0	\$0	\$25,871,872	\$80,720,241	\$111,932,067	\$116,409,350	\$121,065,724	\$157,385,441
Special Tax Reimbursement	0	0	0	0	0	0	0	0	0	0
Mello Roos Reimbursement	25,176,350	10,000,000	7,238,175	7,238,175	700,000	0	0	0	0	0
Total Income	\$3,040,465,145	\$10,000,000	\$7,238,175	\$7,238,175	\$26,571,872	\$80,720,241	\$111,932,067	\$116,409,350	\$121,065,724	\$157,385,441
Cumulative Income:		\$10,000,000	\$17,238,175	\$24,476,350	\$51,048,222	\$131,768,463	\$243,700,530	\$360,109,879	\$481,175,603	\$638,561,044
Estimated Costs:										
Sales Commissions/Marketing:	\$211,070,216	\$0	\$0	\$0	\$1,811,031	\$5,650,417	\$7,835,245	\$8,148,654	\$8,474,601	\$11,016,981
Closing Costs:	7,538,222	0	0	0	64,680	201,801	279,830	291,023	302,664	393,464
Property Taxes- Undeveloped land:	17,019,412	1,108,050	1,130,211	1,186,971	1,217,337	1,213,666	1,208,246	1,200,961	1,191,686	1,167,014
Property Taxes- Improved Property:	3,351,217	0	0	0	229,505	237,537	245,851	254,851	254,456	263,362
Infrastructure Costs	52,766,081	11,764,253	8,805,853	8,402,311	6,650,104	4,905,318	4,409,776	391,423	391,423	3,131,387
Direct Construction Costs	1,631,392,075	0	0	0	40,413,332	29,835,598	61,759,688	63,921,277	66,158,522	85,592,587
HOA Dues	2,010,730	0	0	0	0	137,703	142,522	147,511	152,674	158,017
Mello Roos Taxes (Developer share)	13,495,495	0	0	259,514	1,451,789	2,244,422	1,992,345	1,755,299	1,540,251	1,336,789
Developer's Overhead/Contingency:	90,458,700	5,321,100	5,321,100	5,321,100	5,321,100	5,321,100	5,321,100	5,321,100	5,321,100	5,321,100
Interest Expense:	23,790,564	0	1,364,505	2,611,130	3,944,707	6,608,681	9,901,859	13,214,633	16,529,407	20,844,181
Total Expenses:	(2,052,892,711)	(18,193,403)	(16,621,669)	(17,781,026)	(60,874,080)	(56,348,209)	(88,088,149)	(84,704,563)	(84,865,594)	(108,380,701)
Assumed Loan Draw:	2,052,892,711	18,193,403	16,621,669	17,781,026	60,874,080	56,348,209	88,088,149	84,704,563	84,865,594	108,380,701
Net Revenue Before Release:	3,040,465,145	10,000,000	7,238,175	7,238,175	26,571,872	80,720,241	111,932,067	116,409,350	121,065,724	157,385,441
Cash Flow Before Release:	3,040,465,145	10,000,000	7,238,175	7,238,175	26,571,872	80,720,241	111,932,067	116,409,350	121,065,724	157,385,441
Release Payment:	(2,052,892,711)	0	0	0	25,354,435	79,105,836	109,693,426	114,081,163	99,241,834	108,380,701
Cash Flow After Release:	987,572,433	10,000,000	7,238,175	7,238,175	1,217,437	1,614,405	2,238,641	2,328,187	21,823,889	49,004,740
Total Developer's Profit :	0	0	0	0	0	0	0	0	0	0
Net Cash Flow:	987,572,433	\$10,000,000	\$7,238,175	\$7,238,175	\$1,217,437	\$1,614,405	\$2,238,641	\$2,328,187	\$21,823,889	\$49,004,740
Discount Factor:		1.00000	0.84746	0.71818	0.60863	0.51579	0.43711	0.37043	0.31393	0.26604
Discounted Cash Flow:	154,458,380	\$10,000,000	\$6,134,047	\$5,198,345	\$740,970	\$832,692	\$978,531	\$862,434	\$6,851,065	\$13,037,131
Mortgage Schedule:										
Beginning Mortgage Balance:		\$0	\$18,193,403	\$34,815,072	\$52,596,099	\$88,115,744	\$65,358,118	\$43,752,840	\$14,376,241	\$0
Interest Expense Per Period:		0	1,364,505	2,611,130	3,944,707	6,608,681	9,901,859	13,214,633	1,078,218	0
Unit Sales Per Period:		0	0	0	10	30	40	40	40	50
Additional Loan Draw:		18,193,403	16,621,669	17,781,026	60,874,080	56,348,209	88,088,149	84,704,563	84,865,594	108,380,701
Intermediate Loan Balance:		18,193,403	34,815,072	52,596,099	113,470,179	144,463,953	153,446,266	128,457,403	99,241,834	108,380,701
Total Release Payment:		0	0	0	25,354,435	79,105,836	109,693,426	114,081,163	99,241,834	108,380,701
Ending Mortgage Balance:		18,193,403	34,815,072	52,596,099	88,115,744	65,358,118	43,752,840	14,376,241	0	0



DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

Cash Flow Analysis
Community Facilities District No. 1
Special Tax Zone 3-Future Units

Period Month / Year	Totals	10 Nov-15	11 Nov-16	12 Nov-17	13 Nov-18	14 Nov-19	15 Nov-20	16 Nov-21	17 Nov-22
Units Complete	858	50	50	100	100	100	100	100	38
Cumulative Units Completed:		270	320	420	520	620	720	820	858
Average Sales Price / Unit:	\$2,300,000	\$3,257,879	\$3,371,904	\$3,489,921	\$3,612,068	\$3,738,491	\$3,869,338	\$4,004,765	\$4,144,931
Unit Sales per Period:	858	50	50	100	100	100	100	100	48
Cumulative Units Sold:	858	260	310	410	510	610	710	810	858
Unsold Inventory:	0	10	10	10	10	10	10	10	0
Sales Income:	\$3,015,288,795	\$162,893,931	\$168,595,219	\$348,992,103	\$361,206,827	\$373,849,065	\$386,933,783	\$400,476,465	\$198,956,708
Special Tax Reimbursement	0	0	0	0	0	0	0	0	0
Mello Roos Reimbursement	25,176,350	0	0	0	0	0	0	0	0
Total Income	\$3,040,465,145	\$162,893,931	\$168,595,219	\$348,992,103	\$361,206,827	\$373,849,065	\$386,933,783	\$400,476,465	\$198,956,708
Cumulative Income:		\$801,454,975	\$970,050,194	\$1,319,042,297	\$1,680,249,123	\$2,054,098,189	\$2,441,031,972	\$2,841,508,437	\$3,040,465,145
Estimated Costs:									
Sales Commissions/Marketing:	\$211,070,216	\$11,402,575	\$11,801,665	\$24,429,447	\$25,284,478	\$26,169,435	\$27,085,365	\$28,033,353	\$13,926,970
Closing Costs:	7,538,222	407,235	421,488	872,480	903,017	934,623	967,334	1,001,191	497,392
Property Taxes- Undeveloped land:	17,019,412	1,139,155	1,107,916	999,498	882,133	755,328	618,566	471,305	421,369
Property Taxes- Improved Property:	3,351,217	272,579	282,120	291,994	302,214	312,791	323,739	335,070	0
Infrastructure Costs	52,766,081	391,423	391,423	3,131,387	0	0	0	0	0
Direct Construction Costs	1,631,392,075	88,588,328	91,688,919	189,796,063	196,438,925	203,314,288	210,430,288	217,795,348	85,658,910
HOA Dues	2,010,730	163,548	169,272	175,196	181,328	187,675	194,243	201,042	0
Mello Roos Taxes (Developer share)	13,495,495	1,111,016	869,351	934,719	0	0	0	0	0
Developer's Overhead/Contingency:	90,458,700	5,321,100	5,321,100	5,321,100	5,321,100	5,321,100	5,321,100	5,321,100	5,321,100
Interest Expense:	23,790,564	0	0	0	0	0	0	0	0
Total Expenses:	(2,052,892,711)	(108,796,959)	(112,053,255)	(225,951,885)	(229,313,195)	(236,995,239)	(244,940,635)	(253,158,409)	(105,825,740)
Assumed Loan Draw:	2,052,892,711	108,796,959	112,053,255	225,951,885	229,313,195	236,995,239	244,940,635	253,158,409	105,825,740
Net Revenue Before Release:	3,040,465,145	162,893,931	168,595,219	348,992,103	361,206,827	373,849,065	386,933,783	400,476,465	198,956,708
Release Payment:	(2,052,892,711)	0	0	0	0	0	0	0	0
Cash Flow Before Release:	3,040,465,145	162,893,931	168,595,219	348,992,103	361,206,827	373,849,065	386,933,783	400,476,465	198,956,708
Release Payment:	(2,052,892,711)	0	0	0	0	0	0	0	0
Cash Flow After Release:	987,572,433	162,893,931	168,595,219	348,992,103	361,206,827	373,849,065	386,933,783	400,476,465	198,956,708
Total Developer's Profit :	0	0	0	0	0	0	0	0	0
Net Cash Flow:	987,572,433	\$162,893,931	\$168,595,219	\$348,992,103	\$361,206,827	\$373,849,065	\$386,933,783	\$400,476,465	\$198,956,708
Discount Factor:		0.22546	0.19106	0.16192	0.13722	0.11629	0.09855	0.08352	0.07078
Discounted Cash Flow:	154,458,380	\$12,196,491	\$10,803,160	\$19,922,554	\$18,098,381	\$15,914,421	\$13,993,272	\$12,303,421	\$6,591,466
Mortgage Schedule:									
Beginning Mortgage Balance:		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Interest Expense Per Period:		0	0	0	0	0	0	0	0
Unit Sales Per Period:		50	50	100	100	100	100	100	48
Additional Loan Draw:		108,796,959	112,053,255	225,951,885	229,313,195	236,995,239	244,940,635	253,158,409	105,825,740
Intermediate Loan Balance:		108,796,959	220,850,214	446,802,100	676,115,295	913,108,534	1,158,049,169	1,411,207,578	1,517,033,318
Total Release Payment:		108,796,959	112,053,255	225,951,885	229,313,195	236,995,239	244,940,635	253,158,409	105,825,740
Ending Mortgage Balance:		0	0	0	0	0	0	0	0



DEVELOPMENTAL ANALYSIS (DISCOUNTED CASH FLOW)

RECONCILIATION AND FINAL VALUE OPINION

Valuation Summary			
Community Facilities District No. 1 Special Tax Zone 3-Future Units			
Description	Total	Total Per Unit	Percent of Sales
Total Units Sold	858		
Income			
Total Gross Sales Revenue	\$3,015,288,795	\$3,514,323	100.00%
Mello Roos Reimbursement	25,176,350		
Total Income	\$3,040,465,145		
Estimated Costs:			
Sales Commissions/Marketing:	\$211,070,216	\$246,003	7.00%
Closing Costs:	7,538,222	8,786	0.25%
Property Taxes- Undeveloped land:	17,019,412	19,836	0.56%
Property Taxes- Improved Property:	3,351,217	3,906	0.11%
Infrastructure Costs	52,766,081	61,499	1.75%
Direct Construction Costs	1,631,392,075	1,901,389	54.10%
Direct Construction Costs (Loft Units)	0	0	0.00%
HOA Dues	2,010,730	2,344	0.07%
Mello Roos Taxes (Developer share)	13,495,495	15,729	0.45%
Developer's Overhead/Contingency:	90,458,700	105,430	3.00%
Interest Expense:	23,790,564	27,728	0.79%
Total Deductions	\$2,052,892,711	\$2,392,649	68.08%
Present Value of Cash Flow			
Discounted at	18.00%	\$154,458,380	
Present Value of Mortgage		\$0	
Present Value of Special Tax		\$1,568,257	
Value to Single Purchaser:		\$156,026,637	
Value Per Unit:		\$181,849	
Value Per Acre:		\$704,060	
TOTAL INDICATED VALUE		\$156,000,000	
INTERNAL RATE OF RETURN		18.00%	

Valuation Methodology Review and Reconciliation

This appraisal employs all three typical approaches to value: the Cost Approach, the Sales Comparison Approach and the Income Capitalization Approach. Based on our analysis and knowledge of the subject property type and relevant investor profiles, it is our opinion that all approaches would be considered meaningful and applicable in developing a credible value conclusion.

Based on our Complete Appraisal as defined by the *Uniform Standards of Professional Appraisal Practice*, we have developed an opinion that the "as-is" market value of the fee simple estate of the referenced property, subject to the assumptions, limiting conditions, certifications, and definitions, on November 1, 2006 was:

Northstar Community Services District Community Facilities District No. 1 Market Value Summary		
	No. of Units	Market Value Conclusion
Zone 1		
Phase 1	100	\$178,000,000
Phase 2	113	\$132,400,000
Phase 3	137	\$66,000,000
Total Zone 1	350	\$376,400,000
Zone 2	354	\$88,800,000
Zone 3		
Trailside Townhomes	16	\$16,800,000
Highlands Lodge	60	\$27,200,000
Ritz Residences	78	\$56,800,000
Ritz Club	84	\$57,100,000
Future Units	858	\$156,000,000
Total Phase 3	1,096	\$313,900,000
Grand Total CFD	1,800	\$779,100,000

The above values represent the majority of the taxable property in the CFD. There is also commercial property and hotel residential property to be developed in the CFD which is taxable but is not included in the values above due to the minimal share of the tax obligation attributable to this component of the subject.

ASSUMPTIONS AND LIMITING CONDITIONS

"Report" means the appraisal or consulting report and conclusions stated therein, to which these Assumptions and Limiting Conditions are annexed.

"Property" means the subject of the Report.

"C&W" means Cushman & Wakefield, Inc. or its subsidiary that issued the Report.

"Appraiser(s)" means the employee(s) of C&W who prepared and signed the Report.

The Report has been made subject to the following assumptions and limiting conditions:

1. No opinion is intended to be expressed and no responsibility is assumed for the legal description or for any matters that are legal in nature or require legal expertise or specialized knowledge beyond that of a real estate appraiser. Title to the Property is assumed to be good and marketable and the Property is assumed to be free and clear of all liens unless otherwise stated. No survey of the Property was undertaken.
2. The information contained in the Report or upon which the Report is based has been gathered from sources the Appraiser assumes to be reliable and accurate. The owner of the Property may have provided some of such information. Neither the Appraiser nor C&W shall be responsible for the accuracy or completeness of such information, including the correctness of estimates, opinions, dimensions, sketches, exhibits and factual matters. Any authorized user of the Report is obligated to bring to the attention of C&W any inaccuracies or errors that it believes are contained in the Report.
3. The opinions are only as of the date stated in the Report. Changes since that date in external and market factors or in the Property itself can significantly affect the conclusions.
4. The Report is to be used in whole and not in part. No part of the Report shall be used in conjunction with any other analyses. Publication of the Report or any portion thereof without the prior written consent of C&W is prohibited. Reference to the Appraisal Institute or to the MAI designation is prohibited. Except as may be otherwise stated in the letter of engagement, the Report may not be used by any person(s) other than the party(ies) to whom it is addressed or for purposes other than that for which it was prepared. No part of the Report shall be conveyed to the public through advertising, or used in any sales, promotion, offering or SEC material without C&W's prior written consent.

Any authorized user(s) of this Report who provides a copy to, or permits reliance thereon by, any person or entity not authorized by C&W in writing to use or rely thereon, hereby agrees to indemnify and hold C&W, its affiliates and their respective shareholders, directors, officers and employees, harmless from and against all damages, expenses, claims and costs, including attorneys' fees, incurred in investigating and defending any claim arising from or in any way connected to the use of, or reliance upon, the Report by any such unauthorized person(s) or entity(ies).

5. Except as may be otherwise stated in the letter of engagement, the Appraiser shall not be required to give testimony in any court or administrative proceeding relating to the Property or the Appraisal.
6. The Report assumes (a) responsible ownership and competent management of the Property; (b) there are no hidden or unapparent conditions of the Property, subsoil or

ASSUMPTIONS AND LIMITING CONDITIONS

structures that render the Property more or less valuable (no responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them); (c) full compliance with all applicable federal, state and local zoning and environmental regulations and laws, unless noncompliance is stated, defined and considered in the Report; and (d) all required licenses, certificates of occupancy and other governmental consents have been or can be obtained and renewed for any use on which the value opinion contained in the Report is based.

7. The physical condition of the improvements considered by the Report is based on visual inspection by the Appraiser or other person identified in the Report. C&W assumes no responsibility for the soundness of structural members or for the condition of mechanical equipment, plumbing or electrical components.
8. The forecasted potential gross income referred to in the Report may be based on lease summaries provided by the owner or third parties. The Report assumes no responsibility for the authenticity or completeness of lease information provided by others. C&W recommends that legal advice be obtained regarding the interpretation of lease provisions and the contractual rights of parties.
9. The forecasts of income and expenses are not predictions of the future. Rather, they are the Appraiser's best opinions of current market thinking on future income and expenses. The Appraiser and C&W make no warranty or representation that these forecasts will materialize. The real estate market is constantly fluctuating and changing. It is not the Appraiser's task to predict or in any way warrant the conditions of a future real estate market; the Appraiser can only reflect what the investment community, as of the date of the Report, envisages for the future in terms of rental rates, expenses, and supply and demand.
10. Unless otherwise stated in the Report, the existence of potentially hazardous or toxic materials that may have been used in the construction or maintenance of the improvements or may be located at or about the Property was not considered in arriving at the opinion of value. These materials (such as formaldehyde foam insulation, asbestos insulation and other potentially hazardous materials) may adversely affect the value of the Property. The Appraisers are not qualified to detect such substances. C&W recommends that an environmental expert be employed to determine the impact of these matters on the opinion of value.
11. Unless otherwise stated in the Report, compliance with the requirements of the Americans with Disabilities Act of 1990 (ADA) has not been considered in arriving at the opinion of value. Failure to comply with the requirements of the ADA may adversely affect the value of the Property. C&W recommends that an expert in this field be employed.
12. If the Report is submitted to a lender or investor with the prior approval of C&W, such party should consider this Report as only one factor together with its independent investment considerations and underwriting criteria, in its overall investment decision. Such lender or investor is specifically cautioned to understand all Extraordinary Assumptions and Hypothetical Conditions and the Assumptions and Limiting Conditions incorporated in this Report.

ASSUMPTIONS AND LIMITING CONDITIONS

13. In the event of a claim against C&W or its affiliates or their respective officers or employees or the Appraisers in connection with or in any way relating to this Report or this engagement, the maximum damages recoverable shall be the amount of the monies actually collected by C&W or its affiliates for this Report and under no circumstances shall any claim for consequential damages be made.
14. If the Report is referred to or included in any offering material or prospectus, the Report shall be deemed referred to or included for informational purposes only and C&W, its employees and the Appraiser have no liability to such recipients. C&W disclaims any and all liability to any party other than the party that retained C&W to prepare the Report.
15. At the Client's request, we have provided an insurable value estimate. The estimate is based on figures derived from a national cost estimating service and is developed consistent with industry practices. However, actual local and regional construction costs may vary significantly from our estimate and individual insurance policies and underwriters have varied specifications, exclusions, and non-insurable items. As such, we strongly recommend that the Client obtain estimates from professionals experienced in establishing insurance coverage for replacing any structure. This analysis should not be relied upon to determine insurance coverage. Furthermore, we make no warranties regarding the accuracy of this estimate.
16. By use of this Report each party that uses this Report agrees to be bound by all of the Assumptions and Limiting Conditions, Hypothetical Conditions and Extraordinary Assumptions stated herein.

Extraordinary Assumptions

An extraordinary assumption is defined by the *USPAP* (2005 Edition, The Appraisal Foundation) as "an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis."

- Our analysis assumes completion of CFD and private improvements necessary for development of the proposed project will be completed in a timely and workmanlike manner per the specifications and descriptions provided by the developer.
- Our analysis assumes that the Northstar Community Services District Community Facilities District No. 1 bonds are issued per the terms and specifications outlined in the CFD report.
- The report, analysis and conclusions stated herein rely heavily upon information provided by others, including the district, the developers and other consultants involved in the project. The reliability of our conclusions is directly related to the accuracy and reasonableness of the information we have been provided.
- Our analysis specifically assumes final plat maps will be granted for the various land areas to be platted with individual units.

ASSUMPTIONS AND LIMITING CONDITIONS

Hypothetical Conditions

A hypothetical condition is defined by the *USPAP* (2005 Edition, The Appraisal Foundation) as "that which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis."

This appraisal employs no hypothetical conditions.

CERTIFICATION OF APPRAISAL

We certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
8. Christopher T. Donaldson, MAI, CCIM made a personal inspection of the property that is the subject of this report.
9. D. Tyler Dustman provided significant real property appraisal assistance to the persons signing this report.
10. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
11. As of the date of this report, Christopher T. Donaldson, MAI, CCIM has completed the continuing education program of the Appraisal Institute.

Christopher T. Donaldson

Christopher T. Donaldson, MAI, CCIM
Director
California Certified General Appraiser
License No. AG011161

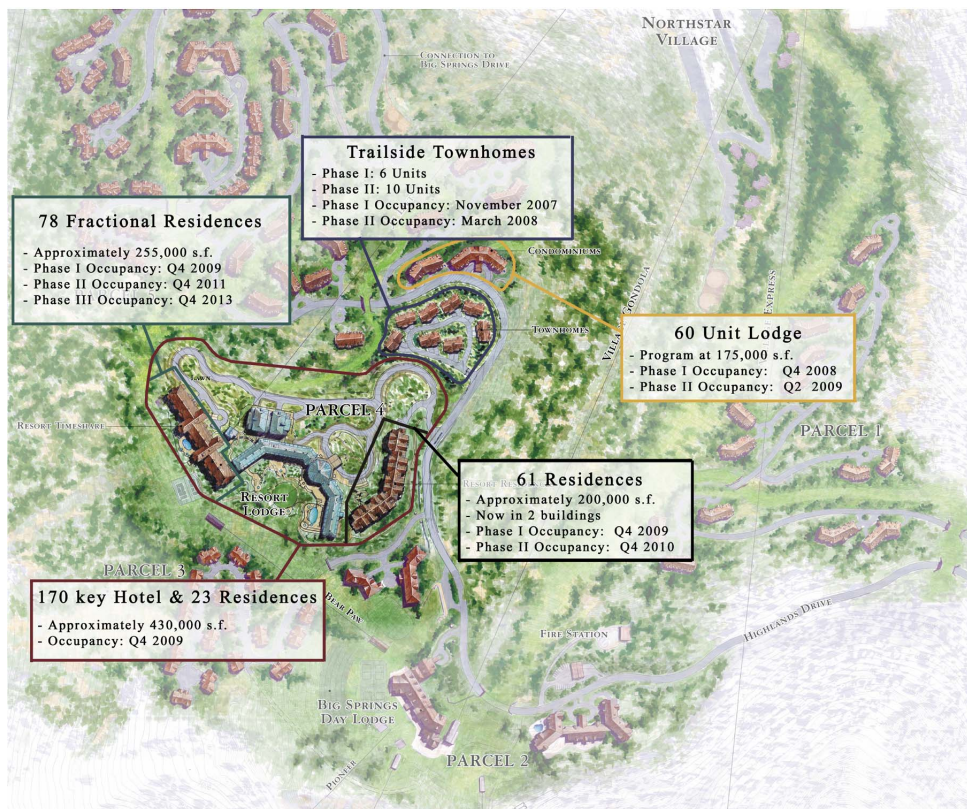
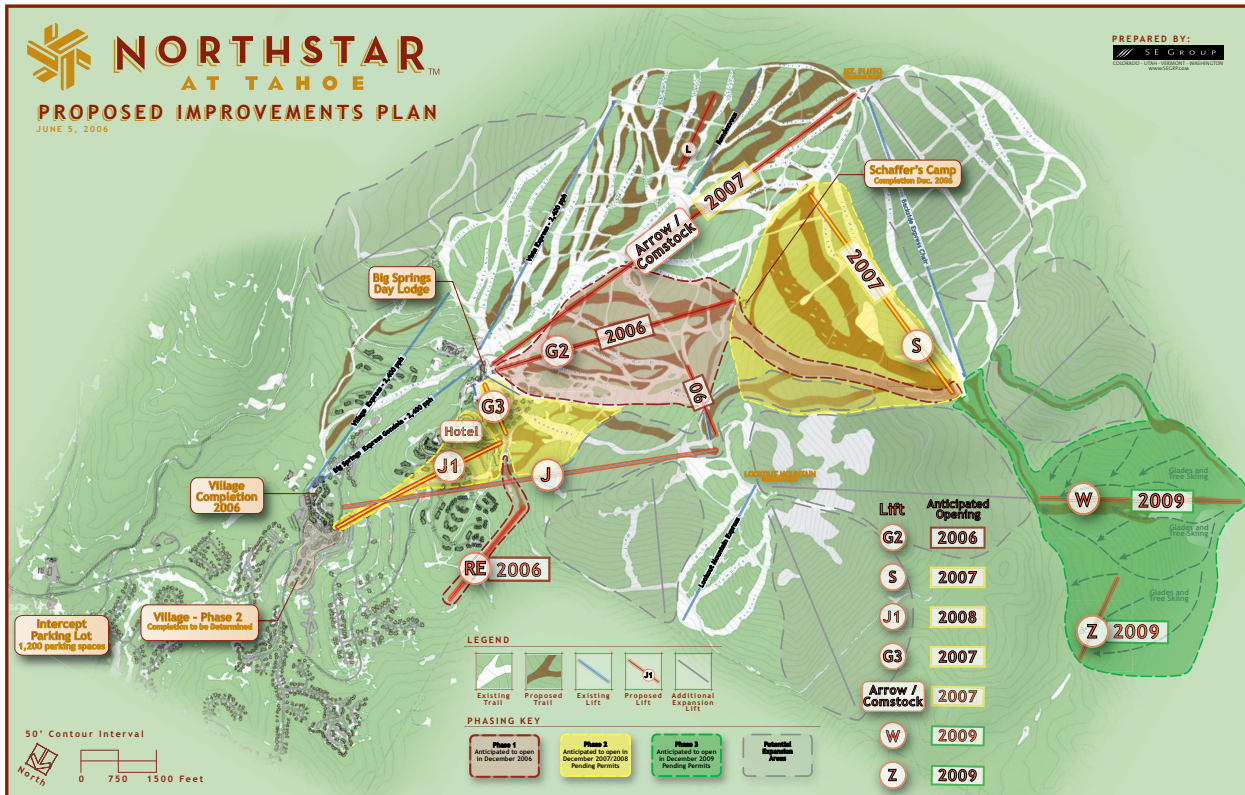
ADDENDA

Addenda Contents

ADDENDUM A: Development Exhibits
ADDENDUM B: Qualifications of the Appraiser

ADDENDUM A: Development Exhibits

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ADDENDUM B: Qualifications of the Appraiser

PROFESSIONAL QUALIFICATIONS

Christopher T. Donaldson, MAI, CCIM

Director, Capital Markets Group

Mr. Donaldson began working as a commercial real estate appraiser for John D. Bailey & Company in 1986. Employed from 1990-1991 as a Senior Review Appraiser for First Gibraltar Bank in Dallas, Texas. Employed from 1991-2004 as an appraiser and principal with Brown, Chudleigh, Schuler, Donaldson and Associates.

Joined Cushman & Wakefield of Colorado, Inc. in 2004 as a Director for the Utah office of Valuation Advisory Services. Current responsibilities consist of client relations and the appraisal of property.

Experience

Appraisal experience includes the valuation of income-producing real estate on a national basis. Types of properties appraised include regional malls, office buildings, shopping centers, apartments, residential and commercial subdivisions, industrial buildings, hotels, resort properties, fractional ownership projects, master planned communities, department stores, vacant land, manufactured housing communities, amusement properties, and special purpose properties.

Education

Coe College, Cedar Rapids, Iowa Degree: Bachelor of Arts, English Major, 1978

Appraisal Education

Successfully completed all courses and experience requirements to qualify for the MAI designation. Also, he has completed the requirements of the continuing education program of the Appraisal Institute, including attending numerous lectures. Coursework includes: 1A-Real Estate Appraisal Principles, 1B, (1,2, &3)-Capitalization Theory and Techniques, 2-2-Report Writing and Valuation Analysis, 2-1-Case Studies in Real Estate Valuation, 410&420-Standards of Professional Practice, Parts A & B., and seminars sponsored by the Appraisal Institute. Successfully completed all courses and experience requirements to qualify for the CCIM designation.

Memberships, Licenses and Professional Affiliations

- Member of the Appraisal Institute (MAI Designation): No. 9157
- Member of the CCIM Institute (CCIM Designation): No. 7625
- State of Utah Certified General Appraiser: No. CG00042231
- State of Colorado Certified General Appraiser: No. CG01319868
- State of Oregon Certified General Appraiser: No. C000331
- State of California Certified General Appraiser: No. 30707



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APPENDIX C

SUMMARY OF INDENTURE

Certain provisions of the Trust Indenture, and the First Supplemental Trust Indenture thereto (collectively, the “Indenture”), that have not been previously discussed in this Official Statement are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Indenture. Purchasers of the Bonds are referred to the complete text of the Indenture, copies of which are available upon written request from the District.

DEFINITIONS

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

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

“*2006 Bonds*” means any of the District’s Special Tax Bonds, Series 2006 that are Outstanding under the 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 the Indenture.

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

“*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, the Acquisition Agreement, by and among the Community Services District, the District and the Developer which has an effective date of December 1, 2006, 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 under the Indenture.

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

“*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 of the Indenture, 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 the Indenture.

“*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 Mae”) 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 under the Indenture or (B) assign the existing agreement and all of its obligations under the Indenture 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 the 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 the 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 uninsured, 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%; and

(l) 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 District’s 2005 Bonds, 2006 Bonds and any Parity Bonds issued pursuant to the 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 the Indenture relating to the calculation of arbitrage rebate amounts “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, San Francisco, 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 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.

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

“*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*” means the costs and expenses incurred in connection with the issuance and sale of the Bonds, including the acceptance and initial annual fees and expenses of the 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 the Indenture.

“*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 the 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 Facilities District;

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

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

“*Indenture*” means the Trust Indenture, together with any Supplemental Indenture entered into pursuant to the terms of the Indenture summarized under the heading “AMENDMENTS TO THE INDENTURE.”

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

“*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.

“*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 the Indenture.

“*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 the Indenture;

(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 the Indenture; and

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

“*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 and the 2006 Bonds that are payable from Net Taxes on a parity with the 2005 Bonds and the 2006 Bonds.

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

“*Prepayment*” means money received by the Community Facilities 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 the Indenture.

“*Principal Account*” means the Account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“*Principal Office of the Trustee*” means the office of the Trustee located in San Francisco, California (provided that for purposes of redemption, payment, surrender, cancellation, exchange or transfer of Bonds such term shall mean 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.

“*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, Trustee and other fees and expenses relating to the issuance of the Bonds and the formation of the District, and to pay any other “incidental expenses” of the District, as such term is defined in the Act.

“*Rating Agency*” means either Moody’s or Standard & Poor’s, or both, as the context requires.

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

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

“*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 the Indenture.

“*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 the Indenture.

“*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 Facilities District on May 3, 2005, pursuant to which the Community Facilities District formed the District.

“*RMA*” means the Rate and Method of Apportionment of Special Tax approved by the qualified electors of the District at an election conducted on May 3, 2005, a copy of which is attached to the Indenture 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 the Indenture to be deposited in the Principal Account to redeem a portion of the Term Bonds in accordance with the schedule set forth in the Indenture to retire the Term Bonds.

“*Six-Month Period*” means the period of time beginning on the Delivery Date of each issue of Bonds, and ending six consecutive months thereafter, and each six month period thereafter until the latest maturity date of the Bonds (and any obligations that refund an issue of the 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 the Indenture).

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

“*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 of the Indenture amending or supplementing the Indenture.

“*Surplus Fund*” means the Fund by such name created and established pursuant to the Indenture.

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

“*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 2005 Bonds maturing September 1, 2028 and September 1, 2036, the 2006 Bonds maturing September 1, 2026 and September 1, 2037, and any maturities of Parity Bonds designated as such in a Supplemental Indenture.

“*Trustee*” means Wells Fargo Bank, National Association, a national 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 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 the 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.

CREATION OF FUNDS AND APPLICATION OF REVENUES AND GROSS TAXES

Creation of Funds; Application of Proceeds. The Indenture creates and establishes and requires that the Trustee maintain 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 and a Capitalized Interest Subaccount therein for the 2006 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 and a Rebate Account and an Alternative Penalty Account for the 2006 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, a Costs of Issuance Account for the 2006 Bonds, an Acquisition Account for the 2005 Bonds, an Acquisition Account for the 2006 Bonds, a Construction Account for the 2005 Bonds, a Construction Account for the 2006 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 the Indenture.

Deposits to and Disbursements from Special Tax Fund. The Trustee shall, on each date on which the Special Taxes are received from the Community Facilities 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 below, in the following order of priority, to: the Administrative Expense Account up to the Administrative Expense Cap, the Interest Account, the Principal Account, the Redemption Account, the Reserve Account, the Administrative Expense Account in excess of the Administrative Expense Cap, the Rebate Fund, and 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.

Administrative Expense Account of the Special Tax Fund. In addition to bond proceeds deposited therein, the Trustee shall 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.

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:

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 Indenture, 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.

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 Indenture, 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 the Indenture and in any Supplemental Indenture.

In addition to the transfers to the Interest Account and Principal Account described in the first paragraph of this caption, 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.

Redemption Account of the Special Tax Fund. After making the deposits to the Interest Account and the Principal Account of the Special Tax Fund described above, and in accordance with the District's election to call Bonds for optional redemption, 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 the Indenture.

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 provided in the Indenture. 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. 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.

Prepayment Account of the Special Tax Fund. 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, 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.

Moneys set aside in the Prepayment Account shall be used solely for the purpose of redeeming Bonds 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 provided in the Indenture. 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. 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.

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 of the Indenture to the contrary, the amounts in the Reserve Account shall be applied as follows:

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 upon written direction from the District, and (iii) making any required transfer to the Prepayment Account. 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.

Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to in the Indenture, 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.

In connection with an optional redemption of the Bonds under the Indenture a partial defeasance of the Bonds, 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.

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.

Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture 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 issue 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 the Indenture 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.

Acquisition and Construction Fund.

(a) After making the transfers required by the Indenture, 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 to the Indenture. 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 to the Indenture, 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 to the Indenture. 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. If so directed in a written instrument from the Developer and a Certificate of an Authorized Representative, the Trustee shall transfer from the Acquisition Account to the Construction Account such amount as may be specified in said documents as no longer being necessary for the purposes of the Acquisition 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 portions 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.

Surplus Fund. After making the transfers required by of the Indenture, 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. 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 shall apply such unexpended amounts to, in its sole discretion, either (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 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 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.

Investments. Moneys held in any of the funds, accounts and subaccounts under the 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 the 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:

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. 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.

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. 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.

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 the Indenture; 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. 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.

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 the Indenture or in Authorized Investments of the type described in clause (d) of the definition thereof.

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.

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 under the Indenture, 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. The Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the 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 under the Indenture (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 under the Indenture.

COVENANTS AND WARRANTY

Warranty. The District shall preserve and protect the security pledged under the Indenture to the Bonds against all claims and demands of all persons.

Covenants. So long as any of the Bonds issued under the Indenture are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary 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:

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 the Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District 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 Project Account of 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 under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and in accordance with the Indenture to the extent that Net Taxes are available therefor, and that the payments into the Funds and Accounts created under the Indenture will be made, all in strict conformity with the terms of the Bonds, and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and of the Bonds issued under the Indenture.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Special Taxes except as provided in the 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 in the Indenture prevents 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.

Levy of Special Tax. Beginning in Fiscal Year 2006-2007 and in each Fiscal Year thereafter so long as any Bonds issued under the 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.

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 Consultant 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.

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 in the Indenture requires the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

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.

Federal Tax Covenants. Notwithstanding any other provision of the 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 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, 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.

Reduction of Maximum Annual Special Taxes. The District 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 determines that a reduction in the Maximum Annual Special Tax (as defined in the RMA) authorized to be levied on parcels in the District below the levels specified above 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 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 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), 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) above, 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.

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 above or to limit the power of the District to levy the Special Taxes for the purposes set forth above, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

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 the terms of the Indenture summarized under the heading “EVENTS OF DEFAULT; REMEDIES.”

AMENDMENTS TO INDENTURE

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 or Parity Bonds pursuant to the Indenture and for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provision with respect to matters or questions arising under the 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 the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect or which further secure Bond payments;

(c) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect after the effective date of the Indenture, or to comply with the Code or regulations issued under the Indenture, 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 the Indenture; or

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

Supplemental Indentures or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Indentures described above, 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 the Indenture; provided, however, that nothing in the Indenture permits, or shall 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 the Indenture 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 the Indenture. 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 the Indenture, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Outstanding Bonds shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments.

Notation of Bonds; Delivery of Amended Bonds. After the effective date of any action taken as provided in the Indenture, the District may determine that the Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any 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.

TRUSTEE

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 under the Indenture. 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 in the Indenture. 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 the 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 the Indenture for the purpose of receiving all money which the District is required to deposit with the Trustee under the Indenture and to allocate, use and apply the same as provided in the Indenture.

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

The Trustee is 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.

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 under the Indenture, and indemnify and save the Trustee and its officers, directors and employees harmless against costs, claims expenses and liabilities not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties

under the Indenture. 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.

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 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 or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the provisions described above, the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. 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.

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 of the Indenture 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 federal 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.

Liability of Trustee. The recitals of fact and all promises, covenants and agreements contained in the Indenture 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 the 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 in the Indenture, 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 under the Indenture, 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 under the Indenture 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 the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof is specifically prescribed in the Indenture) 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 the 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 seem 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 under the Indenture, 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 the 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 under the Indenture, or in the exercise of its rights or powers.

In the event the Trustee shall advance funds in connection with its administration of the 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 considered in breach of or in default in its obligations under the Indenture 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 the 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 not be deemed to have knowledge of any event of default that doesn't involve a failure to make payment unless and until it shall have actual knowledge thereof by receipt of written notice thereof at its corporate trust office.

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.

EVENTS OF DEFAULT; REMEDIES

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 the 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.

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 the Indenture;

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

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

Nothing in the Indenture, 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, 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 the Indenture.

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

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

No remedy conferred upon or reserved to the Owners 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 under the Indenture or now or existing after the effective date of the Indenture, 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 consisting of a failure to make payment shall be insufficient to pay in full the whole amount so owing and unpaid upon the Outstanding Bonds, then all available amounts shall be applied to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

DEFEASANCE

If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any 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 the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds, 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 the 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 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 the 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 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, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds being defeased have been legally defeased in accordance with the Indenture and 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 under the Indenture of all Outstanding Bonds, 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.

MISCELLANEOUS

Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the 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 the Indenture (except as otherwise provided in the Indenture), 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 the 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 stated in the Indenture 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.

Unclaimed Moneys. Anything in the 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.

Provisions Constitute Contract. The provisions of the Indenture shall constitute a contract between the District and the Bondowners and the provisions of the Indenture 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 the Indenture shall be irrevocable, but shall be subject to modifications to the extent and in the manner provided in the Indenture, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Indenture 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 under the Indenture, 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 under the Indenture.

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 the Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in the Indenture.

Severability. If any covenant, agreement or provision, or any portion thereof, contained in the Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the 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 the Indenture, the Bonds shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

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APPENDIX D

CONTINUING DISCLOSURE AGREEMENT OF THE DISTRICT

This Continuing Disclosure Agreement, dated as of December 1, 2006 (the “Disclosure Agreement”) is executed and delivered by the Northstar Community Services District Community Facilities District No. 1 (the “District”) in connection with the issuance of its \$_____ aggregate principal amount of Northstar Community Services District Community Facilities District No. 1 Special Tax Bonds, Series 2006 (the “Bonds”). The Bonds are being issued pursuant to a Trust Indenture dated November 1, 2005, between the Community Facilities District and Wells Fargo Bank, National Association (the “Trustee”), as supplemented by a First Supplemental Trust Indenture, dated as of December 1, 2006, by and between the District and the Trustee (collectively, the “Indenture”). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5).

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

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

“*Dissemination Agent*” means Goodwin Consulting Group, Inc., or any successor Dissemination Agent designated in writing by the District and which has filed with the District and the Trustee a written acceptance of such designation.

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

“*National Repository*” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently recognized by the Securities and Exchange Commission are currently set forth in the SEC website located at <http://www.sec.gov/info/municipal/nrmsir.htm>.

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

“*Repository*” means each National Repository and each State Repository.

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

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

Section 3. Provision of Annual Reports

(a) The District shall provide, or shall cause the Dissemination Agent to provide, to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement by not later than seven (7) months after the end of the District's fiscal year in each year, commencing not later than February 1, 2007 (which initial Annual Report shall consist only of the requirements set forth in Section 4(a) hereof). Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the financial information on the District called for in the Annual Report may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District's fiscal year changes, the District, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If by fifteen (15) Business Days prior to the date specified in Subsection (a) for providing the Annual Report to the Repositories, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with Subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall, unless the District has done so pursuant to Section 3(a) above:

(i) determine the name and address of each Repository and, if any, each year prior to the date for providing the Annual Report; and

(ii) if the Dissemination Agent is other than the District or the Trustee, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

(e) Any filing under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council ("MAC") as provided at www.disclosureusa.org, unless the United States Securities and Exchange Commission ("SEC") has withdrawn the interpretative advice in its letter to the MAC dated September 7, 2004, or such other central post office approved by the SEC.

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

(a) The audited financial statements of the District for the most recent fiscal year of the District then ended, which may be included in the audited financial statements of the Northstar Community Services District (the "CSD"). If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the District in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited

financial statements of the District shall be audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited financial statements shall be prepared in accordance with Generally Accepted Accounting Principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the District may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the District shall modify the basis upon which its financial statements are prepared, the District shall provide a notice of such modification to each Repository, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

- (b) The Annual Report shall also contain the following information:
 - (i) the principal amount of the Bonds outstanding as of the June 30 preceding the filing of the Annual Report;
 - (ii) the balance in each fund under the Indenture as of the June 30 preceding the filing of the Annual Report;
 - (iii) The Special Tax delinquency rate for all parcels on which the Special Tax is levied, as shown on the assessment roll of the Placer County Assessor last equalized prior to the September 30 immediately preceding the date of the Annual Report, the number of parcels within the District on which the Special Tax is levied that are delinquent in payment of the Special Tax, as shown on the assessment roll of the Placer County Assessor last equalized prior to the September 30 immediately preceding the date of the Annual Report, the amount of each delinquency and the length of time delinquent, or similar information pertaining to delinquencies deemed appropriate by the District; provided, however, that parcels with delinquencies of \$2,500 or less may be grouped together and such information may be provided by category.
 - (iv) an update of the table attached hereto as Exhibit B, based on the assessed values within the District and the Special Tax levy for the fiscal year in which the Annual Report is being filed;
 - (v) any changes to the Rates and Method of Apportionment of the Special Tax approved or submitted to the qualified electors for approval prior to the filing of the Annual Report;
 - (vi) the status of any foreclosure actions being pursued by the District with respect to delinquent Special Taxes;
 - (vii) any information not already included under (i) through (vi) above that the Board of Directors of the CSD is required to file in its Annual Report to the California Debt and Investment Advisory Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended;
 - (viii) a description of any transfers in property in the fiscal year in which the Annual Report is being filed which results in Taxable Property being reclassified as exempt from the Special Tax under Section H of the and Method of Apportionment of the Special Tax;
 - (ix) a description of any transfers in property in the fiscal year in which the Annual Report is being filed which results in property exempt from the Special Tax under Section H of the and Method of Apportionment of the Special Tax being reclassified as Taxable Property; and

(x) such further information, if any, as may be necessary to make the statements specifically required pursuant to this Section 4(b), in the light of the circumstances under which they are made, not misleading.

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

Neither the Trustee nor the Dissemination Agent shall have any responsibility for the content of the Annual Report, or any part thereof.

Section 5. Reporting of Significant Events

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

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the security.
7. Modifications to rights of security holders.
8. Bond calls.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

(b) The Dissemination Agent shall, within ten (10) business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the District, inform such person of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to Subsection (f); provided, however, that the Dissemination Agent shall have no liability to Bond owners for any failure to provide such notice.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall determine as soon as possible if such event would constitute material information for Bonds owners within the meaning of the federal securities laws.

(d) If the District has determined that knowledge of the occurrence of a Listed Event would be material, the District shall notify the Dissemination Agent promptly in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

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

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository.

Notwithstanding the foregoing, Notice of Listed Events described in Subsections (a)(8) and (9) of this Section need not be given under this Subsection any earlier than the notice (if any) of the underlying event is given to the owners of affected Bonds pursuant to the Indenture and notice of any other Listed Event is only required following the actual occurrence of the Listed Event; and

(g) The Dissemination Agent may conclusively rely on an opinion of counsel that the District's instructions to the Dissemination Agent under this Section 5 comply with the requirements of this Rule.

Section 6. Termination of Reporting Obligation. The District's and Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. From time to time, the District may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the District shall be the Dissemination Agent.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

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

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

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

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

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter

or the holders of at least 25% aggregate principal amount of Outstanding Bonds, and upon being indemnified to its satisfaction, shall), or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and hold harmless (but only to the extent of Special Taxes available for such purpose) the Dissemination Agent, its officers, directors, employees and agents, against any loss, expense and liabilities which the Dissemination Agent may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. Neither the Trustee nor the Dissemination Agent shall be required to consent to any amendment which would impose any greater duties or risk of liability on the Trustee or the Dissemination Agent. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach of this Agreement. The Dissemination Agent shall have no responsibility whatsoever for the content of any report or notice required of the District hereunder.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall cause no rights in any other person or entity.

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

By: _____
General Manager, Northstar Community Services
District

The undersigned hereby agrees to act as Dissemination Agent pursuant to the foregoing Continuing Disclosure Agreement

GOODWIN CONSULTING GROUP, INC., as Dissemination Agent

By: _____
Authorized Signatory

EXHIBIT A

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

Name of Issuer: Northstar Community Services District Community Facilities District No. 1

Name of Bond Issue: Northstar Community Services District Community Facilities District No. 1
Special Tax Bonds, Series 2006

Date of Issuance: _____, 2006

NOTICE IS HEREBY GIVEN that the Northstar Community Services District Community Facilities District No. 1 (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated December 1, 2006 executed by the District for the benefit of the holders and Beneficial Owners of the above-referenced Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

GOODWIN CONSULTING GROUP, INC.

By: _____
Title: _____

cc: Issuer

EXHIBIT B

ESTIMATED VALUE-TO-LIEN RATIOS

<i>Zone</i>	<i>Location</i>	<i>Development</i>	<i>Owner</i>	<i>Assessed Value</i>	<i>Maximum Special Tax Levy at Buildout⁽¹⁾</i>	<i>Percentage of Total Maximum Special Tax Levy at Buildout</i>	<i>Lien of Bonds^{(2)*}</i>	<i>Estimated Value-to-Lien Ratio*</i>
1	The Village Residential	___ Units	Individual Purchasers Developer ⁽³⁾					
	Non-residential	___ Units						
2	The Highlands Residential	___ Units	Individual Purchasers Developer ⁽³⁾					
		___ Units						
3	The Highlands Residential	___ Units	Individual Purchasers Developer ⁽³⁾					
		___ Units						
	Non-residential Hotel							
Totals		___ Units						

(1) Represents Maximum Special Taxes anticipated at build-out based on Special Tax rates for such fiscal year.

(2) Allocation of lien of the Bonds based on the applicable Special Tax allocated among the Zones.

(3) Including affiliates.

* Preliminary, subject to change.

APPENDIX E

CONTINUING DISCLOSURE AGREEMENT OF DEVELOPER

This Continuing Disclosure Agreement, dated as of December 1, 2006 (the “Disclosure Agreement”), is made and entered into between Northstar Mountain Properties, LLC, a Delaware limited liability company (the “Developer”), and Goodwin Consulting Group, Inc., as dissemination agent (the “Dissemination Agent”) in connection with the issuance by Northstar Community Services District Community Facilities District No. 1 (the “Issuer”) of its Special Tax Bonds, Series 2006 (the “Bonds”). The Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (the “Act”) and a Trust Indenture dated November 1, 2005, between the Issuer and Wells Fargo Bank, National Association (the “Trustee”), as supplemented by a First Supplemental Trust Indenture, dated as of December 1, 2006, by and between the District and the Trustee (collectively, the “Indenture”).

The Developer and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered for the benefit of the Bond owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

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

“*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.

“*Annual Report*” means any Annual Report provided pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“*Annual Report Date*” means the date that is eight months after the end of Developer’s fiscal year, which fiscal year currently ends December 31. The first Annual Report Date shall be September 1, 2007.

“*Assumption Agreement*” means an agreement between a Major Developer, or an Affiliate thereof, and the Dissemination Agent containing terms substantially similar to this Disclosure Agreement, whereby such Major Developer or Affiliate agrees to provide Annual Reports, Semi-Annual Reports and Notices of Listed Events with respect to the portion of the Property owned by such Major Developer and its Affiliates.

“*Bond Counsel*” means an attorney or a firm of attorneys whose experience in matters relating to the issuance of obligations by the states and their political subdivisions and the tax-exempt status of the interest thereon is recognized nationally.

“*Community Facilities District*” means the Northstar Community Services District Community Facilities District No. 1.

“*Development Plan*” means, with respect to a Major Developer, the specific improvements such Major Developer intends to make, or cause to be made, to the portion of the Property owned by such Major Developer in order for such portion of the Property to reach the Planned Development Stage, the time frame in which such improvements are intended to be made and the estimated costs of such improvements. As of the date hereof, the Development Plan for the Property owned by the Developer and its Affiliates is described in the Official Statement under the caption “THE DEVELOPMENT AND PROPERTY OWNERSHIP – Development Plan.”

“*Dissemination Agent*” means Goodwin Consulting Group, Inc., acting in its capacity as the Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Developer and which has filed with the Issuer a written acceptance of such designation.

“*Event of Bankruptcy*” means, with respect to a Person, that such Person files a petition or institutes a proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby such Person asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of such Person’s debts or obligations, or offers to such Person’s creditors to effect a composition or extension of time to pay such Person’s debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of such Person’s debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character is filed or instituted or taken against such Person and the same shall remain undismissed for a period of sixty (60) days, or if a receiver of the business or of the property or assets of such Person is appointed by any court, or if such Person makes a general assignment for the benefit of such Person’s creditors.

“*Financing Plan*” means, with respect to a Major Developer, the method by which such Major Developer intends to finance its Development Plan, including specific sources of funding for such Development Plan. As of the date hereof, the Financing Plan for the Developer and its Affiliates is described in the Official Statement under the caption “THE DEVELOPMENT AND PROPERTY OWNERSHIP – Development Plan.”

“*Financial Statements*” means, with respect to a Major Developer, the full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position of each entity, enterprise, fund, account or other person (other than a financial institution acting as a lender in the ordinary course of business) identified in such Major Developer’s Development Plan or its Financing Plan as a source of funding for such Major Developer’s Development Plan, which statements shall be prepared in accordance with Generally Accepted Accounting Principles, as in effect from time to time, and which statements may be audited or unaudited; provided that, if such financial statements or reports are otherwise prepared as audited financial statements or reports, then “Financial Statements” means such audited financial statements or reports.

“*Independent Financial Consultant*” means a financial consultant or special tax consultant or firm of such consultants generally recognized to be well qualified in the financial consulting or special tax consulting field, appointed and paid by the Developer, who is not controlled by either the Issuer or Developer, does not have any substantial interest (direct or indirect) in the Issuer or Developer and is not a member, officer or employee of the Issuer or Developer, but who may be regularly retained to make annual or other reports to the Issuer or Developer.

“Listed Event” means any of the events listed in Section 5(a) of this Disclosure Agreement.

“Major Developer” means, as of any date, any Property Owner, including the Developer, which owns a portion of the Property which has not reached the Planned Development Stage and the sum of the Maximum Special Tax then applicable to which, plus the Maximum Special Tax then applicable to all portions of the Property that have not reached the Planned Development Stage and that are owned by Affiliates of such Property Owner, is equal to or greater than 20% of the total Maximum Special Tax then applicable to all of the Property.

“National Repository” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The Nationally Recognized Municipal Securities Information Repository for purposes of the Rule are identified in the Securities and Exchange Commission website located at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Official Statement” means the Official Statement, dated _____, 2006, relating to the Bonds.

“Participating Underwriter” means UBS Securities LLC and Banc of America Securities LLC.

“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.

“Planned Development Stage” means the stage of development of the land in the Community Facilities District owned by the Developer and its Affiliates that the Developer intends to achieve with respect thereto. As of the date hereof, the Planned Development stage of the Developer is the construction of approximately 1,800 residential units, approximately 100,000 square feet of commercial space and a 170-room luxury hotel, with retail, restaurant and spa space in the Community Facilities District.

“Property” means the parcels within the boundaries of the Community Facilities District subject to Special Taxes.

“Property Owner” means any Person that owns a fee interest in any portion of the Property that was, as of the date of this Disclosure Agreement, owned by the Developer.

“Repository” means each National Repository and each State Repository.

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

“Semi-Annual Report” means any Semi-Annual Report provided pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Semi-Annual Report Date” means the date that is two (2) months after the end of Developer’s fiscal year, which fiscal year currently ends December 31. The first Semi-Annual Report Date shall be March 1, 2007.

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

SECTION 3. Provision of Annual Reports and Semi-Annual Reports.

(a) Not later than five (5) business days prior to each Annual Report Date, the Developer shall provide to the Dissemination Agent an Annual Report which is consistent with the requirements of Section 4 hereof and which is in a form suitable for filing with the Repositories. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the Financial Statements of the Developer (if required) may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if the audited Financial Statements are not available by that date. Not later than five (5) business days after its receipt of the foregoing material from the Developer, the Dissemination Agent shall provide a copy thereof to each Repository and the Participating Underwriter. The Developer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Developer and shall have no duty or obligation to review such Annual Report.

(b) Not later than five (5) business days prior to each Semi-Annual Report Date, the Developer shall provide to the Dissemination Agent a Semi-Annual Report which is consistent the requirements of Section 4 hereof and which is in a form suitable for filing with the Repositories. The Semi-Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Agreement. Not later than five (5) business days after its receipt of the foregoing material from the Developer, the Dissemination Agent shall provide a copy thereof to each Repository and the Participating Underwriter. The Developer shall provide a written certification with each Semi-Annual Report furnished to the Dissemination Agent to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Developer and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent has not received a copy of the Annual Report by the date required in Subsection (a) or if the Dissemination Agent has not received a copy of the Semi-Annual Report by the date required in Subsection (b), the Dissemination Agent shall notify the Developer of such failure to receive the applicable report. If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories and the Participating Underwriter by the date required in Subsection (a), or if the Dissemination Agent is unable to verify that a Semi-Annual Report has been provided to the Repositories and the Participating Underwriter by the date required in Subsection (b), the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board (“MSRB”) and to the State Repository, if any, in substantially the form attached as Exhibit “A.”

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report and the Semi-Annual Report, the name and address of each Repository, if any;

(ii) provide any Annual Report and any Semi-Annual Report received by it to each Repository and to the Participating Underwriter, as provided herein; and

(iii) if it has provided the applicable report pursuant to (ii) above, file a report with the Issuer and the Developer certifying that it provided the Annual Report or the Semi-Annual Report, as

the case may be, pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

(e) Any filing under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (“MAC”) as provided at www.disclosureusa.org, unless the United States Securities and Exchange Commission (“SEC”) has withdrawn the interpretative advice in its letter to the MAC dated September 7, 2004, or such other central post office approved by the SEC.

SECTION 4. Content of Annual Reports and Semi-Annual Reports. (a) The Developer’s Annual Report shall contain or incorporate by reference Financial Statements for each Major Developer for the prior fiscal year if required; provided, that, if such information is required from the Developer as to another Major Developer, the Developer shall only be required to provide such information that it has actual knowledge of after reasonable inquiry. If audited Financial Statements are required to be provided, and such audited Financial Statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited Financial Statements, if prepared by such Major Developer, and the audited Financial Statements shall be filed in the same manner as, or as an amendment or supplement to, the Annual Report when they become available. Such Financial Statements shall be for the most recently ended fiscal year for the entity covered thereby hereunder.

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

As required by the Rule, if an amendment is made to the provisions hereof specifying the accounting principles to be followed in preparing Financial Statements, the annual financial information for the year in which the change is made shall present a comparison between the Financial Statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be provided in the manner as for a Listed Event under Section 5(c).

(b) The Developer’s Annual Report and Semi-Annual Report shall contain or incorporate by reference the following information with respect to each Major Developer:

(i) If information regarding such Major Developer has not previously been included in an Annual Report, a Semi-Annual Report or the Official Statement, the Development Plan of such Major Developer; or, if information regarding such Major Developer has previously been included in an Annual Report, a Semi-Annual Report or the Official Statement, a description of the progress made in the implementation of the Development Plan of such Major Developer since the date of such information and a description of any significant changes in such Development Plan and the causes or rationale for such changes.

(ii) If information regarding such Major Developer has not previously been included in an Annual Report, a Semi-Annual Report or the Official Statement, the Financing Plan of such Major Developer; or, if information regarding such Major Developer has previously been included in an Annual Report, a Semi-Annual Report or the Official Statement, a description of any significant changes in the Financing Plan of such Major Developer and the causes or rationale for such changes, including an update

of the table appearing in the Official Statement as Table 6 under the heading “THE DEVELOPMENT AND PROPERTY OWNERSHIP – Development Plan,” which shall only be required in the Annual Report.

(iii) A statement as to the number of lots owned by the Developer in the Community Facilities District for which building permits were issued during the six-month period covered by such Annual Report or Semi-Annual Report, the cumulative total of the lots for which building permits have been issued, the number of houses the construction of which it completed in the Community Facilities District during the six-month period covered by such Annual Report or Semi-Annual Report, the cumulative total of such houses, the number of houses in the Community Facilities District sold by it during the six-month period covered by such Annual Report or Semi-Annual Report, and the cumulative total of such houses sold by it.

(iv) A description of any sales of portions of such Major Developer’s Property during the six-month period ending on the last day of the period covered by such Annual Report or Semi-Annual Report, including the identification of each buyer (other than individual home buyers) and the number of residential lots or other acres sold; provided, however, that sales of five (5) or fewer acres may be aggregated for the purpose of such description

(v) With respect to any portion of the Property owned by such Major Developer and any of its Affiliates, a statement as to whether any taxes or assessment installments applicable to such portion of the Property are delinquent.

(vi) A description of any change in the ownership structure of the Major Developer and/or the financial condition of the Major Developer or any of its Affiliates if such change in ownership structure and/or financial condition could materially interfere with the Major Developer’s ability to complete its Development Plan.

(vii) Any amendments to land use entitlements for any portion of the Property owned by a Major Developer that could have a material adverse affect on such Major Developer’s most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer, to pay installments of Special Taxes when due.

(viii) Any precondition to commencement or continuation of development on any portion of the Property owned by a Major Developer imposed by a governmental entity after the date of issuance of the Bonds which has not been previously disclosed and which could have a material adverse affect, or any change in the status of any such precondition that was previously disclosed in the Official Statement, an Annual Report or a Semi-Annual Report, which could have a material adverse affect, on such Major Developer’s most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer, to pay installments of Special Taxes when due.

(ix) Any previously undisclosed legislative, administrative or judicial challenges to development on any portion of the Property owned by such Major Developer, or any material change in the status of any such challenge that was previously disclosed in the Official Statement, an Annual Report or a Semi-Annual Report, that could have a material adverse affect on such Major Developer’s most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer, to pay installments of Special Taxes when due.

(x) An update of the status of any previously reported Listed Event described in Section 5.

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

Major Developers that are Affiliates of each other may file either separate Annual Reports and Semi-Annual Reports or combined Annual Reports and Semi-Annual Reports covering all such entities. Any or all of the items listed above may be included by specific reference to other documents which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Developer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events. (a) The following events are Listed Events for purposes of this Agreement:

(i) Any conveyance by a Major Developer of any portion of the Property owned by such Major Developer to an entity that is not an Affiliate of such Major Developer, the result of which conveyance is to cause the transferee to become a Major Developer;

(ii) Any failure of a Major Developer, or any Affiliate of such Major Developer, to pay when due taxes or Special Taxes with respect to any portion of the Property owned by such Major Developer or Affiliate;

(iii) Any refusal to provide funds pursuant to or any termination of, or any event of default under, any line of credit, loan or other arrangement to provide funds to a Major Developer or its Affiliate or any other loss of a source of funds that could have a material adverse affect on such Major Developer's most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer, to pay installments of Special Taxes when due;

(iv) The occurrence of an Event of Bankruptcy with respect to a Major Developer or any Affiliate of such Major Developer that owns any portion of the Property;

(v) Any significant amendments to land use entitlements for such Major Developer's Property, if material to such Major Developer's most recently disclosed Development Plan;

(vi) The filing of any lawsuit against a Major Developer which, in the reasonable judgment of such Major Developer, will adversely affect the completion of the development of Property owned by such Major Developer, or litigation which if decided against the Major Developer, in the reasonable judgment of the Major Developer, would materially adversely affect the financial condition of the Major Developer.

(vii) The assumption of any obligations by a Major Developer pursuant to Section 6 hereof; and

(viii) A change in a Major Developer's fiscal year.

(b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall promptly (i) determine whether such event would be material under applicable federal securities laws and (ii) if the Developer determines that such event would be material under applicable federal securities laws, notify the Dissemination Agent and the Issuer in writing. Such notice shall

instruct the Dissemination Agent to report the occurrence pursuant to Subsection (c) and shall be in a format suitable for reporting to the MSRB and the State Repository, if any.

(c) If the Dissemination Agent has been instructed by the Developer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB, the State Repository and the Participating Underwriter.

SECTION 6. Assumption of Obligations. If a portion of the Property owned by the Developer, or any Affiliate of the Developer, is conveyed to a Person that, upon such conveyance, will be a Major Developer, the obligations of the Developer hereunder with respect to the Property owned by such Major Developer and its Affiliates may be assumed by such Major Developer or by an Affiliate thereof. In order to effect such assumption, such Major Developer or Affiliate shall enter into an Assumption Agreement.

SECTION 7. Termination of Reporting Obligation. The Developer's obligations hereunder shall terminate (except as provided in Section 12) upon the earliest to occur of (a) the legal defeasance, prior redemption or payment in full of all the Bonds, (b) the date on which those portions of the Rule which require this written undertaking are held to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds, (c) the first date on which no Property Owner is a Major Developer, (d) the first date on which the Developer (i) is no longer a Major Developer and (ii) has no obligations hereunder with respect to any property because such obligations have been assumed by one or more Major Developers or Affiliates thereof pursuant to an Assumption Agreement or (e) the date as of which both of the following have occurred: (1) the Board of the Issuer has adopted a resolution to the effect that the Issuer does not intend to issue any additional bonds payable from Special Taxes applicable to property in the Community Facilities District and (2) the Issuer has received a certificate from an Independent Financial Consultant to the effect that the aggregate amount of the Maximum Special Tax applicable to the Developed Property in the Community Facilities District is not less than 1.1 times the Maximum Annual Debt Service on Bonds payable from Special Taxes applicable to property in the Community Facilities District then outstanding. The Developer's obligations under this Disclosure Agreement with respect to a Person that purchased Property from the Developer and that became a Major Developer as a result thereof shall terminate upon the earliest to occur of (w) date on which such Person is no longer a Major Developer, (x) the date on which the Developer's obligations with respect to such Person are assumed under an Assumption Agreement entered into pursuant to Section 6, (y) the date on which all Special Taxes applicable to the portion of the Property owned by such Major Developer and its Affiliates are prepaid in full and (z) the date described in clause (e) of the preceding sentence; provided however, until the occurrence of any of the events described in clauses (w) through (z), the Developer's obligations hereunder with respect to each other Major Developer, if any, shall remain in full force and effect. Upon the occurrence of any such termination prior to the final maturity of the Bonds, the Developer shall cause the Dissemination Agent to give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The Developer may, from time to time and with the prior written consent of the Issuer, discharge the Dissemination Agent with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days' written notice to the Developer and the Issuer. If at any time there is no other designated Dissemination Agent, the Developer shall be the Dissemination Agent. If the Dissemination Agent is an entity other than the Developer, the Developer shall be responsible for paying the fees and expenses of such Dissemination Agent for its services provided hereunder.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Developer and the Dissemination Agent may amend this Disclosure Agreement (and the

Dissemination Agent shall agree to any amendment so requested by the Developer, so long as such amendment does not adversely affect the rights or obligations of the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that (a) if the amendment or waiver relates to Sections 3(a), 4 or 5(a) hereof, such amendment or waiver is made in connection with a change in legal requirements, change in law or change in the identity, nature, or status of the Developer or the type of business conducted; (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of Bond Counsel approved by the Issuer and the Participating Underwriter, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment or waiver either (i) is approved by the Bond Owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bond Owners, or (ii) does not, in the opinion of the Issuer or Bond Counsel, materially impair the interests of the Bond Owners or Beneficial Owners of the Bonds.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Developer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or Semi-Annual Report or Notice of Occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Developer chooses to include any information in any Annual Report or Semi-Annual Report or Notice of Occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Developer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or Semi-Annual Report or Notice of Occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the Developer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the written request of the Participating Underwriter or the Owners of at least 25% of the aggregate principal amount of Outstanding Bonds, and upon being indemnified to its reasonable satisfaction against the costs, expenses and liabilities to be incurred in compliance with such request, shall), or the Participating Underwriter or any Bond Owner or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Developer or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Developer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall not have any responsibility for the content of any Annual Report, Semi-Annual Report or Notice of a Listed Event. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Developer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding losses, expenses and liabilities due to the Dissemination Agent's negligence or willful misconduct or the negligence or willful misconduct of any of its officers, directors, employees and agents. The obligations of the Developer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

The Dissemination Agent will not, without the Developer's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or

proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of the Developer and its Affiliates from all liability arising out of any such claim, action or proceedings. A request by the Dissemination Agent for the Developer's written consent shall be answered within a reasonable amount of time to allow the Dissemination Agent to act in a timely manner. If any claim, action or proceeding is settled with the consent of the Developer or if there is a judgment (other than a stipulated final judgment without the approval of the Developer) for the plaintiff in any such claim, action or proceeding, with or without the consent of the Developer, the Developer agrees to indemnify and hold harmless the Dissemination Agent to the extent described herein.

SECTION 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

Issuer: Board of Directors
Northstar Community Services District, as legislative
body of Northstar Community Services District
Community Facilities District No. 1
908 Northstar Drive
Truckee, CA 96161
Attn: General Manager

Dissemination Agent: Goodwin Consulting Group, Inc.
555 University Avenue, Suite 280
Sacramento, CA 95825

Developer: Northstar Mountain Properties, LLC
c/o East West Partners
10164 Donner Pass Rd., Suite 3
Truckee, CA 96161
Attn: Mark Wasley

Participating Underwriter: UBS Securities LLC
777 South Figueroa Street, 50th Floor
Los Angeles, CA 90017
Attention: Mark Adler

Banc of America Securities LLC
Real Estate Secured Finance
5 Park Plaza, 5th Floor
Irvine, CA 92614
Attention: Dan Gangwish

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Developer, the Participating Underwriter and Bond Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Assignability. The Developer shall not assign this Disclosure Agreement or any right or obligation hereunder except to the extent permitted to do so under the provisions of Section 6 hereof. The Dissemination Agent may, with prior written notice to the Developer and the Issuer, assign this Disclosure Agreement and the Dissemination Agent's rights and obligations hereunder to a successor Dissemination Agent.

SECTION 16. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

SECTION 17. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

SECTION 18. Governing Law. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

SECTION 19. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

NORTHSTAR MOUNTAIN PROPERTIES, LLC

By: NMP HOLDINGS, LLC, a Delaware limited liability company, its Manager

By: EAST WEST RESORT DEVELOPMENT V, L.P., L.L.L.P., a Delaware limited partnership registered as a limited liability limited partnership, its member and Manager

By: HF HOLDING CORP., a Colorado corporation, its sole General Partner

By: _____
Name: _____
Title: _____

**GOODWIN CONSULTING GROUP, INC., as
Dissemination Agent**

By: _____
Its: _____

EXHIBIT A

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

Name of Obligated Person: Northstar Mountain Properties, LLC, a Delaware limited liability company

Name of Bond Issue: Northstar Community Services District Community Facilities District No. 1 Special Tax Bonds, Series 2006

Date of Issuance: _____, 2006

NOTICE IS HEREBY GIVEN that Northstar Mountain Properties, LLC has not provided [an Annual Report] [a Semi-Annual Report] with respect to the above-named Bonds as required by Section 3 of the Developer Continuing Disclosure Agreement, dated as of December 1, 2006. The Developer anticipates that the required report will be filed by_____.

Dated: _____

GOODWIN CONSULTING GROUP, INC.,
as Dissemination Agent

By: _____

cc: Northstar Mountain Properties, LLC
Issuer

APPENDIX F

FORM OF OPINION OF BOND COUNSEL

[Delivery Date]

Board of Directors
Northstar Community Services District
Truckee, California

Re: \$58,590,000 Northstar Community Services District Community Facilities District
No. 1 Special Tax Bonds, Series 2006

Dear Members of the Board of Directors:

We have examined the Constitution and laws of the State of California, a certified record of the proceedings of the Northstar Community Services District (the "NCSD") taken in connection with the formation of Northstar Community Services District Community Facilities District No. 1 (the "District") and the authorization and issuance of the District's Special Tax Bonds, Series 2006 in the aggregate principal amount of \$58,590,000 (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the NCSD, the Developer, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311 *et seq.* of the Government Code of the State of California, Resolution No. 2006-32 adopted by the Board of Directors of the NCSD, acting in its capacity as the legislative body of the District, on November 28, 2006, and a Trust Indenture, dated as of November 1, 2005, by and between the District and Wells Fargo Bank, National Association, as trustee (the "Trustee"), as supplemented by a First Supplemental Trust Indenture, dated as of December 1, 2006, by and between the District and the Trustee (collectively, the "Indenture"). All capitalized terms not defined herein shall have the meanings set forth in the Indenture.

The Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Indenture. The Bonds bear interest payable semiannually on each March 1 and September 1, commencing on March 1, 2007, at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture, redeemable in the amounts, at the times and in the manner provided in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or other similar laws affecting generally the enforcement of creditors' rights or by the exercise of judicial

discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California. The Bonds are limited obligations of the District but are not a debt of the NCSO, the County of Placer, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation; and, except for the Net Taxes, neither the faith and credit nor the taxing power of the District, the NCSO, the County of Placer, the State of California, or any other political subdivision is pledged for the payment thereof.

(2) The Indenture has been duly executed and delivered by the District. The Indenture creates a valid pledge of, and the Bonds are secured by, the Net Taxes and the amounts on deposit in certain funds and accounts established under the Indenture, as and to the extent provided in the Indenture, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses or as to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

(4) Interest on the Bonds is exempt from State of California personal income tax.

The opinion expressed in paragraph (3) above as to the exclusion from gross income for federal income tax purposes of interest on the Bonds is subject to the condition that the District and the NCSO comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District and the NCSO have covenanted to comply with all such requirements. Except as set forth in paragraphs (3) and (4) above, we express no opinion as to any tax consequences related to the Bonds.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). The Indenture and the Tax Certificate executed by the District with respect to the Bonds as of the date hereof permit certain actions to be taken or omitted if a favorable opinion of Bond Counsel is provided with respect thereto. We express no opinion as to the exclusion from

gross income of interest on the Bonds for federal income tax purposes on and after the date on which any such action is taken or omitted upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds, and purchasers of the Bonds should not assume that we have reviewed the Official Statement.

Respectfully submitted,

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