

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, under existing law, the interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of preference for purposes of the federal alternative minimum tax. See "CONCLUDING INFORMATION - Tax Exemption" herein.

STATE OF CALIFORNIA

COUNTY OF MERCED

**\$5,840,000
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED
2006 SPECIAL TAX BONDS**

Dated: Date of Delivery

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

The Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced, 2006 Special Tax Bonds (the "Bonds") are being issued by Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced (the "District"), pursuant to a Fiscal Agent Agreement, dated as of December 1, 2006 (the "Fiscal Agent Agreement"), by and between the City of Merced (the "City") on behalf of the District and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"). The Bonds will be secured as described herein. The Bonds are being issued to: (i) finance the acquisition and/or construction of a portion of certain infrastructure improvement facilities of benefit to the District; (ii) fund a reserve fund; (iii) fund capitalized interest; and (iv) pay costs of issuance related to the Bonds.

The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, shall mature on September 1 in each of the years and in the amounts, and shall bear interest as shown on the inside front cover hereof. Interest on the Bonds shall be payable on each March 1 and September 1, commencing March 1, 2007 (the "Interest Payment Dates") to the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, by check mailed on such Interest Payment Date or by wire transfer to an account in the United States of America made upon instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Principal of and interest and premium, if any, on the Bonds will be payable by DTC through the DTC participants. See "THE BONDS -- Book-Entry System" herein. Purchasers of the Bonds will not receive physical delivery of the Bonds purchased by them.

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

The Bonds are limited obligations of the District. The Bonds are payable solely from Special Tax Revenues (as defined herein), consisting primarily of Special Taxes and proceeds from foreclosure sales pursuant to the Fiscal Agent Agreement, as more fully described herein. If a delinquency occurs in the payment of any installment of Special Tax (as defined herein) securing the Bonds, the Fiscal Agent will have a duty only to transfer from the Reserve Fund the amount necessary to pay principal of or interest on the Bonds when due. There is no assurance that sufficient funds will be available in the Reserve Fund for this purpose. See "SECURITY FOR THE BONDS - Reserve Fund."

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE CITY OF MERCED, THE COUNTY OF MERCED, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE SPECIAL TAX REVENUES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY OR THE DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM CERTAIN AMOUNTS DEPOSITED BY THE DISTRICT IN THE SPECIAL TAX FUND AS MORE FULLY DESCRIBED HEREIN.

SEE THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "SPECIAL RISK FACTORS" FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN CONSIDERING THE INVESTMENT QUALITY OF THE BONDS.

This cover page contains certain information for quick reference only. It is not a complete summary of the Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by the City Attorney of the City of Merced, acting as counsel to the District, and by Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about December 14, 2006.

PiperJaffray

Maturity Dates, Principal Amounts, Interest Rates and Prices

\$1,895,000 Serial Bonds

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP⁽¹⁾</u>
2008	\$105,000	3.700%	3.800%	99.831	587626BG6
2009	105,000	3.750	3.900	99.612	587626BH4
2010	110,000	3.850	4.000	99.482	587626BJ0
2011	115,000	4.000	4.050	99.782	587626BK7
2012	120,000	4.000	4.150	99.238	587626BL5
2013	125,000	4.100	4.300	98.839	587626BM3
2014	130,000	4.200	4.400	98.698	587626BN1
2015	135,000	4.300	4.500	98.565	587626BP6
2016	140,000	4.400	4.600	98.441	587626BQ4
2017	150,000	4.400	4.650	97.902	587626BR2
2018	155,000	4.500	4.700	98.207	587626BS0
2019	160,000	4.500	4.750	97.627	587626BT8
2020	170,000	4.600	4.800	98.000	587626BU5
2021	175,000	4.700	4.850	98.428	587626BV3

\$1,015,000 4.800% Term Bonds due September 1, 2026 – Yield 4.950% Price 98.118 CUSIP⁽¹⁾ **587626CA8**

\$2,930,000 5.000% Term Bonds due September 1, 2036 – Yield 5.000% Price 100.0% CUSIP⁽¹⁾ **587626CL4**

⁽¹⁾ Copyright 2006, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies.

CITY OF MERCED, CALIFORNIA

City Council

Ellie Wooten, *Mayor*
Joseph Cortez, *Mayor Pro Tem*
Rick Osorio, *Council Member*
Michele Gabriault-Acosta, *Council Member*
Jim Sanders, *Council Member*
Bill Spriggs, *Council Member*
Carl Pollard, *Council Member*

City Staff

James G. Marshall, *City Manager and City Clerk*
William Cahill, *Assistant City Manager*
Gregory G. Diaz, *City Attorney*
Dave Tucker, *City Engineer*
Bradley R. Grant, *Finance Director*
Jack Lesch, *Director of Development Services*

SPECIAL SERVICES

Bond Counsel

Best Best & Krieger LLP
Riverside, California

Financial Advisor

Fieldman, Rolapp & Associates
Irvine, California

Disclosure Counsel

Fulbright & Jaworski L.L.P.
Los Angeles, California

Fiscal Agent

U.S. Bank National Association
San Francisco, California

Underwriter

Piper Jaffray & Co.
San Francisco, California

Appraiser

rpa Wakefield & Hopper, Inc.
Fresno, California

Market Absorption Consultant

The Gregory Group
Folsom, California

Special Tax Consultant

Goodwin Consulting Group
Sacramento, California

District Administrator

MuniFinancial
Temecula, California

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

The information set forth herein has been obtained from the City, the District, and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of such by the City, the District or the Underwriter. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion stated herein are subject to change without notice. The delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the affairs of the City, the District or any major property owner within the District since the date hereof. The Official Statement is submitted in connection with the sale of Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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

OFFICIAL STATEMENT

\$5,840,000
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED
2006 SPECIAL TAX BONDS

INTRODUCTORY STATEMENT

The description and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meaning as in the Fiscal Agent Agreement (defined below).

General

This Official Statement, including the cover page, the inside cover page and the Appendices hereto, is provided to furnish certain information in connection with the issuance and sale by Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced (the "District"), of its 2006 Special Tax Bonds (the "Bonds") in the aggregate principal amount of \$5,840,000.

The Bonds will be issued pursuant to the provisions of a Fiscal Agent Agreement, dated as of December 1, 2006 (the "Fiscal Agent Agreement"), by and between the City of Merced (the "City") and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"), an authorizing resolution of the City Council of the City acting as the legislative body of the District, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5 of the Government Code of the State of California (the "Act"), and pursuant to the provisions of Chapter 3 of Part 1 of Division 2 of Title 5, commencing with section 53580, of the California Government Code.

The Act was enacted by the California Legislature to provide an alternate method of financing certain public facilities and services, especially in developing areas. Once duly established, a community facilities district is a legally constituted governmental entity established for the purpose of financing specific facilities and services within defined boundaries. Subject to approval by a two-thirds vote of the qualified electors within a district and compliance with the provisions of the Act, a community facilities district may issue bonds and levy and collect special taxes to repay its bonds.

Use of Proceeds

The proceeds of the Bonds are expected to be used to: (i) finance the acquisition and/or construction of certain public capital improvements and facilities of benefit to the District (the "Project"); (ii) fund a reserve fund; (iii) fund capitalized interest on the Bonds; and (iv) pay costs of issuance related to the Bonds. See "THE FINANCING PLAN" herein.

The Project consists of the acquisition and/or construction of certain water, sewer, storm drainage and street improvements, and other public capital improvements (the "CFD Facilities"). See "THE FINANCING PLAN" and "THE DEVELOPMENT – CFD and Public Facilities" herein.

Security for the Bonds

The Bonds are special obligations of the District secured by and payable from Special Tax Revenues and interest earned on the Special Tax Revenues. "Special Tax Revenues" consist of Special Taxes and delinquency and foreclosure proceeds within the District. "Special Taxes" consist of the taxes authorized to be levied by the District in accordance with an ordinance of the City, the Act and the voter approval obtained at the July 3, 2006 special election held on behalf of the District by the City, and described in the Rate and Method of Apportionment of the Special Tax (the "Rate and Method") adopted by the legislative body of the District. The Special Taxes are collected on the regular property tax bills sent to the owners of real property within the District. See "APPENDIX A - RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES." See also "SECURITY FOR THE BONDS - General."

At the July 3, 2006 election, the qualified electors authorized the District to incur bonded indebtedness in an amount not to exceed \$6,500,000.

As additional security for the Bonds, the Fiscal Agent Agreement establishes the Reserve Fund to be funded in an amount equal to the Reserve Requirement. The Reserve Fund will be funded from the proceeds of the Bonds in the initial amount of \$382,040. The Reserve Requirement as of any date of calculation will be an amount equal to the least of (i) 10% of the proceeds of the sale of the Bonds, (ii) Maximum Annual Debt Service on the Bonds, or (iii) 125% of the average Annual Debt Service on the Bonds. To the extent there are insufficient moneys in the Special Tax Fund and the Bond Fund to pay interest on and principal of the Bonds when due, amounts in the Reserve Fund are available to pay interest and principal on the Bonds. See "SECURITY FOR THE BONDS - Reserve Fund."

The District

Moraga of Merced development (the "Development") within the City makes up the boundaries of the District. The District is comprised of approximately 110 acres and is located in the northeastern section of the City, south of Yosemite Avenue and east of McKee Road in an area with a mix of existing housing and agricultural use land. The development is planned to include a total of 520 residential dwelling units in three distinct neighborhoods surrounding a community park consisting of 7.16 acres. Each neighborhood will be developed in two phases and includes "The Mariposa Collection" in neighborhood 2, "The Presidio Collection" in neighborhood 3 and "The Mercedes Collection" in neighborhood 4. Phase 1 consists of approximately 51 acres and is planned for 287 homes. Phase 2 consists of approximately 44 acres and is planned for the remaining 233 homes. See "**THE DISTRICT**" for further information regarding the District.

Lakemont LWH, LLC (the Developer) owns the land and is developing Moraga of Merced. Sales to the public within Phase 1 of the three neighborhoods opened July 15, 2006. As of November 1, 2006, approximately 9 model homes have been completed and an additional 13 homes are under construction. The table below shows a summary of the owners, acreage and number of planned residential units within the District.

**TABLE 1
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED**

SUMMARY OF THE DISTRICT

<i>Subdivision</i>	<i>Neighborhood</i>	<i>Acres</i>	<i>Type of Property</i>	<i>Expected No. of Units</i>
Mariposa	2	34.07	Single Family	206
Presidio	3	31.58	Single Family	173
Mercedes	4	28.46	Single Family	141
Total				520

Source: The Developer

The Special Tax

The amount, if any, of the Special Tax to be levied annually within the District depends on, among other things, whether a given parcel is classified as Developed Property, Undeveloped Property, Excess Property Owner Association Property or Excess Public Property, and also Single Family Residential Property or Other Property (as defined in the Rate and Method). The Special Tax on Developed Property is based on per unit for a specific subdivision or "tax zone" for single family dwellings, and acreage for other residential or non-residential property. See "APPENDIX A -- RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES."

Foreclosure Covenant

The City has covenanted for the benefit of the owners of the Bonds that, under certain circumstances described herein, the City will commence judicial foreclosure proceedings with respect to delinquent Special Taxes on property within the District, and will diligently pursue such proceedings to completion. See "SECURITY FOR THE BONDS - The Special Taxes" and "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure."

Limited Obligations

Neither the faith and credit nor the taxing power of the District, the City, the County of Merced, the State of California or any political subdivision thereof is pledged to the payment of the Bonds. Except for the Special Tax Revenues, no other revenues or taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the City nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the special tax fund as more fully described herein.

See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.

The City

The City of Merced is located in the County of Merced (the "County") and serves as the county seat. The City, located in the heart of the San Joaquin Valley approximately 110 miles southeast of San Francisco and 310 miles northwest of Los Angeles, is 22.76 square miles in size. The City is located on Highway 99, a dominant north-south freeway in California. The City was incorporated in 1889, and operates as a charter city. For general demographic and economic information regarding the City see "APPENDIX B - THE CITY OF MERCED."

Description of the Bonds

For a more complete description of the Bonds and the Fiscal Agent Agreement pursuant to which they are being issued, see "THE BONDS" and "APPENDIX C -- SUMMARY OF THE FISCAL AGENT AGREEMENT" herein.

General. The Bonds will be dated as of and bear interest from their Delivery Date, at the rates set forth on the inside cover page hereof. See "THE BONDS." The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Principal of and interest and premium, if any, on the Bonds will be payable by DTC through the DTC participants. See "THE BONDS — Book-Entry System" herein. Purchasers of the Bonds will not receive physical delivery of the Bonds purchased by them.

Redemption. The Bonds are subject to optional, mandatory and extraordinary mandatory redemption as described herein. See "THE BONDS - Redemption" herein.

Denomination. The Bonds are being delivered in the minimum denominations of \$5,000 or any integral multiple thereof within a single maturity.

Registration, transfers and exchanges. The Bonds will be issued and delivered as fully registered Bonds and will be subject to transfer, exchange and replacement as described herein. See "THE BONDS" and "APPENDIX C-- SUMMARY OF THE FISCAL AGENT AGREEMENT" herein.

Payments. Interest on the Bonds will be payable semiannually on March 1 and September 1 of each year (each an "Interest Payment Date") commencing March 1, 2007. Principal of the Bonds will be payable upon the presentation and surrender thereof at the principal corporate trust office of the Fiscal Agent, in San Francisco, California (the "Principal Office") when due. Interest on the Bonds is payable by check of the Fiscal Agent mailed on or before each Interest Payment Date to the persons in whose names such Bonds are registered at the close of business on the Record Date, which is the fifteenth (15th) day of the month immediately preceding any Interest Payment Date, or by wire transfer pursuant to the procedure described herein.

Tax Matters

In the opinion of Best Best & Krieger LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming (among other things) compliance with certain covenants, interest on the Bonds is excluded from gross income for federal tax purposes and is exempt from State of California personal income taxes. In the opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other

tax consequences caused by the ownership or disposition of, or the accrual or receipt or interest on the Bonds. See “CONCLUDING INFORMATION - Tax Exemption” herein.

Professionals Involved in the Offering

U.S. Bank National Association, San Francisco, California, will act as Fiscal Agent with respect to the Bonds pursuant to the Fiscal Agent Agreement. Fieldman, Rolapp & Associates, Irvine, California, has served as Financial Advisor in connection with the Bonds and has assisted the City and the District in structuring the Bonds.

All proceedings in connection with the issuance of the Bonds are subject to the approval of Best, Best & Krieger LLP, Riverside, California, Bond Counsel. Certain legal matters will be passed on by Fulbright & Jaworski L.L.P., in its capacity as disclosure counsel. Certain other legal matters will be passed on by the City Attorney of the City for the District. The fees and expenses of Bond Counsel, Disclosure Counsel and the Financial Advisor are contingent upon the sale and delivery of the Bonds.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued and received by the Underwriter, subject to approval as to their legality by Bond Counsel and the satisfaction of certain other conditions. It is anticipated that the Bonds will be available for delivery in New York, New York, on or about December 14, 2006.

Bond Owners’ Risks

Certain events could affect the ability of the District to make the payments of the principal of, premium, if any, and interest on the Bonds when due. See “SPECIAL RISK FACTORS” herein for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds.

Further Information

Brief descriptions of the Bonds, the security for the Bonds, special risk factors, the District, the City, and the Developer and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Fiscal Agent Agreement, resolutions and other documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, such resolutions, indentures and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors’ rights. For definitions of certain capitalized terms used herein and not otherwise defined, and a description of certain terms relating to the Bonds, see “APPENDIX C -- SUMMARY OF THE FISCAL AGENT AGREEMENT” hereto.

Copies of such documents may be obtained from the office of the City Manager of the City of Merced.

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 similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the captions “THE DEVELOPMENT.”

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

CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District not later than January 31 of each year, commencing January 31, 2007, and to provide notices of the occurrences of certain enumerated events, if material. The Developer has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District and the Developer not later than three months and nine months after the close of its fiscal year, which currently ends December 31, 2006, and to provide notices of the occurrences of certain enumerated events, if material. These reports are collectively referred to herein as the “Annual Reports.”

The Annual Reports will be filed with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State information repository, if any. The notices of material events will be filed with the Municipal Securities Rulemaking Board (and with the appropriate State information repository, if any). Any filing may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the “MAC”) as provided at its website <http://www.disclosureusa.org>. The specific nature of information to be contained in the Annual Reports or the notice of material events is summarized in “APPENDIX G -- FORM OF CONTINUING DISCLOSURE AGREEMENTS.” These covenants have been made by the City and the Developer in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission. Neither the City nor the Developer have failed to comply in all material respects with any of its undertakings with regards to said Rule to provide annual reports or notices of material events. During the five previous years, the City has met all filing requirements under such continuing disclosure agreements.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Bonds is set forth below:

Sources of Funds

Principal Amount of the Bonds	\$5,840,000.00
Less: Original Issue Discount	(44,559.70)
Less: Underwriter's Discount	(59,976.80)
Total Sources	<u>\$5,735,463.50</u>

Uses of Funds

Deposit to Improvement Fund ⁽¹⁾	4,858,330.26
Deposit to Reserve Fund	382,040.00
Deposit to the Capitalized Interest Subaccount	175,093.24
Deposit to Costs of Issuance Fund ⁽²⁾	<u>320,000.00</u>
Total Uses	<u>\$5,735,463.50</u>

⁽¹⁾ Amounts will be used to finance improvements serving the District, including, without limitation, construction of roadway improvements, and related engineering, storm drains, sewer, traffic signals, and water facilities.

⁽²⁾ Includes fees for Bond Counsel, Disclosure Counsel, Financial Advisor, the Appraiser, Market Absorption Consultant, the Fiscal Agent, costs of printing the Official Statement, and other costs of issuance of the Bonds.

THE FINANCING PLAN

Use of Bond Proceeds

The proceeds of the Bonds will be used by the District to finance the acquisition and/or construction of certain public facilities, to fund the Reserve Fund, to fund capitalized interest on the Bonds and to fund the costs of issuance of the Bonds.

THE BONDS

Description of the Bonds

The Bonds will be issued as fully registered bonds, in denominations of \$5,000 each or any integral multiple thereof within a single maturity and will be dated and bear interest from the Delivery Date, at the rates set forth on the inside cover page hereof. The Bonds will be issued in fully registered form, without coupons.

Interest on the Bonds will be paid in lawful money of the United States of America semiannually on March 1 and September 1 of each year (each, an "Interest Payment Date"), commencing on March 1, 2007. Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Bonds shall be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (ii) it is authenticated prior to an Interest Payment Date

and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the Dated Date; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon or from the Dated Date, if no interest has previously been paid or made available for payment thereon. Interest on the Bonds is payable by check of the Fiscal Agent mailed by first class mail, postage prepaid, on each Interest Payment Date, to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date. The principal of the Bonds and any premium on the Bonds are payable in lawful money of the United States of America by check of the Fiscal Agent upon surrender of such Bonds at the principal office of the Fiscal Agent; provided, however, that at the written request of the Owner of at least \$1,000,000 in aggregate principal amount of Outstanding Bonds filed with the Fiscal Agent prior to any Record Date, interest on such Bonds shall be paid to such Owner on each succeeding Interest Payment Date by wire transfer of immediately available funds to an account in the United States of America designated in such written request.

The Bonds will mature on September 1 in the principal amounts and years as shown on the inside cover page hereof and are subject to optional redemption, special mandatory redemption and mandatory sinking fund redemption as shown below.

Redemption

Optional Redemption

The Bonds are subject to redemption prior to their stated maturity dates on September 1, 2007 or any Interest Payment Date thereafter, on a pro rata basis among maturities (and by lot within any one maturity), in integral multiples of \$5,000, at the option of the District from moneys derived by the District from any source, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), together with accrued interest to the date of redemption, as follows:

<u>Redemption Date</u>	<u>Redemption Price</u>
September 1, 2007 and any Interest Payment Date through and including March 1, 2014	103%
September 1, 2014 and March 1, 2015	102
September 1, 2015 and March 1, 2016	101
September 1, 2016 and any Interest Payment Date thereafter	100

Special Mandatory Redemption from Prepayment of Special Taxes Transferred to the Special Tax Prepayment Account

The Bonds are subject to mandatory redemption prior to their stated maturity dates on any Interest Payment Date, as selected among maturities by the District (and by lot within any one maturity), in integral multiples of \$5,000, from moneys derived by the District from Special Tax Prepayments, at redemption prices (expressed as percentages of the principal amounts of the Bonds to be redeemed), together with accrued interest to the date of redemption, as follows:

<u>Redemption Date</u>	<u>Redemption Price</u>
March 1, 2007 and any Interest Payment Date through and including March 1, 2014	103%
September 1, 2014 and March 1, 2015	102
September 1, 2015 and March 1, 2016	101
September 1, 2016 and any Interest Payment Date thereafter	100

Mandatory Sinking Fund Redemption

The Bonds maturing on September 1, 2026 and September 1, 2036 are subject to mandatory sinking fund redemption in part, on September 1 in each year commencing September 1, 2022 and September 1, 2027, respectively, 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 of redemption, without premium, and from sinking payments as follows:

Schedule of Mandatory Sinking Payment Fund Redemptions

Term Bonds Maturing September 1, 2026

<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>
2022	\$185,000	2025	\$210,000
2023	195,000	2026*	220,000
2024	205,000		
<i>*maturity</i>			

Term Bonds Maturing September 1, 2036

<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>
2027	\$235,000	2032	\$295,000
2028	245,000	2033	310,000
2029	255,000	2034	330,000
2030	270,000	2035	345,000
2031	285,000	2036*	360,000
<i>*maturity</i>			

The amounts in the foregoing schedules shall be reduced by the District pro rata among redemption dates, in order to maintain substantially level Debt Service, as a result of any prior or partial redemption of the Bonds pursuant to optional or special mandatory redemption described above.

Purchase in Lieu of Redemption

In lieu of such an optional, mandatory or special mandatory redemption, moneys in the Bond Fund may be used and withdrawn by the Fiscal Agent for purchase of Outstanding Bonds, upon the filing with the Fiscal Agent of an Officer's Certificate requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer's Certificate may provide, but in no event may Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase. In such event, the District will, as may be appropriate, provide to the Fiscal Agent a revised maturity schedule or a revised mandatory sinking fund schedule for the Bonds, or both.

Notice to Fiscal Agent

Written notice will be given to the Fiscal Agent of the District's intention to redeem Bonds not less than forty-five (45) days prior to the applicable redemption date specifying the principal amounts and maturities of the Bonds to be redeemed pursuant to the optional and special mandatory redemption provisions of the Fiscal Agent Agreement.

Notice of Redemption

The Fiscal Agent will 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 Securities Depositories and to the Information Services, and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books maintained by the Fiscal Agent at its Principal Office; 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, will not affect the validity of the proceedings for the redemption of such Bonds.

Such notice will state the date of such notice, the date of issue of the Bonds, the place or places of redemption, the redemption date, the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, will designate the CUSIP numbers and Bond numbers of the Bonds to be redeemed, by giving the individual CUSIP number and Bond number of each Bond to be redeemed, or will state that all Bonds between two stated Bond numbers, both inclusive, are to be redeemed or that all of the Bonds of one or more maturities have been called for redemption, will state as to any Bond called for redemption in part the portion of the principal of the Bond to be redeemed, will require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at the said redemption price, and will state that further interest on such Bonds will not accrue from and after the redemption date. The cost of the mailing and publication of any such redemption notice will be paid by the District.

In the event of an optional redemption or a special mandatory redemption pursuant to the provisions of the Fiscal Agent Agreement, the District shall transfer or cause to be transferred to the Fiscal Agent for deposit in the Bond Fund moneys in an amount equal to the redemption price of the Bonds being redeemed on or before the fifteenth (15th) day of the month preceding the Interest Payment Date upon which such Bonds are to be redeemed.

If less than all the Bonds Outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or a multiple thereof, and, in selecting portions of such Bonds for redemption, the Fiscal Agent shall treat each such Bond as representing the number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

Whenever provision is made in the Fiscal Agent Agreement for the redemption of less than all of the Bonds of a maturity or any given portion thereof, the Fiscal Agent will select the Bonds of such maturity to be redeemed, from all Bonds of such maturity or such given portion thereof not previously called for redemption, by lot within a maturity in any manner which the Fiscal Agent in its sole discretion deems appropriate. Upon surrender of Bonds redeemed in part only, the City shall execute and the Fiscal Agent shall authenticate and deliver to the Owner, at the expense of the District, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Effect of Notice of Redemption

From and after the date fixed for redemption, if funds available for the payment of the redemption prices of the Bonds called for redemption have been deposited in the Bond Fund, such Bonds will cease to be entitled to any benefit under the Fiscal Agent Agreement other than the right to receive payment of the redemption price, and interest will cease to accrue on the Bonds to be redeemed on the redemption date specified in the notice of redemption.

The Fiscal Agent

U.S. Bank National Association, has been appointed as the Fiscal Agent for all of the Bonds under the Fiscal Agent Agreement. For a further description of the rights and obligations of the Fiscal Agent pursuant to the Fiscal Agent Agreement, see "APPENDIX C -- SUMMARY OF THE FISCAL AGENT AGREEMENT" hereto.

Book-Entry System

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be registered in the name of Cede & Co. (DTC's partnership nominee), and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Trustee, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to DTC's Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC's Participants and Indirect Participants. See "APPENDIX H -- BOOK-ENTRY ONLY SYSTEM."

Additional Bonds

Other than for the purpose of refunding the Bonds, no additional Bonds entitled to a lien on the Special Taxes may be issued under the Fiscal Agent Agreement.

Debt Service Schedule

The following is the annual debt service schedule for the Bonds, assuming no redemptions other than mandatory sinking fund redemptions.

**TABLE 2
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED
DEBT SERVICE SCHEDULE**

Year Ending (September 1)	Principal	Interest	Annual Debt Service
2007	-----	\$ 197,067.24	\$ 197,067.24
2008	\$ 105,000.00	276,047.50	381,047.50
2009	105,000.00	272,162.50	377,162.50
2010	110,000.00	268,225.00	378,225.00
2011	115,000.00	263,990.00	378,990.00
2012	120,000.00	259,390.00	379,390.00
2013	125,000.00	254,590.00	379,590.00
2014	130,000.00	249,465.00	379,465.00
2015	135,000.00	244,005.00	379,005.00
2016	140,000.00	238,200.00	378,200.00
2017	150,000.00	232,040.00	382,040.00
2018	155,000.00	225,440.00	380,440.00
2019	160,000.00	218,465.00	378,465.00
2020	170,000.00	211,265.00	381,265.00
2021	175,000.00	203,445.00	378,445.00
2022	185,000.00	195,220.00	380,220.00
2023	195,000.00	186,340.00	381,340.00
2024	205,000.00	176,980.00	381,980.00
2025	210,000.00	167,140.00	377,140.00
2026	220,000.00	157,060.00	377,060.00
2027	235,000.00	146,500.00	381,500.00
2028	245,000.00	134,750.00	379,750.00
2029	255,000.00	122,500.00	377,500.00
2030	270,000.00	109,750.00	379,750.00
2031	285,000.00	96,250.00	381,250.00
2032	295,000.00	82,000.00	377,000.00
2033	310,000.00	67,250.00	377,250.00
2034	330,000.00	51,750.00	381,750.00
2035	345,000.00	35,250.00	380,250.00
2036	360,000.00	18,000.00	378,000.00
Total	\$5,840,000.00	\$5,360,537.24	\$11,200,537.24

SECURITY FOR THE BONDS

General

The Bonds and the interest thereon are payable from the Special Tax Revenues from the District remaining after payment of the priority administrative expenses of the District as provided in the Fiscal Agent Agreements. The amount of Special Taxes that the District may levy in any year is strictly limited by the maximum rates approved by the qualified electors within the District. See "Rate and Method of Apportionment of Special Taxes" below and "APPENDIX A -- RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" hereto.

Special Tax Revenues include proceeds of the Special Taxes received by the District, including any scheduled payments and any prepayments thereof, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest and penalties thereon.

In the event that delinquencies occur in the receipt of the Special Taxes in any fiscal year, the District may increase its Special Tax levy within the District in the following fiscal year up to the maximum rates permitted under the Rate and Method. Under no circumstances, however, will Special Taxes levied against any parcel used for private residential purposes be increased by more than 10 percent as a consequence of delinquency or default by the owner of any other parcel or parcels within the District. Although the Special Tax levy may be increased, Special Tax Revenues resulting from the increase may not be available to cure any delinquencies for a period of one year or more. In addition, an increase in the Special Tax levy may adversely affect the ability or willingness of property owners to pay their Special Taxes. See "Rate and Method of Apportionment of Special Taxes" below and "APPENDIX A -- RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" hereto for a description of the District's procedures for levying Special Taxes, and "SPECIAL RISK FACTORS - Insufficiency of Special Taxes."

Rate and Method of Apportionment of Special Taxes

The amount, if any, of the Special Tax to be levied annually depends on, among other things, whether a given parcel is classified as Developed Property, Undeveloped Property, Property Owner Association Property, or Excess Public Property, and also Single Family Residential Property or Other Property (as defined in the Rate and Method). The Special Tax on Developed Property is based on per unit for a specific subdivision or "tax zone" for single family dwellings, and acreage for other residential or non-residential property.

The Assigned and Maximum Special Tax rates that can be levied each Fiscal Year are shown below.

**TABLE 3
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED**

**DEVELOPED PROPERTY
ASSIGNED SPECIAL TAX RATES**

<i>Tax Zone</i>	<i>Subdivision</i>	<i>Neighborhood</i>	<i>Type of Property</i>	<i>Assigned Special Tax</i>
A	Mariposa	2	Single Family Residential Property	\$734 per Unit
			Other Property	\$6,604 per Acre
B	Presidio	3	Single Family Residential Property	\$880 per Unit
			Other Property	\$6,796 per Acre
C	Mercedes	4	Single Family Residential Property	\$1,148 per Unit
			Other Property	\$7,717 per Acre

**DEVELOPED PROPERTY
BACK UP SPECIAL TAX RATES**

<i>Tax Zone</i>	<i>Type of Property</i>	<i>Assigned Special Tax</i>
A	Single Family Residential Property	\$863 per Unit
	Other Property	\$6,604 per Acre
B	Single Family Residential Property	\$1,035 per Unit
	Other Property	\$6,796 per Acre
C	Single Family Residential Property	\$1,351 per Unit
	Other Property	\$7,717 per Acre

**UNDEVELOPED PROPERTY
MAXIMUM SPECIAL TAX RATES**

<i>Tax Zone</i>	<i>Type of Property</i>	<i>Maximum Special Tax</i>
A	Undeveloped Property	\$6,604 per Acre
B	Undeveloped Property	\$6,796 per Acre
C	Undeveloped Property	\$7,717 per Acre

Source: Rate and Method of Apportionment.

The Special Tax shall be levied proportionately first on each assessor parcel of Developed Property up to 100% of the Assigned Special Tax. If additional revenue is needed, the Special Tax shall be levied proportionately next on each assessor parcel of Undeveloped Property up to 100% of the Maximum Special Tax, then on each assessor parcel of Developed Property up to 100% of the Back Up

Special Tax, and lastly on each assessor parcel of Excess Public Property and Excess Property Owner Association Property up to 100% of the Maximum Special Tax for Undeveloped Property.

The Maximum Special Taxes set forth above are calculated based on the expected land uses within the District. Parcels within the District are part of both a recorded final map and tentative maps. Final and tentative maps have been reviewed to ensure they reflect the number of residential units and acreage that was anticipated. If there is a change in the formation land use plans or if a new tentative map, revised tentative map, or new final map ("Land Use/Entitlement Change") is proposed that reduces the total Maximum Special Taxes that can be generated, the Council, prior to approval of the Land Use/Entitlement Change, will complete proceedings under the Act to increase the Maximum Special Tax, on Assessor Parcels owned by the landowner requesting same, to an amount sufficient to maintain the total Maximum Special Tax revenues that could be generated within the District before the Land Use/Entitlement Change was approved or the landowner requesting the Land Use/Entitlement Change will prepay to the City an amount that corresponds to the lost Maximum Special Tax revenue, as provided in the Rate and Method. Any such prepayment shall be used by the City to call Bonds. See "APPENDIX A -- RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" hereto for a complete description of the District's procedures for levying Special Taxes.

The Special Taxes

The District has covenanted in the Fiscal Agent Agreement to cause the Special Taxes to be levied in each fiscal year in accordance with the Rate and Method in an amount (up to the maximum rates and amounts permitted by the Rate and Method) sufficient to (i) pay the principal of and interest and premium, if any, on the Bonds, (ii) replenish the Reserve Fund established under the Fiscal Agent Agreement to the Reserve Requirement, (iii) pay budgeted administrative expenses for such fiscal year and (iv) pay the costs of certain infrastructure improvement facilities of benefit to the District. Subject to the maximum special tax rates, the Rate and Method is formulated to result in the levy each year of an amount of such payment of principal, premium, if any, and interest, replenishment of the Reserve Fund and related administrative expenses; however, see "SPECIAL RISK FACTORS" for a discussion of certain factors affecting the actual timely collection of such Special Tax levies.

The Special Taxes are to be apportioned, levied and collected according to the Rate and Method. See "APPENDIX A -- RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" hereto.

Reserve Fund

The Fiscal Agent shall maintain and hold in trust as a separate and distinct fund designated as the "Reserve Fund." In the event that on any Interest Payment Date, the full amount of the interest or principal required to be deposited on such Interest Payment Date pursuant to the Fiscal Agent Agreement in the Interest Account or the Principal Account of the Bond Fund, is not on deposit therein, the Fiscal Agent shall withdraw from the Reserve Fund an amount equal to any such deficiency. The Fiscal Agent shall transfer for deposit in the Principal Account of the Bond Fund an amount equal to the expected reduction in the Reserve Fund as a result of mandatory redemption of the Bonds from prepayments of Special Taxes pursuant to the Fiscal Agent Agreement.

Covenant for Superior Court Foreclosure

In the event of a delinquency in the payment of any installment of Special Taxes, the City is authorized by the Act to order institution of an action in the Superior Courts of the State to foreclose any lien therefor. In such action, the real property subject to the Special Taxes may be sold at a judicial foreclosure sale. The ability of the District to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the property owner in the event the

property is owned by or in receivership of the Federal Deposit Insurance Corporation (the "FDIC") or other similar federal agencies. See "SPECIAL RISK FACTORS - Bankruptcy and Foreclosure" and "SPECIAL RISK FACTORS - Tax Delinquencies."

Such judicial foreclosure proceedings are not mandatory. However, in the Fiscal Agent Agreement, the City has covenanted with the owners of the Bonds that it will order, and cause to be commenced, judicial foreclosure proceedings against properties with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due, and that it will commence judicial foreclosure proceedings against all properties 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 ninety-five percent (95%) of the total Special Taxes levied, and diligently pursue to completion such foreclosure proceedings.

There could be a default or a delay in payments to the owners of the Bonds pending prosecution of foreclosure proceedings and receipt by the City of foreclosure sale proceeds, if any. However, up to the maximum amount permitted under the Rate and Method, the City may adjust the Special Taxes levied on all property within the District to provide the amount required to pay debt service on the Bonds.

Under current law, a judgment debtor (property owner) has at least 140 days from the date of service of the notice of levy in which to redeem the property to be sold. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action a foreclosure sale is set aside, the judgment is revived, the judgment creditor is entitled to interest on the revised judgment and any liens extinguished by the sale are revised as if the sale had not been made (Section 701.680 of the Code of Civil Procedure of the State of California).

Special Tax Fund

Within 10 Business Days of receipt, the City shall transfer to the Fiscal Agent for deposit in the Special Tax Fund all Special Taxes Revenues. Moneys in the Special Tax Fund shall be held in trust by the Fiscal Agent for the benefit of the District and the Owners of the Bonds, shall be disbursed as provided in the Fiscal Agent Agreement to the Administrative Expense Fund, the Principal Account and Interest Account of the Bond Fund and the Reserve Fund, and, pending any disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

Notwithstanding the foregoing, amounts constituting prepayments of Special Taxes shall be placed by the Fiscal Agent in a segregated account within the Bond Fund designated as the "Prepayment Account" and used to redeem Bonds pursuant to the Fiscal Agent Agreement.

Establishment of Funds and Accounts and Flow of Funds

The Fiscal Agent Agreement establishes the Special Tax Fund (and within the Special Tax Fund, the Surplus Account), the Reserve Fund, the Administrative Expense Fund, the Bond Fund (and within the Bond Fund, the Interest Account (and within the Interest Account, the Capitalized Interest Subaccount) and the Principal Account), the Cost of Issuance Fund, the Improvement Fund and the Rebate Fund. See "APPENDIX C –SUMMARY OF THE FISCAL AGENT AGREEMENT."

On or before each Interest Payment Date, the Fiscal Agent shall transfer from the Special Tax Fund (including the Surplus Account) and deposit into the following respective accounts in the Bond Fund, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Special Tax

Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

Capitalized Interest Subaccount. On or before the Interest Payment Date which occurs on March 1, 2007, the Fiscal Agent shall withdraw \$87,546.62 from the Capitalized Interest Subaccount and shall cause such amount to be deposited in the Interest Account of the Bond Fund for application on such Interest Payment Date. On or before the Interest Payment Date which occurs on September 1, 2007, the Fiscal Agent shall withdraw the remainder of all moneys from the Capitalized Interest Subaccount, shall cause such amount to be deposited in the Interest Account of the Bond Fund for application on September 1, 2007, and shall thereupon close the Capitalized Interest Subaccount. Upon transfer of said amount to the Interest Account, said amount shall be applied to payment of interest due on the Bonds on the March 1, 2007, and September 1, 2007 Interest Payment Dates, as provided in the Fiscal Agent Agreement.

Interest Account. On or before each Interest Payment Date, except the Interest Payment Dates which occur on March 1, 2007 and September 1, 2007, the Fiscal Agent shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on the Bonds on such date. No deposit need be made into the Interest Account on any Interest Payment Date if the amount on deposit therein is at least equal to the interest becoming due and payable on the Bonds on such date. All moneys in the Interest Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity). All amounts on deposit in the Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then having become due and payable on the Outstanding Bonds shall be withdrawn therefrom by the Fiscal Agent and transferred to the Surplus Account.

Principal Account. On or before each Interest Payment Date which occurs on September 1, the Fiscal Agent shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds becoming due and payable on such date, or the redemption price of the Bonds (consisting of the principal amount thereof and any applicable redemption premium) required to be redeemed on such date. Except as provided in the Fiscal Agent Agreement, all moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of and premium (if any) on any Bonds upon the redemption thereof. All amounts on deposit in the Principal Account on the first day of any Bond Year, to the extent not required to pay the principal of any Outstanding Bonds then having become due and payable, shall be withdrawn therefrom by the Fiscal Agent and transferred to the Surplus Account.

Additional Local Obligations

The City, at any time after the issuance and delivery of the Bonds under the Fiscal Agent Agreement, may issue additional bonds (the "Additional Obligations") solely to refund any or all of the outstanding Bonds which may be payable from the Special Taxes and secured by a lien and charge upon the Special Taxes equal to the lien and charge securing the outstanding Bonds theretofore issued.

No Obligation of the City Upon Delinquency

The City is under no obligation to transfer any funds of the City into the Special Tax Fund or the Bond Fund for the payment of the principal of or interest on the Bonds if a delinquency occurs in the payment of any Special Taxes. See "SECURITY FOR THE BONDS -- Covenant for Superior Court Foreclosure" for a discussion of the City's obligation to foreclose Special Tax liens upon delinquencies.

Estimated Effective Tax Rate

Set forth below is the estimated fiscal year 2006/07 tax obligation that would be applicable to a sample residential unit based on the fiscal year 2006/07 Assigned Special Tax and other taxes and assessments in place within the District in fiscal year 2006/07. In fiscal year 2006/07, only 24 parcels were actually levied a Special Tax as Developed Property.

**TABLE 4
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED**

**ESTIMATED FISCAL YEAR 2006/07 TAX OBLIGATION
FOR A SAMPLE DEVELOPED PROPERTY**

Assessed Valuation and Property Taxes	% of Total Assessed Valuation	Neighbor. 2 Single Family Residence (1,537 Sq. Ft.)	Neighbor. 3 Single Family Residence (1,895 Sq. Ft.)	Neighbor. 4 Single Family Residence (2,419 Sq. Ft.)
<i>Value</i>				
Land plus Improvements		\$299,900.00	\$344,900.00	\$404,900.00
Homeowner's Exemption		<u>7,000.00</u>	<u>7,000.00</u>	<u>7,000.00</u>
Subtotal Basis for Tax		\$292,900.00	\$337,900.00	\$397,900.00
<i>Ad Valorem</i>				
General Tax	1.0000%	\$2,929.00	\$3,379.00	\$3,979.00
Merced College SFID #1	<u>0.0200%</u>	<u>58.58</u>	<u>67.58</u>	<u>79.58</u>
Subtotal Ad Valorem Taxes	1.0200%	\$2,987.58	\$3,446.58	\$4,058.58
<i>Special Taxes and Assessments</i>				
Merced CFD No. 2006-1		\$ 734.00	\$880.00	\$1,148.00
Merced CFD No. 2003-2		776.44	776.44	776.44
EMCPFFA* CFD No. 2006-1		610.80	722.80	863.80
Mosquito Abatement		8.00	8.00	8.00
Merced City School Bond 2004		0.20	0.20	0.20
Merced UHSD Bond 1999		<u>0.11</u>	<u>0.11</u>	<u>0.11</u>
Subtotal Special Assessments		\$2,129.55	\$2,387.55	\$2,796.55
Total Taxes		\$5,117.13	\$5,834.13	\$6,855.13
Total Tax Rate		1.71%	1.69%	1.69%

*East Merced County Public Facilities Financing Authority

Source: Special Tax Consultant; Merced County; East Merced County Public Facilities Financing Authority

Direct and Overlapping Debt

Set forth below is the existing authorized indebtedness payable from taxes and assessments that may be levied on property within the District. In addition, other public agencies may issue additional indebtedness at any time, without the consent or approval of the City or the District.

**TABLE 5
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED**

DIRECT AND OVERLAPPING DEBT

2005-06 Local Secured Assessed Valuation: \$396,858

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 10/1/06</u>
Merced Community College District School Facilities Improvement District No. 1	0.004%	\$1,606
Merced Union High School District	0.005	931
Merced City School District	0.009	2,315
City of Merced Community Facilities District No. 2006-1 (Moraga of Merced)	100.	- (1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$4,852
<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Merced County Certificates of Participation	0.003%	\$ 733
Merced County Pension Obligations	0.003	1,633
Merced County Office of Education Certificates of Participation	0.003	54
Merced City School District Certificates of Participation	0.011	495
City of Merced Pension Obligations	0.012	<u>872</u>
TOTAL OVERLAPPING GENERAL FUND DEBT		\$3,787
COMBINED TOTAL DEBT		\$8,639 (2)

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

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

Ratios to 2005-06 Assessed Valuation:

Direct Debt	- %
Total Direct and Overlapping Tax and Assessment Debt.....	1.22%
Combined Total Debt.....	2.18%

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

Source: California Municipal Statistics, Inc.

Appraisal

The Bonds are secured by Special Tax Revenues (as defined in the Fiscal Agent Agreement) which may include amounts realized upon foreclosure sale of delinquent parcels within the District. Therefore, the ability of the District to meet debt service on the Bonds may depend on the ability of delinquent parcels to generate sufficient proceeds upon foreclosure sale to pay delinquent Special Taxes. The City has commissioned rpa Wakefield & Hopper, Inc., Fresno, California (the "Appraiser") to perform an appraisal (the "Appraisal") of the property values of parcels within the District. See "APPENDIX D – APPRAISAL REPORT" hereto.

The Appraisal, dated November 1, 2006, was prepared with a date of value of October 31, 2006. Based on the assumptions and limiting conditions set forth in the Appraisal, the Appraiser valued the fee simple property within the District to have a cumulative hypothetical market value of \$41,100,000. The value of the parcels within the District, other than the 9 model home parcels, was valued based on bulk sale retail finished lots, with a cumulative bulk sale value of approximately \$36,450,000. These parcels within the District were valued using the Direct Sales Comparison Approach. Also utilized was the Discounted Cash Flow Analysis method, using a land residual technique as a means to establish the retail lot value that is key in determining bulk sale value. The Appraiser was provided with offsite development cost information by the Developer. The value of the 9 model homes was valued based on the retail value of the models using the Direct Sales Comparison Approach, with an aggregate value of approximately \$4,590,000. See "APPENDIX D – APPRAISAL REPORT" for a complete discussion of the value of the property within the District and the assumptions and limiting conditions of the Appraisal. There can be no assurance that property values set forth in the Appraisal will not decrease, or that at any time the amount that could be realized upon sale of a particular parcel in a foreclosure sale for nonpayment of Special Taxes will equal that parcel's appraised value.

The tables below show the appraised value of each lot within the District, as well as the assessed value for the parcels within the District.

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**TABLE 6
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED**

HYPOTHETICAL MARKET VALUE

Subdivision	Neighborhood	Special Tax Zone	Approx. Size (acres) ⁴	Estimated Use	Estimated Number of Units ¹	Hypothetical Market Value ²	Per Lot Value ³
PHASE 1 – MODEL HOMES							
Mariposa	2	A	NA	SF Res.	3	\$1,364,636	NA
Presidio	3	B	NA	SF Res.	3	1,491,696	NA
Mercedes	4	C	NA	SF Res.	<u>3</u>	<u>1,733,973</u>	NA
Subtotal					9	\$4,590,305	
PHASE 1 – VACANT HOMESITES							
Mariposa	2	A	13.59	SF Res.	88	\$ 5,886,769	\$67,000
Presidio	3	B	22.08	SF Res.	118	9,277,791	79,000
Mercedes	4	C	<u>15.12</u>	SF Res.	<u>72</u>	<u>6,207,586</u>	86,000
Subtotal			50.79		278	\$21,372,146	
PHASE 1 SUBTOTAL			50.79		287	\$25,962,451	
PHASE 2 – PAPER LOTS							
Mariposa	2	A	20.48	SF Res.	115	NA	\$62,000
Presidio	3	B	9.50	SF Res.	52	NA	62,500
Mercedes	4	C	<u>13.34</u>	SF Res.	<u>66</u>	<u>NA</u>	70,000
PHASE 2 SUBTOTAL			43.32		233	\$15,135,150	
TOTAL			94.11		520	\$41,097,601	

1. Based on recorded final map for Phase 1, tentative map for Phase 2 and information provided by the Developer.

2. The total value noted above represents the hypothetical cumulative value of the properties within the District, which is not equivalent to the market value of the District as a whole.

3. Rounded, per lot.

4. Acres for model homes are not included in Model Homes subsection, but are included in Phase 1 Vacant Homesites subsection.

Source: Compiled from Appraisal Report.

The current 289 assessor parcels were created from 3 assessor parcels after January 1, 2006. For the 2005-06 tax year, the 3 parcels were assessed as follows on table 6 below.

**TABLE 7
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED**

**ASSESSED VALUE
2005-2006**

APN	Land Assessed Value	Improvements Assessed Value	Total Assessed Valuation
008-010-061	\$195,867	0	\$195,867
008-010-062	96,970	0	96,970
008-010-055	94,081	9,940	<u>104,021</u>
TOTAL			\$396,858

Source: Compiled from Appraisal Report.

Estimated Value to Lien Ratios

Appraised Value to Lien Ratio. The estimated appraised value to special tax lien ratio is 7.0:1 assuming an appraised value of \$41,100,000 and \$5,840,000 in principal amount of the Bonds. The following table shows the breakdown of the lien to value ratios based on ownership.

No assurance can be given that any of the ratios discussed herein can or will be maintained during the period of time that the Bonds are Outstanding. The City and the District have no control over the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which is secured by the levy of a tax or an assessment, whether on a parity with or subordinate to the Special Taxes. See "SPECIAL RISK FACTORS - Appraised Value; Land Value."

**TABLE 8
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED**

APPRAISED VALUE TO LIEN RATIOS

	Lots	Assigned Tax Rate⁽¹⁾	Projected Special Tax⁽²⁾	% of Total	Portion of Bonded Lien⁽³⁾	Appraised Value	Appraised Value To Lien
<i>Phase 1 - Models</i>							
Mariposa (2)	3	\$ 734	\$ 2,202	0.47	\$27,448	\$1,364,636	49.7:1
Presidio (3)	3	880	2,640	0.57	33,288	1,491,696	44.8:1
Mercedes (4)	<u>3</u>	1,148	<u>3,444</u>	<u>0.74</u>	<u>43,216</u>	<u>1,733,973</u>	<u>40.1:1</u>
Subtotal	9		\$ 8,286	1.78	\$103,952	\$4,590,305	44.2:1
<i>Phase 1 - Final Mapped</i>							
Mariposa (2)		\$ 734	\$ 64,592	13.88	\$ 810,592	\$ 5,886,769	7.3:1
Presidio (3)		880	103,840	22.32	1,303,488	9,277,791	7.1:1
Mercedes (4)		1,148	<u>82,656</u>	<u>17.76</u>	<u>1,037,184</u>	<u>6,207,586</u>	<u>6.0:1</u>
Subtotal			\$251,088	53.96	\$3,151,264	\$21,372,146	6.8:1
FINAL MAPPED TOTAL			\$259,374	55.74	\$3,255,216	\$25,962,451	8.0:1
<i>Phase 2 - Tentative Mapped</i>							
Mariposa (2)		\$ 734	\$ 84,410	18.14	\$1,059,376	NA	NA
Presidio (3)		880	45,760	9.84	574,656	NA	NA
Mercedes (4)		1,148	<u>75,768</u>	<u>16.28</u>	<u>950,752</u>	NA	NA
TENTATIVE MAPPED TOTAL			\$205,938	44.26	\$2,584,784	\$15,135,150	5.6:1
TOTAL (rounded)			\$465,312	100.00	\$5,840,000	\$41,097,601	7.0:1

1 Information compiled from Rate and Method of Apportionment.

2. Assuming maximum Assigned Rates at buildout.

3. Assuming bond size of \$5,840,000. _____.

Source: Compiled from Appraisal Report.

No assurance can be given that any of the ratios discussed above can or will be maintained during the period of time that the Bonds are Outstanding. The City and the District have no control over the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which is secured by the levy of a tax or an assessment, whether on a parity with or subordinate to the Special Taxes. See "SPECIAL RISK FACTORS - Appraised Value; Land Value."

Special Tax Coverage. The following table shows the debt service coverage achieved on the Bonds assuming buildout of all property within the District, with the Special Tax levied at the Assigned Rate under the Rate and Method and debt service on Bonds.

**TABLE 9
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED**

ASSIGNED SPECIAL TAX COVERAGE

Year Ended Sept 1	Assigned Ann. Special Tax	Less Senior CFD Admin	Total Debt Service	Coverage
2007	\$457,243	\$45,000	\$ 197,067 ⁽¹⁾	NA
2008	457,243	45,000	381,048	111%
2009	457,243	45,000	377,163	111
2010	457,243	45,000	378,225	110
2011	457,243	45,000	378,990	110
2012	457,243	45,000	379,390	110
2013	457,243	45,000	379,590	110
2014	457,243	45,000	379,465	110
2015	457,243	45,000	379,005	110
2016	457,243	45,000	378,200	111
2017	457,243	45,000	382,040	111
2018	457,243	45,000	380,440	110
2019	457,243	45,000	378,465	111
2020	457,243	45,000	381,265	110
2021	457,243	45,000	378,445	111
2022	457,243	45,000	380,220	111
2023	457,243	45,000	381,340	111
2024	457,243	45,000	381,980	111
2025	457,243	45,000	377,140	111
2026	457,243	45,000	377,060	111
2027	457,243	45,000	381,500	111
2028	457,243	45,000	379,750	111
2029	457,243	45,000	377,500	111
2030	457,243	45,000	379,750	111
2031	457,243	45,000	381,250	111
2032	457,243	45,000	377,000	111
2033	457,243	45,000	377,250	111
2034	457,243	45,000	381,750	110
2035	457,243	45,000	380,250	111
2036	457,243	45,000	378,000	110
TOTAL	\$13,717,290	\$1,350,000	\$11,200,537	

(1) Debt service funded by capitalized interest in the amount of \$175,093.24 and special tax levy on 24 parcels of \$21,974.

Source: Special Tax Consultant and Underwriter.

THE DISTRICT

General

On May 15, 2006, the City Council adopted a Resolution of Intention to form a community facilities district under the Act, to levy a special tax and to incur bonded indebtedness for the purpose of financing certain improvements. After conducting a noticed public hearing, on July 3, 2006, the City Council adopted the Resolution of Formation, which established the District and set forth the Rate and Method for the District. On July 3, 2006 an election was held within the District in which the landowners eligible to vote unanimously approved the proposed bonded indebtedness and the levy of the Special Tax within the District.

The boundaries of the District coincide with the boundaries of the Moraga of Merced development, referred to herein as the Development. The District is comprised of approximately 117 acres zoned for residential development of which 7.16 acres will be parkland. The District has an overall rectangular shape and located in the northeastern section of the City, south of Yosemite Avenue and east of McKee Road in an area with a mix of existing housing and agricultural use land. The Development is planned to include a total of 520 residential dwelling units in three distinct neighborhoods surrounding a community park. Each neighborhood will be developed in two phases. The Neighborhoods include "The Mariposa Collection" in neighborhood 2, "The Presidio Collection" in neighborhood 3 and "The Mercedes Collection" in neighborhood 4.* Recorded final maps exist on Phase 1 for each of the three neighborhoods, consisting of a total of 287 units. Phase 2 consists of the remaining 233 units. Tentative maps exist for the property within Phase 2.

For a detailed map of the Assessment District, including the neighborhoods and lots expected therein, see the map on the facing page.

Environmental Review

In January 2003, the City adopted a Mitigated Negative Declaration regarding Expanded Initial Study #02-27 subject to a certain Mitigation Measures and Monitoring Program agreed to by the Developer pursuant to a Developer Agreement dated as of January 13, 2003 (the "Environmental Review"). The Environmental Review analyzed the potential environmental effects from all discretionary actions necessary to develop the master-planned community. All required permits from regulatory agencies have been acquired to complete the development within the District. All appeal periods with respect to such approvals have expired. Notwithstanding the foregoing, it is possible that future events relating to environmental issues could impact the development. See "SPECIAL RISK FACTORS – Future Land Use Regulations and Growth Control Initiatives," " - Endangered and Threatened Species."

* Neighborhood 1 was reconfigured in the map process and excluded from the Development.

THE DEVELOPMENT

Unpaid Special Taxes do not constitute a personal indebtedness of the Developer (defined herein), their affiliates or any subsequent owners of the parcels within the District and the Developer has made no enforceable commitment to pay the principal of or interest on the Bonds or to support payment of the Bonds in any manner. There is no assurance that the Developer has or any subsequent owners will have the ability to pay the Special Taxes or that, even if they have the ability, they will choose to pay such taxes. An owner may elect not to pay the Special Taxes when due and cannot be legally compelled to do so. Neither the City nor any Bondowner will have the ability at any time to seek payment from the Developer or any subsequent owners of property within the District of any Special Tax or any principal or interest due on the Bonds, or the ability to control who becomes a subsequent owner of any property within the District. See "SECURITY FOR THE BONDS" and "SPECIAL RISK FACTORS" herein.

The Developer has provided the information set forth under the heading "THE DEVELOPMENT." No assurance can be given that all information is complete. Although the Developer currently own the property within the District, the Developer intends to build and sell residential properties. When such sales occur, the ownership of the land within the District will become more diversified. No assurance can be given that development of the property will be completed, that it will be completed in a timely manner, or that it will occur as described herein.

General

The Development is planned to include a total of 520 single family detached residential units in three distinct neighborhoods on approximately 94 acres surrounding a community park consisting of 7.16 acres. The District is coterminous with the Development and comprises two phases. Each neighborhood will be developed in two phases and includes "The Mariposa Collection" in neighborhood 2, "The Presidio Collection" in neighborhood 3 and "The Mercedes Collection" in neighborhood 4.* Phase 1 consists of approximately 51 acres and is planned for 287 homes. Phase 2 consists of approximately 43 acres and is planned for the remaining 233 homes.

The District has an overall rectangular shape and is located in the northeastern section of the City, south of Yosemite Avenue and east of McKee Road in an area with a mix of existing housing and agricultural use land. An existing subdivision with homes that are five-to-ten years old in good condition is located west across McKee Road. Farmland and open space are located east and fifteen- to twenty-year old homes on large lots are located north across Yosemite Avenue. Merced College is northwest of the development and the downtown area of the City of Merced southeast. To the northwest is the site of the new race track as well as Castle Air Park and to the northeast is Lake Yosemite and the new University of California at Merced campus, which opened in Fall 2005. The topography is generally level and at street level.

The Developer recently completed the model complex and is in the first phase of construction. The Developer expects Phase 1 to reach buildout by December 2008 with Phase 2 reaching buildout sometime in 2012.

The Developer acquired a portion of the property from LWH Farms, LLC in July 2005, with the remaining property acquired in June, 2006. The Developer is a single-purpose limited liability company formed in 2003 and is owned 45% by Lakemont Homes, Inc. ("LHI"), 5% by Dr. Larry & Sherri Shemen, private investors with a longstanding relationship with Lakemont Companies (as defined hereinafter) and 50% by LWH Farms, LLC ("LWH Farms"). LWH Farms is owned by the former landowners of the property.

* Neighborhood 1 was reconfigured in the map process and excluded from the Development.

Phase 1

Phase 1 consists of approximately 51 acres and is to be developed with 287 homes. A final map was recorded for the residential property within Phase 1 on March 27, 2006. The Developer opened Phase 1 for sales on July 15, 2006, held a grand opening on October 8, and is currently marketing the three neighborhoods and has homes available for sale to the public. More detailed information about the three neighborhoods, specific floor plans and amenities can be found at the Developer's website www.lakemont.com/moraga. *The foregoing internet address is included for reference only, and the information on this internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement.*

Generally, Phase 1 is in finished lot condition with curb, gutters, sidewalks, fire hydrants, street lighting and asphalt street paving. Total in-tract development costs for Phase 1 are estimated at \$13,107,385 exclusive of any home construction costs, and at \$65,432,270 for total home construction costs (including building permit fees and construction soft costs and overhead costs). The on-site development costs include the cost to pay fees and to convert the land from superpad condition into finished pads, including the construction or installation of in-tract streets, sidewalks, curbs, gutters, sewer, water and storm drain improvements, landscaping, and dry utilities and related soft costs. As of November 1, 2006, the remaining in-tract development costs for Phase 1 were estimated to be approximately \$3,276,846 and remaining home construction costs (including building permit fees and construction soft costs and overhead costs) for Phase 1 were estimated to be approximately \$60,398,953. The Developer entered into 2 separate agreements for the purpose of land acquisition, site improvement and home construction. Ohio Savings Bank provided financing for Phase 1 in the form of an acquisition and development loan in the amount of \$22,900,000. This loan closed in July 2005 and provided \$4.4 million for land acquisition and entitlements, \$3.6 million for Phase 1 soft costs and \$14.9 million for off-site improvements. Ohio Savings Bank also provided a revolving construction loan for Phase 1 in the amount of \$20,100,000. This loan also closed in July 2005 and will be used to finance the costs associated with the construction of homes in Phase 1.

Phase 2

Phase 2 consists of approximately 43 acres and is to be developed with 233 homes. A vested tentative map exists for Phase 2. The projection of the development of Phase 2 is based on the tentative map and plans of the Developer. The Developer intends to develop Phase 2 following buildout of Phase 1. Phase 2 is generally undeveloped with some work on certain Public Facilities underway. Total in-tract development costs for Phase 2 are estimated at \$6,660,454 exclusive of any home construction costs and total home construction costs (including building permit fees and construction soft costs and overhead costs) are estimated to be \$51,999,905. Comerica Bank provided financing for acquisition of Phase 2 Land and the pro rata share of off-site construction costs benefiting Phase 2 lots. This loan closed in June 2006 and is for \$9,000,000. The Developer expects that a future bank loan will be required to fund construction of Phase 2 site improvements and an additional future revolving loan will be required to fund construction of homes within Phase 2.

The Mariposa Collection

Neighborhood 2 encompasses 34 acres and is being developed for 206 single family detached homes on minimum 5,085 square foot lots in a subdivision known as "The Mariposa Collection." Four floor plans are proposed with base sizes expected to range from 1,537 to 2,229 square feet. 3 model homes are completed. As of November 1, 2006, base sale prices of the homes range from \$314,900 to \$369,900. As of November 1, 2006, 8 building permits have been pulled, 5 homes are under construction, 2 homes have been reserved, and 4 sales contracts have been signed.

The Presidio Collection

Neighborhood 3 encompasses 32 acres and is being developed for 173 single family detached homes on minimum 6,215 square foot lots in a subdivision known as "The Presidio Collection." Four floor plans are proposed with base sizes expected to range from 1,895 to 2,644 square feet. 3 model homes are completed. As of November 1, 2006 base sale prices of the homes range from \$344,900 to \$409,900. As of November 1, 2006, 12 building permits have been pulled, 9 homes are under construction, 3 homes have been reserved, and 5 sales contracts have been signed.

The Mercedes Collection

Neighborhood 4 encompasses 28 acres and is being developed for 141 single family detached homes on minimum 7,345 square foot lots in a subdivision known as "The Mercedes Collection." Four floor plans are proposed with base sizes expected to range from 2,419 to 3,505 square feet. 3 model homes are complete. As of November 1, 2006 base sale prices of the homes range from \$404,900 to \$509,900. As of November 1, 2006, 7 building permits have been pulled, and 4 homes are under construction, 3 homes have been reserved, and 1 sales contract has been signed.

The following table summarizes the residential development and its stage of construction and sale.

**TABLE 10
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED**

**SUMMARY OF RESIDENTIAL DEVELOPMENT
(November 1, 2006)**

Subdivision (Neighborhood)	Min. Lot Size (sq. ft.)	Estimated Number of Units	Estimated Floor Plan Sq. Ft.	Estimated Price Range
Mariposa (2)	5,085	206	1,537-2,229	\$314,900-369,900
Presidio (3)	6,215	173	1,895-2,644	\$344,900-409,900
Mercedes (4)	7,345	141	2,419-3,505	\$404,900-509,900

Subdivision (Neighborhood)	Models Completed	Units Under Constr.	Units w/ Sales Contract	No. of Cancellations	Net Units w/ Sales Contract
Mariposa (2)	3	5	5	1	4
Presidio (3)	3	9	8	3	5
Mercedes (4)	3	4	1	0	1
TOTAL	9	18	14	4	10

Source: The Developer

Development's Projected Sources and Uses of Funds

The following table shows the historical and projected cash flow of the Developer in connection with the Development. Funds for the acquisition of land, construction of Public Facilities, including the CFD Facilities, and construction of homes have been provided by two loans from Ohio Savings Bank for Phase 1 and one loan from Comerica Bank for Phase 2. The land within the District is subject to deeds of trust and is pledged as security for any such loans. See "THE DEVELOPMENT – General – *Phase 1*, - and *Phase 2*" for a detailed description of such loans.

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TABLE 11
DEVELOPMENT'S PROJECTED SOURCES AND USES OF FUNDS ⁽¹⁾
(As of October 1, 2006)

	Jan. 1 - Dec. 31, 2005	<i>Projected</i> Jan. 1 - Dec. 31, 2006	<i>Projected</i> Jan. 1 - Dec. 31, 2007	<i>Projected</i> Jan. 1 - Dec. 31, 2008	<i>Projected</i> Jan. 1 - Dec. 31, 2009	<i>Projected</i> Jan. 1 - Dec. 31, 2010	<i>Projected</i> Jan. 1 - Dec. 31, 2011	<i>Projected</i> Jan. 1 - Dec. 31, 2012
Revenues								
Revenues (Housing) ¹	--	\$ 7,625,635	\$41,740,317	\$41,740,317	\$41,740,317	\$37,407,559	\$34,930,464	\$3,685,226
CFD Proceeds ²	--	4,000,291	-	-	-	-	-	-
Total Revenues	--	\$11,625,926	\$41,740,317	\$41,740,317	\$41,740,317	\$37,407,559	\$34,930,464	\$3,685,226
Expenses								
Land Acquisition	\$6,096,450	4,561,125	-	-	-	-	-	-
Land Development ³	4,796,885	17,928,630	506,557	6,744,370	(57,750)	-	-	-
Construction ⁴	1,145,493	13,115,085	23,202,193	23,200,793	22,303,555	20,342,355	16,474,203	551,651
Total Land & Constr.	\$12,038,828	\$35,604,840	\$23,708,749	\$29,945,162	\$22,245,805	\$20,342,355	\$16,474,203	\$551,651
Total Selling & Marketing	139,228	908,187	1,076,514	1,056,714	962,765	585,437	477,303	\$ 27,721
Total G&A ⁵	779,296	3,023,047	4,156,234	3,650,974	2,745,073	2,062,973	1,402,227	109,037
Total Property Taxes	35,125	85,434	57,501	89,405	67,825	40,974	15,962	450
CFD Taxes	--	-	39,379	300,573	212,437	119,036	30,477	-
Total Expenses	\$12,992,477	\$39,621,508	\$29,038,376	\$35,042,828	\$26,233,905	\$23,150,775	\$18,400,172	\$ 688,859
Net Cash Flow	(\$12,992,477)	(\$27,995,582)	\$12,701,941	\$ 6,697,489	\$15,506,413	\$14,256,784	\$16,530,292	\$2,996,367

¹ Revenues from sale of homes based on Developer's projected home sales of 19 with an average sales price of \$401,349 per home.

² CFD proceeds shall be deposited into the Improvement Fund at closing per the terms of the Trust Indenture and reimbursed to the Developer per the terms of the Acquisition Agreement.

³ Land Development cost include Entitlement, Sitework Costs, Land Indirects and Off-Site costs

⁴ Construction costs include Directs, Contingency, Permits/Fees, Option/Upgrade Costs, Indirects, Architect, Model Homes/Sales Office, Misc Fees, Organizational Costs and Insurance.

⁵ G&A costs include Management Fees, Loan fees and Interest and Legal/Audit/G&A

Source: The Developer

Quarterly for 2006

	<i>Actual</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	
	Jan. 1 - Mar. 31, 2006	Apr. 1 - Jun. 30, 2006	Jul. 1 - Sept. 30, 2006	Oct. 1 - Dec. 31, 2006	Total
Revenues					
Revenues (Housing)	-	-	-	\$ 7,625,635	\$ 7,625,635
CFD Proceeds	-	-	-	4,000,291	4,000,291
Total Revenues	-	-	-	\$11,625,926	\$11,625,926
Expenses					
Land Acquisition	-	4,561,125	-	-	4,561,125
Land Development ¹	3,592,707	2,765,173	8,603,685	2,967,065	17,928,630
Construction ²	747,921	2,815,454	4,110,268	5,441,442	13,115,085
Total Land & Construction	\$4,340,629	\$10,141,752	\$12,713,953	\$8,408,506	\$35,604,840
Total Selling & Marketing	66,746	244,545	324,817	272,080	908,188
Total G&A ³	587,528	676,528	709,920	1,049,070	3,023,046
Total Property Taxes	13,760	35,125	35,125	1,425	85,434
CFD Taxes					-
Total Expenses	\$5,008,662	\$11,097,949	\$13,783,816	\$9,731,081	\$39,621,508
Net Cash Flow	(\$5,008,662)	(\$11,097,949)	(\$13,783,816)	\$1,894,845	(\$27,995,582)

¹ Land Development cost include Entitlement, Sitework Costs, Land Indirects and Off-Site costs

² Construction costs include Directs, Contingency, Permits/Fees, Option/Upgrade Costs, Indirects, Architect, Model Homes/Sales Office, Misc Fees, Organizational Costs and Insurance.

³ G&A costs include Management Fees, Loan fees and Interest and Legal/Audit/G&A

Source: The Developer

Public Facilities

The Developer is managing the construction of the Public Facilities required for the District (the "Public Facilities"), including CFD Facilities, backbone infrastructure and in-tract improvements. Phase 1 is partially improved with concrete curb, gutters, and sidewalks, fire hydrants, and street lighting and the streets throughout much of the development are asphalt paved. The final subdivision map for Phase 1 was recorded on March 27, 2006. All lots within Phase 1 are in finished lot condition. The Developer has entered into contracts with general contractors to complete the in-tract Public Facilities within Phase 1, which Public Facilities are expected to be completed by December 15, 2006.

As of October 1, 2006, the construction of the overall backbone Public Facilities is 75% complete and has been funded by bank loans from Ohio Savings Bank and Comerica Bank as discussed in "THE DEVELOPMENT – General – Phase 1, - and Phase 2." See "CFD and Public Facilities" herein.

Moraga HOA

The Developer has formed the Moraga of Merced Home Owners Association ("Moraga HOA") in compliance with a condition of map approval for the Development. The principal purpose of the Moraga HOA is to ensure compliance with the Development covenants, conditions, and restrictions (CC&R's), manage the maintenance of all front yards and common area landscaping and manage parking

restrictions throughout the Development. The monthly HOA assessment at full project build out is estimated to be approximately \$76.

School Mitigation Agreement

On May 20, 2005, the Developer and LWH Farms, LLC entered into School Impact Mitigation Agreements (collectively, the "School Mitigation Agreements"), with the Merced Union High School and the Merced City School District. Under the School Mitigation Agreements, said districts will not challenge any legislative approvals the Developer may seek with respect to the Development through the City or the County. The Developer has agreed to pay to said districts an annual adjusted school mitigation fee (currently \$3.65 per square foot) at the time of pulling building permits or close of escrow. The Developer has also agreed to participate in the formation of a community facilities district which will provide said districts an additional \$3.35 per square foot (plus annual adjustments). Currently, the additional community facilities district maximum annual special tax per single family unit for schools is \$610 (\$506) for neighborhood 2, \$722 (\$632) for neighborhood 3 and \$863 (\$789) for neighborhood 4, assuming an ad valorem tax rate freeze. These amounts are reduced to \$506, \$632 and \$789 for neighborhoods 2, 3 and 4, respectively, if no ad valorem tax rate freeze. The school districts agreed not to seek any other form of payment or mitigation with respect to the impact of the project other than the indexed school mitigation fee.

Acquisition/Financing Agreement

The City, the District and the Developer have entered into an Acquisition/Financing Agreement, dated as of July 3, 2006 (the "Acquisition Agreement"). The Acquisition Agreement provides for the issuance of bonds for the District, the proceeds of which will be used to pay all or a portion of the costs of some of the CFD Facilities, including the ability to fund public facilities included in City development impact fee, connection or capacity fee programs (including payment of the Purchase Price of Discrete Components thereof) as described in the Acquisition Agreement. The CFD Facilities or Discrete Components will be acquired by the City from the Owner for the Purchase Price. The obligations of the City to pay for the CFD Facilities or Discrete Components thereof are limited to the availability of proceeds from issuance of bonds by the District.

CFD and Public Facilities

A description of the CFD Facilities currently eligible to be financed for the Development through the District is contained in the Acquisition Agreement. These CFD Facilities consist of some of the backbone Public Facilities, both within and outside the District, required to serve the District. The CFD Facilities expected to be financed by this Bond issue include, among others, construction of a portion of Yosemite Avenue facilities, including street lights and traffic signals, storm drainage facilities, water transmission main facilities, and sewer system facilities, including a sewer lift station and force main. See "THE DEVELOPMENT - General."

In August 2005, the Developer awarded the construction contract for a portion of the Public Facilities, including the CFD Facilities, in the amount of approximately \$11.2 million and the contract is scheduled to be completed by December 15, 2006.

The construction of the CFD Facilities will be initially funded by bank loans from Ohio Savings Bank and Comerica Bank. See "THE DEVELOPMENT – General – *Phase 1*, - and *Phase 2*" for a detailed description of such loans. The costs of the CFD Facilities are subject to reimbursement from Bond proceeds, to the extent available. The City is not obligated to pay for the CFD Facilities except from amounts on deposit in the Improvement Fund. The City makes no warranty, express or implied, that the proceeds of the Bonds deposited and held in the Improvement Fund, and any investment earnings thereon, will be sufficient to pay for the CFD Facilities.

The following table summarizes the estimated cost of the CFD Facilities that are expected to be financed out of the proceeds of the Bonds, the amount of such costs incurred by the Developer as of October 1, 2006 and the amount of costs remaining.

TABLE 12
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED
EXPECTED CFD FACILITIES

CFD Facilities	Total Estimated Cost of CFD Facility	Costs Incurred by Developer as of October 1, 2006	Costs Remaining
Yosemite Avenue Improvements	\$3,209,633	\$1,839,508	\$1,370,125
Water Improvements	412,467	371,220	41,247
Sewer Lift Station & Force Main	751,586	375,793	375,793
Storm Drainage Improvements	328,276	295,448	32,828
Traffic Signals	<u>178,342</u>	<u>17,834</u>	<u>160,508</u>
Totals	<u>\$4,880,304</u>	<u>\$2,899,803</u>	<u>\$1,980,501</u>

Source: The Developer

There are additional CFD Facilities that are eligible to be financed and that may be financed out of the proceeds of the Bonds in addition to, or in lieu of, those described in the table above.

As of October 1, 2006, the construction of the backbone and in-tract Public Facilities for Phase 1 is 80% complete and is expected to be finished by December 15, 2006. Portions of the backbone Public Facilities for Phase 2 were completed along with Phase 1 backbone. Some of the Public Facilities for Phase 1 benefit Phase 2 and such cost has been allocated to and financed by Phase 2 loans. Generally construction of in-tract Public Facilities for Phase 2 has not yet begun. As of October 1, 2006, the Developer had expended approximately \$8,390,666 for the mass grading for Phase 1 and major backbone Public Facilities for the District. Initial funding for the work completed by the Developer has been provided by bank loans with Ohio Savings Bank and Comerica Banks. See "THE DEVELOPMENT – General – Phase 1, - and Phase 2" for a detailed description of such loans.

The Developer

Ownership Structure. The landowner of the property within the District is Lakemont LWH, LLC ("LWH"), a single-purpose limited liability company formed in 2003. LWH is owned 45% by Lakemont Homes, Inc. ("LHI"), 5% by Dr. Larry & Sherri Shemen, private investors with a longstanding relationship with Lakemont Companies (as defined hereinafter) and 50% by LWH Farms, LLC ("LWH Farms"). LWH Farms is owned by the former landowners of the property. LHI acts as the managing member of the Developer and is responsible for the day-to-day management of the Moraga of Merced project.

LHI is one of five operating companies solely owned by the Lakemont Partners (as defined below), which also include Lakemont Homes Nevada, Inc., Lakemont Management, Inc., Lakemont Communities, LLC and Lakemont Communities Nevada, LLC (each a "Lakemont Entity" and together the "Lakemont Companies"). Each of the Lakemont Partners has the same title and ownership percentage in each Lakemont Entity. The "Lakemont Partners" include Edward Johansen, President, with 35% ownership, Steve Thinglum, Vice President, Secretary and General Counsel, with 21.67% ownership,

Paul H. Eblen, Vice President, with 21.67% ownership and Thomas G. Evancie, Vice President, CFO, with 21.67% ownership.

LWH Farms, LLC is a California limited liability company made up of 17 members of the Hunt family, the former land owners of the property within the District, with Gertrude Hunt having the largest share at 25% share.

Development Experience. Since 1994, the Lakemont Companies have delivered nearly 3,500 homes and generated over \$900,000,000 in revenue. The Lakemont Companies are primarily involved in the development and sale of residential lots and the construction and sale of residential homes in California and Nevada. During fiscal years 2004 and 2005, the Lakemont Companies closed escrow on approximately 437 and 306 homes, and the Lakemont Companies anticipates that it will close escrow on approximately 325 homes in fiscal year 2006. Recent single-family developments completed or under development in California and Nevada by the Lakemont Companies include the following:

Development	Locations	Number of Dwelling Unit
Lakemont Village	Placerville, CA	113
Feather Glen	Plumas Lakes, CA	398
Waterstone	Roseville, CA	82
Lakemont Village	Roseville, CA	289
Cypress Point	Dayton, NV	173
Royal Troon	Dayton, NV	275
Sendero	Dayton, NV	61
Shadow Creek	Dayton, NV	102
Silverland Estates	Fernley, NV	205
Estancia	Reno, NV	201
Canyon Pines	Reno, NV	303
Lakemont Village Reno	Reno, NV	198
Granite Ridge	Reno, NV	176
Autumn Trails	Sparks, NV	185
Lakemont Legado	Reno, NV	35

Source: The Developer

History of Property Tax Payments; Loan Defaults; Bankruptcy. The Developer will certify to the following representations at closing:

- Neither the Developer or any of their affiliates has ever defaulted to any material extent in the payment of special taxes or assessments in connection with the District or any other community facilities districts or assessment districts in California within the past five years.
- Neither the Developer or any of their affiliates is currently in default on any loans, lines of credit or other obligation, the result of which could materially adversely affect the development of property in the District.
- The Developer is solvent and no proceedings are pending or, to the actual knowledge of the Developer, threatened in which the Developer may be adjudicated as bankrupt or become the debtor in a bankruptcy proceeding, or discharged from all of their respective debts or obligations, or granted an extension of time to pay their respective debts or a reorganization or readjustment of their respective debts.

- There is no litigation or administrative proceeding of any nature in which the Developer has been served, or to the actual knowledge of the Developer is pending or threatened against the Developer, which, if successful, would materially adversely affect the ability of the Developer to complete the development and sale of its property within the District, or to pay the Special Taxes or ordinary *ad valorem* property tax obligations when due on its property within the District, or which challenges or questions the validity or enforceability of the Bonds, the Fiscal Agent Agreement, the Property Owner Continuing Disclosure Agreement or the Bond Purchase Agreement.

- The Developer is not aware of any material failures by it or an affiliate to comply with previous continuing disclosure undertakings by them or their affiliates to provide periodic continuing disclosure reports or notices or material events in California within the past five years.

Described below are some of the principal employees of the Developer:

Edward Johanson has more than 17 years experience in the real estate development business first in the land acquisition team for one of the largest multi-family developers in the country, Vanden Berghe Financial. In 1987, Mr. Johanson founded Lakemont Companies. As President and Chief Executive Officer, Mr. Johanson oversees all aspects of Lakemont Companies, with primary responsibility for all real estate development activities for Lakemont's master planned communities and other larger developments. Mr. Johanson also oversees project consultants on architectural and product design. He received a B.S. in Finance from Syracuse University, a M.B.A. Business from California State University, Sacramento and a J.D. from University of the Pacific, McGeorge School of Law.

Steve A. Thinglum began his professional career as a Certified Public Accountant with the accounting firm of Touche Ross & Co. In 1987, Mr. Thinglum co-founded Lakemont Companies. As Vice President, he now teams with Mr. Johanson in Lakemont Companies' land acquisition and real estate development. He is general legal counsel for Lakemont Companies. He also holds real estate brokers licenses in both California and Nevada and is the designated broker for Lakemont Management, Inc. in California and Lakemont Homes Nevada, Inc. in Nevada. He received a B.S. in Accounting from California State University, Sacramento and a J.D. from University of the Pacific, McGeorge School of Law.

Thomas G. Evancie began his professional career as a Certified Public Accountant with Peat, Marwick, Mitchell & Co. He then became assistant controller for Marsh & McLennan Companies, Inc., a New York-based, publicly traded financial services company. In 1990, Mr. Evancie joined Lakemont Companies as its Chief Financial Officer, with responsibility for all financial and administrative matters. He received a B.S. in Accounting from Syracuse University.

Paul E. Eblen began his professional career in the construction business in 1977 and would later form a family owned residential construction company. In 1987, Mr. Eblen co-founded Lakemont Companies. As Vice President for Lakemont and being a licensed general contractor in both California and Nevada, Mr. Eblen's initial role within the organization was actively managing the homebuilding operations. As the Lakemont Companies evolved, Mr. Eblen delegated his initial duties to the Division Presidents and now provides executive leadership and critical decision making for the Homebuilding and Communities Divisions.

Thomas W. Bors started his career in the heavy civil construction industry and spent more than 10 years managing a wide array of projects and people in varying capacities. Before he started with Lakemont Homes as the Director of Land Development he held the position of Field Operations Manager for Teichert Construction. After several years as the Director of Land Development, Mr. Bors moved to the Vice President of Operations position. Mr. Bors is now the President of Lakemont's Northern California Division responsible for all phases of Northern California based operations. He received a B.S.

in Civil Engineering from California State University Polytechnic University, San Luis Obispo and is a Registered Professional Engineer by the State of California.

Steven Ford brings 30 years of real estate development, home building and commercial and retail development experience to Lakemont Homes to assist and direct the company's expansion into specialized senior communities as well as to lead the planning and development efforts of master planned communities. Prior to joining Lakemont, Mr. Ford was the manager of the 1,750 acre, 3,500 home Empire Ranch in Folsom, California. He also has been a partner in Friedman Homes, Spinnaker Homes and Continental Heritage Properties, developing and building residential and retail projects throughout California and Nevada. During nearly 12 years with Standard Pacific Corp. and more than 8 years with The William Lyon Company, he managed the development of several master planned communities encompassing more than 20,000 acres in cities throughout southern California, including 35,000 homes and apartments, nearly 4,000,000 square feet of retail development and more than 20,000,000 square feet of commercial and industrial development. Throughout his career, Mr. Ford has created many public/private coalitions to finance, develop and manage mixed use planned communities and residential projects.

There is no assurance that amounts necessary to finance the remaining in-tract development and home construction costs within this area will be available from the Developer, or any other source, when needed. The Developer, including their lenders and affiliates, are under no legal obligation of any kind to expend funds for the development of the property within the District. Any internal funding by the Developer, or any of their affiliated entities, whether to fund costs of development within the District or to pay special taxes, is entirely voluntary.

Absorption Study

A "Market Feasibility Study" dated October 2006 (the "Absorption Study") has been conducted by The Gregory Group, Folsom, California, at the request of the City in connection with the issuance of the Bonds. According to the Absorption Study, with respect to the 520 units to be built and transferred to final end users, the expected rate of absorption increases over time as the demand for housing in the market strengthens, and the pattern is as follows:

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**TABLE 13
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)
OF THE CITY OF MERCED
ABSORPTION STUDY**

Neighborhood	Units Sold per Quarter												
	2006		2007				2008				2009		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
2	2	7	7	7	7	7	7	7	7	7	7	7	7
3	2	7	7	7	7	7	7	7	7	7	7	7	7
4	7	7	7	7	7	7	7	7	7	7	7	7	7
Total	11	21	21	21	21	21	21	21	21	21	21	21	21

Neighborhood	Units Sold per Quarter												
	2009				2010				2011				
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
2	7	7	7	7	7	7	7	7	7	7	7	7	7
3	7	7	7	7	7	7	7	7	7	7	7	7	7
4	7	7	7	7	7	7	7	7	7	7	4	0	
Total	21	21	21	21	21	21	21	21	21	21	18	14	

Neighborhood	Units Sold per Quarter									
	2012				2013				2014	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
2	7	7	7	7	7	7	7	7	2	0
3	7	7	7	2	0	0	0	0	0	0
4	0	0	0	0	0	0	0	0	0	0
Total	14	14	14	9	7	7	7	7	2	0

Source: The Gregory Group

For further information regarding the Absorption Study, its assumptions and conclusions, see “APPENDIX E – MARKET ABSORPTION STUDY SUMMARY AND CONCLUSIONS.”

SPECIAL RISK FACTORS

The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. 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 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.

Concentration of Ownership

The Developer currently owns all of the land in the District. As buildout and market absorption continues within the District, property ownership within the District can be expected to become diversified. Lack of diversity of ownership presents a risk to Bondowners, in that failure of a large

taxpayer within the District to pay Special Taxes when due could result in the depletion of the Reserve Fund prior to the replenishment thereof from moneys realized upon resale of property from foreclosure or otherwise, or delinquency redemptions after a foreclosure sale.

Risks of Real Estate Secured Investments Generally

The Bondowners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of commercial and industrial buildings and/or sites in the event of sale or foreclosure, (ii) changes in real estate tax rate and other operating expenses, government rules (including, without limitation, zoning laws and restrictions relating to threatened and endangered species) and fiscal policies and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses.

Land Development Costs

The cost of additional improvements plus the public and private in-tract, on-site and off-site improvements would likely increase the public and private debt secured by the land within the District. See “SECURITY FOR THE BONDS - Direct and Overlapping Debt.” This increased debt could reduce the ability or desire of the property owners to pay the annual Special Taxes levied against the property. See “SECURITY FOR THE BONDS - The Special Taxes” and “SECURITY FOR THE BONDS - Appraisal.” In that event there could be a default in the payment of principal of, and interest on, the Bonds.

Future Land Use Regulations and Growth Control Initiatives

In the past, citizens of a number of local communities in California, including citizens of the County of Riverside, the County of Orange and the County of San Diego, have placed measures on the ballot designed to control the rate of future growth in those areas. It is possible that future initiatives could be enacted and become applicable to the development proposed to be conducted within the District and could, if applied retroactively, negatively impact the ability of developers to complete the proposed planned development. The Bondowners should assume that any event that impacts the ability to develop land in the District could cause the land values within the District to decrease and could affect the willingness and ability of the owners of land within the District to pay the Special Taxes when due. See “SECURITY FOR THE BONDS - Appraisal.”

In evaluating the investment quality of the Bonds, investors should assume that the possible enactment of more restrictive land use regulations by the City, or by voter initiative presents a substantial risk to the timely construction and completion of development, except with respect to units for which building permits have already been issued and substantial work and liabilities have been incurred in good faith reliance thereon prior to the date of adoption of any such land use regulations.

The failure to complete the Moraga of Merced planned development as planned, or substantial delays in the completion of such development, due to litigation or other causes may reduce the value of the property within the District, and will increase the amount of Special Taxes to be paid by the owners of undeveloped property and may affect the willingness and ability of the owners of land within the District to pay the Special Taxes when due. Depending on the nature of the planned development eventually approved and completed, the value of the land within the District may be reduced. See “THE DISTRICT – Environmental Review” and “THE DEVELOPMENT – General.”

The Moraga of Merced planned development is not subject to a development agreement but is subject to a school mitigation agreement. See “THE DEVELOPMENT – School Mitigation Agreement.”

Failure to Develop Properties

Land development operations are subject to comprehensive Federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect land development operations. In addition, there is the risk that lawsuits challenging the City's approval of the Moraga of Merced planned development will be instituted.

Under current California law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been properly issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on such permits. The recording of final maps for Phase 1 and the existence of vesting tentative maps for Phase 2 has mitigated much of this risk.

Development of certain portions of the land within the District is contingent upon construction or acquisition of major public improvements such as arterial streets, water distribution facilities, sewage collection and transmission facilities, gas, telephone and electrical facilities, as well as local in-tract improvements including site grading. While certain of these improvements have been or are expected to be constructed with proceeds of the Bonds, there can be no assurance that all of these improvements will be constructed. The cost of these public and private in-tract and off-site improvements could increase the public and private debt for which the land within the District provides security. This increased debt could reduce the willingness and/or ability of the property owners to pay the annual Special Taxes levied against their property.

In addition, there is the risk that future governmental restrictions, including but not limited to, governmental policies restricting or controlling development within the District will be enacted. The Moraga of Merced planned development is not subject to a development agreement but has recorded final maps for Phase 1 and vesting tentative maps for Phase 2. The Development may be insulated due to such maps from future initiatives approved by the voters or regulations adopted by the City in which more restrictions and requirements on development within the District could be imposed pursuant to such initiatives or regulations. See "SPECIAL RISK FACTORS -- Future Land Use Regulations and Growth Control Initiatives" above.

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

Another risk to the Bondowners involves the value of undeveloped property. The inability or failure to develop property due to adverse regulatory or economic conditions may reduce the value of undeveloped property. The undeveloped property also provides less security to the Bondowners should it be necessary for the District to foreclose on undeveloped property due to the nonpayment of the Special Taxes. Furthermore, an inability to develop the land within the District as currently proposed will likely reduce the diversity of ownership of land within the District, making the Bondowners more dependent upon timely payment of the Special Tax levied on the undeveloped property. Because of the current concentration of ownership of the undeveloped property in the District, the timely payment of the Bonds

depends upon the willingness and ability of the present owners of the undeveloped property to pay the Special Taxes levied on the undeveloped property when due. See "SPECIAL RISK FACTORS -- Concentration of Ownership" above. A slowdown or stoppage in the continued development of the District could reduce the willingness and ability of such owners to make Special Tax payments on undeveloped property, and could greatly reduce the value of such property in the event it has to be foreclosed upon.

Disclosure to Future Homebuyers

Pursuant to Section 53328.3 of the Act, the District has recorded a Notice of Special Tax Lien in the Office of the Merced County Recorder. The sellers of property within the District are required to give prospective buyers a Notice of Special Tax in accordance with Sections 53340.2 and 53341.5 of the Act. While title companies normally refer to the Notice of Special Tax Lien in title reports, there can be no guarantee that such reference will be made or the seller's notice given or, if made and given, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a home or commercial facility or the lending of money thereon. Failure to disclose the existence of the Special Taxes may affect the willingness and ability of future owners of land within the District to pay the Special Taxes when due.

Parity Taxes and Special Assessments

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is coequal 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 "SPECIAL RISK FACTORS -- Property Controlled by FDIC."

The District, however, has no control over the ability of other entities 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 the District, 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.

The properties within the District are currently subject to special taxes levied annually for Community Facilities District No. 2006-1 of the East Merced County Public Facilities Financing Authority ("EMCPFFA") and Community Facilities District No. 2003-2 (Services) of the City of Merced ("Services CFD"). Currently, the additional community facilities district maximum annual special tax per single family unit for schools is \$610 for neighborhood 2, \$722 for neighborhood 3 and \$863 for neighborhood 4 assuming an ad valorem tax freeze. The special tax for the Services CFD is \$776.44 per residential unit for the 2006-07 fiscal year. This special tax contains an annual escalator. See "SECURITY FOR THE BONDS - Direct and Overlapping Debt."

Appraised Value; Land Value

The value of land within the District is an important factor in evaluating the investment quality of the Bonds. In the event that a property owner defaults in the payment of Special Tax installments, the District's only remedy is to judicially foreclose on that property. Prospective purchasers of the Bonds should not assume that the property within the District could be sold for the assessed or appraised value described in the Official Statement at a foreclosure sale for delinquent Special Tax installments or for an amount adequate to pay delinquent Special Tax installments. Reductions in property values within the

District due to a downturn in the economy or the real estate market, events such as earthquakes, droughts, or floods, stricter land use regulations, threatened or endangered species or other events may adversely impact the security underlying the Special Taxes.

The property values set forth in the various tables herein are the property values determined by the Appraiser. The Appraisal was prepared for the purpose of estimating and confirming the minimum market value of the property in the District as of October 31, 2006 in its as is condition on the basis of certain assumptions. Prospective purchasers of the Bonds should not assume, however, that the land within the District could be sold for the appraised amount described herein at the present time or at a foreclosure sale for delinquent Special Taxes. See the Appraisal included as Appendix D hereto for a brief description of the analysis used and assumptions made by the Appraiser. The actual value of the property is subject to future events that might render invalid the assumptions relied upon by the Appraiser in determining the appraised value.

The actual market value of the property is subject to future events such as changes in the economy, fluctuation of mortgage interest rates and occurrences of certain acts of nature, all of which could adversely impact the value of the land in the District which is the security for the Bonds. As discussed herein, many factors could adversely affect property values or prevent or delay land development within the District. Furthermore, the estimated value to lien ratio of individual parcels may vary. No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and sold for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes.

Value to Lien Ratios

Value to lien ratios have traditionally been used in land-secured bond issues as a measure of the “collateral” supporting the willingness of property owners to pay their special taxes and assessments (and, in effect, their general property taxes as well). The City’s Land Secured Financing Policies require that the overall district-wide or improvement area-wide value to lien ratio be at least 3.5:1 if additional security is not provided by the landowner. While the overall value to lien ratio of the District exceeds 3.5:1, individual parcels may have a value to lien ratio of less than 3.5:1.

The value to lien ratio is mathematically a fraction, the numerator of which is the value of the property (usually a market value as determined by an appraiser) and the denominator of which is the “lien” of the assessments or special taxes. A value to lien ratio should not, however, be viewed as a guarantee for credit-worthiness. Land values are more volatile in the early stages of a development, and are especially sensitive to economic cycles. A downturn of the economy or other market factors may depress land values and hence the value to lien ratios, by increasing risk to investors and lenders, and lengthening the absorption period for new development projects. Further, the value to lien ratio cited for a bond issue or a district is an average. Individual parcels in a community facilities district may fall above or below the average, sometimes even below a 1:1 ratio. (With a ratio below 1:1, the land is worth less than the debt on it.) If property ownership in a community facilities district is highly concentrated during the early stages of development, the delinquency of a major property owner can deplete the bond’s reserve fund and threaten the timely payment of the debt service, even though the value to lien ratio is adequate. Although judicial foreclosure proceedings can be initiated rapidly, the process can take several years to complete, and the bankruptcy courts may impede the foreclosure action. No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and sold for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. Finally, local agencies may form overlapping community facilities districts or assessment districts because they typically do not coordinate their bond issuances. Debt issuance by another entity can dilute value to lien ratios, as set forth in the table in the section above

entitled "SECURITY FOR THE BONDS - Direct and Overlapping Debt." See "SECURITY FOR THE BONDS - Estimated Appraised Value to Lien Ratios."

Insufficiency of Special Taxes

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel will be based primarily on whether such parcel is developed or not and, for Residential Property on which subdivision in which it is located, and for Non-Residential Property on the acreage of the Assessor's Parcel. See "APPENDIX A -- RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" and "SECURITY FOR THE BONDS - Rate and Method of Apportionment of Special Taxes." Accordingly, to the extent property is not developed, collection of the Special Taxes will be dependent on the willingness and ability of the owners of Undeveloped Property to pay such Special Taxes when due. See "SPECIAL RISK FACTORS -- Future Land Use Regulations and Growth Control Initiatives" and "-- Failure to Develop Properties" above for a discussion of the risks associated with undeveloped property.

The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by a gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. **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 ACREAGE 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.**

Furthermore, Administrative Expenses are paid by the District prior to the payment of debt service on the Bonds. Incurrence of higher than budgeted Administrative Expenses may have an adverse impact on the ability of the District to make debt service on the Bonds.

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, will be billed to the properties within the District on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot be made to the County Tax Collector separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future.

See "SECURITY FOR THE BONDS - Reserve Fund" and "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure," for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Fiscal Agent Agreement, in the event of delinquency in the payment of Special Tax installments.

Future Indebtedness

At the present time part of the land within the District has been partially improved, and a substantial portion of the land has not been improved. The cost of any additional improvements may well

increase the public and private debt for which the land in the District provide security, and such increased debt could reduce the ability or desire of property owners to pay the Special Taxes levied against the land in the District. In addition, in the event any additional improvements or fees are financed pursuant to the establishment of an assessment district or another district formed pursuant to the Act, any taxes or assessments levied to finance such improvements way have a lien on a parity with the lien of the Special Taxes. See "SECURITY FOR THE BONDS - Direct and Overlapping Debt."

Natural Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires due to the vegetation and topography, or flooding in the event of significant rainfall. The occurrence of seismic activity, fires or flooding in or around the District could result in substantial damage to properties in the District, which, in turn, could substantially reduce the value of such properties. As a result of the occurrence of such an event, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due, and the reserve fund for the Bonds may become depleted. In addition, the value of land in the District could be diminished in the aftermath of such natural events, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

Endangered and Threatened Species

On a regular basis, new species are proposed to be added to the State and federal protected species lists. Any action by the State or federal governments to protect species located on or adjacent to the property within the District could negatively affect the developers' ability to complete the development of the properties within the District as planned. This, in turn, could reduce the ability or willingness of the property owners to pay the Special Taxes when due and would likely reduce the value of the land and the potential revenues available at a foreclosure sale for delinquent Special Taxes.

Hazardous Substances

A serious risk in terms of the potential reduction in the value of a parcel within the District is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel within the District may be required by law to remedy conditions of such parcel relating to release 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 similarly stringent. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of the property whether or not the owner or operator had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the District be affected by a hazardous substance, will be to reduce the marketability and value of such parcel by the costs of remedying the condition, because the prospective purchaser, upon becoming the owner, will become obligated to remedy the condition just as the seller is.

Further it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the current existence on the parcel of a substance currently 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 current existence 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 in which it is handled. All of these possibilities could significantly affect the value of a parcel within the District that is realizable upon a delinquency.

Neither the City nor the District has knowledge of any hazardous substances being located on the property within the District.

Bankruptcy and Foreclosure

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

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

In addition, bankruptcy of a property owner (or a property owner's partner or equity owner) would likely result in a delay in procuring Superior Court foreclosure proceedings unless the bankruptcy court consented to permit such foreclosure action to proceed. Such delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full.

Under 11 U.S.C. Section 362(b)(18), in the event of a bankruptcy petition filed on or after October 22, 1994, the lien for ad valorem taxes in subsequent fiscal years will attach even if the property is part of the bankruptcy estate. Bondowners should be aware that the potential effect of 11 U.S.C. Section 362(b)(18) on the Special Taxes depends upon whether a court were to determine that the Special Taxes should be treated like ad valorem taxes for this purpose.

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

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

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

Property Controlled by FDIC

The District's ability to collect interest and penalties specified by State law and to foreclose the lien of delinquent Special Tax payments may be limited in certain respects with regard to properties in

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

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

The FDIC has filed claims against one California county in United States Bankruptcy Court contending, among other things, that special taxes authorized under the Act are not ad valorem taxes and therefore not payable by the FDIC, and seeking a refund of any special taxes previously paid by the FDIC. The FDIC is also seeking a ruling that special taxes may not be imposed on properties while they are in FDIC receivership. The Bankruptcy Court ruled in favor of the FDIC's positions and, on August 28, 2001, the United States Court of Appeals for the Ninth Circuit affirmed the decision of the Bankruptcy Court, holding that the FDIC, as an entity of the federal government, is exempt from post-receivership special taxes levied under the Act. This is consistent with provision in the Law that the federal government is exempt from special taxes.

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 an interest, although prohibiting the lien of the FDIC to be foreclosed on at a judicial foreclosure sale would likely reduce the number of or eliminate the persons willing to purchase such a parcel at a foreclosure sale. Owners of the Bonds should assume that the District will be unable to foreclose on any parcel owned by the FDIC. Such an outcome would cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment of the Bonds. The District has not undertaken to determine whether the FDIC or any FDIC-insured lending institution currently has, or is likely to acquire, any interest in any of the parcels, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

Billing of Special Taxes

A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn,

along with various other factors, can lead to problems in the collection of the special tax. In some community facilities districts, taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and the bonds issued by the district.

Under provisions of the Act, the Special Taxes are billed to the properties within the District which were entered on the Assessment Roll of the County Assessor by August 10 on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Ordinarily, these Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure," for a discussion of the provisions which apply, and procedures which the District is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

Collection of Special Taxes

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

Non-Cash Payments of Special Taxes

Under the Act, the City Council 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 Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A Bond so tendered is to be accepted at par and credit is given for any interest accrued thereon to the date of tender. Thus, if 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 Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay debt service due with respect to such other Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Bonds in payment of Special Taxes, the Fiscal Agent Agreement includes a covenant pursuant to which the District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of 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 Special Tax revenues to pay principal and interest on all outstanding Bonds when due.

Maximum Special Tax Rates

Within the limits of the Rate and Method, the District may adjust the Special Taxes levied on all property within the District to provide the amount required each year to pay annual debt service and to replenish the Reserve Fund to an amount equal to the Reserve Requirement. However, the amount of Special Taxes that may be levied against particular categories of property is subject to the maximum tax rates set forth in the Rate and Method. In the event of significant Special Tax delinquencies, there is no assurance that the maximum tax rates would be sufficient to meet debt service obligations on the Bonds. See "SECURITY FOR THE BONDS -- The Special Taxes" and APPENDIX A -- RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES."

Exempt Properties

So long as certain conditions are met, the Rate and Method provides that the District shall not levy a Special Tax on the first (a) 22.49 acres of Public Property and Multifamily Residential Property within Tax Zone A, (b) 70.27 acres of Public Property and Multifamily Residential Property within Tax Zone B, and (c) 29.03 acres of Public Property and Multifamily Residential Property within Tax Zone C. In addition, the Act provides that properties or entities of the State, federal or local government are exempt from the Special Taxes; provided, however, the property within the District acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Taxes, will continue to be subject to the Special Taxes. The Act further provides that if property subject to the Special Taxes is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Taxes with respect to that property is to be treated as if it were a special assessment. The constitutionality and operation of these provisions of the Act have not been tested. In particular, insofar as the Act requires payment of the Special Taxes by a federal entity acquiring property within the District, it may be unconstitutional.

If for any reason property within the District becomes exempt from taxation by reason of its status under the Rate and Method, or by reason of its ownership by a nontaxable entity such as the federal government or another public agency, subject to the limitation of the maximum authorized rates, the Special Taxes 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 Taxes and could have an adverse impact upon the timely payment of the Special Taxes.

California Constitution Article XIIC and Article XIID

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIC and XIID to the State Constitution, which articles contain a number of provisions affecting the ability of the District to levy and collect both existing and future taxes, assessments, fees and charges. According to the "Official Title and Summary" of Proposition 218 prepared by the California State Attorney General, Proposition 218 limits the "authority of local governments to impose taxes and property-related assessments, fees and charges." On July 1, 1997 California State Senate Bill 919 ("SB 919") was signed into law. SB 919 enacted the "Proposition 218 Omnibus Implementation Act," which implements and clarifies Proposition 218 and prescribes specific procedures and parameters for local jurisdictions in complying with Articles XIIC and XIID.

Article XIID of the State Constitution reaffirms that the proceedings for the levy of any Special Taxes by the District under the Act must be conducted in conformity with the provisions of Section 4 of Article XIII A. The District has completed its proceedings for the levy of Special Taxes in accordance with the provisions of Section 4 of Article XIII A. Under Section 53358 of the California Government Code, any action or proceeding to review, set aside, void, or annul the levy of a special tax or an increase in a Special Tax (including any constitutional challenge) must be commenced within 30 days after the Special Tax is approved by the voters.

Article XIIC removes certain limitations on the initiative power in matters of local taxes, assessments, fees and charges. 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 a resolution to reduce the rate of any special tax if the proceeds of that tax are being utilized to retire any debt incurred pursuant to the Act unless such legislative body determines that the reduction of that tax would not interfere with the timely retirement of that debt. Although the matter is not free from doubt, it is likely that exercise by the voters of the initiative power referred to in Article XIIC to reduce or terminate the Special Tax is subject to the same restrictions as are applicable to the City Council, as the legislative body of the District, pursuant to the Act. Accordingly, although the matter is not free from doubt, it is likely that Proposition 218 has not conferred on the voters the power to repeal or reduce the Special Taxes if such repeal or reduction would interfere with the timely retirement of the Bonds.

It may be possible, however, for voters or the City Council, acting as the legislative body of the District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds.

Proposition 218 and the implementing legislation have yet to be extensively interpreted by the courts; however, the California Court of Appeal in April 1998 upheld the constitutionality of Proposition 218's balloting procedures as a condition to the validity and collectibility of local governmental assessments. A number of validation actions for and challenges to various local governmental taxes, fees and assessments have been filed in Superior Court throughout the State, which could result in additional interpretations of Proposition 218. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and the outcome of such determination cannot be predicted at this time with any certainty.

Ballot Initiatives and Legislative Measures

Proposition 218 was adopted pursuant to a measure qualified for the ballot pursuant to California's constitutional initiative process, and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the Legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the District or other local districts to increase revenues or to increase appropriations or on the ability of a landowner to complete the development of property. See "SPECIAL RISK FACTORS -- Future Land Use Regulations and Growth Control Initiatives" above.

Adjustable Rate Mortgages

Since 2003, many persons have financed the purchase of new homes using loans with adjustable interest rates and start low and are subject to being reset at higher rates on a specified date or upon the occurrence of specified conditions. Some of these loans allow the borrower to pay interest only for an initial period. In the opinion of some economists, the significant increase in home prices since 2002 has been driven in part by the ability of home purchasers to access the adjustable rate loans. These economists predict that as interest rates on more conventional loans rise and as the interest rates on adjustable loans are reset (and payments are increased) there will be a decrease in home prices due to the fact that fewer borrowers will be able to qualify for adjustable rate loans or conventional loans.

Many borrowers who purchased homes with adjustable rate loans have refinanced before the interest reset date to obtain loans with fixed interest rates and payments that are lower than the reset interest rates and the resulting payments. However, as interest rates on conventional loans increase

borrowers will not be able to refinance adjustable rate loans at lower interest rates. Some economists are concerned that such a reduction in home prices will result in many existing homeowners having loan balances that exceed the value of their homes.

For the reasons discussed above, homeowners in the District who purchase their homes with adjustable rate loans may experience difficulty in making their loan payments and paying the Special Taxes levied on their property. This would result in an increase in the Special Tax delinquency rate in the District and a possible depletion of the Reserve Fund. If there were significant delinquencies in Special Tax collections in the District and the Reserve Fund was depleted, there could be a default in the payment of principal of and interest on the Bonds.

Some economists have also predicted that if housing prices decline, causing many existing homeowners to have loan balances in excess of the value of their homes, bankruptcies are likely to increase. Bankruptcy by homeowners with delinquent Special Taxes could delay the commencement and completion of foreclosure proceedings to collect delinquent Special Taxes. See "Tax Delinquencies" and "Bankruptcy and Foreclosure."

Potential Impact of Inflationary Factors

Increasing home loan interest rates and other inflationary factors, including continued increases in gasoline prices, could result in a slow down in the construction and sale of homes in the District and a reduction in home sales prices. See also "Adjustable Rate Mortgages" above. Persons who have purchased homes in the City may commute long distances to work. Increasing gasoline prices could result in less people who commute considering purchasing a home in the District. Increasing home loan interest rates could also result in fewer persons being able to qualify for loans. Either of these factors could cause a slowdown in the sale of homes in the District, and could result in reduction in expected home sales prices. A slowdown in the sale of homes in the District would increase the Developer's carrying costs and reduce its expected profit. A slowdown in homes sales would also delay the diversification of property ownership within the District and extend the period of time during which District would need to levy Special Taxes on undeveloped property which is owned by the Developer to pay debt service on the Bonds. This would further reduce the Developer's expected profit. These factors, or a combination of them, might result in the Developer being unwilling to make timely payment of the Special Taxes levied on its property. See "Failure to Develop Property," herein.

No Acceleration

The Bonds do not contain a provision allowing for their acceleration in the event of a payment default or other default under the terms of the Bonds or the Fiscal Agent Agreement or upon any adverse change in the tax status of interest on the Bonds. There is no provision in the Act or the Fiscal Agent Agreement for acceleration of the Special Taxes in the event of a payment default by an owner of a parcel within the District or otherwise. See "APPENDIX C -- SUMMARY OF THE FISCAL AGENT AGREEMENT."

Loss of Tax Exemption

As discussed under the caption "CONCLUDING INFORMATION - Tax Exemption," in order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the District has covenanted in the Fiscal Agent Agreement not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Interest on the Bonds could become includable in gross income for purposes of Federal income taxation retroactive to the date the Bonds were issued, as a result of acts or omissions of the District in violation of the Code. Should such an event of taxability occur, the Bonds are not subject to early redemption and

will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the Fiscal Agent Agreement.

Limitations on Remedies

Remedies available to the Bond Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds. Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Fiscal Agent Agreement 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 creditor's rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Fiscal Agent Agreement. 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 Bond Owners.

Enforceability of the rights and remedies of the Bond Owners, and the obligations incurred by the District, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against joint powers authorities in the State. See "SPECIAL RISK FACTORS - Bankruptcy and Foreclosure."

Limited Secondary Market

As stated herein, investment in the Bonds poses certain economic risks which may not be appropriate for certain investors, and only persons with substantial financial resources who understand the risk of investment in the Bonds should consider such investment. There can be no guarantee that there will be a secondary market for purchase or sale of the Bonds or, if a secondary market exists, that the Bonds can or could be sold for any particular price. No application has been made for a credit rating for the Bonds, and it is not known whether a credit rating could be secured either now or in the future for the Bonds.

CONCLUDING INFORMATION

Underwriting

Piper Jaffray & Co. (the "Underwriter") purchased the Bonds at a purchase price of \$5,735,463.50, representing the principal amount of the Bonds, less an Underwriter's discount of \$59,976.80, and less a net original issue discount of \$44,559.70. The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers.

Legal Opinion

The legal opinion of Best Best & Krieger LLP, Riverside, California, approving the validity of the Bonds, in substantially the form set forth in APPENDIX F hereto, will be made available to purchasers of the Bonds at the time of original delivery. A copy of the legal opinion for the Bonds will be provided with each definitive bond. Bond Counsel has not undertaken on behalf of the Owners or the Beneficial Owners of the Bonds to review the Official Statement and assumes no responsibility to such Owners and Beneficial Owners for the accuracy of the information contained herein. Certain legal matters will be passed upon for the City and the District by Gregory Diaz, City Attorney and for the District and the City by Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel with respect to the issuance of the Bonds. Fees payable to Bond Counsel and Disclosure Counsel are contingent upon successful sale and delivery of the Bonds.

Tax Exemption

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Best Best & Krieger LLP, Bond Counsel, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that, assuming compliance with the aforementioned covenant, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on the Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

The excess, if any, of the stated redemption price at maturity of Bonds of a maturity over the initial offering price to the public of the Bonds of that maturity set forth on the inside cover of this Official Statement is "original issue discount." Such original issue discount accruing on a Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and exempt from California personal income tax. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of Bonds who purchase such Bonds other than at the initial offering price and pursuant to the initial offering.

Any person considering purchasing a Bond of a maturity having original issue discount should consult his or her own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Although Bond Counsel is of the opinion that interest on the Bonds is exempt from state personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocated to interest on the Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City and the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the District as the "taxpayer," and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interest from the Owners. Further, the disclosure of the initiation of an audit may adversely affect the market price of the Bonds, regardless of the final disposition of the audit.

No Litigation

A certificate of the District and the City to the effect that no litigation is pending or threatened concerning the validity of the Bonds will be furnished to the Underwriter at the time of the original delivery of the Bonds. Neither the City nor the District are 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 which contests the District's authority to issue the Bonds.

No Rating on the Bonds

The Bonds are not rated and the District does not anticipate applying for a rating on the Bonds.

Miscellaneous

All of the preceding summaries of the Fiscal Agent Agreement, other applicable legislation, agreements and other documents are made subject to the provisions of such documents and do not purport to be complete documents of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Bonds.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The City Council of the City, acting as the legislative body of the District, has duly authorized the City Manager to execute and deliver this Official Statement on behalf of the District.

COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED) OF THE CITY OF MERCED

By _____ /s/ James G. Marshall _____
City Manager

APPENDIX A

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

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EXHIBIT A

CITY OF MERCED COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

A Special Tax applicable to each Assessor's Parcel in the City of Merced Community Facilities District No. 2006-1 (Moraga of Merced) [herein "CFD No. 2006-1"] shall be levied and collected according to the tax liability determined by the City Council, through the application of the appropriate amount or rate for Taxable Property, as described below. All of the property in CFD No. 2006-1, unless exempted by law or by the provisions of Section F 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" or "Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map 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 Government Code of the State of California.

"Administrative Expenses" means the actual or reasonably estimated costs directly related to the administration of the CFD including, but not limited to, the following: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the CFD or the City, or designee thereof, or both); the costs of collecting the Special Taxes (whether by the County, the CFD or the City, or otherwise); the costs of remitting the Special Taxes to the trustee; the costs of the trustee (including legal counsel) in the discharge of the duties required of it under the indenture; the costs to the City, the CFD, or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, the CFD, or any designee thereof of providing continuing disclosure; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, the CFD, or any designee thereof related to any appeal of the levy or application of the Special Tax; the costs associated with the release of funds from an escrow account, if any. Administrative Expenses shall also include amounts estimated or advanced by the City or CFD for any other administrative purposes of the CFD, including, but not limited to, attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

“Administrator” means the person or firm designated by the CFD or the City to administer the Special Taxes according to this Rate and Method of Apportionment of Special Tax.

“Assessor’s Parcel” or **“Parcel”** means a lot or 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.

“Assigned Special Tax” means the Special Tax identified for each type of property in Section C.1 below.

“Authorized Facilities” means those facilities that are authorized to be funded by the CFD.

“Backup Special Tax” means the Special Tax identified for each type of property in Section C.2 below.

“Bonds” means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by the CFD or the City for the CFD under the Act.

“Buildable Lot” means an individual lot within a Final Map for which a building permit may be issued without further subdivision of such lot.

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

“CFD” or **“CFD No. 2006-1”** means the City of Merced Community Facilities District No. 2006-1 (Moraga of Merced).

“City” means the City of Merced.

“City Council” means the City Council of the City of Merced, acting as the legislative body of CFD No. 2006-1.

“County” means the County of Merced.

“Designated Buildable Lot” means a Buildable Lot for which a building permit has not been issued by the City.

“Developed Property” means, in any Fiscal Year, all Parcels of Taxable Property for which a building permit for new construction was issued on or prior to May 1 of the preceding Fiscal Year.

“Excess Property Owner Association Property” means the Acres of Property Owner Association Property that exceed the Acreage exempted in Section F below. In any Fiscal Year in which a Special Tax must be levied on Excess Property Owner Association Property pursuant to Step 4 in Section D below, Excess Property Owner Association Property shall be those

Assessor's Parcel(s) that most recently became Property Owner Association Property based on the dates on which Final Maps recorded creating such Property Owner Association Property.

"Excess Public Property" means the acres of Public Property that exceed the acreage exempted in Section F below. In any Fiscal Year in which a Special Tax must be levied on Excess Public Property pursuant to Step 4 in Section D below, Excess Public Property shall be those Assessor's Parcel(s) that most recently became Public Property based on the dates on which Final Maps recorded creating such Public Property.

"Expected Residential Lot Count" means 206 Buildable Lots of Single Family Residential Property in Tax Zone A, 173 Buildable Lots of Single Family Residential Property in Tax Zone B, and 141 Buildable Lots of Single Family Residential Property in Tax Zone C or, as determined by the Administrator, the number of Buildable Lots based on the most recently recorded Final Map or modified Final Map for each Tax Zone within the CFD.

"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 Buildable Lots.

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

"Maximum 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.

"Other Property" means, in any Fiscal Year, all Parcels of Developed Property that are not Single Family Residential Property.

"Property Owner Association Property" means any Parcel within the boundary of the CFD which, at the time the Special Tax is enrolled in the Fiscal Year for which the Special Tax is being levied, has been conveyed to or irrevocably dedicated to a property owner association, including any master or sub-association.

"Proportionately" means, for Developed Property, that the ratio of the actual Special Tax levied in any Fiscal Year to the Maximum Special Tax authorized to be levied in that Fiscal Year is equal for all Assessor's Parcels of Developed Property. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax to the Maximum Special Tax is equal for all Assessor's Parcels of Undeveloped Property.

"Public Property" means any Assessor's Parcels owned by, irrevocably offered or dedicated to, or for which an easement for purposes of right-of-way or other public use has been granted to the United States of America, the State of California, the County, the City, or other local governments or public agencies.

"Rate and Method" means this Rate and Method of Apportionment of Special Tax.

"Residential Unit" means an individual single-family detached, half-plex, duplex, triplex, fourplex, townhome, condominium, or apartment unit.

“Single Family Residential Property” means, in any Fiscal Year, all Parcels of Developed Property for which a building permit was issued for construction of one or more Residential Units that are offered as for-sale units.

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

“Special Tax Requirement” means, in the following order of priority, the amount necessary in any Fiscal Year to: (i) pay all Administrative Expenses except those associated with City staff time; (ii) pay principal and interest on Bonds which is due in the calendar year that begins in such Fiscal Year; (iii) create and/or replenish reserve funds for the Bonds; (iv) 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; (v) pay Administrative Expenses associated with City staff time; and (vi) pay the costs of Authorized Facilities except that any such amount shall not result in a Special Tax being levied on Undeveloped Property pursuant to Step 2 in Section D below. The amounts referred to in clauses (ii) and (iii) 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 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 CFD which are not exempt from the Special Tax pursuant to law or Section F below.

“Tax Zone” means a mutually exclusive geographic area, within which particular Special Tax rates may be levied pursuant to this Rate and Method of Apportionment of Special Tax. Attachment 1 identifies the four Tax Zones in CFD No. 2006-1.

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

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

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

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

“Undeveloped Property” means, in any Fiscal Year, all Parcels of Taxable Property that are not Developed Property.

B. DATA FOR ANNUAL ADMINISTRATION OF SPECIAL TAXES

On or about July 1 of each Fiscal Year, the Administrator shall identify the current Assessor’s Parcel numbers for Taxable Property. The Administrator shall then (i) identify the Tax Zone within which each Parcel of Taxable Property is located, (ii) categorize each Parcel of Taxable Property as Developed Property or Undeveloped Property, (iii) categorize Developed Property as Single Family Residential Property or Other Property, and (iv) determine the Special Tax Requirement.

In any Fiscal Year, if it is determined that (i) a parcel map for a portion of property in the CFD 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 master Assessor’s Parcel that was subdivided by recordation of the Parcel Map.

C. MAXIMUM SPECIAL TAXES

The Maximum Special Tax for each Parcel of Developed Property shall be the greater of (i) the Assigned Special Tax identified in Section C.1 below or (ii) the Backup Special Tax determined pursuant to Section C.2 below.

1. Assigned Special Tax for Developed Property

The following Assigned Special Tax rates shall apply to all Parcels of Developed Property for each Fiscal Year in which the Special Taxes are collected:

<u>TABLE 1</u>		
Developed Property Assigned Special Taxes		
Tax Zone	Type of Property	Assigned Special Tax
A	Single Family Residential Property Other Property	\$734 per Residential Unit \$6,604 per Acre
B	Single Family Residential Property Other Property	\$880 per Residential Unit \$6,796 per Acre
C	Single Family Residential Property Other Property	\$1,148 per Residential Unit \$7,717 per Acre

2. Backup Special Tax for Developed Property

The following Backup Special Tax rates shall apply to all Parcels of Developed Property for each Fiscal Year in which the Special Taxes are collected:

TABLE 2		
Developed Property Backup Special Taxes		
Tax Zone	Type of Property	Assigned Special Tax
A	Single Family Residential Property Other Property	\$863 per Residential Unit \$6,604 per Acre
B	Single Family Residential Property Other Property	\$1,035 per Residential Unit \$6,796 per Acre
C	Single Family Residential Property Other Property	\$1,351 per Residential Unit \$7,717 per Acre

However, if the Expected Residential Lot Count does not equal 206 for Tax Zone A, 173 for Tax Zone B, or 141 for Tax Zone C, and the City has not issued Bonds, then the Backup Special Tax for Designated Buildable Lots of Single Family Residential Property shall be calculated according to the following formula:

$$\begin{aligned} \text{Backup Special Tax} = & (\$6,604 \text{ for Tax Zone A, } \$6,796 \text{ for Tax Zone B, or } \$7,717 \text{ for} \\ & \text{Tax Zone C} \\ & \times \text{ Acreage of Designated Buildable Lots of Single Family} \\ & \text{Residential Property within the applicable Tax Zone} \\ & \div \text{ number of Designated Buildable Lots of Single Family} \\ & \text{Residential Property within the applicable Tax Zone)} \end{aligned}$$

If the Expected Residential Lot Count does not equal 520, and the City has issued Bonds, then the following steps shall be applied:

- Step 1:** The Administrator shall calculate the Maximum Special Tax revenue projected to be available when Bonds were issued;
- Step 2:** The Administrator shall calculate the Maximum Special Tax revenue that could be collected from property in the CFD if a change in the Expected Residential Lot Count is approved;
- Step 3:** If the amount determined in Step 2 is more than that calculated in Step 1, the change in the Expected Residential Lot Count may be approved without further action. If the revenue calculated in Step 2 is less than that calculated in Step 1, one of the following must occur:

- (a) The change in the Expected Residential Lot Count is not submitted for approval or, if submitted, is not approved by the City;
- (b) The Council, prior to approval of the change in the Expected Residential Lot Count, completes proceedings under the Act to increase the Maximum Special Tax, on Assessor's Parcels owned by the landowners requesting same, to an amount sufficient to maintain the total Maximum Special Tax revenue that could be generated before the change in the Expected Residential Lot Count was approved; or
- (c) Before approval of the change in the Expected Residential Lot Count, the landowner requesting the change prepays to the City an amount that corresponds to the lost Maximum Special Tax revenue, as determined by applying the steps set forth in Section G below to prepay the Special Tax. Any such prepayment shall be used by the City to call Bonds.

The Backup Special Tax for a Parcel shall not change once a Parcel is classified as Developed Property.

3. *Undeveloped Property*

The Maximum Special Tax for Parcels of Undeveloped Property is \$6,604 per Acre for Tax Zone A, \$6,796 per Acre for Tax Zone B, and \$7,717 per Acre for Tax Zone C.

D. METHOD OF LEVY OF THE SPECIAL TAX

Commencing with Fiscal Year 2006-07 and for each following Fiscal Year, the Administrator shall determine the Special Tax Requirement to be collected in that Fiscal Year. The Special Tax shall then be levied according to the following steps:

Step 1: The Special Tax shall be levied Proportionately on each Parcel of Developed Property up to 100% of the Assigned Special Tax for such Fiscal Year determined pursuant to Section C.1 until the amount levied on Developed Property is equal to the Special Tax Requirement prior to applying any Capitalized Interest that is available in the CFD accounts;

Step 2: If additional revenue is needed to satisfy the Special Tax Requirement after Step 1 and after applying Capitalized Interest to reduce the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property up to 100% of the Maximum Special Tax for such Undeveloped Property determined pursuant to Section C.3;

Step 3: If additional revenue is needed to satisfy the Special Tax Requirement after applying the first two steps, the Special Tax levied on each Parcel of Developed

Property whose Maximum Special Tax is derived by application of the Backup Special Tax shall be increased in equal percentages from the Assigned Special Tax to the Maximum Special Tax for each Parcel;

Step 4: If additional revenue is needed to satisfy the Special Tax Requirement after applying the first four steps, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Excess Public Property and Excess Property Owner Association Property, up to 100% of the Maximum Special Tax for Undeveloped Property for such Fiscal Year.

E. MANNER OF COLLECTION OF THE SPECIAL TAXES

The Special Taxes for CFD No. 2006-1 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 G below and provided further that the City may directly bill the Special Taxes, 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.

The Special Tax shall be levied and collected until principal and interest on Bonds have been repaid and Authorized Facilities have been completed. However, in no event shall Special Taxes be levied after Fiscal Year 2041-42. Under no circumstances may the Special Tax on one Parcel be increased by more than ten percent (10%) as a consequence of delinquency or default in payment of the Special Tax levied on another Parcel or Parcels.

F. EXEMPTIONS

Notwithstanding any other provision of this Rate and Method of Apportionment of Special Tax, no Special Tax shall be levied on up to 12.18 Acres of Public Property and Property Owner Association Property within Tax Zone A, 8.66 Acres of Public Property and Property Owner Association Property within Tax Zone B, and 7.67 Acres of Public Property and Property Owner Association Property within Tax Zone C. A Special Tax may be levied on Excess Public Property and Excess Property Owner Association Property pursuant to Step 4 of Section D; however, a public agency may require that the Special Tax obligation on land conveyed to it that would be classified as Excess Public Property be prepaid pursuant to Section G below. No Special Tax shall be levied in any Fiscal Year on Parcels that have fully prepaid the Special Tax obligation pursuant to the formula set forth in Section G. No Special Tax shall be levied in any Fiscal Year on Parcels within Tax Zone D.

G. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section G:

“Construction Fund” means an account specifically identified in the Indenture to hold funds which are available to acquire or construct Authorized Facilities.

“Future Facilities Cost” means the Public Facilities Requirement (as defined below) minus public facility costs funded by Previously Issued Bonds (as defined below), interest earnings on the construction fund actually earned prior to the date of prepayment, Special Taxes, developer equity, and/or any other source of funding.

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

“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 the Special Tax will be used to pay a portion of the next principal payment on the Bonds that remain outstanding, 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 the 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 Requirement” means either \$4,000,000 in 2006 dollars, which shall increase on January 1, 2007, 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 New 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 Administrator 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 the CFD.

1. Full Prepayment of Special Tax Obligation

The Special Tax obligation applicable to an Assessor’s Parcel in the CFD 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 City with written notice of intent to prepay. Within 30 days of receipt of such written notice, the City 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 interest payment 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:	Future Facilities Amount
plus:	Redemption Premium
plus:	Defeasance Requirement
plus:	Administrative Fees and Expenses
minus:	<u>Reserve Fund Credit</u>
equals	Prepayment Amount

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

- Step 1:** Determine the greater of (i) the total Maximum 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 City, or (ii) the Maximum Special Tax that could be collected from the Parcel at buildout based on anticipated land uses at the time the prepayment is calculated.
- Step 2:** Divide the Maximum Special Tax computed pursuant to Step 1 for such Assessor's Parcel by the lesser of (i) the Maximum Special Tax revenues of the CFD that could be collected in that Fiscal Year, or (ii) the Maximum Special Tax revenues of the CFD that could be generated at buildout based on anticipated land uses at the time the prepayment is calculated.
- Step 3:** Multiply the quotient computed pursuant to Step 2 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "**Bond Redemption Amount**").
- Step 4:** Compute the current Future Facilities Costs.
- Step 5:** Multiply the quotient computed pursuant to Step 2 by the amount determined pursuant to Step 4 to compute the amount of Future Facilities Costs to be prepaid (the "**Future Facilities Amount**").
- Step 6:** Multiply the Bond Redemption Amount computed pursuant to Step 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "**Redemption Premium**").
- Step 7:** Compute the amount needed to pay interest on the Bond Redemption Amount starting with the first Bond interest payment date after which the prepayment has been received until the earliest redemption date for the Outstanding Bonds
- Step 8:** Compute the amount of interest the City reasonably expects to derive from the reinvestment of the Bond Redemption Amount plus the Redemption Premium from the first Bond interest payment date after which the

prepayment has been received until the redemption date for the Outstanding Bonds.

- Step 9:** Take the amount computed pursuant to Step 7 and subtract the amount computed pursuant to Step 8 (the "**Defeasance Requirement**").
- Step 10:** Determine the costs of computing the prepayment amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "**Administrative Fees and Expenses**").
- Step 11:** If and to the extent so provided in the indenture pursuant to which the Outstanding Bonds to be redeemed were issued, a reserve fund credit shall be calculated as a reduction, if any, in the applicable reserve fund for the Outstanding Bonds to be redeemed pursuant to the prepayment (the "**Reserve Fund Credit**").
- Step 12:** The Special Tax prepayment is equal to the sum of the amounts computed pursuant to Steps 3, 5, 6, 9, and 10, less the amount computed pursuant to Step 11 (the "**Prepayment Amount**").
- Step 13:** The amounts computed pursuant to Steps 3, 6, and 9, less the amount computed pursuant to Step 11, shall be deposited in the appropriate fund established under the Indenture and used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to Step 5 shall be deposited in the Construction Fund, and the amount determined in Step 10 shall be deposited in the fund established to pay Administrative Expenses.

With respect to any Parcel that prepays its Special Tax obligation, the Administrator shall cause a notice to be recorded in compliance with the Act to release the Special Tax lien on such Parcel, and the obligation of such Parcel to pay the Special Tax shall cease.

2. Partial Prepayment of Special Tax Obligation

A partial prepayment of the Special Tax obligation shall be allowed after a Final Map has been recorded for a portion of property within the CFD but prior to any Parcel within the CFD becoming Developed Property. If a partial prepayment is made, it must apply to all Parcels within the CFD. The property owner requesting to make a partial prepayment shall provide the City with written notice of his/her intent to partially prepay the Special Tax obligation and shall identify the percentage of such obligation that is intended to be prepaid. Within 30 days of receipt of such written notice, the City shall notify such owner of the partial prepayment amount, which must be received not less than 75 days prior to any interest payment date for Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

To calculate the sum of the partial prepayment amounts for all Parcels in the CFD, the Administrator shall apply Steps 3 through 13 from Section G.1 above, using the percentage of the Special Tax obligation that is intended to be prepaid as the quotient for purposes of Step 3 and Step 5. Once the sum of the partial prepayments for all Parcels in the CFD has been received by the City, all of the Assigned Special Taxes and Backup Special Taxes in Section C shall be reduced by the same percentage by which the Special Tax obligation was reduced. The Administrator shall record an amended Notice of Special Tax lien against all Parcels within the CFD identifying the reduced Maximum Special Tax rates that resulted from the partial prepayment.

H. INTERPRETATION OF SPECIAL TAX FORMULA

The City 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 City's discretion. Interpretations may be made by the City by ordinance or resolution for purposes of clarifying any vagueness or ambiguity in this RMA.

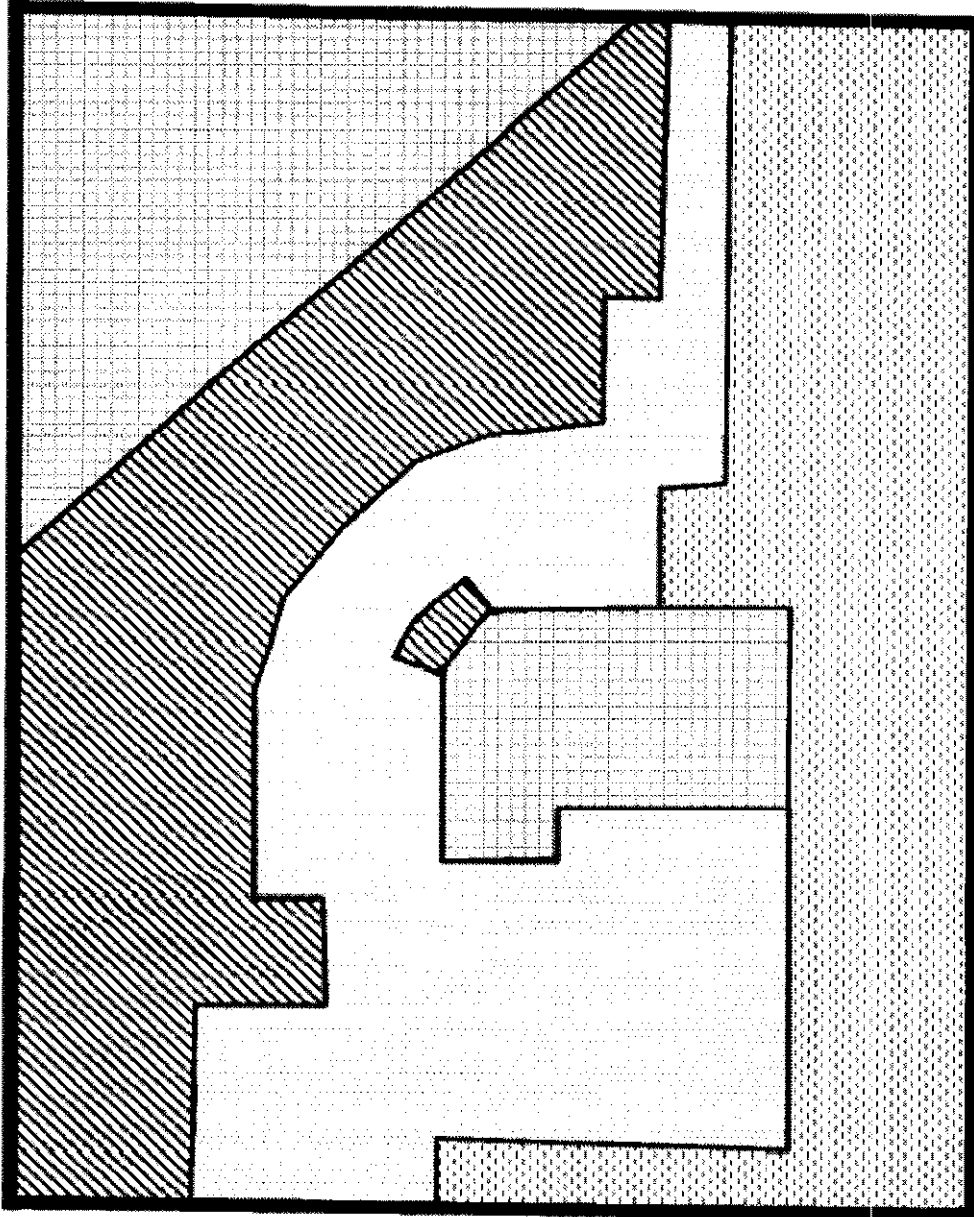
I. APPEALS





Appeals of any claim of incorrect computation of Special Tax or application of this Rate and Method may be made by the owner of an Assessor's Parcel or such owner's duly-authorized representative by filing a written notice of appeal with the Administrator not later than thirty (30) days after having paid the disputed Special Tax. The Administrator shall promptly review the appeal and, if necessary, meet with the property owner (or representative), consider written and oral evidence regarding the amount of the Special Tax, and decide the appeal. If the property owner disagrees with the Administrator's decision, the owner may then file a written appeal with the City Council, whose decision shall be final. If the decision of the Administrator or the City Council requires the Special Tax to be modified or changed in favor of the property owner, no cash refund shall be made for prior years' Special Tax levies, but an adjustment shall be made to the next Special Tax levy(ies) as appropriate. This procedure shall be exclusive and its exhaustion by any property owner shall be a condition precedent to filing any legal action by such owner.

ATTACHMENT 1

CITY OF MERCED
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(MORAGA OF MERCED)

IDENTIFICATION OF TAX ZONES



LEGEND			
Zone A		Zone C	
Zone B		Zone D	

Lot Number by Zone
(as of CFD formation)

Zone A

Lots 1-88, 136-138, 288-402

Zone B

Lots 89-135, 139-212, 403-454

Zone C

Lots 213-287, 455-520

Zone D

No Residential Lots in Zone D

APPENDIX B

THE CITY OF MERCED

The following information relating to the City of Merced and the County of Merced, California is supplied solely for purposes of information. Neither the City nor the County is obligated in any manner to pay principal of or interest on the Bonds or to cure any delinquency or default on the Bonds. The Bonds are payable solely from the sources described in the Official Statement.

Merced County

Merced County (the "County") is located in the north central portion of the State of California, within the Central Valley, between the Diablo Mountain Ranges to the west, and the Sierra Nevada Mountain Range to the east. The Central Valley is formally known as the Sacramento Valley in the northern half of the state, and the San Joaquin Valley in its south-central portion. It is bordered to the north by Stanislaus County, to the east by Mariposa County, to the south by Madera and Fresno Counties, and the west by San Benito, Santa Clara, and Stanislaus Counties.

The County encompasses approximately 1,964 square miles, of which approximately 77% is in agriculture. The County stretches from flat, rich farmland in the western portion, to the foothills of the Sierra Mountains at over 5,000 feet in the eastern portion of the County.

City of Merced

The City of Merced (the "City") is located in the County and serves as the county seat. The City, located in the heart of the San Joaquin Valley approximately 110 miles southeast of San Francisco and 310 miles northwest of Los Angeles, is 22.76 square miles in size. The City is located on Highway 99, a dominant north-south freeway in California, and is served also by Highways 140 and 59. The City is less than two hours by car from Yosemite National Park to the east and to the west is Monterey Bay, the Pacific Ocean, and miles of beaches. The community is served by rail passenger service, scheduled air service, and two bus lines. The two railroads, Union Pacific and Burlington Northern-Santa Fe, have main lines that pass through the City.

The economy has traditionally relied upon agribusiness and upon the presence of Castle Air Force Base. Over the past twenty years, more diversified industry has entered the area, including printing, fiberglass boat building, warehousing and distribution, and packaging industries. In September 1995, Castle Air Force Base closed after phasing down over the previous three years. No significant increase in unemployment has been noted. Re-use of the former base is proceeding. The former base currently consists of 700 undeveloped acres of flight activity and a business park.

Industrial development has been strong in the past five years. The community's available inventory of existing industrial buildings is nearly 100% absorbed. The City's industrial base includes printing, fiberglass boat building, warehousing and distribution and plastic and packaging industries. An increase in corporate capital investment occurred, led by Safeway Food Processing, Scholle Corporation and Quebecor.

Downtown revitalization continues with nearly \$30 million in private investment completed and new projects under construction in the City Center pedestrian area. The Mainplace Merced retail project was recently completed. In June 2005, Main Street's first new multifamily unit, the Merced Lofts, consisting of commercial space and 14 residential lofts, was completed.

In May 1995, Merced was selected as the home of the next University of California campus. On September 5, 2005, the main campus opened for the first 1,000 students for the fall 2005 semester. Currently the University has 150 faculty members and 600 staff employees. At maximum capacity the university is projected to provide 5,538 full-time positions. Additionally it is expected that 800 students will be added each year to an eventual maximum enrollment of 25,000 full-time students.

Municipal Government

The City was incorporated in 1889, and operates as a charter city. The City operates under the Council-Manager form of government. The six City Council members are elected-at-large for staggered four-year terms and the Mayor is elected for a two-year term. The City Council appoints a City Manager to administer the affairs of the City. The current members of the City Council and their respective term expiration are as follows:

<u>City Council</u>	<u>Term Expires</u>
Ellie Wooten, <i>Mayor</i>	November 2007
Joseph Cortez, <i>Mayor Pro Tem</i>	November 2009
Rick Osorio, <i>Council Member</i>	November 2007
Michele Gabriault-Acosta, <i>Council Member</i>	November 2007
Jim Sanders, <i>Council Member</i>	November 2009
Bill Spriggs, <i>Council Member</i>	November 2009
Carl Pollard, <i>Council Member</i>	November 2007

Population

Population figures for the City and the County for the last ten years are shown in the following table.

CITY OF MERCED POPULATION ESTIMATES

Year January 1	Population	Population Change Percentage	Merced County Population	City Population as a Percentage of County
1997	61,500	0.3%	200,100	30.7%
1998	62,100	0.9%	203,200	30.6%
1999	63,000	1.4%	205,900	30.6%
2000	63,893	1.4%	210,554	30.3%
2001	64,702	1.3%	214,629	30.1%
2002	66,773	3.2%	221,252	30.2%
2003	68,395	2.4%	227,752	30.0%
2004	70,597	3.2%	234,775	30.1%
2005	74,010	4.8%	241,464	30.7%
2006	76,225	3.0%	246,751	30.9%

Source: State California Department of Finance – Demographic Research Unit.

Assessed Valuation

For assessment and collection purposes, property is classified either as “secured” or “unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State assessed property and property the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.” Shown below is a summary of assessed valuations in the City for the fiscal years 2001-02 through 2005-06.

**CITY OF MERCED
ASSESSED VALUATIONS
Fiscal Years 2001-02 through 2005-06**

Fiscal Year	Common Property	Public Utility	Unsecured	Total
2001-02	\$2,381,189.790	\$6,673.878	\$162,524,826	\$2,550,388,494
2002-03	2,330,074.535	5,889,898	223,175,977	2,559,139,910
2003-04	2,680,238.859	5,836,087	228,989,473	2,915,064,419
2004-05	3,049,388,695	5,016,662	224,848,955	3,279,354,312
2005-06	3,630,450,304	4,827,110	224,967,085	3,860,244,499

Source: Merced County Auditor-Controller.

Risk Management

The City is a member of the Central San Joaquin Valley Risk Management Authority, with a self-insured retention of \$100,000 for general liability, errors and omissions, and \$500,000 for vehicle liability. The Authority was established under the California Government Code to administer a joint protection program wherein cities pool their losses and claims and jointly purchase excess insurance and administrative and other services. The liability self-insurance coverage arranged by the Authority for its members includes protection for personal injury, errors and omissions, property damage and bodily injury. The City self insures for workers’ compensation insurance and obtains excess coverage through LAWCX.

Employment

The California Employment Development Department estimates that as of March 2006 the civilian labor force for residents of the County was 98,700, of whom 87,600 were employed. The unadjusted unemployment rate as of March 2006 was approximately 11.2%. The County and the City have a high unemployment rate due to the seasonal nature of the primary industry: agriculture. The following table summarizes the civilian labor force, employment and unemployment in the County and the City for the calendar years 2001 through 2005.

**CIVILIAN LABOR FORCE
EMPLOYMENT, UNEMPLOYMENT, AND UNEMPLOYMENT RATE
(Annual Average)**

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate
2001	City	26,900	24,100	2,800	10.3%
	County	90,900	81,600	9,300	10.3
2002	City	28,100	25,000	3,100	11.1
	County	95,200	84,600	10,600	11.1
2003	City	28,500	25,200	3,300	11.6
	County	96,500	85,300	11,200	11.6
2004	City	28,900	25,700	3,200	11.0
	County	97,600	86,900	10,700	11.0
2005	City	29,700	26,800	2,900	9.8
	County	100,400	90,600	9,800	9.8

Note: The unemployment rate is calculated using unrounded data.

Source: Employment Development Department, Labor Market Information Division.

The following table sets forth the annual average employment by industry within the Merced Metropolitan Statistical Area for 2001 through 2005.

**MERCED STATISTICAL AREA
ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY
(In Thousands)
2001 through 2005**

	2001	2002	2003	2004	2005
Total All Industries	64.0	66.3	66.6	67.0	69.2
Farm	10.9	10.8	10.6	10.2	10.8
Natural Resources & Mining	0.0	0.0	0.0	0.0	0.0
Construction	2.3	2.4	3.0	3.4	3.5
Manufacturing	9.8	10.6	10.7	11.1	11.2
Trade, Transportation and Utilities	10.3	10.9	10.7	10.9	11.0
Information	1.4	1.5	1.5	1.5	1.6
Financial Activities	1.7	1.7	1.7	1.7	1.9
Professional and Business Services	3.4	3.3	3.4	3.4	3.2
Education and Health Services	5.1	5.4	5.5	5.4	5.5
Leisure and Hospitality	4.5	4.5	4.5	4.7	4.7
Other Services	1.6	1.7	1.7	1.6	1.6
Government	13.1	13.4	13.3	13.1	14.1

Source: State of California Employment Development Department.

Major Employers and Taxpayers

The following table lists the City's major Manufacturing and processing employers.

**CITY OF MERCED
MAJOR MANUFACTURING AND PROCESSING EMPLOYERS**

Company	Employment	Products
Quebecor	900	Printing
Bianchi & Sons Packing	400	Tomato Packing
Yosemite Wholesale	270	Grocery Distribution
Malibu Boats	250	Boats
Werner Company	225	Ladders
Passion Fruit Farms.....	200	Grocer-Wholesale
Scholle Corporation	120	Bags & Packaging
Richwood Meats	115	Meats
Well Made Products	90	Lighting Fixtures
Grief Brothers	89	Containers

Source: Merced County Economic Development Corporation (2004).

The following table lists the assessed value of the City along with the principal property taxpayers.

**CITY OF MERCED
ASSESSED VALUATION
(June 30, 2006)**

	Assessed Value	Percentage of Assessed Value
Total Assessed Value	<u>\$3,860,244,499</u>	<u>100.00%</u>
World Color Press Inc.....	\$ 128,840,261	3.21%
Mater Misericordiae Hospital	75,920,029	1.89
Conopco Inc.	51,017,008	1.27
Danville Land Investment	49,539,360	1.23
Safeway Inc.....	36,213,419	.90
Scholle Corporation	28,254,330	0.70
Village Landing	26,728,972	0.67
Comcast Corporation	17,928,627	0.45
Zelman Merced Marketplace LLC.....	16,850,664	0.42
Costco Wholesale Corporation	<u>16,259,947</u>	<u>0.40</u>
Total.....	<u>\$447,552,617</u>	<u>11.14%</u>

Source: Merced County Auditor.

Commercial Activity

A summary of historic taxable sales within the City during the past five years is shown in the following table.

**CITY OF MERCED
TAXABLE TRANSACTIONS
(dollars in thousands)
2001-2005**

	2001	2002	2003	2004	2005 ⁽¹⁾
Retail Stores.....					
Apparel Stores	\$ 16,769	\$ 18,558	\$ 19,659	\$ 21,836	\$ 17,290
General Merchandise Stores	196,711	203,127	209,249	215,601	154,902
Food Stores	39,546	42,747	41,809	42,367	34,328
Eating and Drinking Places.....	66,056	69,415	72,597	81,410	65,300
Home Furnishings and Appliances	22,703	25,543	24,874	25,617	19,370
Bldg. Materials and Farm Implmnts.	65,950	70,196	81,688	106,605	85,970
Auto Dealers and Auto Supplies.....	201,967	222,093	228,116	238,070	207,034
Service Stations	43,241	42,915	53,603	61,223	54,026
Other Retail Stores.....	80,267	83,440	92,560	106,140	80,005
Retail Store Totals	736,681	778,034	824,155	898,869	718,325
All Other Outlets.....	168,186	146,533	156,844	201,690	158,358
TOTAL ALL OUTLETS.....	\$901,711	\$924,567	\$980,999	\$1,100,559	\$876,683

(1) Third Quarter 2005

Source: State Board of Equalization.

Median Effective Buying Income

Effective buying income ("EBI") is designated by Sales and Marketing Management Magazine as personal income less personal tax and non-tax payments. Personal income is the aggregate of wages and salaries, other labor income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner occupants of non-farm dwellings), dividends paid by corporations, personal interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local, non-tax payments (such as fines, fees, penalties), and personal contributions for social insurance. Effective buying income is a bulk measure of market potential. It indicates the general ability to buy and is essential in comparing, selecting and grouping markets on that basis. The following table demonstrates the growth in annual estimated EBI for the County, the State of California and the United States.

**MERCED COUNTY
EFFECTIVE BUYING INCOME
As of January 1, 2001 through 2004**

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2001	Merced County	\$2,255,956	\$26,938
	California	650,521,407	43,532
	United States	5,303,481,498	38,365
2002	Merced County	\$2,615,518	\$32,478
	California	647,879,427	42,484
	United States	5,340,682,818	38,035
2003	Merced County	\$2,767,968	\$32,952
	California	674,721,020	42,924
	United States	5,466,880,008	38,201
2004	Merced County	\$2,937,058	\$34,200
	California	705,108,410	43,915
	United States	5,692,909,567	39,324

Source: Sales & Marketing Management Survey of Buying Power.

Construction Activity

Building activity for the past five years in the City is shown in the following table.

**CITY OF MERCED
TOTAL BUILDING PERMIT VALUATIONS
Fiscal Years 2001-02 through 2005-06**

<u>Fiscal Year</u>	<u>Residential Units</u>	<u>Residential Valuations</u>	<u>Com/Ind Permits</u>	<u>Com/Ind Valuations</u>	<u>Other Permits</u>	<u>Other Valuations</u>
2001-02	1,381	\$ 59,407,745	10	\$ 5,376,030	379	\$23,908,926
2002-03	1,887	98,648,513	273	25,360,673	168	450,040
2003-04	2,228	131,376,640	364	66,369,902	300	417,714
2004-05	1,044	162,214,965	171	34,928,529	1,639	15,458,935
2005-06	1,558	256,431,780	158	39,194,495	1,798	12,105,577

Source: City of Merced Planning and Building Departments.

Highway Linkage And Transport

The County is linked to other parts of California by State Highway 99, a major north-south arterial, and State Highway 152, an east-west arterial that extends from Highway 99 west to Interstate Route 5 and beyond, over Pacheco Pass into the southern portion of the San Francisco Bay Area. Other north-south and east-west highways that traverse the County include State Highways 33, 165, 59, and 140. Highway 140 from the City connects west to Interstate Route 5, and east into the foothills, Yosemite, and up into the Sierra Nevada Mountains.

An additional primary arterial is County Road J7 (Santa Fe Drive). This roadway parallels the Santa Fe Railroad line, and serves as a secondary corridor through the County. Santa Fe begins in the southern portion of the City, and travels northwesterly through Atwater, Winton, Cressey, Ballico, and into Stanislaus County. The roadway terminates in Empire, immediately southeast of Modesto.

Public Transit

The City and the County are served by “The Bus – Merced County Transit.” Greyhound Bus Lines and several private tour and charter companies also serve the area.

Rail Transport

The Burlington Northern-Santa Fe and Union Pacific Railroads serve the area. Amtrak provides passenger rail service for the area.

Water Transport

A deep-water port is located in Stockton, approximately 65 miles to the north of the City. Stockton is a true deep-water port with bulk cargo facilities allowing worldwide shipping of the agricultural commodities dominant in the region.

Aviation

There is a general aviation airport in the City with commuter service to Las Vegas, Nevada. In addition, scheduled commuter air service to other locations may be accessed through Modesto or Fresno. The Modesto City/County Airport is located about 40 miles north of Merced, and Fresno Air Terminal is about 60 miles to the south. These two airports both offer daily flights by major carriers. There are also small general aviation airports in Los Banos and Gustine. Castle Air Force Base was closed in 1995 and the facility has been converted to civilian uses. Additionally, there are four international airports, Sacramento, Oakland, San Jose and San Francisco, all within a two-hour drive.

Trucking

Numerous trucking firms operate from the area, including common carriers and general haulers.

State of California Enterprise Zone

The Merced-Atwater area was designated an enterprise zone by the State in late 1991. Being within the zone provides four state-related business tax incentives for corporations and individuals that operate or invest in the area. A fifth incentive is available to employees who work in the zone, in the form of an income tax credit on wages earned in the zone.

Cultural and Recreational Resources

The City is approximately midway between the metropolitan areas of Fresno and Stockton, and has convenient access to the Modesto area as well. The City operates many community facilities, including the McCombs Youth Center. The Parks and Community Service Department operates 29 parks within the City. Applegate Park was one of the first parks to be constructed in the City, dating back to 1937. Today, it is a beautifully developed and landscaped twenty-three acres located in the heart of the City. Unique to the area is a zoo that attracts visitors from throughout the San Joaquin Valley. Also drawing attention is Kiddieland, with a variety of amusements for children, including a train that runs through the park. The park is also home to the Merced Open Air Theater which hosts celebrations of music and art. Merced has over 12 miles of class one, grade-separated bike paths, that along with the City's other bike lanes, connect most of Merced's open space park system. The annual Merced County Fair is very popular, and Merced is the location of the Merced County Arts Center and the Merced Civic Center. Merced also has its own Merced Symphony Orchestra.

The Merced County Historical Society has gathered artifacts that are displayed in the Merced County Courthouse Museum, as well as other museums throughout the County. The Castle Air Museum in Atwater is next to what was the Castle Air Force Base. This museum has its focus on military aviation with numerous historical aircraft on permanent display. In addition, there is the Agricultural Museum of Merced County.

Southern and southwestern Merced County has numerous wildlife areas and reservoirs. These include the Kesterson, San Luis, and Merced National Wildlife Refuges, and the Los Banos, Volta and O'Neill Forebay Wildlife Areas. These areas combine for over 10,000 acres of natural habitat with Tule Elk and a multitude of waterfowl, and other creatures.

Also in this western part of the County are the San Luis, O'Neill Forebay, and Los Banos Creek Reservoirs. These areas are popular for fishing, general boating, camping and sailing. The many lakes, rivers and forests in the foothills and Sierra Nevada Mountains to the east also provide recreational opportunities, including Yosemite National Park.

Retail Service

The City is well supported by retail shopping facilities, with regional shopping also located to the south in Fresno, and to the north in Turlock and Modesto. In the early 1990's, there were several significant retailers added to the Merced area: Target, Wal-Mart, Costco, Walgreen's, Orchard Supply Hardware, Blockbuster Video, Circuit City, Home Depot, several theme restaurants, a brew pub, and new car dealerships. The Merced Marketplace, opened in late 2003, is anchored by Lowe's, Best Buy, Pier 1 and Barnes and Noble. During 2004, Linen N Things, Panda Express and Applebee's opened in the Merced Marketplace. A new plaza, The Promenade, opened in late 2004 with tenants including Strings Italian Restaurant, the City's third Starbuck's and Port of Subs. Other new retailers opening in the City include Ross Dress for Less, Del Taco and Juice It Up.

These additions have resulted in expansions in jobs, a significant increase in retail sales taxes, and the stimulation to the local economy, whereby the local dollars are not being spent in other communities.

Thirty years of downtown redevelopment is currently showing its success with the City's downtown redevelopment plan. The City activated its redevelopment agency in 1957. There are two active project areas, one in the historic downtown area of the City adopted in 1974. This plan's focus is to enhance downtown shopping and to create a new dining and entertainment center. The other active

project area, called Gateways Project Area, was adopted in 1996 and expanded in 2005. It is located in south and southeast Merced.

Phase one of the City's newest office complex, The Plaza at Portal, was recently completed with a variety of professional, medical and personal service offices.

General/Public Services and Utilities

The City provides a broad range of services, including construction and maintenance of highways, streets and infrastructure, planning and zoning activities, public transit, recreational activities and cultural events for all ages. There are authorized three police stations within the City with 87 policemen and officers. Five fire stations are located within the City with 60 firemen and officers.

Pacific Gas & Electric Company (PG&E) and Merced Irrigation District provide electricity and gas service throughout the region. SBC is the primary provider of local telephone service, with long-distance telephone service available from a number of different carriers. Water and sewer service is supplied to the area by the individual cities within the County. In the City of Merced, the current water demand is approximately 60% of capacity, and the capacity of the sewer treatment plant has been upgraded to restore it to its original capacity of 10mgd.

Educational Services

Within the City of Merced, public schools include 12 elementary, 4 middle and 3 high schools, and private schools include 4 K-8 and 3 high schools. Merced Community College, Chapman University a shared campus for California State University Stanislaus and the newly opened University of California, Merced, are located in or near the City. The City is serviced by a cable company and 3 regional and 2 community newspapers.

Medical Facilities

There is one general hospital in Merced, Mercy Hospital, located on two campuses. Overall, there are over 130 medical doctors within the Merced City limits, along with numerous dentists, optometrists, chiropractors, psychologists and others. It is estimated that there are over 2,000 employees in the health care industry in Merced.

Mercy Hospital and the U.C. Davis Medical Center have completed a cancer center on land located at the southeast corner of North G Street and Cormorant Drive.

APPENDIX C
SUMMARY OF FISCAL AGENT AGREEMENT

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APPENDIX C

SUMMARY OF FISCAL AGENT AGREEMENT

The following summary discussion of selected provisions of the Fiscal Agent Agreement is made subject to all of the provisions thereof. This summary discussion does not purport to be a complete statement of such provisions and prospective purchasers of the Bonds are referred to the complete text of the Agreement, copies of which are available upon request sent to the Fiscal Agent.

Definitions

“Act” means the Mello-Roos Community Facilities Act of 1982, as amended, Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the California Government Code.

“Administrative Expenses” means any or all of the following: the actual or reasonable estimated costs of the Fiscal Agent (including any fees or expenses of its counsel), the expenses of the City in carrying out its duties under the Agreement (including, but not limited to, the levying and collection of the Special Taxes) including the fees and expenses of its counsel, an allocable share of the salaries of City staff directly related thereto and a proportionate amount of City general administrative overhead related thereto, any amounts paid by the City from its general funds pursuant to the Fiscal Agent Agreement, the fees and expenses of the Financial Advisor, and all other costs and expenses of the City or the Fiscal Agent incurred in connection with the discharge of their respective duties and, in the case of the City, in any way related to the administration of the District.

“Administrative Expense Fund” means the fund by that name established under the Fiscal Agent Agreement.

“Agreement” means the Fiscal Agent Agreement, as it may be amended or supplemented from time to time by any Supplemental Agreement adopted pursuant to the provisions of the Fiscal Agent Agreement.

“Annual Debt Service” means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the Outstanding Bonds scheduled to be paid.

“Appraisal” means the appraisal of the estimated market values of the properties within the District prepared by rpa Wakefield & Hopper, Inc. dated November 1, 2006.

“Acquisition/Financing Agreement” means the Acquisition Financing Agreement by and between the City and the Developers named therein, relating to the District, as such agreement may be amended.

“Auditor” means the Auditor-Controller of the County of Merced.

“Authorized Officer” means any officer or employee of the City authorized by the City Council or by an Authorized Officer to undertake the action referenced in the Agreement as required to be undertaken by an Authorized Officer.

“Bond Counsel” means any attorney or firm of attorneys acceptable to the City and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

“Bond Fund” means the fund by that name established under the Fiscal Agent Agreement.

“Bond Year” means the period beginning on the Closing Date and ending on September 1, 2007 and thereafter the period beginning on each September 2 and ending on the following September 1.

“Business Day” means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the State of California or in any state in which the Fiscal Agent has its Principal Office are authorized or obligated by law or executive order to be closed.

“Capitalized Interest Subaccount” means the subaccount by that name established in the Interest Account in the Bond Fund under the Fiscal Agent Agreement.

“City” means the City of Merced.

“City Council” means the City Council of the City.

“Closing Date” means the date upon which there is an exchange of the Bonds for the proceeds representing payment of the purchase price of the Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986, as amended.

“Completion Date” shall mean the earlier of a date that is three years after the Closing Date or a date upon which the City gives notice to the Fiscal Agent that the Project is complete.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement between the City and the Fiscal Agent, as Dissemination Agent thereunder, dated as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the City and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, including but not limited to the preliminary official statement and official statement regarding the Bonds, closing costs, filing and recording fees, initial fees and charges of the Fiscal Agent including its first annual administration fee and the fees of its counsel, expenses incurred by the City in connection with the issuance of the Bonds and the formation of the District, Bond (underwriter’s) discount, legal fees and charges, including the fees of Bond Counsel and counsel to the Underwriter, Financial Advisor’s fees, appraiser’s fees and costs, Tax Consultant’s fees and costs, charges for authentication, transportation and safekeeping of the Bonds and other costs, charges and fees in connection with the foregoing.

“Costs of Issuance Fund” means the fund by that name established under the Fiscal Agent Agreement.

“Debt Service” means the amount of interest and principal payable on the Bonds scheduled to be paid during the period of computation, excluding amounts payable during such period which relate to principal of the Bonds which are scheduled to be retired and paid before the beginning of such period.

“Defeasance Securities” means, for purposes of defeasance, the following:

(i) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series - “SLGs”);

(ii) Direct obligations of the United States Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;

(iii) Resolution Funding Corporation (REFCORP) obligations; provided that only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;

(iv) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s; provided, however, that if the issue is only rated by Standard & Poor’s (*i.e.*, there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations, or “AAA” rated pre-refunded municipal bonds; and

(v) Obligations issued by the following agencies which are backed by the full faith and credit of the United States of America:

- (a) U.S. Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
- (b) Farmers Home Administration
Certificates of beneficial ownership
- (c) Federal Financing Bank
- (d) General Services Administration
Participation certificates
- (e) United States Maritime Administration
Guaranteed Title XI financing
- (f) United States Department of Housing and Urban Development
Project notes
Local Authority Bonds
New Communities Debentures - United States government guaranteed debentures
United States Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds.

“Developed Property” has the meaning given to such term in the Rate and Method of Apportionment of Special Taxes adopted on the date the District was formed.

“Developer Disclosure Agreement” means the continuing disclosure agreement to be entered into between the Fiscal Agent, as dissemination agent, and the owner and developer of property within the District.

“District Value” means (i) the fair market value, as of the date of the appraisal provided for below, of all parcels of property in the District that are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, including with respect to such non-delinquent parcels the value of the then existing improvements thereon, as determined by reference to (i) an appraisal performed within ninety (90) days preceding the date of such determination by an appraiser selected and employed by the City based upon a methodology of valuation consistent with the Appraisal; or (ii) in the alternative, the full cash value of any or all of such non-delinquent parcels and the improvements thereon as set forth on the then current assessment roll of the County Assessor of the County of Merced.

“Exempt Property” has the meaning given to such term in the Rate and Method of Apportionment of Special Taxes adopted on the date the District was formed.

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

(i) Cash; and

(ii) Direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and CATS and TIGRS), or obligations, the payment of principal of and interest on which is unconditionally guaranteed by the United States of America.

“Financial Advisor” means an independent financial consulting firm appointed by the City to advise the City as to financial matters relating to the Bonds.

“Fiscal Agent” means U.S. Bank National Association, the Fiscal Agent appointed by the City, acting as an independent fiscal agent with the duties and powers specified in the Agreement, provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Fiscal Agent Agreement.

“Fiscal Year” means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

“Improvement Fund” means the fund by that name established under the Fiscal Agent Agreement.

“Independent Financial Consultant” means a firm of certified public accountants, a financial consulting firm, a consulting engineering firm or engineer which is not an employee of, or otherwise controlled by, the City.

“Information Services” means Bloomberg Municipal Repositories, P.O. Box 840, Princeton, New Jersey, 08542-0840; DPC Data Inc., One Executive Drive, Fort Lee, New Jersey, 07024; Interactive Data, 100 Williams Street, New York, New York, 10038, Attention: Repository; Standard & Poor’s J. J. Kenny Repository, 55 Water Street, 45th Floor, New York, New York, 10041; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Interest Account” means the account by that name established in the Bond Fund.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing March 1, 2007, until the maturity or redemption of all Outstanding Bonds.

“Investment Earnings” means all interest earned and any gains and losses on the investment of moneys in any fund or account created by the Agreement, excluding interest earned and gains and losses on the investment of moneys in the Rebate Fund.

“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.

“Moody’s” shall mean Moody’s Investors Service, a national rating service with offices in New York, New York.

“Officer’s Certificate” means a written certificate of the City signed by an Authorized Officer of the City.

“Ordinance” means any ordinance of the City or resolution of the City Council levying the Special Taxes.

“Original Purchaser” means the first purchaser of the Bonds from the City.

“Outstanding,” when used as of any particular time with reference to the Bonds, means (subject to the provisions of the Fiscal Agent Agreement) all Bonds except:

(i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation;

(ii) Bonds called for redemption which, for the reasons specified in the Fiscal Agent Agreement, are no longer entitled to any benefit under the Agreement other than the right to receive payment of the redemption price therefor;

(iii) Bonds paid or deemed to have been paid within the meaning of the Fiscal Agent Agreement; and

(iv) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City and authenticated by the Fiscal Agent pursuant to the Agreement or any Supplemental Agreement.

“Owner” means any person who shall be the registered owner of any Outstanding Bond.

“Permitted Investments” means:

(i) Federal Securities:

(ii) 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):

- (a) U.S. Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
- (b) Farmers Home Administration
Certificates of beneficial ownership
- (c) Federal Financing Bank
- (d) Federal Housing Administration Debentures
- (e) General Services Administration
Participation certificates
- (f) Government National Mortgage Association (GNMA)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
- (g) U.S. Maritime Administration
Guaranteed Title XI financing
- (h) U.S. Department of Housing and Urban Development

Project Notes
Local Authority Bonds
New Communities Debentures - United States government guaranteed debentures
U.S. Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds;

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

- (a) Federal Home Loan Bank System
Senior debt obligations
- (b) Federal Home Loan Mortgage Corporation
Participation Certificates
Senior debt obligations
- (c) Federal National Mortgage Association
Mortgage-backed securities and senior debt obligations
- (d) Student Loan Marketing Association
Senior debt obligations
- (e) Resolution Funding Corporation
(REFCORP) obligations
- (f) Farm Credit System
Consolidated systemwide bonds and notes;

(iv) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor's of "AAAm-G," "AAA-m" or "AA-m" and, if rated by Moody's, rated "Aaa," "Aa1" or "Aa2" by Moody's, including funds for which the Fiscal Agent, its parent holding company, if any, or any affiliates or subsidiaries of the Fiscal Agent or such holding company provide investment management or other management services;

(v) Certificates of deposit secured at all times by collateral described in clauses (i) and/or (ii) above. Such certificates must be issued by commercial banks, including the Fiscal Agent and its affiliates, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Fiscal Agent on behalf of the Owners of the Bonds must have a perfected first security interest in the collateral;

(vi) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF including those that may be issued or provided by the Fiscal Agent and its affiliates;

(vii) Investment agreements with domestic or foreign banks, insurance companies or corporations the long-term debt or claims paying ability of which 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 or financial strength, of the guarantor is rated in at least the double A category by Standard & Poor's and Moody's; provided that, by the terms of the investment agreement:

(a) interest payments are to be made to the Fiscal Agent at times and in amounts as necessary to pay Debt Service on the Bonds (if the funds invested pursuant to the investment agreement are from the Reserve Fund);

(b) the investment agreement shall provide that the invested funds are available for withdrawal without penalty or premium at any time upon not more than seven (7) days' prior notice (The City and the Fiscal Agent shall give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium payable.);

(c) the investment agreement shall provide that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

(d) the City and the Fiscal Agent receive the opinion of domestic counsel (which opinion shall be addressed to the City and the Fiscal Agent) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the City and the Fiscal Agent;

(e) the investment agreement shall provide that if during its term

(1) the provider's (or its guarantor's) rating by either Standard & Poor's or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with the applicable state and federal laws (other than by means of entries on the provider's books) to the City, the Fiscal Agent or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims, the market value of which collateral is maintained at one hundred four percent (104%) of securities identified in clauses (i) and (ii) of this definition; or (ii) assign the investment agreement and all of its obligations thereunder to a financial institution mutually acceptable to the Provider, the City and the Fiscal Agent which is rated either in the first or second highest category by Standard & Poor's and Moody's; and

(2) the provider's (or its guarantor's) rating by either Standard & Poor's or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the City or the Fiscal Agent, within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the invested funds, in either case with no penalty or premium to the City or the Fiscal Agent; and

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

(g) the investment agreement shall provide that if during its term

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the City or the Fiscal Agent, be accelerated and amounts invested and accrued but unpaid interest thereon shall be paid to the City or the Fiscal Agent, as appropriate; and

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be paid to the City or the Fiscal Agent, as appropriate;

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

(ix) Bonds or notes issued by any state or municipality which are rated by Moody's and Standard & Poor's in one of the two highest rating categories assigned by them;

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

(xi) Repurchase agreements which satisfy the following criteria:

(a) Repurchase agreements must be between the City or the Fiscal Agent and an entity which is:

(1) A primary dealer on the Federal Reserve reporting dealer list which is rated "A" or better by Standard & Poor's and Moody's, or

(2) A bank rated "A" or above by Standard & Poor's and Moody's; or

(3) A corporation the long-term debt or claims paying ability of which, 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 or financial strength of the guarantor, is rated in at least the double A category by Standard & Poor's and Moody's.

(b) The written agreement must include the following:

(1) Securities which are acceptable for transfer are:

(A) direct obligations of the United States government, or

(B) obligations of federal agencies backed by the full faith and credit of the United States of America (or the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)),

(2) The collateral must be delivered to the City or the Fiscal Agent (if the Fiscal Agent is not supplying the collateral) or a third party acting as agent for the Fiscal Agent (if the Fiscal Agent is supplying the collateral) before or simultaneous with payment (perfection by possession of certificated securities),

(3) (A) The securities must be valued weekly, marked-to-market at current market price plus accrued interest, and

(B) The value of the collateral must be at least equal to one hundred four percent (104%) of the amount of money transferred by the Fiscal Agent to the dealer, bank or corporation under the agreement plus accrued interest. If the value of the securities held as collateral is reduced below one hundred four percent (104%) of the value of the

amount of money transferred by the Fiscal Agent, then additional acceptable securities and/or cash must be provided as collateral to bring the value of the collateral to one hundred four percent (104%); provided, however, that if the securities used as collateral are those of FNMA or FHLMC, then the value of the collateral must equal to one hundred five percent (105%) of the amount of money transferred by the Fiscal Agent;

(xii) Forward delivery agreements (FDA) or forward purchase and sale agreements (FPSA) having as the underlying investment property investments of the type which are identified in clauses (i), (ii), (iii) or (viii) above; and

(xiii) the Local Agency Investment Fund in the State Treasury of the State of California as permitted by the State Treasurer pursuant to Section 16429.1 of the California Government Code.

“Principal Account” means the account by that name established in the Bond Fund.

“Principal Office” means the principal corporate trust office of the Fiscal Agent at One California Street, Suite 2100, San Francisco, CA 94111 or such other addresses may be specified in writing by the Fiscal Agent; provided, however, that for purposes of the transfer, registration, exchange, payment and surrender of Bonds “Principal Office” means the office or agency of the Fiscal Agent at which, at any time, its corporate trust agency business shall be conducted or such other office or address as may be specified in writing by the Fiscal Agent.

“Proceeds,” when used with reference to the Bonds, means the aggregate principal amount of the Bonds, plus accrued interest and premium, if any, less original issue discount, if any.

“Project” means the public facilities which are authorized to be financed with the proceeds of the Special Taxes and the sale of the Bonds of the District, as described in Resolution No. 2006-78 adopted by the City Council on July 3, 2006.

“Rebate Certificate” means the certificate delivered by the City upon the delivery of the Bonds relating to Section 148 of the Code, or any functionally similar replacement certificate.

“Rebate Fund” means the fund by that name established under the Fiscal Agent Agreement.

“Record Date” means the fifteenth (15th) day of the month next preceding the applicable Interest Payment Date whether or not such day is a Business Day.

“Regulations” means the temporary and permanent regulations of the United States Department of the Treasury promulgated under the Code.

“Representation Letter” means the representation letter which the City has delivered to The Depository Trust Company (“DTC”) with respect to the utilization of the book-entry system maintained by DTC for the issuance and registration of bonds.

“Reserve Fund” means the fund by that name established under the Fiscal Agent Agreement.

“Reserve Requirement” means, as of the date of calculation, the lesser of (i) ten percent (10%) of the Proceeds of the sale of the Bonds, (ii) Maximum Annual Debt Service on the Bonds or (iii) 125 percent of average Annual Debt Service on the Bonds, as determined by the City.

“Resolution” means the resolution of issuance adopted by the City Council on November 6, 2006.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York, 10041-0099, Call Notification Department, Fax (212) 855-7232, and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Special Taxes” or “Special Tax” means the special taxes levied by the City Council in any Fiscal Year on parcels of taxable property within the District pursuant to the Act and the Agreement.

“Special Tax Fund” means the fund by that name established under the Fiscal Agent Agreement.

“Special Tax Prepayments” means amounts received by the City as prepayments of all or a portion of the Special Tax obligation of a parcel of property in the District.

“Special Tax Prepayments Account” means the account by that name established by the Fiscal Agent in the Bond Fund under the Fiscal Agent Agreement.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the City, including any scheduled payments, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes in the amount of said lien and interest and penalties thereon.

“Standard & Poor’s” shall mean Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a national rating service with offices in New York, New York.

“Subdivided Property” means a parcel of property in the District for which a subdivision or parcel map creating lots or parcels upon which dwelling units are expected to be constructed has been recorded with the County Recorder of the County of Merced.

“Supplemental Agreement” means an agreement entered into by and between the City and the Fiscal Agent amending and supplementing the Agreement as permitted by the Agreement.

“Surplus Account” means the account by that name established in the Special Tax Fund under the Fiscal Agent Agreement.

“Tax Consultant” means an engineer or financial consultant or other such person or firm with expertise in the apportionment and levy of special taxes in community facilities districts which is employed by the City to assist the City in levying the Special Taxes.

“Undeveloped Property” has the meaning given to such term in the Rate and Method of Apportionment of Special Taxes adopted on the date the District was formed.

“Value of Undeveloped Property” means (i) the fair market value, determined by an appraisal performed within ninety (90) days preceding the date of such determination by an appraiser selected and employed by the City and based upon a methodology of valuation consistent with the Appraisal of the parcels of Undeveloped Property in the District; or (ii) in the alternative, the full cash value of any or all of such parcels as set forth on the then current assessment roll of the County Assessor of the County of Merced; provided, however, that the Value of Undeveloped Property shall not include the value of any parcels that have a value, determined under (i) or (ii) above, that is less than two and one-half (2½) times the Direct and Overlapping Debt allocable to such parcels.

Transfer, Exchange and Lost Bonds

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Fiscal Agent Agreement, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office of the Fiscal Agent, accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Fiscal Agent. The cost for any services rendered or any expenses incurred by the Fiscal Agent in connection with any such transfer shall be paid by the District. The Fiscal Agent shall collect from the Owner requesting transfer of a Bond any tax or other governmental charge required to be paid with respect to such transfer. Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds of like aggregate principal amount. No transfers of Bonds shall be required to be made (i) during the fifteen (15) days preceding the date established by the Fiscal Agent for selection of Bonds for redemption, or (ii) with respect to Bonds which have been selected for redemption.

Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Fiscal Agent only for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity and interest rate. The cost for any services rendered or any expense incurred by the Fiscal Agent in connection with any such exchange shall be paid by the District. The Fiscal Agent shall collect from the Owner requesting exchange of a Bond any tax or other governmental charge required to be paid with respect to such exchange. No exchanges of Bonds shall be required to be made (i) during the fifteen (15) days preceding the date established by the Fiscal Agent for selection of Bonds for redemption, or (ii) with respect to Bonds which have been selected for redemption.

Bond Register. The Fiscal Agent shall keep, or cause to be kept, at its Principal Office sufficient books for the registration and transfer of the Bonds which books shall show the series, number, CUSIP identification number, date of issuance, amount, rate of interest and Owner of each Bond and shall at all times be open to inspection by the City during regular business hours upon reasonable notice; and, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the ownership of the Bonds as provided in the Agreement.

Temporary Bonds. The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the City, and may contain such reference to any of the provisions of the Agreement as may be appropriate. Every temporary Bond shall be executed by the City upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds it will execute and furnish definitive Bonds without delay and thereupon the temporary Bonds shall be surrendered, for cancellation, in exchange for the definitive Bonds at the Principal Office of the Fiscal Agent or at such other location as the Fiscal Agent shall designate, and the Fiscal Agent shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under the Agreement as definitive Bonds authenticated and delivered under the Agreement.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the City, at the expense of the Owner of said Bond, shall execute, and the Fiscal Agent shall authenticate and deliver, a replacement Bond of like tenor and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent shall be canceled and destroyed by the Fiscal Agent. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence be satisfactory to it and indemnity satisfactory to it shall be given, the City, at the expense of the Owner, shall execute, and the Fiscal Agent shall authenticate and deliver, a replacement Bond of like tenor and principal amount in lieu of and in substitution for the Bond so lost,

destroyed or stolen. The City or Fiscal Agent may require payment of a sum not exceeding the actual cost of preparing each replacement Bond delivered under the Agreement and of the expenses which may be incurred by the City and the Fiscal Agent for the preparation, execution, authentication and delivery thereof. Any Bond delivered under the provisions of the Agreement in replacement of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation of the District whether or not the Bond so alleged to be lost, destroyed or stolen is at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of the Agreement with all other Bonds issued pursuant to the Agreement.

Application of Proceeds of Sale of Bonds

The Proceeds of the sale of the Bonds to the Original Purchaser shall be paid to the Fiscal Agent, who shall forthwith set aside, pay over and deposit such Proceeds on the Closing Date in the following funds:

- the Reserve Fund;
- the Costs of Issuance Fund;
- the Improvement Fund; and
- the Capitalized Interest Subaccount.

Improvement Fund. (A) There is established under the Agreement, as a separate account to be held by the Fiscal Agent, the "Community Facilities District No. 2006-1 of the City of Merced Special Tax Bonds Improvement Fund" to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement. Moneys in the Improvement Fund shall be held by the Fiscal Agent for the benefit of the City, and shall be disbursed, except as otherwise provided in the Agreement, for the payment or reimbursement of the costs of the design, acquisition and construction of the Project.

(B) Procedure for Disbursement. Disbursements from the Improvement Fund shall be made by the Fiscal Agent in accordance with the Acquisition/Financing Agreement and upon receipt of an Officer's Certificate which shall:

- (i) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made and the person to which the disbursement is to be paid; and
- (ii) certify that no portion of the amount then being requested to be disbursed was set forth in any Officer's Certificate previously filed with the Fiscal Agent requesting disbursement, and that the amount being requested is an appropriate disbursement from the Improvement Fund.

(C) Investment. Moneys in the Improvement Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Investment Earnings with respect to the Improvement Fund shall be retained by the Fiscal Agent in such fund to be used for the purposes of such fund.

(D) Closing of Fund. Upon the filing of an Officer's Certificate stating that the construction and acquisition of the Project has been completed in accordance with the Acquisition/Financing Agreement and that all costs of the Project have been paid or are not required to be paid from the Improvement Fund, and further stating that moneys on deposit in the Improvement Fund are not needed to complete the Project or reimburse the cost thereof, the Fiscal Agent shall transfer the amount, if any, remaining in the Improvement Fund to the Principal Account of the Bond Fund to be used to pay the principal of the Bonds, and the Improvement Fund shall be closed. Notwithstanding the preceding provisions of this subsection, the Improvement Fund shall be closed if all amounts of deposit therein are disbursed pursuant to Subsection (B) above.

(E) Officer's Certificate. Upon receipt of an Officer's Certificate delivered pursuant to the Fiscal Agent is authorized to act thereon without further inquiry and shall not be responsible for the accuracy of the statements made in such Officer's Certificate or the application of the funds disbursed pursuant thereto, and shall be absolutely protected and incur no liability in relying on such Officer's Certificate.

Special Tax Fund

(A) Establishment of Special Tax Fund. The Agreement establishes, as a separate account to be held by the Fiscal Agent, the "Community Facilities District No. 2006-1 of the City of Merced Special Tax Bonds Special Tax Fund" to the credit of which the City shall deposit not later than ten (10) Business Days after receipt, all Special Tax Revenues received by the City. The Agreement also establishes in the Special Tax Fund as a separate account, to be held by the Fiscal Agent, the "Surplus Account" to the credit of which amounts shall be deposited as provided in the Fiscal Agent Agreement. Moneys in the Special Tax Fund, and all accounts therein, shall be held in trust by the Fiscal Agent for the benefit of the City and the Owners of the Bonds, shall be disbursed as provided below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

Notwithstanding the foregoing, any amounts received by the City which constitute Special Tax Prepayments shall be transferred by the City not later than ten (10) Business Days after receipt to the Fiscal Agent for deposit by the Fiscal Agent in the Special Tax Prepayments Account established pursuant to the Fiscal Agent Agreement.

(B) Disbursements. As soon as practicable after the receipt from the City of any Special Tax Revenues, but no later than ten (10) Business Days after such receipt, the Fiscal Agent shall withdraw from the Special Tax Fund and deposit in the Administrative Expense Fund, an amount which is estimated by the City, in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely) to be sufficient, together with the amount then on deposit in the Administrative Expense Fund, to pay the Administrative Expenses during the current Fiscal Year; provided, however, that the amount deposited in the Administrative Expense Fund prior to the deposits to the Interest Account and the Principal Account of the Bond Fund, as provided below, shall not exceed \$45,000 for any Fiscal Year. From the amount then remaining on deposit in the Special Tax Fund, the Fiscal Agent shall, concurrently with the foregoing deposit, deposit in the Reserve Fund the amounts, if any, which the City shall direct in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), to be withdrawn from the Special Tax Fund to make the amount on deposit therein equal to the Reserve Requirement. Thereafter, the Fiscal Agent shall deposit in the Interest Account and the Principal Account of the Bond Fund, as provided in the Fiscal Agent Agreement, the entire remaining balance of the amount then on deposit in the Special Tax Fund. Notwithstanding the preceding provisions of this paragraph, if the amount of the Special Tax Revenues collected by the City for any Fiscal Year is less than the total amount of the Special Taxes which were levied on parcels of taxable property in the District, the City shall not direct the Fiscal Agent to transfer any amount from the Special Tax Fund, for deposit in the Reserve Fund but shall instead direct the Fiscal Agent to deposit the entire amount remaining in the Special Tax Fund, after the appropriate transfer to the Administrative Expense Fund, to the Interest Account and the Principal Account. If after such deposits are made to the Administrative Expense Fund, the Interest Account and the Principal Account there are funds remaining on deposit in the Special Tax Fund, the City shall instruct the Fiscal Agent by an Officer's Certificate (upon which the Fiscal Agent may conclusively rely) to transfer such amount from the Special Tax Fund to and deposit it in the Reserve Fund to the extent that the amount on deposit therein is less than the Reserve Requirement. Such Officer's Certificate shall specify the amount which is to be transferred from the Special Tax Fund and deposited in the Reserve Fund.

Notwithstanding the preceding provisions of this subsection, if prior to the September 1 Interest Payment Date in any Bond Year the City determines that Special Tax Revenues will be sufficient to

enable the Fiscal Agent to deposit in the Reserve Fund the amount, if any, which is necessary to make the amount on deposit therein equal to the Reserve Requirement and deposit in the Bond Fund the full amount required for deposit to the Interest Account and the Principal Account to pay the interest on and principal of the Bonds on such Interest Payment Date, the City may instruct the Fiscal Agent in an Officer's Certificate, upon which the Fiscal Agent may conclusively rely, to deposit an additional amount, not to exceed \$90,000, in the Administrative Expense Fund before making the required deposit to the Bond Fund, and the Fiscal Agent shall deposit such additional amount in the Administrative Expense Fund before depositing any amount to the Reserve Fund or the Bond Fund.

Prior to the Completion Date, at the end of each Bond Year any remaining funds in the Special Tax Fund, which are not required to cure a delinquency in the payment of principal and interest on the Bonds, to restore the Reserve Fund or to pay current and pending Administrative Expenses as set forth in the above referenced paragraph ("Excess Amounts"), shall be deposited in the Improvement Fund and used in accordance with the Fiscal Agent Agreement and shall be free and clear of any lien thereon or pledge under the Agreement; provided, any funds which are required to cure any delinquency described above shall be retained in the Special Tax fund and expended or transferred, at the earliest possible date, for such purpose. After the Completion Date, all Excess Amounts shall be deposited to the Bond Fund.

At the date of the redemption, defeasance or maturity of the last Bonds and after all principal and interest then due on any Bonds has been paid or provided for, all other covenants are complied with and all fees and expenses of the Fiscal Agent have been paid, moneys in the Special Tax Fund, if any, will be transferred to the Improvement Fund by the Fiscal Agent and may be used to fund any remaining Projects authorized by the District.

On or before the March 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on the Bonds which is due on such Interest Payment Date, the Fiscal Agent shall transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account of the Bond Fund in an amount not to exceed the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer to and deposit in the Interest Account to pay the full amount of the interest on the Bonds which is due and payable on such Interest Payment Date. On or before the September 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on and principal of the Bonds which is due on such Interest Payment Date, the Fiscal Agent shall transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account and the Principal Account in amounts not to exceed the amount of the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer, to pay the full amount of the interest on and principal of the Bonds which is due and payable on such Interest Payment Date. On or before May 30 of each year, commencing on May 30, 2007 the Fiscal Agent shall notify the City of the amount which is then on deposit in the Surplus Account and of the aggregate amount of the principal of and interest on the Bonds which will become due and payable on the following September 1.

On September 2 of each year, beginning on September 2, 2007, the amount, if any, on deposit in the Special Tax Fund (including the amount on deposit in the Surplus Account), together with the amount then on deposit in the Bond Fund (including the Principal Account therein but not including, however, the Interest Account or the Special Tax Prepayments Account), as determined by the City, shall not exceed the greater of (i) one year's earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 2 of any year the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Bond Fund (other than such excluded amounts), exceeds the maximum amount allowable pursuant to the preceding sentence, as determined by the City and communicated in writing by an Authorized Officer to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), shall be transferred from the Special Tax Fund to and deposited in the Reserve Fund to the extent that the amount on deposit therein is less than the

Reserve Requirement. Any such excess remaining in the Special Tax Fund after any such amount is transferred from the Special Tax Fund to the Reserve Fund shall be transferred from the Special Tax Fund to and deposited in the Administrative Expense Fund. On September 2 of each year, after any such excess amount has been transferred as hereinabove provided, the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Bond Fund (other than such excluded amounts), shall not exceed in the aggregate the greater of (i) one year's earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. The Fiscal Agent shall have no obligation to monitor the City's obligations as set forth in this paragraph.

(C) Investment. Moneys in the Special Tax Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Investment Earnings shall be retained in the Special Tax Fund to be used for the purposes of such fund.

Administrative Expense Fund

(A) Establishment of Administrative Expense Fund. The Agreement establishes, as a separate account to be held by the Fiscal Agent, the "Community Facilities District No. 2006-1 of the City of Merced Special Tax Bonds Administrative Expense Fund" to the credit of which deposits shall be made as required by the Fiscal Agent Agreement. Moneys in the Administrative Expense Fund shall be held in trust by the Fiscal Agent for the benefit of the City, and shall be disbursed as provided below.

(B) Disbursement. Amounts in the Administrative Expense Fund shall be withdrawn by the Fiscal Agent and paid to the City or its order upon receipt by the Fiscal Agent of an Officer's Certificate stating the amount to be withdrawn, that such amount is to be used to pay an Administrative Expense and the nature of such Administrative Expense.

Annually, not later than the last day of each Fiscal Year, the Fiscal Agent shall withdraw any amount then remaining in the Administrative Expense Fund that has not been allocated by an Officer's Certificate received by the Fiscal Agent from the City to pay Administrative Expenses which are expected to be incurred in the succeeding Fiscal Year prior to the receipt by the City of Special Tax Revenues for such succeeding Fiscal Year and transfer such amount to the Special Tax Fund.

(C) Investment. Subject to the provisions of paragraph (B) above, moneys in the Administrative Expense Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Investment Earnings shall be retained by the Fiscal Agent in the Administrative Expense Fund to be used for the purposes of such fund.

Costs of Issuance Fund

(A) Establishment of Costs of Issuance Fund. The Agreement establishes, as a separate account to be held by the Fiscal Agent, the "Community Facilities District No. 2006-1 of the City of Merced Special Tax Bonds Costs of Issuance Fund" to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement. Moneys in the Costs of Issuance Fund shall be held in trust by the Fiscal Agent and shall be disbursed as provided in subsection (B) below for the payment or reimbursement of Costs of Issuance.

(B) Disbursement. Amounts in the Costs of Issuance Fund shall be disbursed to pay Costs of Issuance, as set forth in a requisition containing respective amounts to be paid to the designated payees, signed by an Authorized Officer and delivered to the Fiscal Agent concurrently with the delivery of the Bonds. The Fiscal Agent shall pay all Costs of Issuance upon receipt of an invoice from any such payee which requests payment in an amount which is less than or equal to the amount set forth with respect to such payee in such requisition, or upon receipt of an Officer's Certificate requesting payment of a Cost of Issuance not listed on the initial requisition delivered to the Fiscal Agent on the Closing Date. The Fiscal Agent shall maintain the Costs of Issuance Fund for a period of ninety (90) days from the Closing Date

and shall then transfer and deposit any moneys remaining therein, including any Investment Earnings thereon, in the Improvement Fund.

(C) Investment Moneys in the Costs of Issuance Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Investment Earnings shall be retained by the Fiscal Agent in the Costs of Issuance Fund to be used for the purposes of such fund.

Pledge of Special Tax Revenues

The Bonds shall be secured by a pledge of and lien upon (which shall be effected in the manner and to the extent provided in the Agreement) all of the Special Tax Revenues (except the initial amount, not to exceed \$45,000, which will be deposited in the Administrative Expense Fund for each Fiscal Year pursuant to the Fiscal Agent Agreement) and all moneys deposited in the Bond Fund and all moneys deposited in the Reserve Fund. The Bonds shall be equally secured by a pledge of and lien upon the Special Tax Revenues and such moneys without priority for number, date of Bond, date of execution or date of delivery; and the payment of the interest on and principal of the Bonds and any premium upon the redemption of any thereof shall be and is secured by a pledge of and lien upon the Special Tax Revenues and such moneys. The Special Tax Revenues and all moneys deposited into such accounts are dedicated in their entirety to the payment of the principal of the Bonds, and interest and any premium on, the Bonds, as provided in the Agreement and in the Act, until all of the Bonds have been paid and retired or until moneys or Defeasance Securities have been set aside irrevocably for that purpose in accordance with the Fiscal Agent Agreement.

Bond Fund

(A) Deposits. The Agreement establishes, as a separate account to be held by the Fiscal Agent, the "Community Facilities District No. 2006-1 of the City of Merced Special Tax Bonds Bond Fund" to the credit of which deposits shall be made as required by the Fiscal Agent Agreement and any other provision of the Agreement or the Act. There are established in the Bond Fund, as separate accounts to be held by the Fiscal Agent, the "Interest Account" and the "Principal Account." The Agreement also establishes in the Bond Fund, as a separate account to be held by the Fiscal Agent, the "Special Tax Prepayments Account" to the credit of which deposits shall be made as required by the Fiscal Agent Agreement. There is also established in the Interest Account, as a separate subaccount to be held by the Fiscal Agent, the "Capitalized Interest Subaccount" to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement. Moneys in the Bond Fund shall be held, in trust, by the Fiscal Agent for the benefit of the Owners of the Bonds, shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below, and, pending such disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

(B) Disbursements. On or before each Interest Payment Date, the Fiscal Agent shall transfer from the Special Tax Fund (including the Surplus Account) and deposit into the following respective accounts in the Bond Fund, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Special Tax Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(1) Interest Account. On or before each Interest Payment Date, except the Interest Payment Date which occurs on September 1, 2007, the Fiscal Agent shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on the Bonds on such date. No deposit need be made into the Interest Account on any Interest Payment Date if the amount on deposit therein is at least equal to the interest becoming due and payable on the Bonds on such date. All moneys in the Interest Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued

interest on any Bonds redeemed prior to maturity). All amounts on deposit in the Interest Account (excepting the Capitalized Interest Subaccount) on the first day of any Bond Year, to the extent not required to pay any interest then having become due and payable on the Outstanding Bonds shall be withdrawn therefrom by the Fiscal Agent and transferred to the Surplus Account.

(a) Capitalized Interest Subaccount. On or before the Interest Payment Date which occurs on September 1, 2007, the Fiscal Agent shall withdraw from the Capitalized Interest Subaccount and transfer to the Interest Account the amount which is necessary, together with other available amounts therein, to cause the amount on deposit in the Interest Account to be equal to the amount of interest which is due and payable on the Outstanding Bonds on such Interest Payment Date. The amount, if any, on deposit in the Capitalized Interest Subaccount on September 1, 2007 shall be withdrawn by the Fiscal Agent and transferred to the Surplus Account in the Special Tax fund and the Capitalized Interest Subaccount shall be closed.

(2) Principal Account. On or before each Interest Payment Date which occurs on September 1, the Fiscal Agent shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds becoming due and payable on such date pursuant to the Fiscal Agent Agreement, or the redemption price of the Bonds (consisting of the principal amount thereof and any applicable redemption premium) required to be redeemed on such date pursuant to any of the provisions of the Fiscal Agent Agreement. Except as otherwise provided in the Agreement, all moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of and premium (if any) on any Bonds upon the redemption thereof pursuant to the Fiscal Agent Agreement. All amounts on deposit in the Principal Account on the first day of any Bond Year, to the extent not required to pay the principal of any Outstanding Bonds then having become due and payable, shall be withdrawn therefrom by the Fiscal Agent and transferred to the Surplus Account.

On the first Business Day following each Interest Payment Date, the Fiscal Agent shall transfer any moneys remaining on deposit in the Bond Fund (including the Interest Account and the Principal Account) other than moneys on deposit in the Special Tax Prepayments Account, as directed in writing by an Authorized Officer (upon which direction the Fiscal Agent may conclusively rely), to the Surplus Account.

In the event that moneys on deposit in the Special Tax Fund, including moneys on deposit in the Surplus Account, will be insufficient on any Interest Payment Date for the Fiscal Agent to deposit the required amounts in the Interest Account and the Principal Account, as provided above, the Fiscal Agent shall deposit the available funds first to the Interest Account up to the full amount required to cause the aggregate amount on deposit therein to equal the amount of interest becoming due and payable on the Bonds on the Interest Payment Date, and shall then deposit the remaining available funds in the Special Tax Fund to the Principal Account up to the full amount required to cause the aggregate amount on deposit therein to equal the amount, if any, of principal becoming due and payable on the Bonds on the Interest Payment Date. If, after making such deposits to the Interest Account and the Principal Account, and after transferring moneys from the Reserve Fund to such accounts, as provided in the Fiscal Agent Agreement, the amount on deposit in the Principal Account is insufficient to pay the full amount of the principal of each of the Bonds which is to be redeemed on the Interest Payment Date, the Fiscal Agent shall make a prorated payment of the principal of each of such Bonds as specified in an Officer's Certificate provided to the Fiscal Agent.

On September 2 of each year, beginning on September 2, 2007, the amount, if any, on deposit in the Bond Fund (including the amount on deposit in the Principal Account but not including, however, the amounts on deposit in the Interest Account and the Special Tax Prepayments Account) as determined by

the City, together with the amount then on deposit in the Special Tax Fund (including the Surplus Account), shall not exceed the greater of (i) one year's earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 2 of any year the amount on deposit in the Bond Fund (other than such excluded amounts), together with the amounts then on deposit in the Special Tax Fund, exceeds the maximum amount allowable pursuant to the preceding sentence, the excess shall be transferred by the Fiscal Agent, as directed in writing by the City (upon which the Fiscal Agent may conclusively rely), to the Reserve Fund to the extent that the amount on deposit therein is less than the Reserve Requirement, and any such excess remaining thereafter shall be transferred by the Fiscal Agent to the Administrative Expense Fund. On September 2 of each year, after any such excess amount has been transferred as provided above, the amount on deposit in the Bond Fund (other than such excluded amounts), together with the amount then on deposit in the Special Tax Fund, shall not exceed the greater of (i) one year's earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. The Fiscal Agent shall have no obligation to monitor the City's obligations as set forth in this paragraph.

(C) Special Tax Prepayments Account Deposits and Disbursements. Within ten (10) Business Days after receiving a Special Tax Prepayment the City shall deliver the amount thereof to the Fiscal Agent, together with an Officer's Certificate notifying the Fiscal Agent that the amount being delivered is a Special Tax Prepayment which is to be deposited in the Special Tax Prepayments Account. Upon receiving a Special Tax Prepayment from the City and such an Officer's Certificate, the Fiscal Agent shall deposit the amount of the Special Tax Prepayment in the Special Tax Prepayments Account. Such an Officer's Certificate may be combined with the Officer's Certificate which the City is required to deliver to the Fiscal Agent pursuant to the Fiscal Agent Agreement. In addition, moneys may be deposited to the Special Tax Prepayments Account pursuant to other provisions of the Fiscal Agent Agreement. Moneys on deposit in the Special Tax Prepayments Account shall be transferred by the Fiscal Agent to the Principal Account on the next date for which notice of the redemption of the Bonds can timely be given under the Fiscal Agent Agreement and shall be used to redeem the Bonds on the redemption date selected in accordance with the Fiscal Agent Agreement. Pending such transfer, the moneys on deposit in the Special Tax Prepayments Account shall be invested in Defeasance Securities at such yield as Bond Counsel shall determine is necessary to preserve the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. Investment earnings on the moneys on deposit in the Special Tax Prepayments Account shall be retained in such account.

(D) Investment. Except as provided in subsection (C) above, moneys in the Bond Fund, including all accounts therein, shall be invested and deposited in accordance with the Fiscal Agent Agreement. Investment Earnings shall be retained in the Bond Fund, except to the extent they are required to be deposited by the Fiscal Agent in the Rebate Fund in accordance with the Fiscal Agent Agreement.

Amounts in the Bond Fund, including all accounts therein, shall also be withdrawn and deposited in the Rebate Fund as provided in the Fiscal Agent Agreement.

Reserve Fund

(A) Establishment of Fund. The Agreement establishes, as a separate account to be held by the Fiscal Agent, the "Community Facilities District No. 2006-1 of the City of Merced Special Tax Bonds Reserve Fund" to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement, which deposit is equal to the Reserve Requirement, and to which deposits shall be made as provided in the Fiscal Agent Agreement. Moneys in the Reserve Fund shall be held, in trust, by the Fiscal Agent for the benefit of the Owners of the Bonds as a reserve for the payment of the principal of and interest and any premium on the Bonds and shall be subject to a lien in favor of the Owners of the Bonds.

(B) Use of Fund. Except as otherwise provided in the Agreement, (i) all amounts on deposit in the Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making

transfers to the Interest Account and the Principal Account of the Bond Fund in the event of any deficiency at any time in either of such accounts of the amount then required for payment of the principal of and interest and any premium on the Bonds or, in accordance with the provisions of paragraph (E) below, for the purpose of redeeming Bonds.

(C) Transfer Due to Deficiency in Interest and Principal Accounts. Whenever a transfer is made from the Reserve Fund to the Interest Account or the Principal Account due to a deficiency in either such account, the Fiscal Agent shall provide written notice thereof to the City.

(D) Transfer of Excess of Reserve Requirement. Whenever, on any September 2, the amount in the Reserve Fund, less Investment Earnings resulting from the investment of the funds therein which pursuant to the Fiscal Agent Agreement must be rebated to the United States, exceeds the Reserve Requirement, the Fiscal Agent shall provide written notice to the City of the amount of the excess. Upon receiving written direction from an Authorized Officer (upon which the Fiscal Agent may conclusively rely), the Fiscal Agent shall, subject to the requirements of the Fiscal Agent Agreement, transfer an amount from the Reserve Fund which will reduce the amount on deposit therein to an amount equal to the Reserve Requirement to the Interest Account and the Principal Account, in the priority specified in the Fiscal Agent Agreement, to be used for the payment of the interest on and principal of the Bonds on the next succeeding Interest Payment Date in accordance with the Fiscal Agent Agreement.

(E) Transfer When Balance Exceeds Outstanding Bonds. Whenever the balance in the Reserve Fund is equal to or exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall, upon receiving written direction from an Authorized Officer (upon which the Fiscal Agent may conclusively rely), transfer the amount in the Reserve Fund to the Interest Account and the Principal Account, in the priority specified in the Fiscal Agent Agreement, to be applied, on the next succeeding Interest Payment Date, to the payment and redemption, in accordance with the Fiscal Agent Agreement of all of the Outstanding Bonds. In the event that the amount available to be so transferred from the Reserve Fund to the Interest Account and the Principal Account exceeds the amount required to pay and redeem the Outstanding Bonds, the excess shall be transferred to the City to be used for any lawful purpose of the City.

(F) Transfers on Payment of Special Tax Obligations. Whenever the City receives a Special Tax Prepayment for a lot or parcel of property within the District, the City shall by an Officer's Certificate notify the Fiscal Agent thereof and of the amount by which the Reserve Fund is to be reduced and which is transferable from the Reserve Fund to the Principal Account of the Bond Fund, which amount shall be specified in the Officer's Certificate. Each such Officer's Certificate shall be accompanied by a report of an Independent Financial Consultant verifying the accuracy of the calculation of the amount to be transferred from the Reserve Fund to the Principal Account ("Verification"). Upon receipt of each such Officer's Certificate and Verification, upon which the Fiscal Agent may conclusively rely, the Fiscal Agent shall at such time as the amount of such Special Tax Prepayment will be used to redeem Bonds, as provided in the Fiscal Agent Agreement, transfer the amount specified in such Officer's Certificate to the Principal Account and use such amount, together with the amount of such Special Tax Prepayment, to redeem Bonds, as provided in the Fiscal Agent Agreement. Notwithstanding the preceding provisions of this subsection, no amount shall be transferred from the Reserve Fund to the Principal Account if the amount on deposit in the Reserve Fund is, or as a result of such transfer would be, less than the Reserve Requirement.

(G) Investment. Moneys on deposit in the Reserve Fund shall be invested in Permitted Investments which do not have maturities extending beyond five (5) years; provided, however, if the Reserve Fund is invested in an investment agreement (as defined in clause (vii) of the definition of Permitted Investments) or a repurchase agreement (as defined in clause (xi) of such definition) such agreement may have a maturity longer than five (5) years if the Fiscal Agent is authorized by the provisions of such agreement to draw the full amount thereof, without penalty, if required for the

purposes of the Reserve Fund. The City shall cause the Permitted Investments, other than such investment agreements, in which moneys on deposit in the Reserve Fund are invested to be valued at fair market value and marked-to-market at least once in each Fiscal Year.

Covenants of City

Punctual Payment. The City will punctually pay or cause to be paid the principal of and interest and any premium on the Bonds when and as due in strict conformity with the terms of the Agreement and any Supplemental Agreement to the extent that the Special Tax Revenues are available therefor, and it will faithfully observe and perform all of the conditions, covenants and requirements of the Agreement and all Supplemental Agreements and of the Bonds.

Special Obligation. The Bonds are special obligations of the City and the District and are payable solely from and secured solely by the Special Tax Revenues and the amounts in the Bond Fund, the Reserve Fund and the Special Tax Fund.

Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the City shall not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and shall not, directly or indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall not be entitled, in case of default under the Agreement, to the benefits of the Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Against Encumbrances. The City shall not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien created in the Agreement for the benefit of the Bonds, except as permitted by the Agreement.

Books and Accounts. The City shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City in which complete and correct entries shall be made of all transactions relating to the expenditure of amounts disbursed from the Administrative Expense Fund. Such books of record and accounts shall at all times during business hours, upon reasonable notice, be subject to the inspection of the Owners of not less than ten percent (10%) of the aggregate principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

Protection of Security and Rights of Owners. The City will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the City, the Bonds shall be incontestable by the City.

Collection of Special Tax Revenues. The City shall comply with all requirements of the Act, including the enactment of necessary Ordinances, so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of the payment or collection of delinquent Special Taxes.

On or within five (5) Business Days of May 1 of each year, the Fiscal Agent shall provide the City with a notice stating the amount then on deposit in the Special Tax Fund, the Bond Fund and the Reserve Fund (including all accounts and sub-accounts therein), and informing the City that the Special Taxes are to be levied by Ordinance as necessary to provide for Annual Debt Service and Administrative Expenses and replenishment (if necessary) of the Reserve Fund so that the balance therein equals the

Reserve Requirement. The receipt of such notice by the City or the failure of the Fiscal Agent to give such notice shall in no way affect the obligations of the City under the following two paragraphs. The Fiscal Agent shall have no liability if it does not provide such notice to the City. Upon receipt of such notice, the City shall communicate with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current Fiscal Year.

The City shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Act by August 10 of each year (or such later date as may be authorized by the Act or any amendment thereof) that the Bonds are Outstanding, such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the tax roll for the Fiscal Year then beginning. Upon the completion of the computation of the amounts of the levy of the Special Taxes, the City shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the tax roll. Notwithstanding the preceding provisions of this paragraph, the City Council may elect, as permitted by the Act, to collect the Special Taxes to be levied for any Fiscal Year directly from the owners of the parcels of taxable property upon which the Special Taxes are levied rather than by transmitting the Special Taxes to the Auditor for collection on the tax roll; provided that, in such event, the City shall otherwise comply with the provisions of the Agreement.

The City shall fix and levy the amount of Special Taxes required for the payment of the principal of and interest on any Outstanding Bonds becoming due and payable during the ensuing calendar year, including any necessary replenishment or expenditure of the Reserve Fund, and the amount estimated to be sufficient to pay the Administrative Expenses during such calendar year. The Special Taxes so levied shall not exceed the authorized amounts for the District as provided in the proceedings for the establishment of the District.

The Special Taxes shall be payable and be collected (except in the event of judicial foreclosure proceedings pursuant to the Fiscal Agent Agreement) 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 times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property.

The City 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 of an Independent Financial Consultant that to accept such tender will not result in the City having insufficient Special Tax Revenues to pay the principal of and interest on the Bonds and remaining Outstanding following such tender.

Levy of Special Taxes for Administrative Expenses. The City covenants that, (a) to the extent that it is legally permitted to do so, it will levy the Special Taxes for the payment of the Administrative Expenses which are expected to be incurred in each Fiscal Year, and (b) it will not initiate proceedings under the Act to reduce the Maximum Special Tax rates (the "Maximum Rates") on then existing Developed Property below the amounts which are necessary to provide Special Tax Revenues in an amount equal to estimated Administrative Expenses for the then current Fiscal Year plus an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Outstanding Bonds.

The City further covenants that in the event an ordinance is adopted by initiative pursuant to Section 3 of Article XIII C of the California Constitution, which purports to reduce or otherwise alter the Maximum Rates, it will commence and pursue legal action seeking to preserve its ability to comply with its covenant contained in the preceding paragraph.

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

Tax Covenants. The City covenants that:

(A) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of the initial issuance and delivery of the Bonds, would have caused any of the Bonds to be "arbitrage bonds" within the meaning of Section 103(b) and Section 148 of the Code;

(B) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Bonds, would result in loss of exclusion from gross income for purposes of federal income taxation under Section 103(a) of the Code of interest paid with respect to the Bonds;

(C) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Bonds, would have caused any of the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code;

(D) It will comply with the Rebate Certificate as a source of guidance for achieving compliance with the Code; and

(E) In order to maintain the exclusion from gross income for purposes of federal income taxation of interest paid with respect to the Bonds, it will comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code.

The tax covenants of the City contained in the Agreement shall survive the payment, redemption or defeasance of Bonds pursuant to the Fiscal Agent Agreement.

Covenant to Foreclose. The City covenants with and for the benefit of the Owners of the Bonds (i) that it will order, and cause to be commenced, judicial foreclosure proceedings against properties with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due, and (ii) that it will commence judicial foreclosure proceedings against all properties 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 ninety-five percent (95%) of the total Special Taxes levied, and diligently pursue to completion such foreclosure proceedings.

Prepayment of Special Taxes. The City shall cause all applications of owners of property in the District to prepay and satisfy the Special Tax obligation for their property to be reviewed by the Tax Consultant and shall not accept any such prepayment unless such consultant certifies in writing that following the acceptance of the proposed prepayment by the City and the redemption of Bonds with such prepayment, (a) the ratio of (i) the maximum amount of the Special Taxes that may be levied on all Developed Property in the District which following such prepayment will be subject to the levy of the Special Taxes to (ii) Maximum Annual Debt Service on the Bonds which will remain Outstanding following such redemption (e.g., 1.10 to 1.0) plus estimated Administrative Expenses will not be less than such ratio as it existed prior to such prepayment, and (b) the maximum amount of the Special Taxes that may be levied on Developed Property at build-out of the property in the District, as then approved by the City, will be equal to at least one hundred ten percent (110%) of Maximum Annual Debt Service on such Outstanding Bonds. For purposes of the Agreement, Developed Property shall include parcels of Subdivided Property for which building permits are expected to be issued by the City for the construction of dwelling units.

Calculation of Prepayments. The City will cause all Special Tax Prepayments to be calculated to include the amount of the premium on the Outstanding Bonds that will be redeemed with the Special Tax Prepayment and negative arbitrage on the investment of the Special Tax Prepayment from the date of receipt until the Interest Payment Date upon which the Special Tax Prepayment and the amount to be transferred from the Reserve Fund to the Principal Account pursuant to the Fiscal Agent Agreement will be used to redeem Outstanding Bonds pursuant to the Fiscal Agent Agreement. The City will not include in any calculation of the amount of any Special Tax Prepayment for any parcel of taxable property in the District a proportionate amount of the amount then on deposit in the Reserve Fund, if at the time of such calculation the amount on deposit in the Reserve Fund is less than the Reserve Requirement.

Continuing Disclosure. The City and the Fiscal Agent, as Dissemination Agent, covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement which are specifically applicable to each of them.

Accountability Measures. The City shall comply with the requirements of Section 53410 of the California Government Code with respect to the deposit and expenditure of the Proceeds of the sale of the Bonds and shall cause the appropriate officer of the City to file a report with the City Council no later than January 2, 2007, and annually thereafter, which shall contain the information required by Section 53411 of the California Government Code with respect to the expenditure of the Proceeds and the status of the construction and acquisition of the Project.

Trustee & Investment of Money

Deposit and Investment of Moneys in Funds. Subject in all respects to the provisions of the Fiscal Agent Agreement, moneys in any fund or account created or established by the Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Permitted Investments, as directed pursuant to an Officer's Certificate filed with the Fiscal Agent at least two (2) Business Days in advance of the making of such investments. In the absence of any such Officer's Certificate, the Fiscal Agent shall invest any such moneys in Permitted Investments described in clause (iv) of the definition of Permitted Investments. The Fiscal Agent shall not have any responsibility for determining the legality of any Permitted Investments. The Fiscal Agent shall have no obligation to pay additional interest or maximize investment income on any funds held by it. Neither the City nor the Owners of the Bonds shall have any claim of any kind against the Fiscal Agent in connection with investments properly made pursuant to the Agreement. Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account, subject, however, to the requirements of the Agreement for transfer of Investment Earnings in funds and accounts.

The Fiscal Agent and its affiliates may act as sponsor, advisor, depository, principal or agent in the holding, acquisition or disposition of any investment. The Fiscal Agent shall not incur any liability for losses arising from any investments made pursuant to the Agreement. For purposes of determining the amount on deposit in any fund or account held under the Agreement, all Permitted Investments or investments credited to such fund or account shall be valued at the cost thereof (excluding accrued interest and brokerage commissions, if any).

Subject in all respects to the provisions of the Fiscal Agent Agreement, investments in any and all funds and accounts may be commingled in a single fund for purposes of making, holding and disposing of investments, notwithstanding provisions for transfer of the Agreement to or holding in or to the credit of particular funds or accounts of amounts received or held by the Fiscal Agent under the Agreement, provided that the Fiscal Agent shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Agreement.

The Fiscal Agent shall sell or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited, and the Fiscal Agent shall not be liable

or responsible for any loss resulting from the acquisition or disposition of any such investment security in accordance with the Agreement.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City or the District the right to receive brokerage confirmations of securities transactions as they occur, the City for itself and the District specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent shall furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Fiscal Agent under the Agreement.

The Fiscal Agent may make any investments under the Agreement through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

Rebate Fund; Rebate to the United States. There is created under the Agreement, to be held by the Fiscal Agent, as a separate account distinct from all other funds and accounts held by the Fiscal Agent under the Agreement, the Rebate Fund. The Fiscal Agent shall, in accordance with written directions received from an Authorized Officer, deposit into the Rebate Fund moneys transferred by the City to the Fiscal Agent pursuant to the Rebate Certificate or moneys transferred by the Fiscal Agent from the Reserve Fund. The Rebate Fund shall be held either uninvested or invested only in Federal Securities at the written direction of the City. Moneys on deposit in the Rebate Fund shall be applied only to payments made to the United States, to the extent such payments are required by the Rebate Certificate. The Fiscal Agent shall, upon written request and direction of the City, make such payments to the United States.

Liability of City. The City shall not incur any responsibility in respect of the Bonds or the Agreement other than in connection with the duties or obligations explicitly stated in the Agreement or in the Bonds assigned to or imposed upon it. The City shall not be liable in connection with the performance of its duties under the Agreement, except for its own negligence or willful default. The City shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements of the Fiscal Agent or of any of the documents executed by the Fiscal Agent in connection with the Bonds.

In the absence of bad faith, the City may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the City and conforming to the requirements of the Agreement. The City shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts.

No provision of the Agreement shall require the City to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Special Tax Revenues) in the performance of any of its obligations under the Agreement, or in the exercise of and of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The City may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The City may consult with counsel, who may be counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it in good faith and in accordance therewith.

Whenever in the administration of its duties under the Agreement the City shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Loan Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Agreement) may, in the absence of willful misconduct on the part of the City, be deemed to be conclusively proved and established by a certificate of the Fiscal Agent, and such certificate shall be full

warranty to the City for any action taken or suffered under the provisions of the Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the City may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Books and Accounts

The Fiscal Agent shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Fiscal Agent, in which complete and correct entries shall be made of all transactions made by it to the expenditure of amounts disbursed from the Bond Fund, the Special Tax Fund, the Administrative Expense Fund, the Reserve Fund and the Costs of Issuance Fund. Such books of record and accounts shall, upon reasonable notice, at all times during business hours be subject to the inspection of the City and the Owners of not less than ten percent (10%) of the aggregate principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

Amendments Permitted

(A) The Agreement and the rights and obligations of the District and the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of the Owners, or with the written consent, without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Fiscal Agent Agreement. No such modification or amendment shall (i) extend the maturity of any Bond or the time for paying interest thereon, or otherwise alter or impair the obligation of the City on behalf of the District to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation of any pledge of or lien upon the Special Tax Revenues, or the moneys on deposit in the Special Tax Fund, the Bond Fund or the Reserve Fund, superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or the Agreement), (iii) reduce the percentage of Bonds required for the amendment of the Fiscal Agent Agreement, or (iv) reduce the principal amount of or redemption premium on any Bond or reduce the interest rate thereon. Any such amendment may not modify any of the rights or obligations of the Fiscal Agent without its written consent. The Fiscal Agent shall be furnished an opinion of counsel that any such Supplemental Agreement entered into by the City and the Fiscal Agent complies with the provisions of the Fiscal Agent may conclusively rely on such opinion.

(B) The Agreement and the rights and obligations of the District and the City and the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Agreement contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power reserved in the Agreement to or conferred upon the City;

(2) to make modifications not adversely affecting any Outstanding series of Bonds of the District in any material respect;

(3) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provisions of the Agreement, or in regard to questions arising under the Agreement, as the City and the Fiscal Agent may deem necessary or desirable and not inconsistent with the Agreement, and which shall not adversely affect the rights of the Owners; or

(4) to make such additions, deletions or modifications as may be necessary or desirable to assure compliance with Section 148 of the Code relating to required rebate of moneys

to the United States or otherwise as may be necessary to assure exclusion from gross income for federal income tax purposes of interest on the Bonds or to conform with the Regulations.

Owners' Meetings. The City may at any time call a meeting of the Owners. In such event, the City is authorized to fix the time and place of any such meeting and to provide for the giving of notice thereof and to fix and adopt rules and regulations for the conduct of the meeting.

Procedure for Amendment with Written Consent of Owners. The City and the Fiscal Agent may at any time enter into a Supplemental Agreement amending the provisions of the Bonds or of the Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by the Fiscal Agent Agreement, to take effect when and as provided in the Agreement. A copy of the Supplemental Agreement, together with a request to Owners for their consent thereto, shall be mailed by first class mail, postage prepaid, by the Fiscal Agent to each Owner of Bonds Outstanding, but failure to mail copies of the Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as in the Agreement.

Such a Supplemental Agreement shall not become effective unless there shall be filed with the Fiscal Agent the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Agreement) and a notice shall have been mailed as required by the Agreement. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by the Fiscal Agent Agreement. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Fiscal Agent prior to the date when the notice has been mailed.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Agreement, the City shall mail a notice to the Owners in the manner provided in the Agreement for the mailing of the Supplemental Agreement, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and will be effective (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). Proof of the mailing of such notice shall be filed with the Fiscal Agent. A record, consisting of the documents required by the Agreement to be filed with the Fiscal Agent, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Agreement shall become effective upon the filing with the Fiscal Agent of the proof of mailing of such notice, and the Supplemental Agreement shall be deemed conclusively binding (except as otherwise specifically provided in the Agreement) upon the City, the District and the Owners of all Bonds then Outstanding at the expiration of sixty (60) days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty (60)-day period.

Disqualified Bonds. Bonds owned or held for the account of the City, excepting any pension or retirement fund, shall not be deemed Outstanding for the purpose of any vote, consent or other action or any calculation of Outstanding Bonds provided for in the Agreement, and shall not be entitled to vote upon, consent to, or participate in any action provided for in the Agreement. Upon request of the Fiscal Agent, the City shall specify to the Fiscal Agent those Bonds disqualified pursuant to the Loan Agreement and the Fiscal Agent may conclusively rely on such certificate.

Effect of Supplemental Agreement. From and after the time any Supplemental Agreement becomes effective pursuant to the Agreement, the Agreement shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Agreement of the City and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Agreement subject in all respects to such modifications and amendments, and all the terms and

conditions of any such Supplemental Agreement shall be deemed to be part of the terms and conditions of the Agreement for any and all purposes.

Discharge of Agreement

If the City shall pay and discharge the indebtedness on all or a portion (a "Partial Discharge") of the Outstanding Bonds in any one or more of the following ways:

(A) by well and truly paying or causing to be paid the principal of and interest and any premium on such Bonds, as and when the same become due and payable;

(B) by depositing with the Fiscal Agent, at or before maturity, an amount of money which, together with the amounts then on deposit in the Bond Fund (including all accounts therein), the Special Tax Fund (including the Surplus Account) and the Reserve Fund, or in the event of a Partial Discharge, the appropriate portion of such amounts, as determined by the City and confirmed by an Independent Financial Consultant, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums, if any; or

(C) by irrevocably depositing with the Fiscal Agent, cash or non-callable Defeasance Securities in such amount as the City shall determine, as confirmed by an Independent Financial Consultant, will, together with the interest to accrue thereon and amounts then on deposit in the Bond Fund (including all accounts therein), the Special Tax Fund (including the Surplus Account) and the Reserve Fund, or in the event of a Partial Discharge, the appropriate portion of such amounts, as determined by the City and confirmed by an Independent Financial Consultant, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any such Bonds shall not have been surrendered for payment, the pledge of the Special Tax Revenues and other funds provided for in the Agreement and all other obligations of the City and the District under the Agreement with respect to such Bonds shall cease and terminate, except the obligation of the City to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon, the obligation of the City to pay all amounts owing to the Fiscal Agent pursuant to the Fiscal Agent Agreement, and the obligations of the City pursuant to the covenants contained in the Fiscal Agent Agreement; and thereafter Special Taxes shall not be payable to the Fiscal Agent. Notice of such election shall be filed with the Fiscal Agent. The satisfaction and discharge of the Agreement as to all of the Outstanding Bonds shall be without prejudice to the rights of the Fiscal Agent to charge and be reimbursed by the City for the expenses which it shall thereafter incur in connection with the Agreement.

Any funds held by the Fiscal Agent to pay and discharge the indebtedness on such Bonds, upon payment of all fees and expenses of the Fiscal Agent, which are not required for such purpose, shall be paid over to the City.

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APPENDIX D
APPRAISAL REPORT

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**SELF-CONTAINED
APPRAISAL REPORT**

CFD 2006-1
Moraga of Merced Phases 1 and 2
South Side of Yosemite Avenue
East of Hatch Road
Merced, California 95340

Date of Value

October 31, 2006

Client

Bradley R. Grant
Finance Officer
City of Merced
678 W. 18th Street
Merced, California 95340

Prepared By

Lawrence D. Hopper, MAI

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rpa Wakefield & Hopper, Inc.
6740 N. West Avenue, Suite 107
Fresno, California 93711
(559) 261-9136 FAX (559) 261-9165
E-Mail rpa@rpaappraisal.com

November 1, 2006

Bradley R. Grant
Finance Officer
City of Merced
678 W. 18th Street
Merced, California 95340

RE: CFD 2006-1
Moraga of Merced Phases 1 and 2
South Side of Yosemite Avenue
East of Hatch Road, Merced, California

Dear Mr. Grant:

In fulfillment of the agreement outlined in the "Agreement for Professional Services" dated April 3, 2006, we are pleased to present the attached report of our appraisal of the fee simple interest in the referenced parcel of real estate, as of October 31, 2006. This appraisal report was prepared on November 1, 2006.

The report sets forth our opinion of market value along with supporting data and reasoning which form the basis of our opinion. The value reported is qualified by certain definitions and limiting conditions set forth on pages 2 through 7 and the certification set forth on pages 100 and 101 of this report.

We particularly call your attention to the fact that the value is developed based on the hypothetical condition set forth on pages 6 and 7 dealing with the state of completion of the Moraga project.

As a result of our analysis, we have formed an opinion that the market value (as defined in the Report), subject to the definitions, certifications, extraordinary assumptions, hypothetical conditions, and limiting conditions set forth in the attached Report, as of October 31, 2006, was:

Total Hypothetical Market Value	\$41,100,000
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Bradley R. Grant
November 1, 2006
Page 2

The above opinion of value is linked to an exposure period of 6 to 12 months.

THIS LETTER MUST REMAIN ATTACHED TO THE REPORT, WHICH CONTAINS 101 PAGES PLUS RELATED EXHIBITS, IN ORDER FOR THE VALUE OPINIONS SET FORTH ABOVE TO BE CONSIDERED VALID.

The report was prepared for and our professional fee billed to the City of Merced. It is intended only for use by your internal management, your auditor, and appropriate regulatory authorities. It may not be distributed to or relied upon by other persons or entities without our written permission.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Lawrence D. Hopper".

Lawrence D. Hopper, MAI
CA #AG001738

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- Data Sheets 1 to 12
- Single Family Residence Sale Photos
- Preliminary Title Reports
- Market Assessment prepared by The Gregory Group
- Qualifications of the Appraiser

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

REPORTING OPTION

The following **Self-Contained Appraisal Report** is intended to comply with the reporting requirements as set forth under Standards Rule 2-2(a) of USPAP. At a minimum, it:

- (i) states the identity of the client and any intended users, by name or type;
- (ii) states the intended use of the appraisal;
- (iii) describes information sufficient to identify the real estate involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;
- (iv) states the real property interest appraised;
- (v) states the type and definition of value and cites the source of the definition;
- (vi) states the effective date of the appraisal and the date of the report;
- (vii) describes the scope of work used to develop the appraisal;
- (viii) describes the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;
- (ix) states the use of the real estate existing as of the date of value, and the use of the real estate reflected in the appraisal; and, when an opinion of highest and best use was developed by the appraiser, describes the support and rationale for that opinion;
- (x) clearly and conspicuously: states all extraordinary assumptions and hypothetical conditions; and states that their use might have affected the assignment results;
- (xi) includes a signed certification in accordance with Standards Rule 2-3.

This report is prepared for the sole use and benefit of the client and is based, in part, upon documents, writings, and information owned and possessed by he/she. Neither this report, nor any of the information contained herein shall be used or relied upon for any purpose by any person or entity other than the client.

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Client Name and Address:

Bradley R. Grant
Finance Officer
City of Merced
678 West 18th Street
Merced, California 95340
Telephone: 209-385-6844
Fax: 209-384-5805

Intended Users of the Appraisal:

The intended users of the appraisal are the City of Merced and others involved in the financing of Community Facilities District No. 2006-1.

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Intended Use of Appraisal: As support for bond financing of Community Facilities District No. 2006-1.

Real Property Interest Appraised: Fee Simple Estate.

Existing Use of the Real Estate: Vacant.

Use of the Real Estate Reflected In the Appraisal: The subject property consists of Phases 1 and 2 of Moraga of Merced, a single family residential development. On the effective date of appraisal, the final tract map had been recorded for Phase 1 and the offsite improvements for this 287-lot phase were in the process of being installed. Within Phase 1, six model homes were completed and three were nearing completion. An additional 10 homes were under construction, and the permits for another nine homes had been pulled.

The 233-lot Phase 2 of the development had no final map in place on the effective date of appraisal, and construction had not begun with the exception of the offsite improvements along Yosemite Avenue.

Project Name & Address: Moraga of Merced
Phase 1 – 287 Homesites
Phase 2 – 233 Homesites
Merced, California 95340

<u>Assessor's Parcel Numbers</u>	008-411-02 to 22	21 Lots
<u>Phase No. 1:</u>	008-412-01 to 31	31 Lots
	008-412-33 to 37	5 Lots
	008-412-39 to 54	16 Lots
	008-413-01 to 14	14 Lots
	008-414-01 to 13	13 Lots
	008-421-01 to 28	28 Lots
	008-421-30 to 49	20 Lots
	008-422-01 to 13	13 Lots
	008-423-01 to 14	14 Lots
	008-424-01 to 03	3 Lots
	008-425-01 to 05	5 Lots
	008-431-01 to 09	9 Lots

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

008-432-01 to 13	13 Lots
008-432-15 to 35	21 Lots
008-433-01 to 12	12 Lots
008-434-01 to 10	10 Lots
008-435-01 to 10	10 Lots
008-436-01 to 05	5 Lots
008-437-01 to 03	3 Lots
008-441-01 to 04	4 Lots
008-442-01 to 05	5 Lots
008-443-01 to 07	7 Lots
008-443-09 to 13	5 Lots
<u>Total</u>	<u>287 Lots</u>
<u>Total</u>	<u>50.79 Gross Acres</u>
<u>Total</u>	<u>42.33 Net Acres</u>

Assessor's Parcel Numbers

Phase No. 2: 008-010-55 (Portion) & 008-010-62 (Portion)

Gross Land Size:

Phase No. 1	50.79 Gross Acres
Phase No. 2	43.37 Gross Acres
<u>Total</u>	<u>94.66 Gross Acres</u>

Net Land Size:

Phase No. 1	42.33 Net Acres
Phase No. 2	35.49 Net Acres
<u>Total</u>	<u>77.82 Net Acres</u>

Thomas Bros. Map Page/Grid:

Page 794, Quadrant J-2 of the Northern San Joaquin Valley Street Guide.

Census Tract:

11.02 per 2000 U.S. Census.

Zoning Designation:

RP-D (52).

General Plan Designation:

Low Density Residential.

Flood Zone:

FEMA FIRM Flood Zone X
Community Panel No. 06047C-0435-F
Effective/Revised Date 01/05/2006

Seismic Zone:

ISO Zone 3
Alquist-Priolo Special Studies Zone No

**Effective Date of Appraiser's
Opinions and Conclusions:**

October 31, 2006.

Date of Report Preparation:

November 1, 2006.

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Highest and Best Use: As currently vacant Residential

Value Conclusion: Total Market Value* \$41,100,000

*** Subject to hypothetical condition
discussed on pages 6 and 7 of report.**

Exposure Time Estimate: The above opinions of value are linked to
an exposure period of 6-12 months.

**Personal Property Included
in Valuation:** None.

CLIENT NAME AND ADDRESS

The client in this assignment is Bradley R. Grant, Finance Officer, City of Merced, 678 West 18th Street, Merced, California 95340.

INTENDED USERS OF THE APPRAISAL

The intended users of the appraisal are the City of Merced and others involved in the financing of Community Facilities District No. 2006-1, Moraga of Merced.

INTENDED USE OF THE APPRAISAL

The intended use of the appraisal is as support for bond financing of Community Facilities District No. 2006-1, Moraga of Merced.

REAL PROPERTY INTEREST APPRAISED

The opinion of value delineated in this report reflects the value of the fee simple estate interest in the property.

EXISTING USE OF THE REAL ESTATE

The subject property is currently under development to Phases 1 and 2 of Moraga of Merced.

USE OF THE REAL ESTATE REFLECTED IN THE APPRAISAL

The subject property consists of Phases 1 and 2 of Moraga of Merced, a single family residential development. On the effective date of appraisal, the final tract map had been recorded for Phase 1 and the offsite improvements for this 287-lot phase were in the process of being installed. Within Phase 1, 6 model homes were completed and 3 were under construction. An additional 10 homes were under construction, and the permits for another nine homes had been pulled.

The 233-lot Phase 2 of the development had no final map in place on the effective date of appraisal, and construction had not begun with the exception of the offsite improvements along Yosemite Avenue.

EFFECTIVE DATE OF THE APPRAISER'S OPINIONS & CONCLUSIONS

The effective date of the appraisal is October 31, 2006. This report was prepared on November 1, 2006.

DEFINITION OF MARKET VALUE

This appraisal has been prepared in accordance with the following market value definition:

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 a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress. (*Appraisal Standards for Land-Secured Financings, California Debt and Investment Advisory Commission, Revised July 2004, CDIAAC 04-07, Page 30*)

OTHER PERTINENT DEFINITIONS

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. (*The Dictionary of Real Estate Appraisal, 4th Edition, Chicago: Appraisal Institute, 2002, page 113*)

Bulk Sale Value

The most probable price, in a sale of *all* parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or in terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue stress. The bulk sale is executed in lieu of the seller proceeding with development and/or marketing of the individual parcels or tracts to end users, or merchant builders over a market-oriented absorption period for the type of project. (*Appraisal Standards for Land-Secured Financings, California Debt and Investment Advisory Commission, Revised July 2004, CDIAAC 04-07, Page 29*)

Discounted Cash Flow Analysis

A valuation method under which the dates of sale and prices of finished properties are estimated to derive a cash flow which is discounted to present value by a market discount rate. This valuation method is also referred to as the *Subdivision Development or Land Development Approach to Value* in appraisal literature. (*Appraisal Standards for Land-Secured Financings, California Debt and Investment Advisory Commission, Revised July 2004, CDIAAC 04-07, Page 30*)

USPAP COMPLIANCE

This appraisal is prepared in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP).

SCOPE OF WORK

Extent to Which the Property Was Identified

Physical characteristics

- The subject property is vacant and unimproved, and was personally inspected on October 31, 2006 by Lawrence D. Hopper, MAI. At the time of inspection, the property was well into the site preparation phase. Heavy equipment was actively at work grading streets and building pads. Onsite infrastructure in the form of underground utilities, concrete curbs, gutters and sidewalks, and asphalt-paved streets was in the process of being installed.
- Six model homes were completed on the date of inspection, and three additional models were nearing completion. In addition, ten additional homes were in the framing stage, and permits had been pulled for nine additional homes.
- Information from county records, owner's comments, assessor's records, and brochures was used to identify the characteristics of the subject property that are relevant to the valuation problem.

Legal characteristics

- For Phases 1 and 2, the title reports prepared by Fidelity National Title Company on August 14, 2006 were relied upon for information regarding easements, covenants, restrictions, and/or other encumbrances. I did not research the presence of such items independently.

Economic characteristics

- The subject property was not encumbered by a lease on the effective date of appraisal. As such, this is a valuation of the fee simple estate.

Type and Extent of the Data Researched

- Comparable sales were selected based on physical and location characteristics. In order to gather the comparable sales, county records, assessors, brokers, investors, and lenders active in the area were consulted. After selecting the sales, a comparative analysis of relevant

factors that influence value was undertaken to adjust the sales to the subject property based upon the actions and preferences demonstrated by the participants in the marketplace.

- The comparable sale data was verified with persons knowledgeable of the data in question – typically the buyer, seller or broker involved in the transaction

Type and Extent of Analysis Applied

- The value opinions presented in this report are based upon review and analysis of the market conditions affecting real property value, including land values, the attributes of competitive properties, and sales data for residential properties.
- The appraisal problem did not warrant an intensive highest and best use study. Given the nature of the subject real estate, our conclusion of highest and best use was based on logic and observed evidence.
- There are three traditional approaches used to arrive at an opinion of value of real estate: the Sales Comparison Approach, the Cost Approach, and the Income Capitalization Approach. In this valuation, the Sales Comparison Approach was used to develop an opinion of value for the raw land with entitlements in place. The hypothetical retail value of the finished lots was developed using a land residual technique. The hypothetical bulk sale value was developed using a discounted cash flow analysis. Both the land residual and discounted cash flow analysis are variations on the Income Approach to value. The Cost Approach was not used in this valuation because it is typically not used in the valuation of vacant land.
- The nine completed model homes were valued using the Sales Comparison Approach using re-sales of homes located in Merced.

UNDERLYING AND LIMITING CONDITIONS

1. No survey was made of the property, and the dimensions and areas are those taken from the map that appears on page 42 of this report.
2. Reports of title were prepared by Fidelity National Title Company on August 14, 2006, and were furnished to the appraiser. Based upon a review of these documents, the property is presumed to be marketable, with any liens or encumbrances capable of being removed.
3. No separation of land and building values may be used for any other purpose than that delineated elsewhere in this report.

4. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent and approval of the author, particularly as to the valuation conclusion, the identity of the appraiser or firm with which it is connected, or any reference to the Appraisal Institute, or to the MAI or SRA designations.
5. No right to expert testimony is included with this report, and the fee for this appraisal does not include payment for pre-trial conferences or taking of depositions.
6. No responsibility is assumed for matters legal in nature.
7. No survey or soil tests of the land have been made by the appraiser.
8. This report and all information contained herein was prepared for the sole and exclusive benefit of the client, as specified herein, and is intended for his use only. No one except the client specified herein may rely on this report for any purpose. Any person or entity who obtained or reads this report, or a copy thereof, other than the client specified herein, expressly assumes all risk of damages to himself or third persons arising out of reliance thereon or use thereof and waives the right to bring any action based on the appraisal, directly or indirectly, and the appraiser shall have no liability to any such person or entity.
9. Possession of this report or any copy thereof does not carry with it the right of publication, nor may the same be used for any purpose by anyone except the appraiser's employer, without the previous written consent of the appraiser, and in any event, only in its entirety.
10. The information and data reported in this appraisal have been obtained from sources which are deemed to be reliable. They are believed to be correct, but cannot be guaranteed by the appraiser. This condition applies generally throughout the appraisal report and specifically to square footage calculations and descriptions of comparable properties.
11. The appraiser has no personal interest or bias with respect to the subject matter of this appraisal or the parties involved.
12. This appraisal report sets forth all of the limiting conditions (imposed by the terms of the assignment or by the appraiser) affecting the analyses, opinions, and conclusions contained in this report.
13. No one other than the appraiser whose signature appears on the Certification page of this appraisal report prepared the analyses, conclusions, and opinions concerning real estate that are set forth in this appraisal report.

14. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.
15. The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

EXTRAORDINARY ASSUMPTIONS NECESSARY IN THE ASSIGNMENT

An extraordinary assumption is 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. An extraordinary assumption may be used in an assignment only if:

- It is required to properly develop credible opinions and conclusions;
- The appraiser has a reasonable basis for the extraordinary assumption;
- Use of the extraordinary assumption results in a credible analysis; and
- The appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.

No extraordinary assumptions were made by the appraiser in the completion of this assignment.

HYPOTHETICAL CONDITIONS NECESSARY IN THE ASSIGNMENT

A hypothetical condition is 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. A hypothetical condition may be used in an assignment only if:

- Use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;
- Use of the hypothetical condition results in a credible analysis; and
- The appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions.

This appraisal has been conducted under the hypothetical condition that the 287 homesites in neighborhoods 2, 3 and 4 of Moraga Phase 1 are in a finished state and ready to be developed with single family homes. The 43.87 acres designated for Phase 2 of Moraga do not have a final map recorded, but the offsite improvements along Yosemite Avenue have been installed. There is a tentative tract map for 233 potential homesites.

GENERAL AREA DATA

County of Merced

Located near the geographical center of the State of California and encompassing approximately 1,982 square miles, the County extends from the South Coast ranges on the west, across the San Joaquin Valley floor, to the lower reaches of the Sierra-Nevada foothills. Over 60% of Merced County lies in the fertile San Joaquin Valley, where the growing season is about 250 days and precipitation averages about 11 inches per year. Maximum elevations are over 3,800 feet in the Diablo Range and about 800 feet in the Sierra-Nevada foothills. Temperatures averaging 45 degrees Fahrenheit in January and 79 degrees in July are experienced within the area.

The County of Merced was home to 240,162 people in January 2005. The historical population figures for the County of Merced are presented in the following chart.

<u>Year</u>	<u>Population</u>
1980	134,557
1990	178,403
1993	193,137
1995	195,291
1998	202,264
1999	206,734
2000	210,554
2001	214,000
2002	220,300
2003	227,000
2004	232,100
2005	240,162

These figures show an average annual growth rate of 2.82% from 1980 to 2000 and 2.87% from 2000 to 2005. The most significant growth in the County has occurred in and around the County's six incorporated cities: Atwater, Dos Palos, Gustine, Livingston, Los Banos, and Merced, the county seat.

Historically, agriculture has been the major source of employment and production in Merced County. Gross receipts in 2004 made the County the fifth best dollar producer in the State. The leading farm commodities include milk, almonds, chickens, cattle, tomatoes, cotton, sweet potatoes, alfalfa, eggs, turkey and sage. The County's agricultural production has encouraged numerous ag-related manufacturing and non-manufacturing businesses. Major ag-related employers in the County include Bianchi & Sons Packing, McLane/Pacific and Yosemite Wholesale.

According to the Office of Economic and Strategic Development (OESD), the total work force in 2000 equaled 63,700, or 30.25% of the total population. Employment sectors categorized by the OESD are as follows:

<u>Industry</u>	<u>Employees (2000)</u>	<u>% of Total Work Force</u>
Agriculture	11,700	18.4%
Mining/Construction	2,200	3.5%
Government	12,200	19.2%
Finance/Real Estate/Insurance	2,000	3.1%
Manufacturing	10,800	17.0%
Retail Trade	10,600	16.6%
Wholesale Trade	1,700	2.7%
Services	9,900	15.5%
Transportation/Public Utilities	2,600	4.08%

Future economic growth is highlighted by the selection of the Lake Yosemite site for the newest campus of the University of California. The site was donated by private landowners to the University system. The University of California at Merced opened for the first 1,000 students in the Fall of 2005. This University is the first UC campus in the San Joaquin Valley and the first research university of the 21st Century.

In addition, in 2000 the United States Penitentiary, Atwater was completed. It is built on a portion of the former Castle Air Force Base. This is a high security penitentiary housing approximately 960 inmates in six general population housing Phases and a minimum security prison Camp that will house approximately 128 inmates. This prison has helped in providing additional jobs since the closure of Castle Air Force Base in 1995.

In summary, the central location of the County within the State of California, its economic diversity, the newly developed United States Penitentiary in Atwater and the future development of a University of California campus, should ensure that economic growth would continue well into the future. Much of this growth will likely be experienced by the County's incorporated cities.

City of Merced

The governmental and commercial center of the County of Merced is the City of Merced, incorporated April 1, 1899, and located approximately 260 miles north of Los Angeles, 128 miles southeast of San Francisco, and 113 miles south of Sacramento. Until 1872, the City of Merced was a part of the central desert. But the year before, everything changed. In 1871 the railroad pushed its tracks south through the Valley from San Francisco and the land which was "uninhabited became the City of Merced."

Population

The population within the city limits of Merced was 73,610 as of January 2005. Past population growth in both the City of Merced and the County of Merced has been erratic. The 1950-60 decade was a period of very rapid growth in both the City and County areas, followed by a decade of relatively slow growth from 1960 to 1970. The period from 1970 to 1975 saw a jump in both the City and County rates with the major thrust of population growth in the incorporated area of the City of Merced. The period from 1975 to 1980 tapered off somewhat, but the growth rate was still substantial.

Population figures for the City and the County for the last eleven years are shown in the following table.

CITY OF MERCED POPULATION ESTIMATES

Fiscal Year	Population	Population Change Percentage	Merced County Population	City Population as a Percentage of County
1994-95	61,712	1.4%	202,789	30.4%
1995-96	60,973	-1.2%	198,472	30.7%
1996-97	61,395	0.7%	200,961	30.7%
1997-98	62,032	1.1%	204,422	30.4%
1998-99	62,799	1.2%	206,887	30.4%
1999-00	63,330	0.8%	210,138	30.1%
2000-01	65,363	3.2%	216,656	30.2%
2001-02	66,059	1.1%	218,868	30.2%
2002-03	67,610	3.4%	223,626	30.2%
2003-04	69,805	5.7%	232,141	30.1%
2004-05	73,610	5.2%	240,162	30.1%

Source: State California Department of Finance - Demographic Research Phase.

Employment

The California Employment Development Department estimates that as of February 2006 the civilian labor force for residents of the County was 98,800, of whom 87,600 were employed. The unadjusted unemployment rate as of February 2006 was approximately 11.4%. The County and the City have a high unemployment rate due to the seasonal nature of the primary industry: agriculture. The table on the following page summarizes the civilian labor force, employment and unemployment in the County and the City for the calendar years 2000 through 2005.

**CIVILIAN LABOR FORCE
EMPLOYMENT, UNEMPLOYMENT, AND UNEMPLOYMENT RATE
(Annual Average)**

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate
2000	City	26,400	23,800	2,600	9.8%
	County	89,300	80,600	8,700	9.7
2001	City	26,900	24,100	2,800	10.3
	County	90,900	81,600	9,300	10.3
2002	City	28,100	25,000	3,100	11.1
	County	95,200	84,600	10,600	11.1
2003	City	28,500	25,200	3,300	11.6
	County	96,500	85,300	11,200	11.6
2004	City	28,900	25,700	3,200	11.0
	County	97,600	86,900	10,700	11.0
2005	City	29,200	25,900	3,300	11.4
	County	98,800	87,600	11,200	11.4

Note: The unemployment rate is calculated using unrounded data.

Source: Employment Development Department, Labor Market Information Division.

The following table sets forth the annual average employment by industry within the County for 2000 through 2005.

**MERCED METROPOLITAN AREA
ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY
(In Thousands)
2000 through 2004**

	2000	2001	2002	2003	2004	2005
Total All Industries	63.8	64.0	66.3	66.6	67.0	69.9
Farm	11.6	10.9	10.8	10.6	10.2	10.0
Natural Resources & Mining	0.0	0.0	0.0	0.0	0.0	0.0
Construction	2.1	2.3	2.4	3.0	3.4	3.6
Manufacturing	10.4	9.8	10.6	10.7	11.1	10.9
Trade, Transportation and Utilities	10.1	10.3	10.9	10.7	10.9	11.7
Information	1.4	1.4	1.5	1.5	1.5	1.6
Financial Activities	1.7	1.7	1.7	1.7	1.7	2.0
Professional and Business Services	3.3	3.4	3.3	3.4	3.4	3.1
Education and Health Services	5.1	5.1	5.4	5.5	5.4	5.6
Leisure and Hospitality	4.5	4.5	4.5	4.5	4.7	4.7
Other Services	1.5	1.6	1.7	1.7	1.6	1.6
Government	12.2	13.1	13.4	13.3	13.1	15.1

Source: State of California Employment Development Department.

Major Employers and Taxpayers

The following table lists the City's major employers.

**CITY OF MERCED
MAJOR EMPLOYERS**

Company	Employment	Products
Quebecor.....	900	Printing
Lipton-Unilever.....	500	Food Processing
Bianchi & Sons Packing	400	Tomato Packing
Yosemite Wholesale	270	Grocery Distribution
Malibu Boats	250	Boats
Werner Company	225	Ladders
Passion Fruit Farms	200	Grocer-Wholesale
Scholle Corporation.....	120	Bags & Packaging
Richwood Meats	115	Meats
Fine Line Industries.....	80	Boats

Source: Merced County Economic Development Corporation.

Construction Activity

Merced has experienced a significant increase in construction activity within the last several years, primarily in the number of residential Phases. Building activity for the past six years in the City is shown in the following table.

**CITY OF MERCED
TOTAL BUILDING PERMIT VALUATIONS
Fiscal Years 1999-00 through 2003-04**

Fiscal Year	Residential Phases	Residential Valuations	Com/Ind Permits	Com/Ind Valuations	Other Permits	Other Valuations
1999-00	288	\$ 29,397,421	7	\$ 4,123,000	1,147	\$19,284,495
2000-01	406	46,530,364	4	3,114,000	1,101	19,032,738
2001-02	1,381	59,407,745	10	5,376,030	379	23,908,926
2002-03	1,887	98,648,513	273	25,360,673	168	450,040
2003-04	2,228	131,376,640	364	66,369,902	300	417,714
2004-05	1,044	162,214,965	171	34,928,529	1639	15,458,935

Source: City of Merced Planning and Building Departments.

Transportation

Transportation into the City and County of Merced is good. Rail freight service is provided by the Southern Pacific and Burlington Northern Santa Fe Railroads, and passenger service is available through Amtrak. The trucking industry provides overnight delivery to Los Angeles, San Francisco, and Sacramento and there are 16 main carriers with regional and national connections in the Merced area. Airline

service is limited to United Express at the Merced Municipal Airport. This airport also serves private and charter airlines. Greyhound, Yosemite Gray Line, VIA Adventure Lines, and Merced Area Regional Transit System (MARTS) offer bus services, and the highways which serve the City of Merced include State Highways 99, 140 and SR59.

Education

Educational facilities within the Merced area are provided by the Merced City School District. There are 12 elementary schools, 4 junior high schools, 2 high schools (3 campuses), 2 parochial schools, and 5 private schools. The Merced Union High School District encompasses all of Northeastern Merced County and serves the Cities of Merced, Atwater, and Livingston, as well as a number of smaller communities and an extensive rural area. For the post-high school student, Merced College is a public, tax-supported, two-year institution providing residents of the Merced community a variety of educational opportunities, including transfer programs and vocational training. Students may study the humanities, life sciences, social sciences, agriculture, industrial technology, business and allied health in both day and evening classes. Merced College has a 159-acre site in North Merced. Although the University of California's main campus is not opened, it is offering classes in Merced through the Tri-College Center, a collaborative initiative with Merced College and California State University, Stanislaus.

Additional General Area Data

The City of Merced has the City Council/Manager type of government. Police and fire protection is furnished by the City of Merced to residents and businesses within the incorporated area.

Community facilities of the City of Merced include 2 general hospitals; 1 library; 3 newspapers; radio stations; public and cable television channel, 17 motels and 6 mobile home parks. Other recreational facilities include nearby Yosemite National Park, Lake Yosemite, Lake McClure, Don Pedro Lake, Lake McSwain, and the San Luis Reservoir.

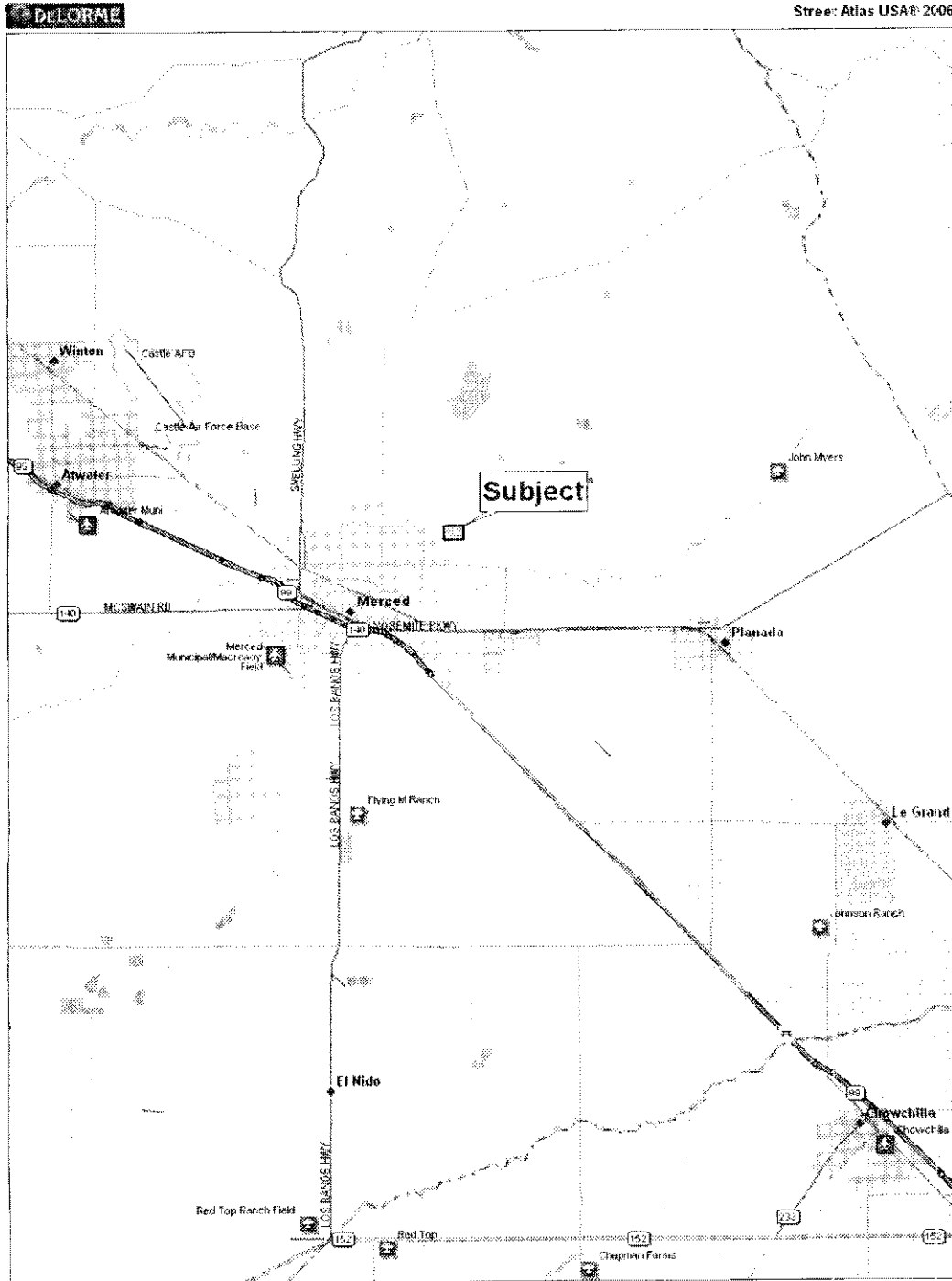
Located north of the City of Merced approximately 8 miles, near the City of Atwater, is Castle Air Force Base, which officially closed in 1995. The base closure has brought about changes to the Merced community, in that it has moved away from its dependence on the military installation and moved towards an agriculturally-based community similar to other communities in the San Joaquin Valley, such as Modesto and Fresno.

Merced, like these other communities in the San Joaquin Valley, is growing at a rate faster than the state average. This is due to affordable housing in comparison to the coastal communities in the State of California, the San Francisco Bay Area, and Los Angeles Basin. As such, the San Joaquin Valley communities have grown and will continue to do so into the foreseeable future. The closure of the Castle Air Force

Base has begun a shift in its dependence on the military to a typical San Joaquin Valley community, which has its economic base on agricultural and industrial means.

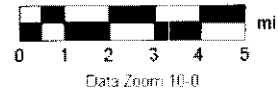
In short, both the City and County of Merced are thriving entities and it is expected that they will both show continued growth into the foreseeable future.

GENERAL AREA MAP



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MN (14 2° E)



NEIGHBORHOOD AREA DATA

The subject property is located in the northeast sector of the City of Merced, just inside the city limits. It is located approximately 3 miles northeast of the Downtown Central Business District. More specifically, the site is located on the south side of Yosemite Avenue, between Lake Road on the east and the Hatch Road alignment on the west.

Over the past several years, there have been a number of residential subdivisions developed in the area. Currently, Bright Homes is offering their Summer Creek development, located on the east side of McKee Road, south of Yosemite Avenue, just southwest of the subject development. There are 133 total homes planned, of which 52 have sold at a rate of 0.63 homes per week. The homes range in size from 1,400 to 3,297 square feet, at base prices ranging from \$299,990 to \$573,990.

The most similar competing residential developments in terms of quality and price are located in the area north of Yosemite Avenue between "G" Street and Highway 59. Within the Bellevue Ranch master planned community, homes are being offered by Ryland Homes, Matthews Homes, Kimball Hill Homes, Crosswinds Homes and Woodside Homes. Other developers operating in this area of Merced but outside of Bellevue Ranch include Dunmore Homes, Centex Homes and YCH Homes.

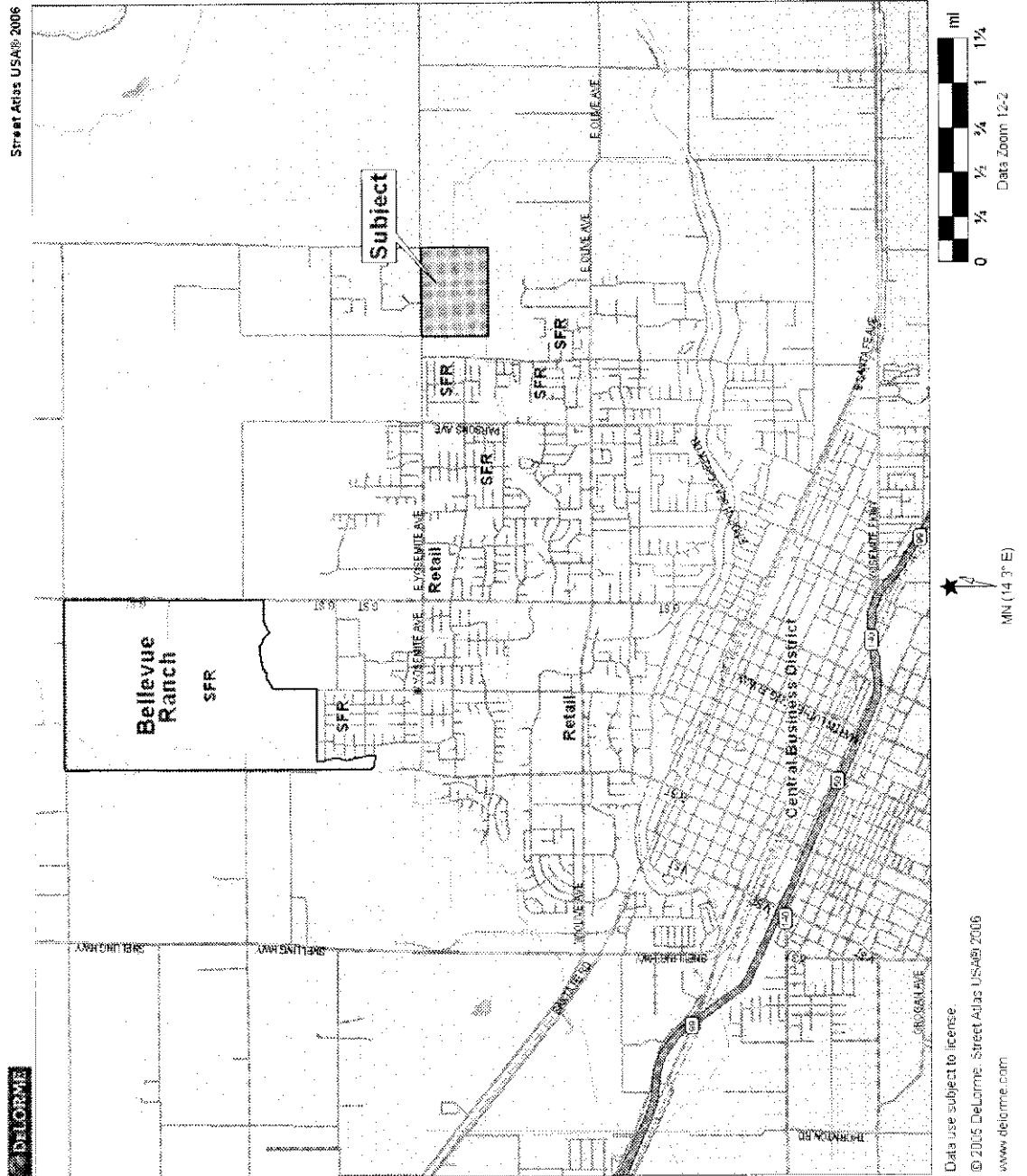
The nearest retail development is about 1 mile to the west, at the southwest corner of Yosemite and "G" Street, where there is a neighborhood shopping center anchored by Raley's supermarket and Blockbuster Video. There is also a freestanding Chevron gas station/convenience store in this center. Other retail space is located along "G" Street, and along Olive Avenue, which is considered the retail hub of Merced. Both of these areas are within a 5 to 10 minute drive time from Moraga.

Educational facilities located in the neighborhood include Chenoweth Elementary School, located at the northeast corner of Parsons and Teak, Cruickshank Middle School, located at Mansionette and Cormorant Drives, and Merced Union High School (North Campus) located at the northwest corner of Olive and "G" Street. Merced College, a two-year junior college, is located at the northwest corner of Yosemite & "G" Street.

The University of California's Merced Campus is located about 2 miles north of the subject property, on the north side of Bellevue Road, east of Lake Road. The campus, while still under construction, formally opened on September 5, 2005. The initial enrollment was approximately 1,000 students, and the campus is expected to add about 800 students per year for the next 30 years, topping out at 25,000± students. As supporting developments for the University, a town center and several residential villages will be built. The first residential village is

complete and is home to 600± students. A major thoroughfare will eventually run along the east side of Merced, connected the campus with State Highway 99.

NEIGHBORHOOD AREA MAP



DEMOGRAPHIC STUDY

A demographic study within a 5-mile radius of the subject development was conducted by Experian/Applied Geographic Solutions. The conclusions of this study are based upon information gathered within the Merced metropolitan statistical area and is presented below.

Population:

In 2005, the population in the identified market area was 80,603. The census revealed a population of 72,111 in 2000, and a population of 65,978 in 1990. The total change in population between 1990 and 2000 was 9.30% indicating an annual average growth rate of 0.93%. By 2010, the population is projected to be 88,430, representing a change of 9.71% from 2005. The projected annual average population growth rate between 2005 and 2010 is 1.94%. The annual average growth rate based on future projections appears to be increasing as compared to historical growth rate figures.

Males comprise 49.71% of the current population, while females comprise the remaining 50.29%. Of the total population, 31.29% are under the age of 18 years. Another 63.44% are between the ages of 18 and 64, an indication of the potential workforce in the area. The remaining 9.65% of the people are aged 65 or older. In 2005, the median age of the population in the identified market was 28.9 years, as compared to the 36.3 year median age reported for the US base geography. The population density was 1,026.3 people per square mile.

Households:

In 2005, there were 24,978 households in the identified market area. The Census revealed household counts of 21,243 in 1990 and 23,145 in 2000. The total change in households was 8.95% over that 10 year period. The indicated average annual growth rate in households was 0.90%. By 2010, the number of households is projected to be 26,750 indicating a change of 7.10% from 2005. Between 2005 and 2010, the indicated average annual household growth rate is expected to be 1.42%. The annual average growth rate based on future projections appears to be increasing as compared to historical growth rate figures.

In 2005, the average household size was 3.13 persons. In 1990, the average household size was 3.05, as compared to 3.05 in 2000 indicating that average household size remained stable during that period.

In 2005, the median number of years in residence was 3.6 as compared to 3.3 years in the US Index Base. The average number of vehicles per household was 1.6. The number of households without a vehicle was 3,322.

Income:

In 2005, the median household income in the identified market area was \$35,469. The US index base had a reported median household income of \$46,350. In 2000, the median household income was \$25,449 as compared to \$32,319 in 1990. The total change in median household income between 1990 and 2000 was 27.00%. The indicated average annual growth rate was 2.70%. By 2010, the median household income is projected to be \$38,783, indicating a projected total growth rate of 9.34% from 2005. The projected annual average growth equates to 1.87%. The annual average growth rate based on future projections appears to be decreasing as compared to historical growth rate figures.

In 2005, the per capita income was \$16,753, as compared to the US base which reported a per capita income of \$23,594. In 2005, the average household income was \$50,145, as compared to the US base which reported an average household income of \$61,553. In 2005, 35.83% of all households reported an average household income of less than \$24,999. In addition, 45.27% of households reported an average income of between \$25,000 and \$74,999, and 13.59% averaged between \$75,000 and \$124,999. The remaining 3.37% of all households reported an average household income exceeding \$125,000.

Housing:

In 2000, the median housing value in the identified market area was \$109,210 representing a change of 17.35% from the reported median housing value of \$93,065 in 1990. This comparison indicates annual average growth rates in housing values of 1.73%. During that same period the US median housing value ranged from \$78,382 in 1990 to \$115,194 in 2000.

In 2005, the total reported occupancy level in all housing Phases was 24,978, or 95.23%. Of that total, there were 12,505 reported owner occupied housing Phases and 12,472 renter occupied Phases. Owner occupied Phases represent 47.68% of all occupied housing Phases as compared to the 47.55% occupied by renters. Between 1990 and 2000, the reported occupancy level in all housing Phases ranged from 21,243 (96%) to 23,145 (95%). The annual average occupancy level in all housing Phases appears to be decreasing.

In 1990, the Census revealed the average rent in the neighborhood was \$372, as compared to \$457 in 2000. These figures indicate rental rates have increased during that period.

Employment:

In 2005, there were 34,251 people over the age of 16 in the identified market area. Of that total, 86.38% were employed, 13.59% were unemployed, 41.60% were not in the labor force and 0.02% were in the armed forces. In 2000, unemployment was reported to be 7.30%, as compared to 6.10% in 1990.

In 2005, there were 28,783 employees (daytime population) and 2,631 business establishments. In 2000, white collar workers comprised 52.96% of the employed workforce, while those employed in blue collar occupations comprised the remaining 45.31%. In 2000, manufacturing jobs accounted for 5.42% of the employed workforce and, service industry jobs accounted for 19.12% of the workforce.

In 2000, the average time traveled to work was 15 minutes, as compared to 8 minutes in 1990. During that period average travel time to work changed by 74.4%. In comparison, the average travel time reported in the US base area was 21 minutes in 2000.

Educational Attainment:

In 2005, 70.89% of the population over the age of 25 had earned a high school diploma in the identified market area, while 29.11% did not earn a high school diploma. In comparison, 85.31% of the population over the age of 25 in the US index base earned a high school diploma. In 1990, the population attaining a high school diploma was 68.73%, as compared to 69.93% in 2000. These figures indicate high school graduation rates within the identified market area have been decreasing since 2000.

In 2005, a total of 23.77% of the population over 25 in the identified market area attended some college courses, while 8.58% earned an Associates Degree. Another 10.16% earned a Bachelor's degree, and 5.88% earned a Graduate degree. In comparison, the index base of US reported 19.78% of the population attended some college courses, while 7.37% earned an Associates degree. Within the US base, another 17.64% earned a Bachelor's degree, and 10.09% earned a Graduate degree.

Summary:

In summary, the subject property is located in the northeastern sector of the City of Merced. The neighborhood is in transition from rural residential and agricultural uses to more intense urban uses. UC Merced should be a catalyst for the north Merced area. As such it is anticipated that the growth in the subject's neighborhood will continue into the foreseeable future.

CURRENT OWNERSHIP**Moraga of Merced – Phase No. 1**

Official Records of the County of Merced show title to the subject to be vested in the name of *Lakemont LWH, LLC, a Delaware Limited Liability Company*.

Moraga of Merced – Phase No. 2

Official Records of the County of Merced show title to the subject to be vested in the name of *Lakemont LWH, LLC, a Delaware Limited Liability Company*.

PROPERTY HISTORY**Moraga of Merced – Phase No. 1**

The current owner received title to the property from LWH Farms, LLC, a California Limited Liability Company, by Grant Deed dated July 12, 2005, recorded July 18, 2005 as Document No. 2005-054306, Official Records of Merced County.

LWH Farms, LLC received title to the property in three separate transactions:

- (1) From LWH Farms, a California General Partnership, by Grant Deed dated December 21, 2001, recorded December 28, 2001 as Document No. 58482.
- (2) From Pamela Hunt Lee, a married woman, as her sole and separate property, by Grant Deed dated December 21, 2001, recorded December 28, 2001 as Document No. 58483.
- (3) From James K. Hunt, a married man, as his sole and separate property, by Grant Deed dated December 21, 2001, recorded December 28, 2001 as Document No. 58484.

No other transfers in ownership occurred in the 5 years prior to the effective date of this appraisal.

Moraga of Merced – Phase No. 2

The current owner received title to the property from LWH Farms, LLC, a California Limited Liability Company, by Grant Deed dated June 1, 2006, recorded June 5, 2006 as Document No. 2006-039874, Official Records of Merced County.

LWH Farms, LLC received title to the property in three separate transactions:

- (1) From LWH Farms, a California General Partnership, by Grant Deed dated December 21, 2001, recorded December 28, 2001 as Document No. 58482.
- (2) From Pamela Hunt Lee, a married woman, as her sole and separate property, by Grant Deed dated December 21, 2001, recorded December 28, 2001 as Document No. 58483.
- (3) From James K. Hunt, a married man, as his sole and separate property, by Grant Deed dated December 21, 2001, recorded December 28, 2001 as Document No. 58484.

No other transfers in ownership occurred in the 5 years prior to the effective date of this appraisal.

LEGAL DESCRIPTION

Moraga of Merced – Phase No. 1

Lots 1 to 287, inclusive, of Final Map No. 5330, Moraga of Merced Phase No. 1, according to the map thereof recorded in Volume 74, Pages 45 to 56 of Recorded Maps, Merced County Records.

Moraga of Merced – Phase No. 2

The final map for the 233 proposed lots in Phase No. 2 had not yet recorded on the effective date of appraisal. The current legal description is as follows:

All that certain real property, being a portion of and situate in the northeast quarter of Section 16, Township 7 South, Range 14 East, Mount Diablo Meridian, City and County of Merced, State of California, more particularly described as follows:

BEGINNING at the Southeast corner of Lot 155, as shown on that certain map, titled "MAP OF BRADLEY'S ADDITION NO. 3 TO MERCED, CALIFORNIA", filed for record in Volume 4 of Official Plats, at Page 42, Merced County Records; thence along the South line and its Westerly extension thereof of said Lot 155, South 89°57'20" West, a distance of 1125.67 feet to the Southeast corner of Lot 280, as shown on that certain map, titled "MORAGA OF MERCED PHASE No. 1", filed for record in Volume 72 of Official Plats, at Pages 45 thru 56, Merced County Records; thence along the Easterly boundary of said "MORAGA OF MERCED PHASE No. 1", the following eight (8) courses: (1) North 00°00'00" East, a distance of 133.81 feet; (2) thence North 90°00'00" West, a distance of 26.83 feet; (3) thence North 00°00'00" East, a distance of 666.64 feet; (4) thence North 03°24'47" West, a distance of 70.97 feet; (5) thence North 14°09'23" West, a distance of 78.73 feet; (6) thence North 26°43'02" West, a distance of 81.61 feet; (7) thence North 39°16'42" West, a distance of 81.61 feet; (8) thence North 51°50'21" West, a distance of 81.61 feet to the most Northeasterly corner of

Adjusted Parcel A, as shown in Boundary Adjustment Application #05-10, filed for record as Document No. 2006-025511, Merced County Records; thence along the Northeasterly boundary of said Adjusted Parcel A, the following three (3) courses: (1) North 59°23'14" West, a distance of 27.80 feet; (2) thence North 64°48'14" West, a distance of 37.27 feet; (3) thence North 71°48'53" West, a distance of 16.79 feet to a point on said Easterly boundary of said "MORAGA OF MERCED PHASE No. 1"; thence along last said Easterly boundary, the following twenty-five (25) courses: (1) North 78°13'59" West, a distance of 98.04 feet; (2) thence North 00°05'52" West, a distance of 110.00 feet to the beginning of a non-tangent curve concave to the Southeast having a radius of 32.00 feet, to which beginning a radial line bears North 22°07'15" West; (3) thence 15.13 feet Easterly along the arc of said curve through a central angle of 27°05'04" to the beginning of a compound curve concave to the South having a radius of 486.00 feet, to which beginning a radial line bears North 04°57'49" East; (4) thence 10.00 feet Easterly along the arc of said curve through a central angle of 01°10'44"; (5) thence along a non-tangent line North 06°08'33" East, a distance of 1.50 feet; (6) thence North 17°23'49" West, a distance of 18.48 feet; (7) thence North 05°18'14" East, a distance of 1.50 feet to the beginning of a non-tangent curve concave to the South having a radius of 506.00 feet, to which beginning a radial line bears North 05°18'14" East; (8) thence 10.00 feet Westerly along the arc of said curve through a central angle of 01°07'56" to the beginning of a reverse curve concave to the North having a radius of 32.00 feet, to which beginning a radial bearing bears South 04°10'18" West; (9) thence 9.92 feet Westerly along the arc of said curve through a central angle of 17°45'14"; (10) thence along a non-tangent line, North 00°05'52" West, a distance of 221.68 feet to the beginning of a non-tangent curve concave to the Southeast having a radius of 32.00 feet, to which beginning a radial line bears North 22°07'15" West; (11) thence 14.13 feet Easterly along the arc of said curve through a central angle of 25°18'12" to the beginning of a compound curve concave to the South having a radius of 732.00 feet, to which beginning a radial line bears North 03°10'57" East; (12) thence 10.00 feet Easterly along the arc of said curve through a central angle of 00°46'57"; (13) thence along a non-tangent line North 03°57'54" East, a distance of 1.50 feet; (14) thence North 12°03'59" West, a distance of 17.67 feet; (15) thence North 03°35'33" East, a distance of 1.50 feet to the beginning of a non-tangent curve concave to the South having a radius of 752.00 feet, to which beginning a radial line bears North 03°35'33" East; (16) thence 10.00 feet Westerly along the arc of said curve through a central angle of 00°45'43" to the beginning of a reverse curve concave to the North having a radius of 32.00 feet, to which beginning a radial bearing bears South 02°49'50" West; (17) thence 10.66 feet Westerly along the arc of said curve through a central angle of 19°05'42"; (18) thence along a non-tangent line, North 00°05'52" West, a distance of 222.29 feet to the beginning of a non-tangent curve concave to the Southeast having a radius of 32.00 feet, to which beginning a radial line bears North 22°07'15" West; (19) thence 12.35 feet Easterly along the arc of said curve through a central angle of 22°07'15"; (20) thence South 90°00'00" East, a distance of 9.99 feet; (21) thence North 00°22'22" West, a distance of 20.00 feet; (22) thence North 90°00'00" West, a distance of 10.01 feet to the beginning of a curve

concave to the Northeast having a radius of 32.00 feet; (23) thence 12.25 feet Westerly along the arc of said curve through a central angle of 21°55'32"; (24) thence along a non-tangent line, North 00°05'52" West, a distance of 102.57 feet; (25) thence North 44°57'05" East, a distance of 14.08 feet to a point on the South right-of-way line of Yosemite Avenue (90.00 feet wide) as shown on said "MORAGA OF MERCED PHASE No. 1", said point being 50.00 feet distant at right angles from the North line of said Section 16; thence along last said South right-of-way line, parallel with last said North line, North 89°54'08" East, a distance of 403.34 feet to the intersection of said South right-of-way line with the Southwesterly line of a P.G. & E. easement (75.00 feet wide), filed for record on December 4, 1925 in Book 128 of Official Records, at Page 344, Merced County Records; thence leaving said Southerly right-of-way and along said Southwesterly line South 43°17'08" East, a distance of 1565.53 feet to a point, which is 23.00 feet distant at right angles from the East line of said Lot 155; thence parallel with last said East line, North 00°44'59" East, a distance of 1141.57 feet to a point on said South right-of-way line of Yosemite Avenue; thence along said South right-of-way line, North 89°54'08" East, a distance of 23.00 feet to a point on said East line of Lot 155; thence along last said East line South 00°44'59" West, a distance of 1932.15 feet to the Point of Beginning.

SUBJECT TO all easements and/or rights of way of record.

ASSESSED VALUATION AND TAXES

The 289 Assessor's Parcels that make up the subject property were created after January 1, 2006. As such, they have not yet been assigned assessed values. The current Assessor's Parcels were created from the former APNs 008-010-053, 054 and 055. For the purpose of taxation, these three parcels were assessed as follows:

Assessor's Parcel Number	008-010-053
<u>Tax Year</u>	<u>2005-2006</u>
Land	\$ 195,867
Improvements	\$ 0
Total	\$ 195,867
Taxes	\$ 2,084.20

Assessor's Parcel Number	008-010-054
<u>Tax Year</u>	<u>2005-2006</u>
Land	\$ 96,970
Improvements	\$ 0
Total	\$ 96,970
Taxes	\$ 1,035.90

Assessor's Parcel Number	008-010-055
<u>Tax Year</u>	<u>2005-2006</u>
Land	\$ 94,081
Improvements	\$ 9,940
Total	\$ 104,021
Taxes	\$ 1,110.62

NOTE: Beginning with the 1981-1982 assessment roll, all property in Merced County is assessed at 100% of full cash value as determined by staff appraisal of the Merced County Assessor's Office. Prior to the 1981-1982 assessment roll, the assessed ratio statewide was 25%. Full cash value is defined as market value at the time of property transfer or the 1975-76 assessed values modified at the compounded rate of 2% per annum.

With the passage of Proposition 13, or the Jarvis-Gann Initiative, it is highly likely that a transfer of the property would result in an increased assessment level and, hence, an increased tax burden. For the purpose of calculation, an approximate tax burden may be calculated by multiplying a pending transaction price of the property by the above-noted tax rate.

SITE DESCRIPTION

General Location: The general location of the property is along the south side of Yosemite Avenue, between Hatch and Lake Roads.

Property Address: Multiple Street Addresses have been assigned to the parcels located in Phase No. 1, but we were unable to ascertain them. All are located in Merced, California 95340.

Assessor's Parcel Nos.
Phase No. 1:

All Parcels are located in Merced County.

008-411-02 to 22	21 Lots
008-412-01 to 31	31 Lots
008-412-33 to 37	5 Lots
008-412-39 to 54	16 Lots
008-413-01 to 14	14 Lots
008-414-01 to 13	13 Lots
008-421-01 to 28	28 Lots
008-421-30 to 49	20 Lots
008-422-01 to 13	13 Lots
008-423-01 to 14	14 Lots
008-424-01 to 03	3 Lots
008-425-01 to 05	5 Lots
008-431-01 to 09	9 Lots
008-432-01 to 13	13 Lots
008-432-15 to 35	21 Lots
008-433-01 to 12	12 Lots
008-434-01 to 10	10 Lots
008-435-01 to 10	10 Lots
008-436-01 to 05	5 Lots
008-437-01 to 03	3 Lots
008-441-01 to 04	4 Lots
008-442-01 to 05	5 Lots
008-443-01 to 07	7 Lots
008-443-09 to 13	5 Lots
Total	287 Lots
Total	50.79 Gross Acres

Assessor's Parcel Nos.
Phase No. 2:

Both parcels are located in Merced County
008-010-55 (portion) and 008-010-62 (portion)
Total 43.87 Gross Acres

Census Tract No.: The subject property is located in Census Tract No. 11.02, as delineated in the 2000 Federal Census.

Thomas Brothers Map Code:

The subject property is located on Page 794, Quadrant J-2 of the Northern San Joaquin Valley Street Guide.

Size: The land areas that encompass Phases 1 and 2 of Moraga of Merced are as follows:

Phase No.	Gross Ac.	Net Ac.
1	50.79	42.33
2	43.87	35.49
Total	94.66	77.82

Ingress and Egress: Access to the property is available from Yosemite Avenue.

Offsite Improvements: The offsite improvements that will be installed in Phases 1 and 2 of the Moraga Development will consist of asphalt-paved streets with concrete curbs, gutters and sidewalks. Streetlights will also be installed. Underground utilities will consist of water, sewer, natural gas, electricity, telephone and cable television.

Utilities: Municipal utilities available to the property include:

- Electricity:** - Pacific Gas and Electric Co.
- Gas:** - Pacific Gas and Electric Co.
- Telephone:** - AT&T
- Water:** - City of Merced
- Sewer:** - City of Merced
- Solid Waste:** - City of Merced
- Police:** - City of Merced
- Fire:** - City of Merced

Topography, Drainage and Soils:

The property is generally level in topography and at street grade. No soils report was furnished. Accordingly, the load bearing capabilities of the soil could not be verified, but are assumed to be adequate. Drainage is also assumed to be adequate.

Easements or Encroachments:

A review of the title reports for Phases 1 and 2 of Moraga indicated the existence of several easements, none of which are thought to be detrimental to the property's value or its ability to be developed into the proposed 520-lot subdivision.

Zoning:

The subject property is zoned RP-D (52), a residential planned development that allows the proposed 520 residential homesites that will be

created by the developer in Phases 1 and 2 of Moraga.

Flood Zone:

The subject property is situated in Flood Zone X, a flood insurance rate zone that corresponds to areas outside the 100-year floodplains, areas of 100-year sheet flow flooding where average depths are less than 1 foot, areas of 100-year stream flooding where the contributing drainage area is less than 1 square mile, or areas protected from the 100-year flood by levees. This information was obtained from the Federal Emergency Management Agency's Flood Insurance Rate Map, Community Panel No. 06047C-0435-F, with an effective date of January 5, 2006.

Seismic Zone:

Seismic zones have been delineated by two entities -- the International Seismic Organization and the Alquist-Priolo Special Studies Zones Act. According to International Seismic Organization Earthquake Zone Maps dated 1981, the subject property is located within Seismic Zone 3, delineated as an area of Moderate Damage.

The Alquist-Priolo Special Studies Zone Act is designed to mitigate the hazard of earthquake fault rupture by regulating and prohibiting the development of most structures for human occupancy near active fault lines. Cities and counties affected by Special Studies Zones must regulate certain development projects within the zones, and must withhold development permits until geologic investigations reveal that sites are not threatened by surface displacement due to earthquake faults. According to the 1997 revision of Special Publication 42 "Fault-Rupture Hazard Zones in California", the City of Merced and the County of Merced, in which the subject property is located, are not within a Special Studies Zone. Therefore, no restrictions are placed on the property in regards to this act.

Wetlands:

There are no wetlands considerations affecting the subject property.

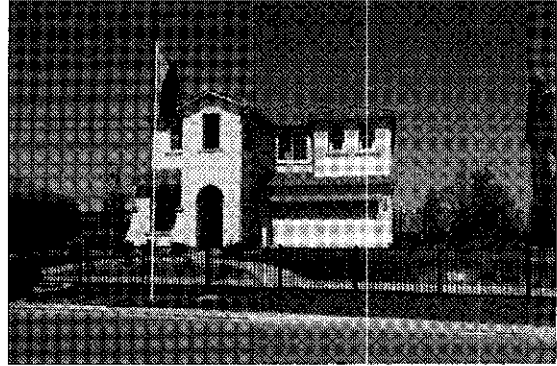
Hazardous Waste:

Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the

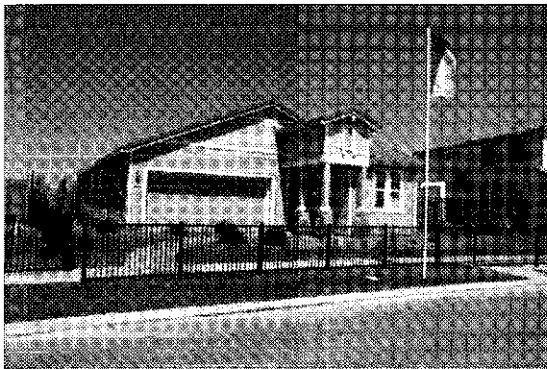
appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.



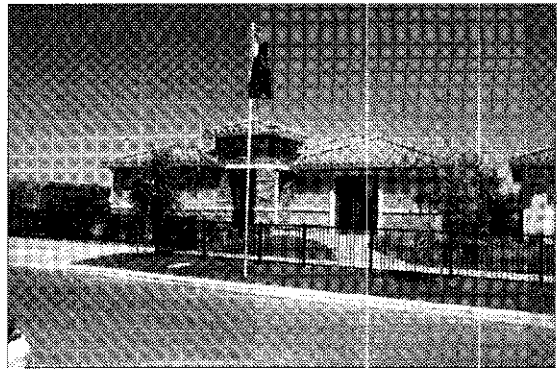
Mariposa Collection
Monarch Model—Elevation C



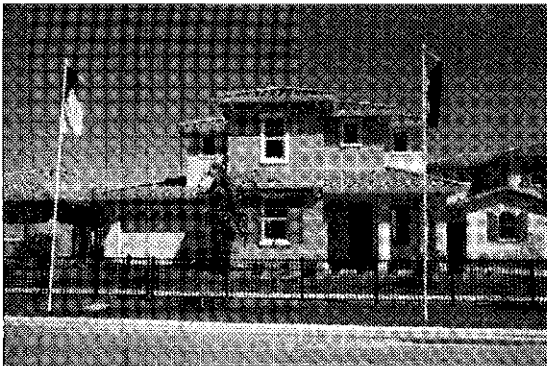
Mariposa Collection
Emperor Model—Elevation A



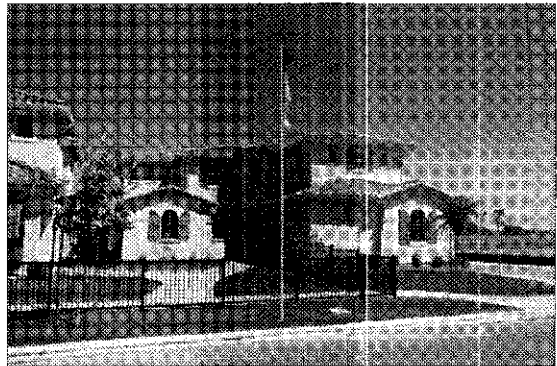
Mariposa Collection
Gossamer Model—Elevation B



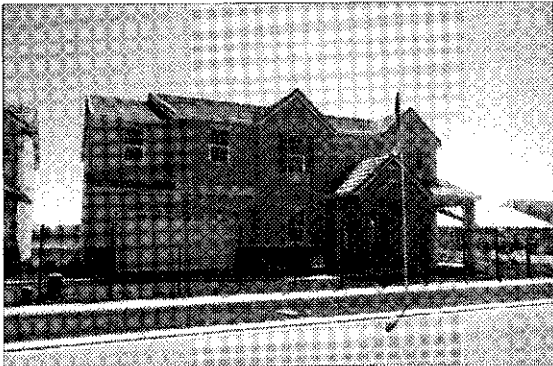
Presidio Collection
Willow Model—Elevation B



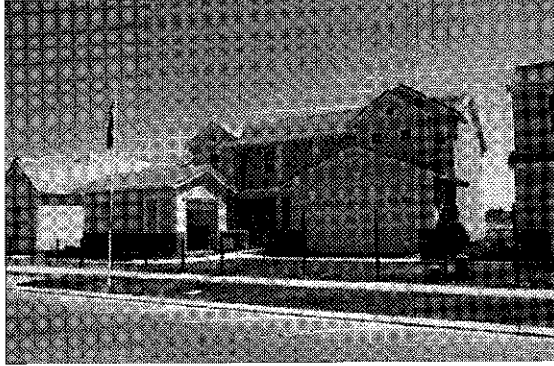
Presidio Collection
Cypress Model—Elevation B



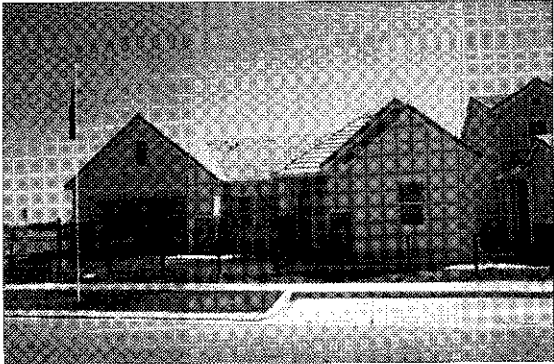
Presidio Collection
Sequoia Model—Elevation C



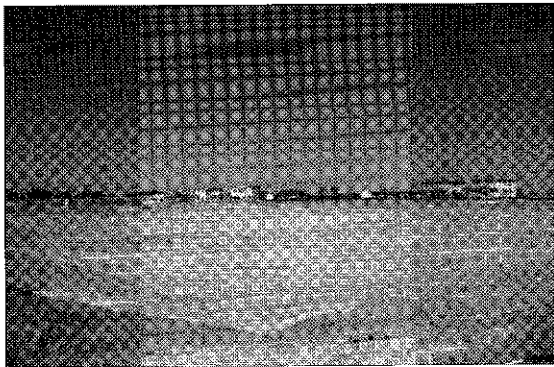
Mercedes Collection
Canyon Model—Elevation B



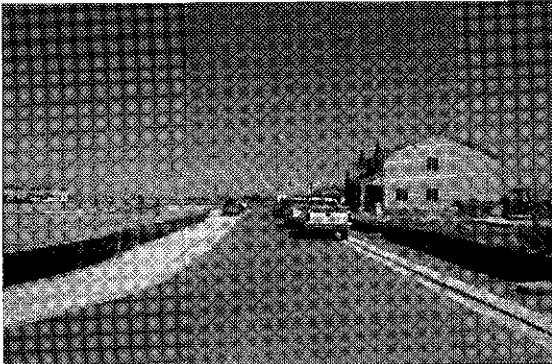
Mercedes Collection
Falls Model—Elevation A



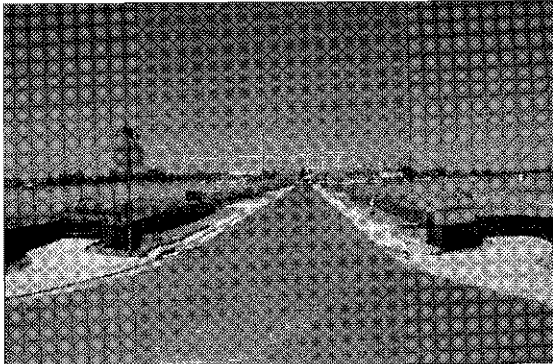
Mercedes Collection
Meadow Model—Elevation B



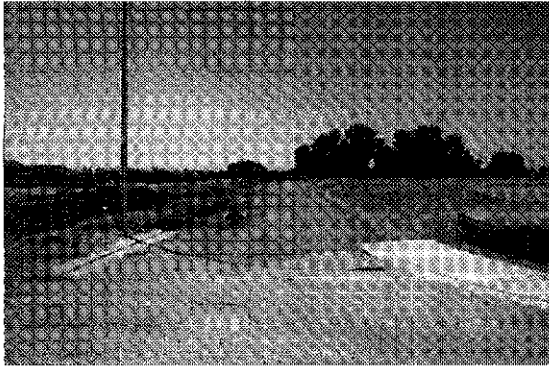
From southwest corner of ponding basin/park,
looking northeast



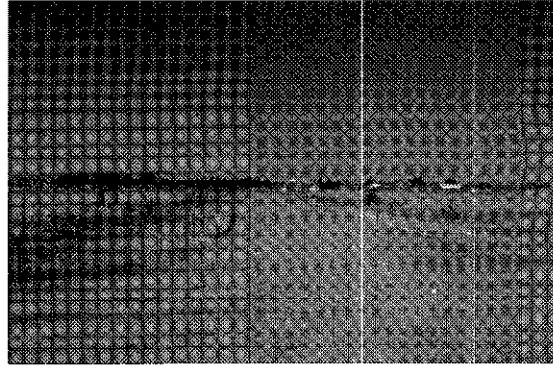
From intersection of DeSota Way and Aviles
Drive, looking easterly along DeSota



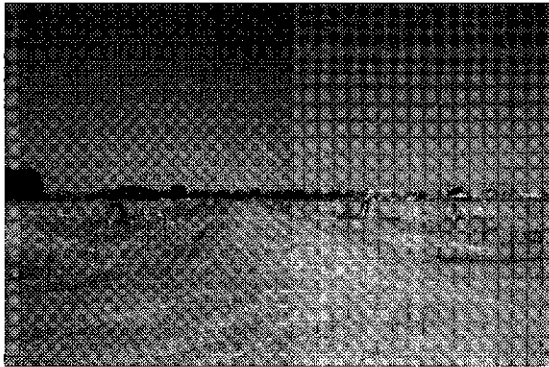
From intersection of DeSota Way and Aviles
Drive, looking northerly along Aviles



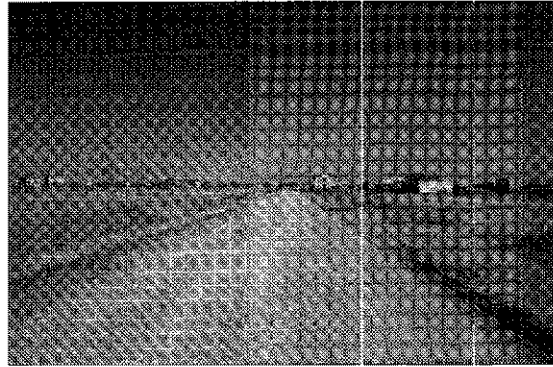
From intersection of DeSota Way and Aviles Drive, looking westerly along DeSota



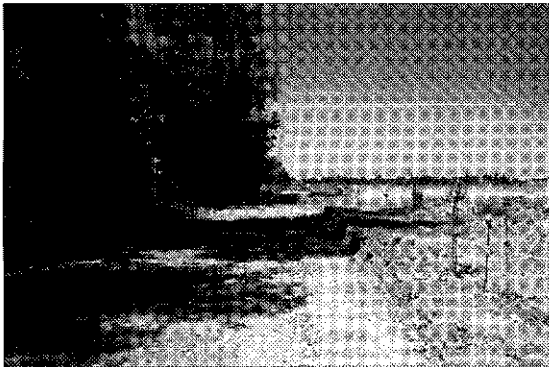
From intersection of Bonifacio Way and Aviles Drive, looking northerly along Bonifacio



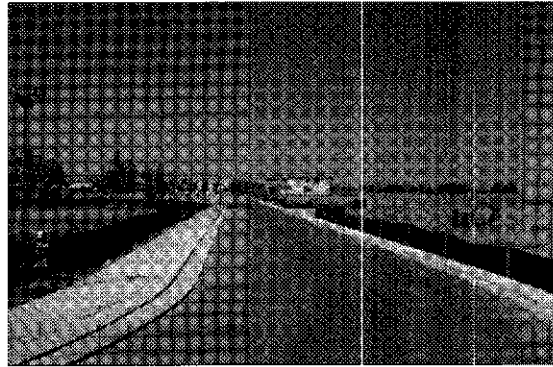
From intersection of DeSota Way and Magellan Drive, looking northerly along Magellan



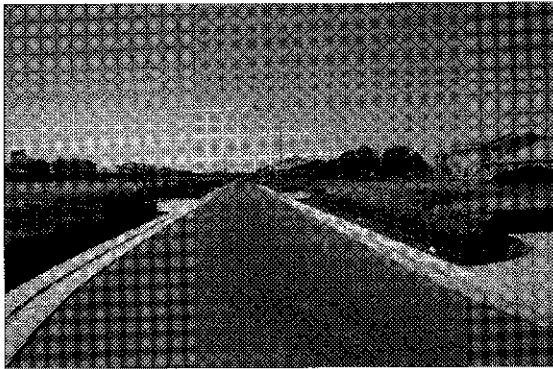
From intersection of DeSota Way and Whitewater Way, looking easterly along DeSota



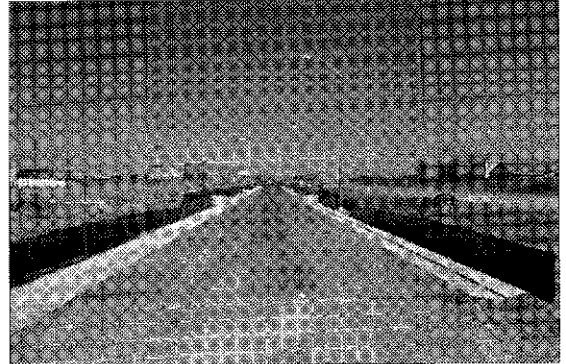
From intersection of DeSota Way and Whitewater Way, looking northerly along Whitewater



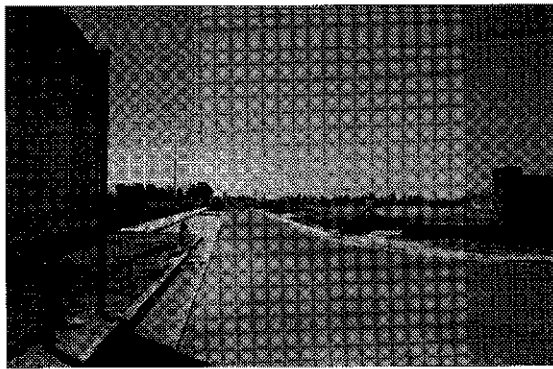
From intersection of Pacheco Drive and Jardin Way, looking northerly along Jardin



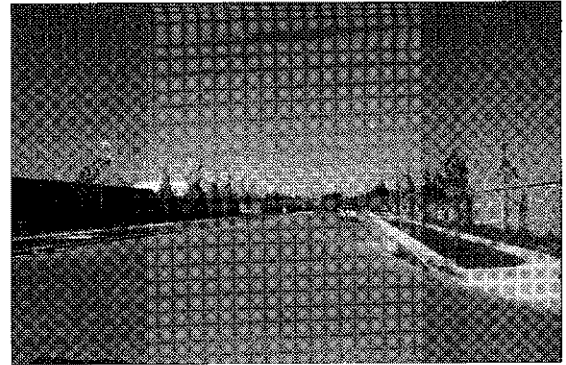
From intersection of Pacheco Drive and Jardin Way, looking westerly along Pacheco



From intersection of Pacheco Drive and White-water Way, looking easterly along Pacheco



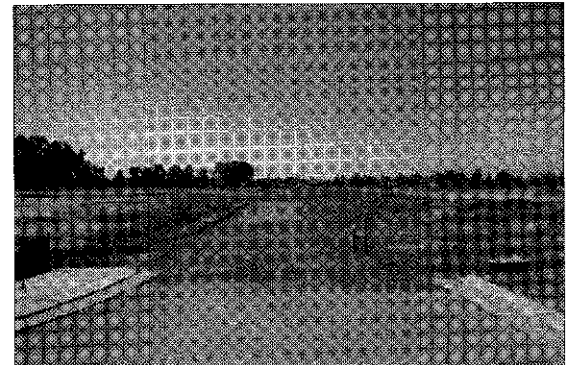
From intersection of Jardin Way and Via Moraga, looking westerly along Jardin



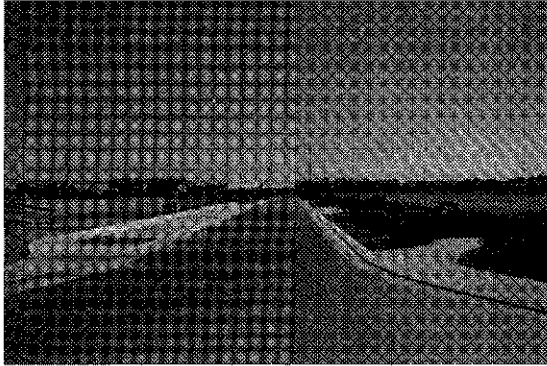
From intersection of Jardin Way and Via Moraga, looking northerly along Via Moraga



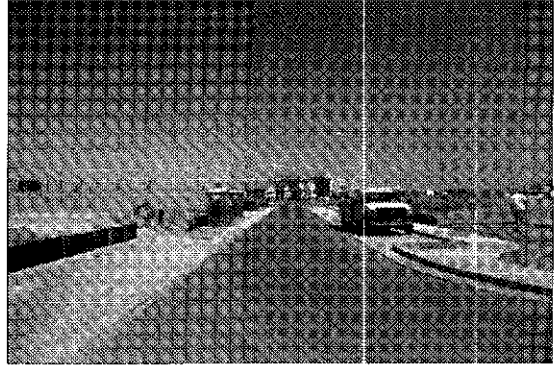
From intersection of Jardin Way and Via Moraga, looking southeasterly along Jardin



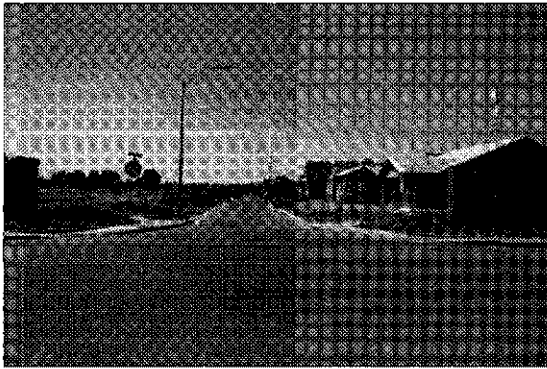
From intersection of Jardin Way and DeSota Way, looking westerly along Jardin



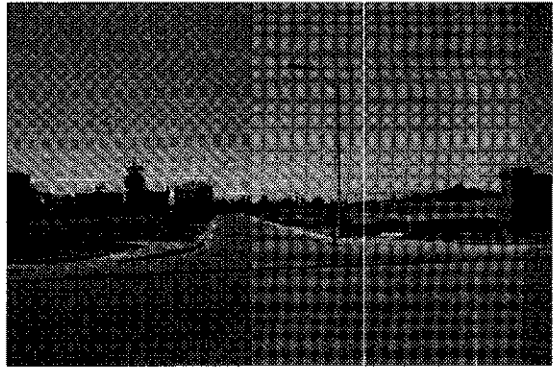
From intersection of Jardin Way and DeSota Way, looking southerly along DeSota



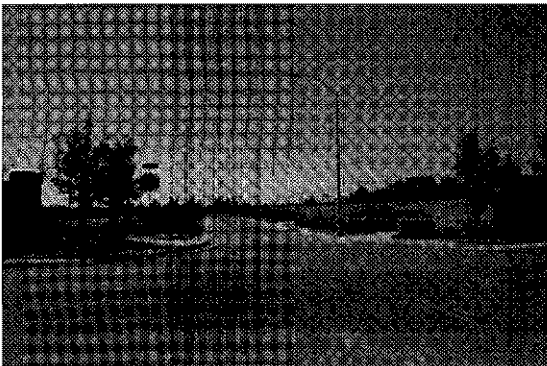
From intersection of Jardin Way and DeSota Way, looking easterly along Jardin



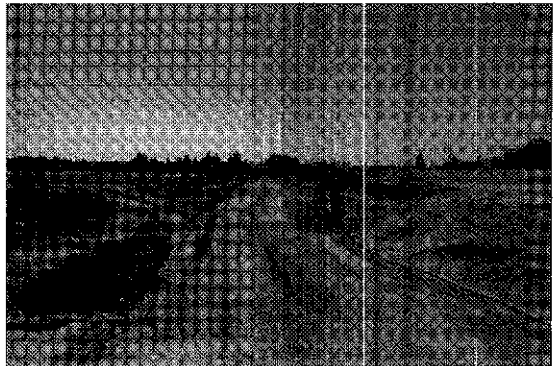
From intersection of Gabriel Drive and Via Moraga, looking westerly along Gabriel



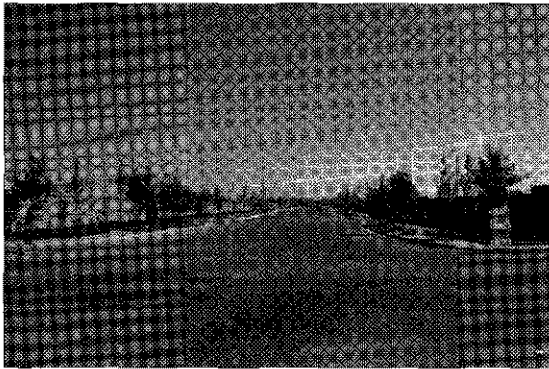
From intersection of Urdaneta Way and Via Moraga, looking westerly along Urdaneta



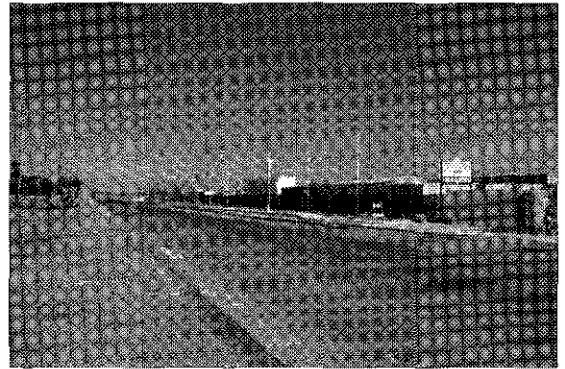
From intersection of Explorador Drive and Via Moraga, looking westerly along Explorador



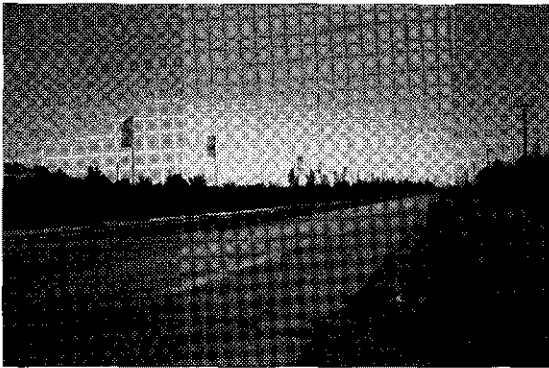
Looking easterly along Explorador Drive at a point between Perez Drive and Pizarro Way



From intersection of Yosemite Avenue and Via Moraga, looking southerly along Via Moraga

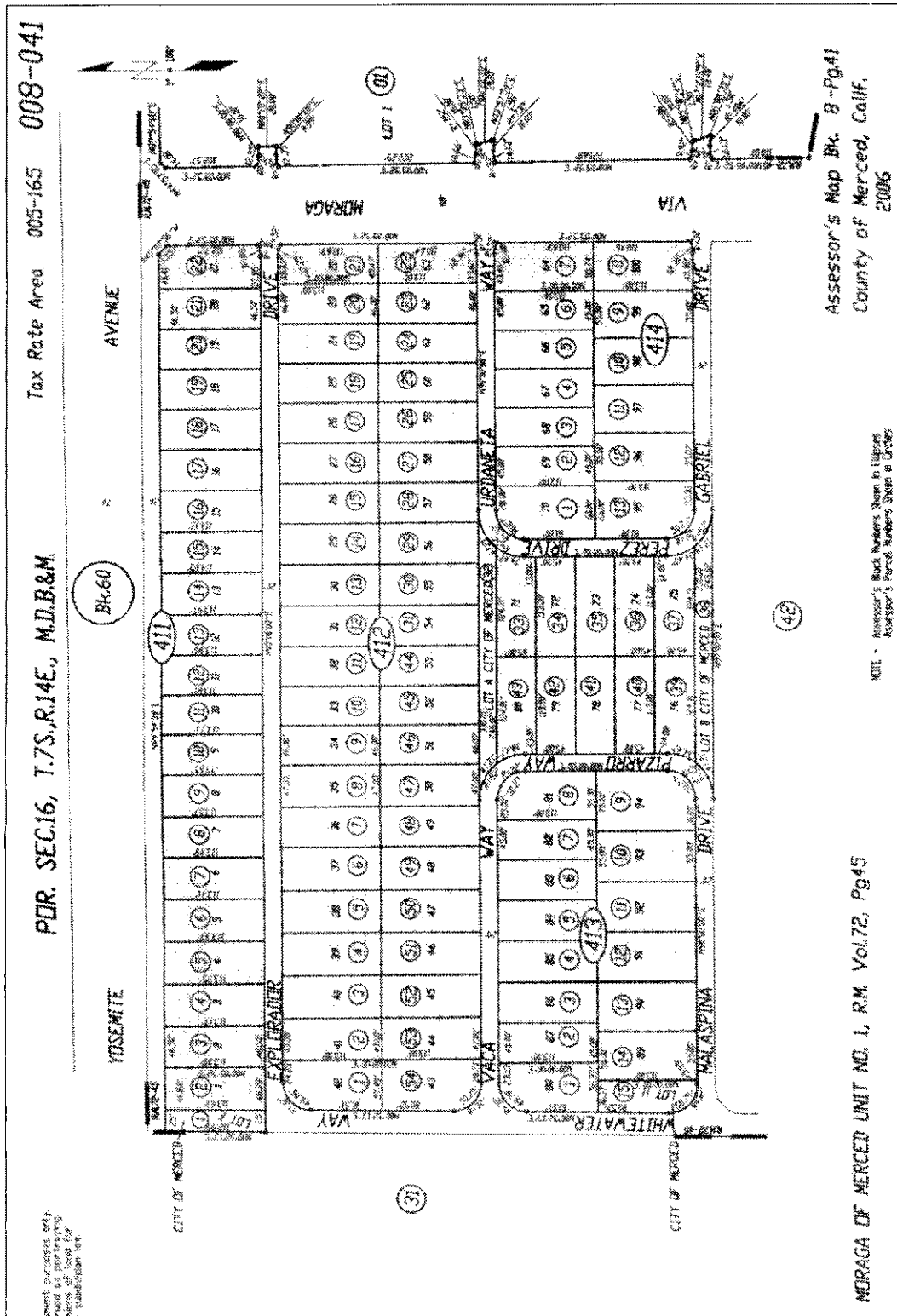


From intersection of Yosemite Avenue and Via Moraga, looking easterly along Yosemite

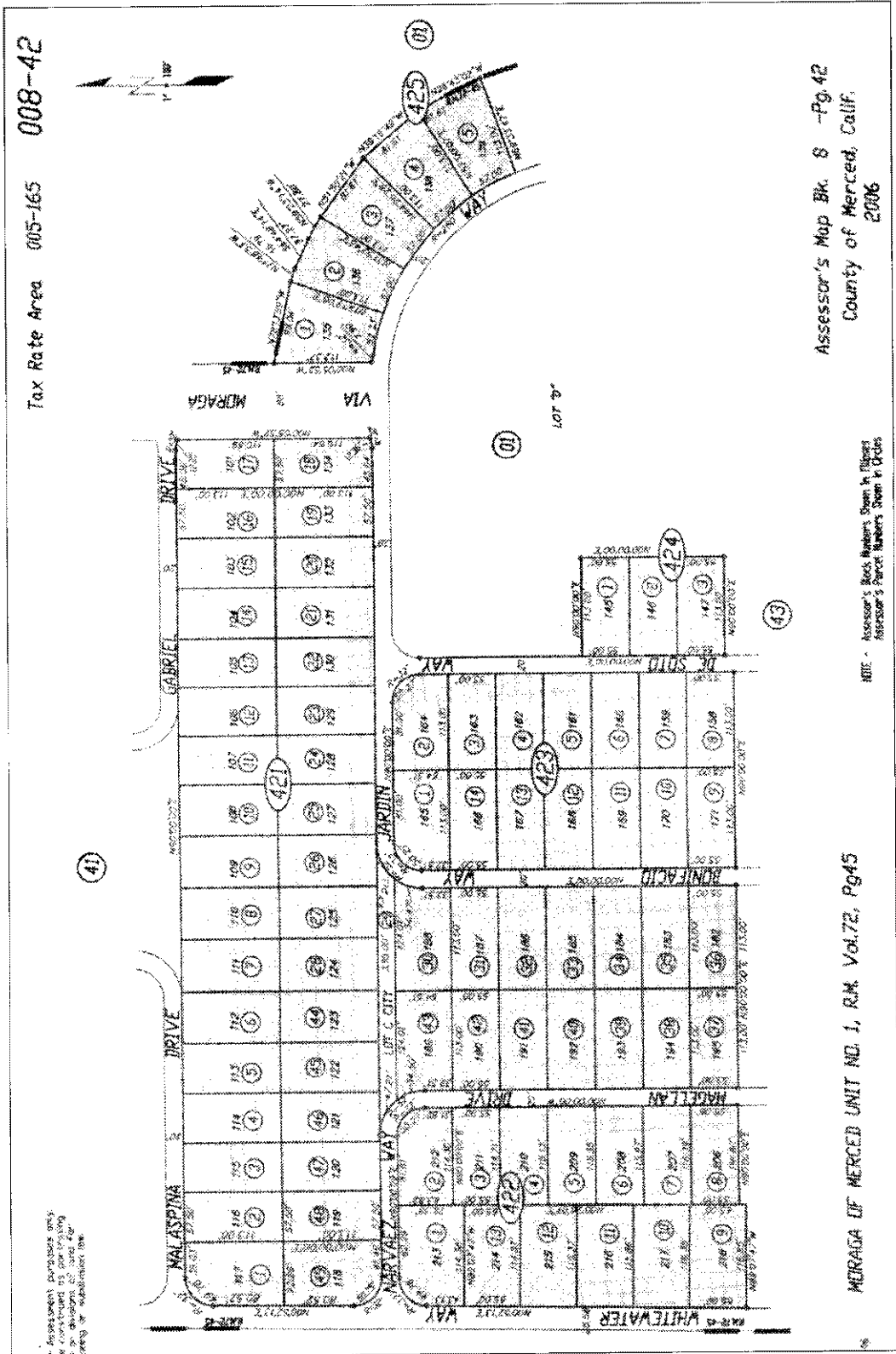


From intersection of Yosemite Avenue and Via Moraga, looking westerly along Yosemite

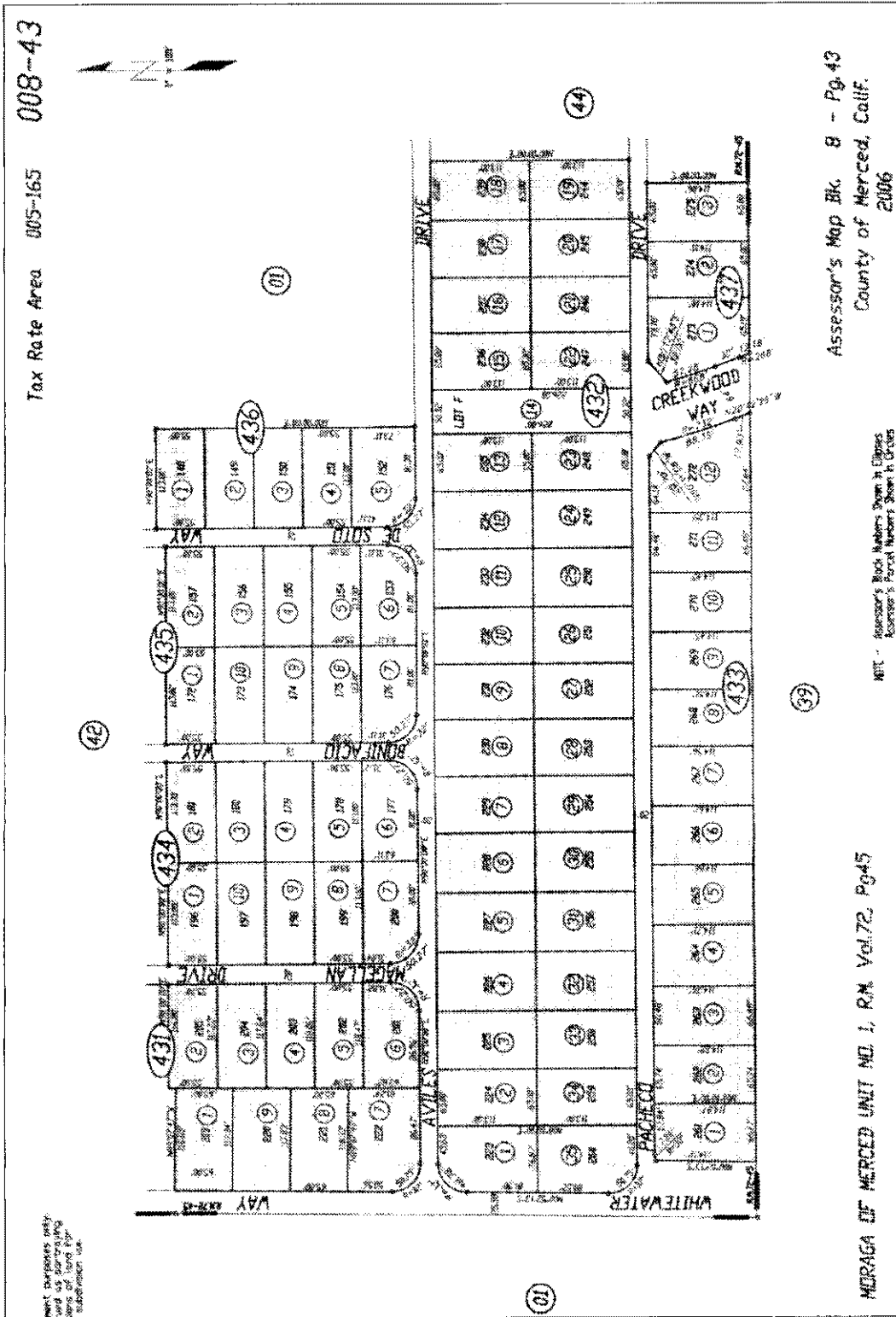
ASSESSOR'S PARCEL MAP 008-041 (PHASE NO. 1)



ASSESSOR'S PARCEL MAP 008-042 (PHASE NO. 1)



ASSESSOR'S PARCEL MAP 008-043 (PHASE NO. 1)



008-43

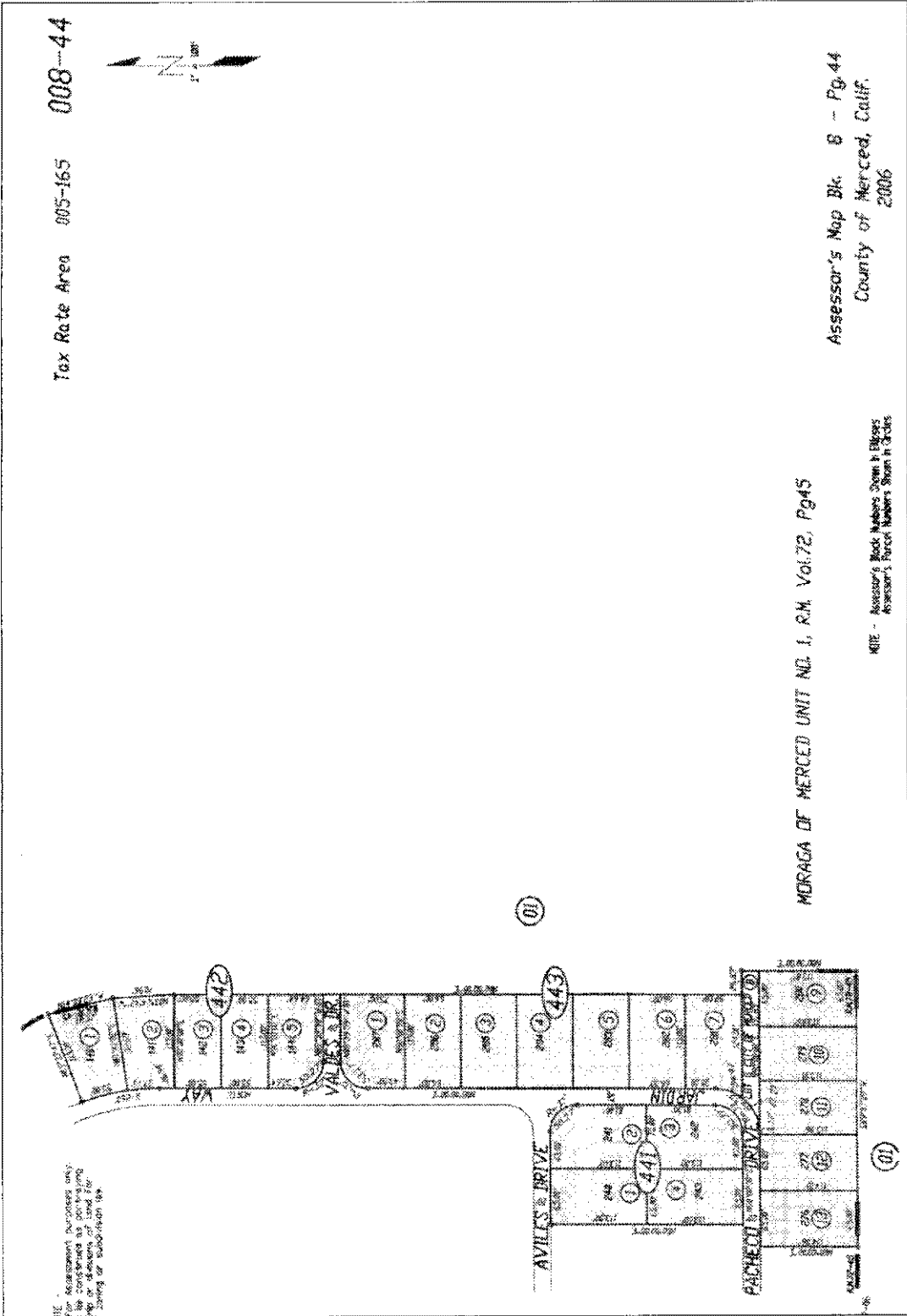
Tax Rate Area 005-165

Assessor's Map Bk. 8 - Pg. 43
County of Merced, Calif.
2006

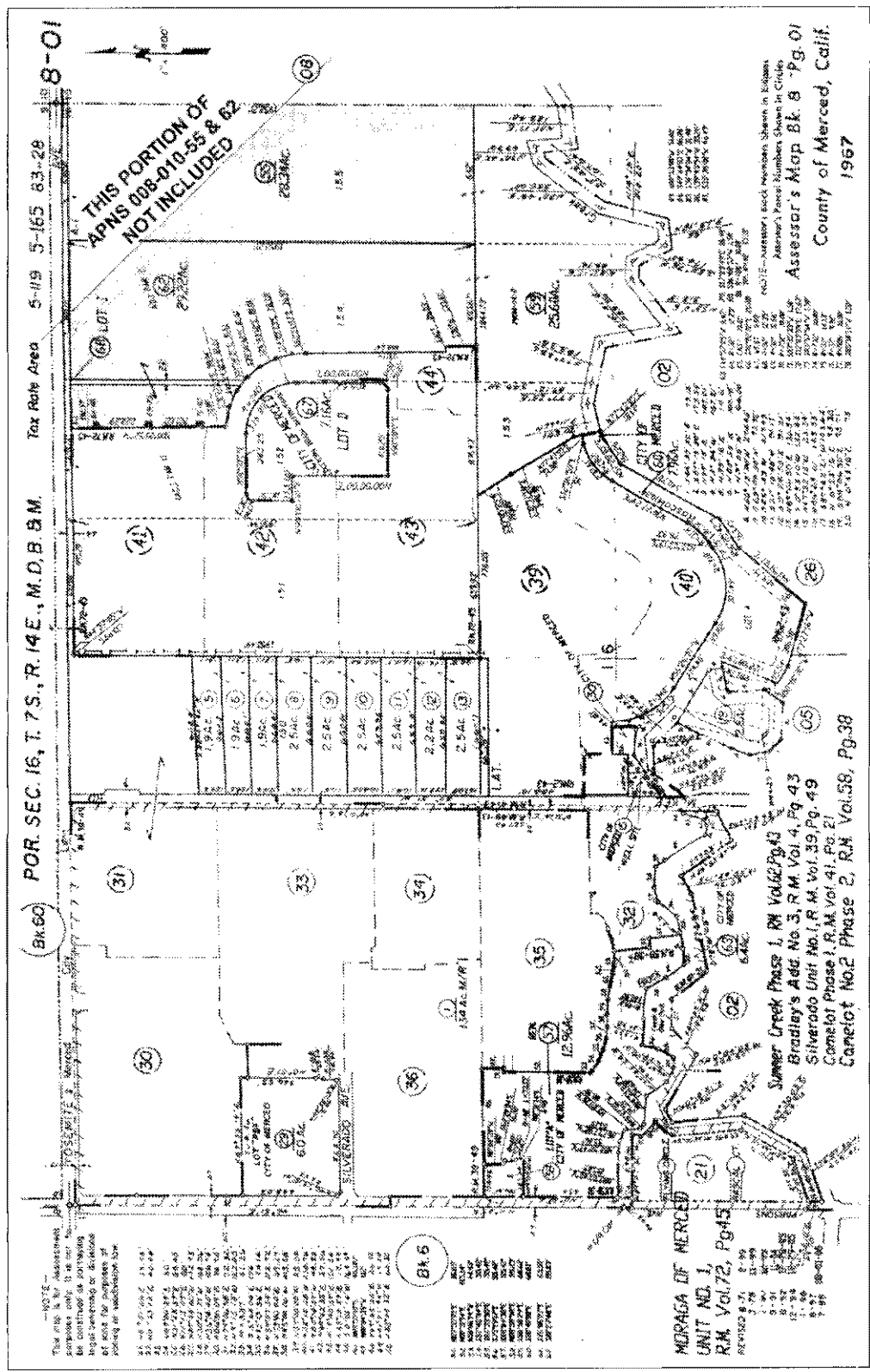
Assessor's Block Numbers Shown in Ellipses
Assessor's Parcel Numbers Shown in Circles

MORAGA OF MERCED UNIT NO. 1, R.M. Vol. 72, Pg. 45

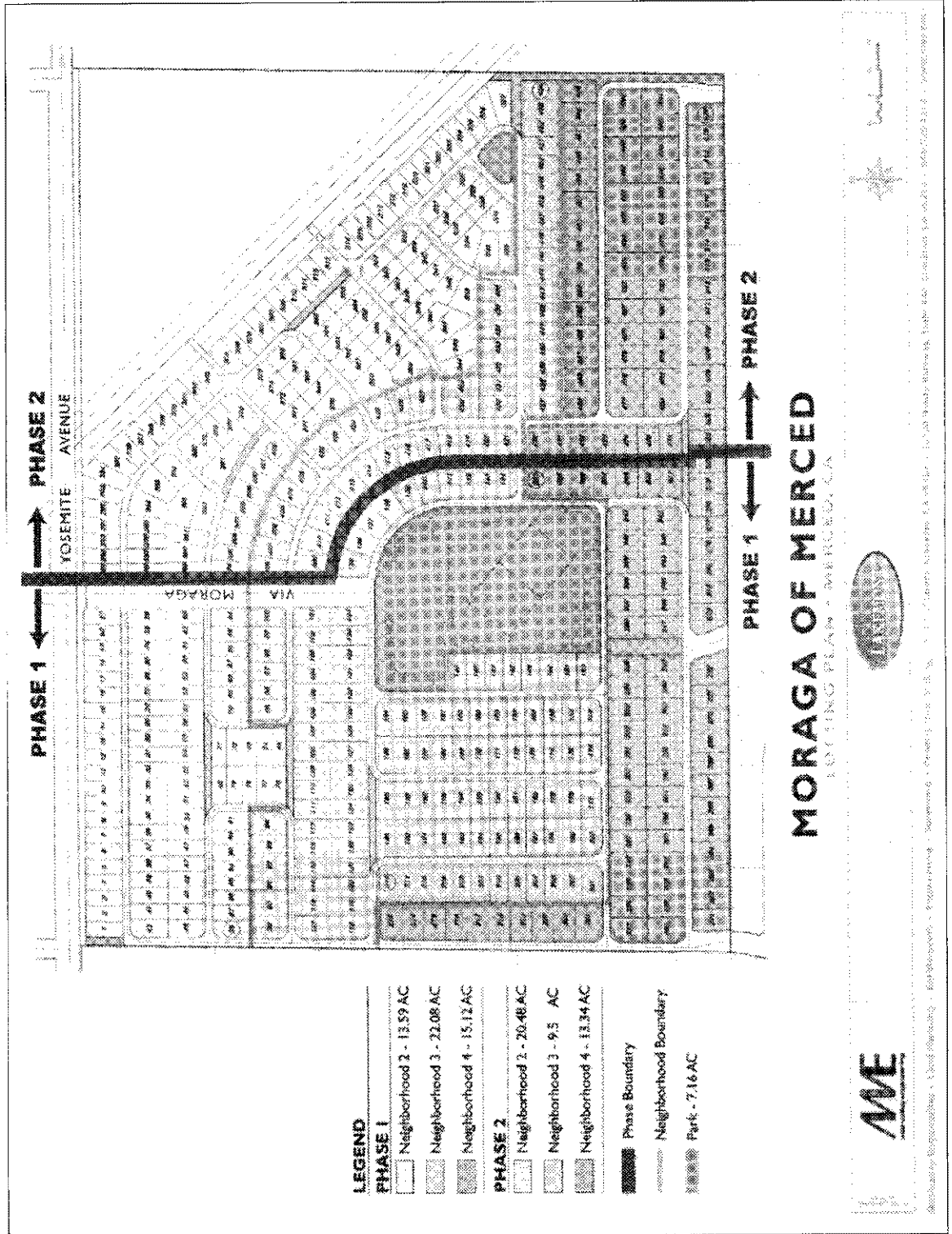
ASSESSOR'S PARCEL MAP 008-044 (PHASE NO. 1)



ASSESSOR'S PARCEL MAP 008-01 (PHASE NO. 2)



CFD TRACT MAP



- LEGEND**
- PHASE 1**
- Neighborhood 2 - 13.59 AC
 - Neighborhood 3 - 22.08 AC
 - Neighborhood 4 - 15.12 AC
- PHASE 2**
- Neighborhood 2 - 20.48 AC
 - Neighborhood 3 - 9.5 AC
 - Neighborhood 4 - 13.34 AC

- Phase Boundary
- Neighborhood Boundary
- Park - 7.16 AC

MORAGA OF MERCED
 LOTS 1-1000

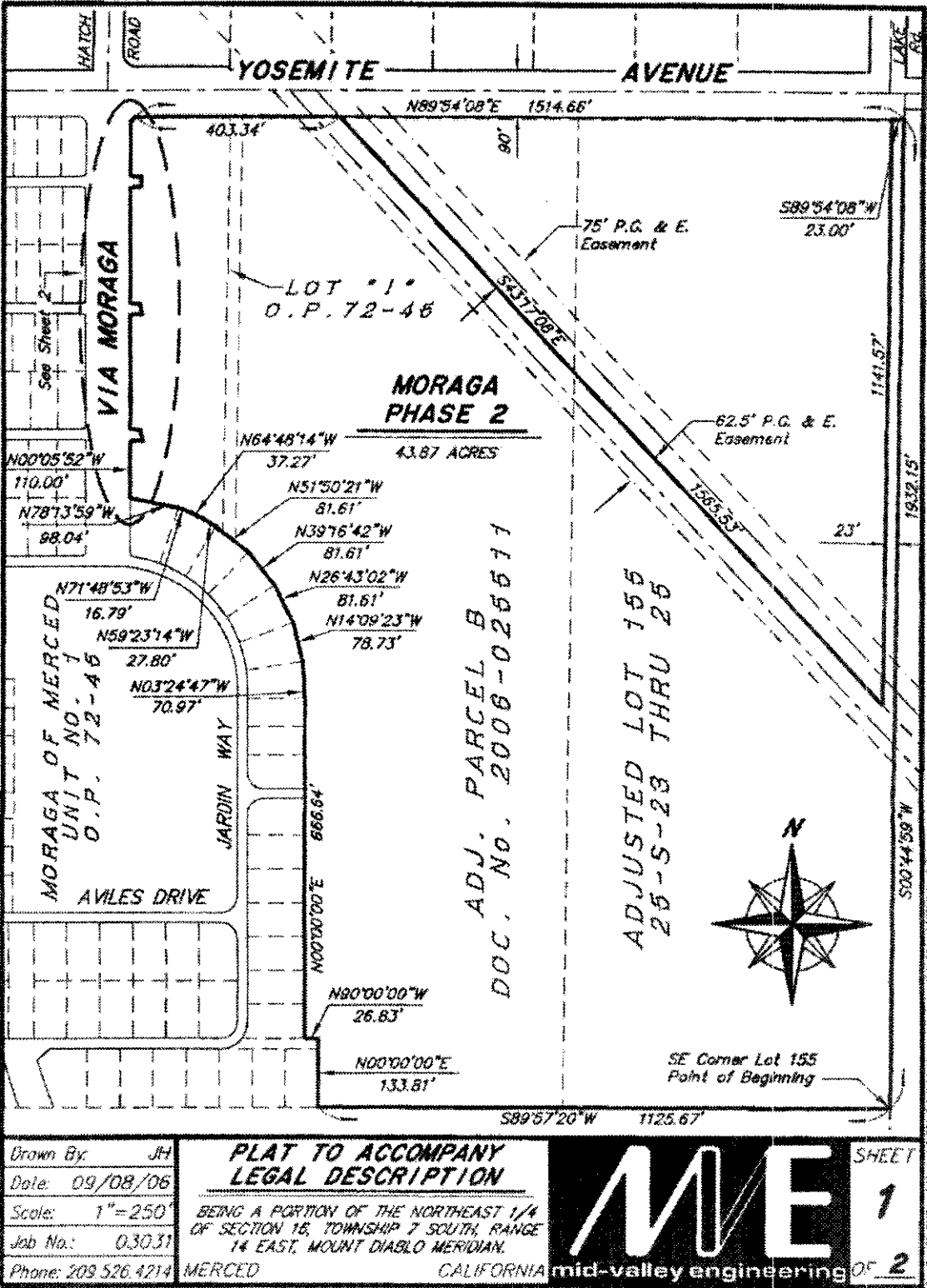
ME

COURTESY

RPA REAL PROPERTY ANALYSTS

11111

PHASE 2 SURVEY MAP

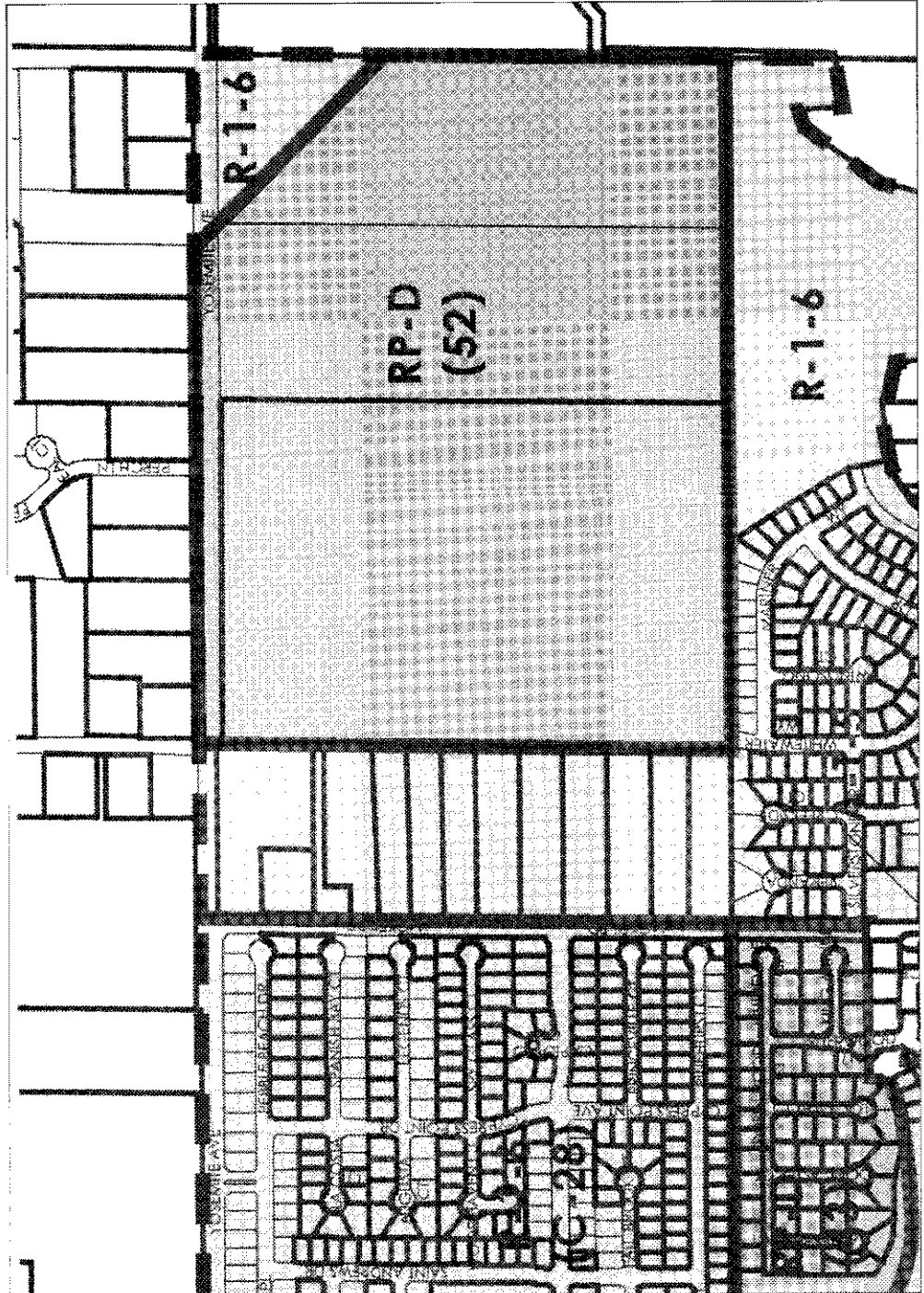


Drawn By: JH
 Date: 09/08/06
 Scale: 1" = 250'
 Job No.: 03031
 Phone: 209.526.4214

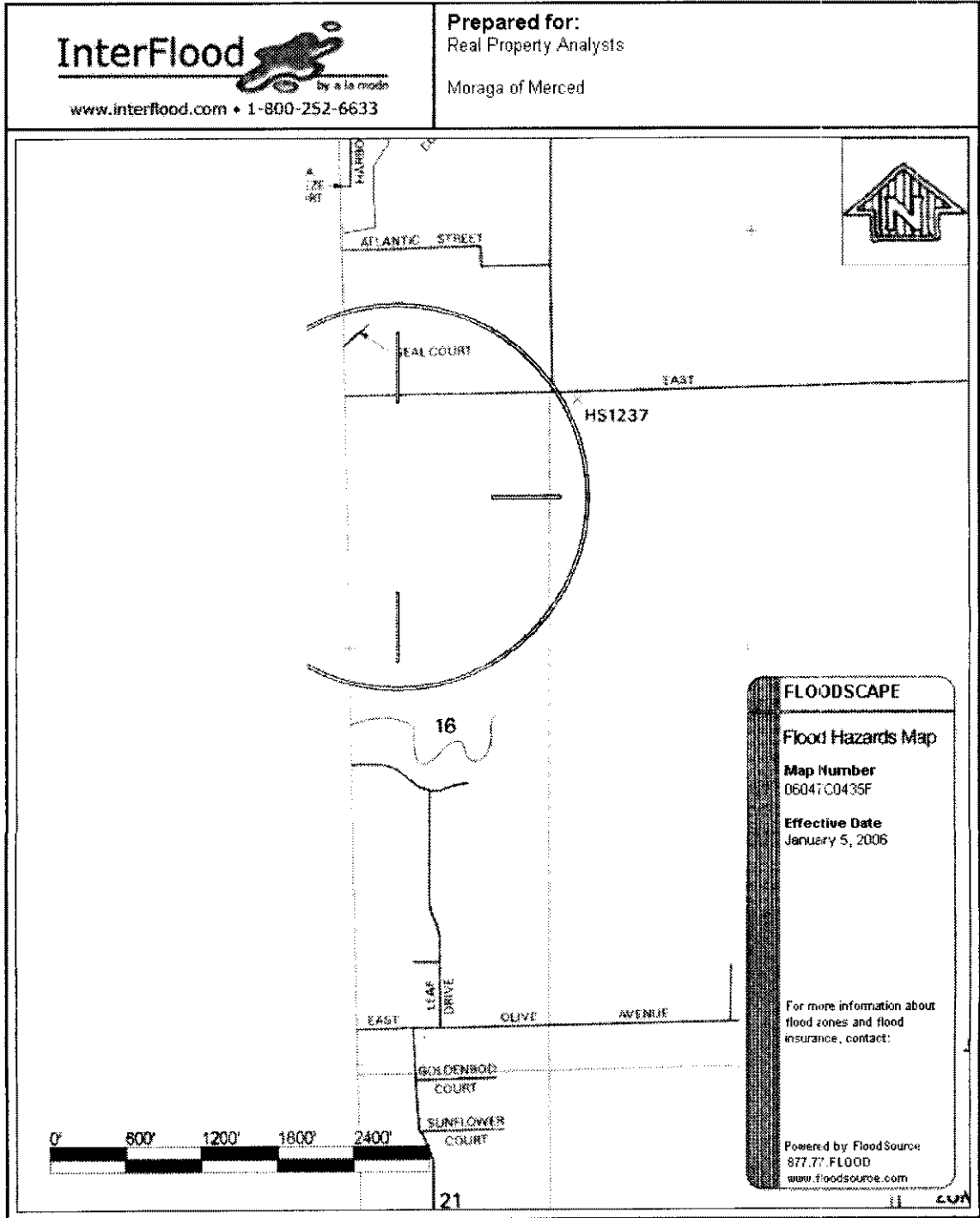
**PLAT TO ACCOMPANY
 LEGAL DESCRIPTION**
 BEING A PORTION OF THE NORTHEAST 1/4
 OF SECTION 16, TOWNSHIP 7 SOUTH, RANGE
 14 EAST, MOUNT DIABLO MERIDIAN,
 MERCED CALIFORNIA

ME SHEET 1 OF 2
 mid-valley engineering

ZONING MAP



FLOOD ZONE MAP



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AERIAL PHOTOGRAPH



HIGHEST AND BEST USE

In the valuation of the subject property, consideration has been given to its highest and best use. Highest and best use may be 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." *(The Dictionary of Real Estate Appraisal, 4th Edition, Chicago: Appraisal Institute, 2002, page 135)*

The highest and best use of land or a site as though vacant is defined as:

"Among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital, and coordination. The use of a property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements." *(The Dictionary of Real Estate Appraisal, 4th Edition, Chicago: Appraisal Institute, 2002, page 135)*

The highest and best use of 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." *(The Dictionary of Real Estate Appraisal, 4th Edition, Chicago: Appraisal Institute, 2002, page 135)*

It is important to note that highest and best use is not determined through subjective analysis by the property owner, the developer, or the appraiser. It is shaped by the competitive forces of the market in which it is located. The four criteria of legal permissibility, physical possibility, financial feasibility, and maximal productivity are always considered in that order, for it makes no difference that a property is maximally productive or even financially feasible for a given use if it is legally prohibitive or physically impossible to develop the property to that use.

In analyzing these four criteria, one or all of the following items may be analyzed:

- **Legal Permissibility:** This criterion determines which uses are legally permissible. Legal uses are controlled by such things as private restrictions, zoning ordinances, building codes, and/or environmental regulations. Private restrictions may prohibit certain uses or specified

building requirements such as setbacks, heights, or materials. Zoning ordinances are restrictions on property use imposed by governmental agencies such as cities or counties. Building codes may impose restrictions on construction that result in higher or lower costs than normal for the area. Environmental regulations are typically governmental rules pertaining to clean air, clean water, and/or wet lands.

- **Physical Possibility:** Physical possibility refers to the physical attributes of the property that would affect its suitability for a particular use. It takes into account such items as size and shape; area; terrain, topography and soils; accessibility; and/or the risk of natural disasters. Size and shape of the property affects its utility and may make the property particularly suitable or totally unsuitable for a particular use. Area looks not only at the geographic neighborhood, but also at the availability and access of public utilities. Topography and sub-soil conditions may increase difficulty of development, increase its cost, or even prohibit it. Accessibility refers to the adequacy of access for the proposed development. Risk of natural disasters is typically identified in the form of flood or earthquake zones, which may impose costly restrictions or even prevent building.
- **Financial Feasibility:** Many potential uses are eliminated with the test of legal permissibility and physical possibility. Of those uses that are left to consider, questions are asked regarding whether or not a proposed use is likely to produce a return equal to or greater than the costs associated with that use. Ways of identifying financial feasibility include the simple test of whether or not the value of the proposed use is greater than the cost of development. When analyzing income properties, the question may be asked whether or not the income potential is great enough to cover all expenses associated with the operation of the property. A proposed use is financially feasible if both of the above are satisfied.
- **Maximum Productivity:** Of those uses that are found to be legally permissible, physically possible and financially feasible, the maximally productive use is that which produces the highest rate of return on the capital invested. Investors or developers are directly concerned with feasibility, defined as, "An indication that a project has a reasonable likelihood of satisfying explicit objectives." Investment in real estate is an alternative to other investments, whether it be bank savings accounts, certificates of deposit, stocks, bonds, or any other type of investment vehicle. Without the potential for sufficient return on a real estate investment, investors will put their money into one or more of these alternative investment vehicles.

Highest And Best Use As Currently Vacant

- Legal Permissibility:** The subject property is zoned PD-52, which is planned development that allows Phases 1 and 2 of Moraga of Merced. A small section of the property, located in the northeast corner of Phase 2, is zoned R-1-6, single family residential. The subject property, as currently planned, is in conformance with the allowable uses within the PD-52 and R-1-6 zoning designations.
- Physical Possibility:** Phases 1 and 2 of the subject property contain a combined 94.66± gross acres and appear to be at or above street grade. It is generally level in topography. The individual shapes and sizes of the subdivided homesites within the overall larger development are well suited for development. There do not appear to be any physical factors present that would preclude development of the subject parcels to their proposed use.
- Financial Feasibility:** It is beyond the scope of this appraisal assignment to determine the financial feasibility of the proposed development. We can state, however, that the financial feasibility of the proposed development is well supported by the recent demand for residential housing and commercial developments in the Merced marketplace. Developments in competition with the subject are still in high demand, although in recent months, rising interest rates have resulted in a slowdown in sales.

The subject property will be built out to three different, non-competing lines of production housing. All will be built by a single developer, Lakemont Homes.

Following is chart showing the proposed product types that will be developed in Phases 1 and 2 of Moraga. The prices were obtained by the appraiser from the developer's price sheets.

Moraga Unit	Neighborhood	Product Line	No. of Lots	Gross Acreage	Net Acreage	Lots/ Gross Ac	Lot Sizes		Home Sizes		Asking Prices	
							Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
1	2	Mariposa	91	13.59	11.23	6.70	5,085	7,719	1,537	2,229	\$314,900	\$369,900
1	3	Presidio	121	22.08	18.01	5.48	5,125	8,731	1,895	2,644	\$344,900	\$409,900
1	4	Mercedes	75	15.12	13.10	4.96	7,345	10,572	2,419	3,505	\$404,900	\$509,900
Totals			287	50.79	42.34	5.65	---	---	---	---	---	---

Moraga Unit	Neighborhood	Product Line	No. of Lots	Gross Acreage	Net Acreage	Lots/ Gross Ac	Lot Sizes		Home Sizes		Asking Prices	
							Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
2	2	Mariposa	115	20.48	15.70	5.62	5,085	10,049	1,537	2,229	\$314,900	\$369,900
2	3	Presidio	52	9.50	8.21	5.47	6,215	9,778	1,895	2,644	\$344,900	\$409,900
2	4	Mercedes	66	13.34	11.58	4.95	7,345	8,584	2,419	3,505	\$404,900	\$509,900
Totals			233	43.32	35.49	5.38	---	---	---	---	---	---

The appraisers were provided with a market feasibility study prepared by The Gregory Group dated October 2006 (See Addenda) in which a detailed analysis was performed with regard to the absorption of the lots

within the subject Moraga development. The absorption rates estimated by the Gregory Group are as follows:

Neighborhood	Collection	No. of Lots	Estimated Absorption		
			Per Week	Per Month	Per Quarter
2	Mariposa	206	0.500	2.17	7.00
3	Presidio	173	0.500	2.17	7.00
4	Mercedes	141	0.500	2.17	7.00
Totals		520	1.500	6.50	21.00

- **Maximum Productivity:** The maximally productive use of the property is that use that provides the highest return to the land. It is our opinion that the proposed use of the subject property represents the maximally productive use of the property.

- **Conclusion of Highest and Best Use As Currently Vacant:** The highest and best use of the property, as currently vacant and available for development to its highest and best use, is for development to its proposed use as a residential subdivision.

METHOD OF VALUATION

There are three generally accepted approaches available in the valuation of real property. They are the Sales Comparison, Income Capitalization, and Cost Approaches. In appraisal practice, an approach to value is included or omitted based upon its applicability to the property being valued and the quality of the information available.

Sales Comparison Approach

The Sales Comparison Approach is defined as follows:

"A set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, applying appropriate Phases of comparison, and making adjustments to the sale prices of the comparables based on the elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant; it is the most common and preferred method of land valuation when an adequate supply of comparable sales are available." (*The Dictionary of Real Estate Appraisal, 4th Edition, Chicago: Appraisal Institute, 2002, page 255*)

The Sales Comparison Approach is useful for the appraisal of vacant land or improved properties. The majority of all property types can generally be analyzed by open market comparison.

Income Capitalization Approach

The Income Capitalization Approach is defined as follows:

"A set of procedures through which an appraiser derives a value indication for income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate." (*The Dictionary of Real Estate Appraisal, 4th Edition, Chicago: Appraisal Institute, 2002, page 143*)

The Income Capitalization Approach is a necessary component of the appraisal of an income property. An investor who purchases an income-producing real estate property is essentially trading a sum of present dollars for a right to receive future benefits.

Cost Approach

The Cost Approach is defined as follows:

"A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of, or replacement for, the existing structure; deducting accrued depreciation from the reproduction or replacement cost; and adding the estimated land value plus an entrepreneurial profit. Adjustments may be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised." (*The Dictionary of Real Estate Appraisal, 3rd Edition, Chicago: Appraisal Institute, 1993, page 81*)

Accrued depreciation is defined as follows:

"1. The difference between the reproduction or replacement cost of the improvements on the effective date of appraisal and the market value of the improvements on the same date. 2. In accounting, the amount reserved each year or accumulated to date in the accounting system for replacement of a building or other asset." (*The Dictionary of Real Estate Appraisal, 4th Edition, Chicago: Appraisal Institute, 2002, page 4*)

A loss in value to structures or other improvements emanates from one or more of three sources. The sources are physical deterioration, functional obsolescence, and external obsolescence. After identifying and measuring the separate elements of the accrued depreciation, an appraiser deducts the dollar amounts of the applicable types of depreciation from the reproduction or replacement cost of the improvements. The resulting difference is the estimated present value of the improvements.

Reconciliation of Values

A final reconciliation of value is then made after weighing the strengths and weaknesses of each of the three approaches. In the reconciliation, the appraiser analyzes alternative conclusions and selects the value estimate from among two or more indications of value. A thorough review of the entire valuation process may precede this step. Reconciliation is the part of the valuation process in which the appraiser most directly draws upon his or her experience, expertise, and professional judgment to resolve differences among the value indications derived from the application of the approaches. The appraiser weighs the relative significance, applicability, and defensibility of each value indication and relies most heavily on the one that is most appropriate.

Phase 1 - Valuation of the Fee Simple Estate

This report will provide an overall as-is market value that will represent a hypothetical bulk sale cumulative value of the 287 residential lots that will be created in Phase 1 of the Moraga development. This value is not equivalent to the market value of the property as a whole.

Value of Land with Paper Lots

The Direct Sales Comparison Approach has been used in the valuation of the residential land with a final tract map in place and offsite improvements along the Yosemite Avenue frontage.

Value of Model Homes

The nine completed model homes were valued using the Sales Comparison Approach.

Retail Value of Typical Lot

Because of the absence of adequate comparable sales of individual homesites within the Merced marketplace, a Land Residual Technique was used to establish the average retail lot value that is a key component in the bulk sale value analysis.

Bulk Sale Value

A Discounted Cash Flow Analysis was used to determine the bulk sale value of the lots in the three neighborhoods that make up Phase 1 of Moraga.

Phase 2 – Valuation of the Fee Simple Estate

Using the Direct Sales Comparison Approach, this report will provide a valuation of the 43.87 acres of raw land that will be developed into Phase 2 of the Moraga development. This value assumes that there is a tentative tract map in place for 233 residential lots, and that the offsite improvements have been installed along the Yosemite Avenue frontage.

PHASE 1 – VALUE OF LAND WITH PAPER LOTS

The final tract map for the 287 residential lots that comprise Phase 1 has been recorded, and work has commenced on the street widening and the installation of concrete curb, gutters and sidewalks along the Yosemite Avenue frontage. This valuation assumes that the offsite work along Yosemite has been completed, and takes into consideration the final tract map. Although work has commenced on the interior offsite improvements for the subdivision, this value assumes that this work has not yet been started.

In forming our opinion of the as-is market value of the property in the condition described in the preceding paragraph, the Direct Sales Comparison Approach was used. Necessary to this method of valuation was the selection of comparable market data that could be compared to the subject property. Twelve sales of potential residential subdivision land were chosen for comparison with the subject residential parcels. These transactions are summarized in the chart on the following page, and fully detailed in Data Sheets 1 to 12, found in the Addenda of this report. They will be described in the following paragraphs.

Sale 1 is identified as Lots V-8A and V-9 of Bellevue Ranch East, which contain total of 33.90 acres. This property sold in February of 2005 at a purchase price of \$7,770,000. At the time of sale an approved tentative subdivision map was in place for 148 residential lots. Analysis of this sale indicates that the property was purchased on the basis of \$229,204 per acre, or \$52,500 per paper lot. Based upon the number of lots, the indicated density for this property is 4.37 lots per acre. The property was zoned PD-42, which allows for single-family residential subdivision development. All utility services were available to the site at the time of purchase. Offsite improvements were partially installed and consisted of concrete curbs, gutters and sidewalks.

Sale 2 is identified as Lots V-14 and V-15A of Bellevue Ranch East, which contain total of 30.00 acres. This property also sold in February of 2005 at a purchase price of \$6,970,000. An approved tentative subdivision map was in place for this sale property, and calls for 164 residential lots. Based upon the number of lots, the indicated density for this property is 5.47 lots per acre. Analysis of this sale indicates that the property was purchased on the basis of \$232,333 per acre, or \$42,500 per paper lot. The property was zoned PD-42, which allows for single-family residential subdivision development. All utility services were available to the site at the time of purchase. Offsite improvements were partially installed and consisted of concrete curbs, gutters and sidewalks.

Sale 3 is identified as Lots V-15B, V-15D, and V-16B of Bellevue Ranch East, which contain approximately 28.79 acres. This property sold in February 2005 at a purchase price of \$7,900,000, or \$274,401 per acre. There is an approved tentative subdivision map for 158 single-family residential lots included in the purchase. Based on the number of lots, this equates to a purchase price of

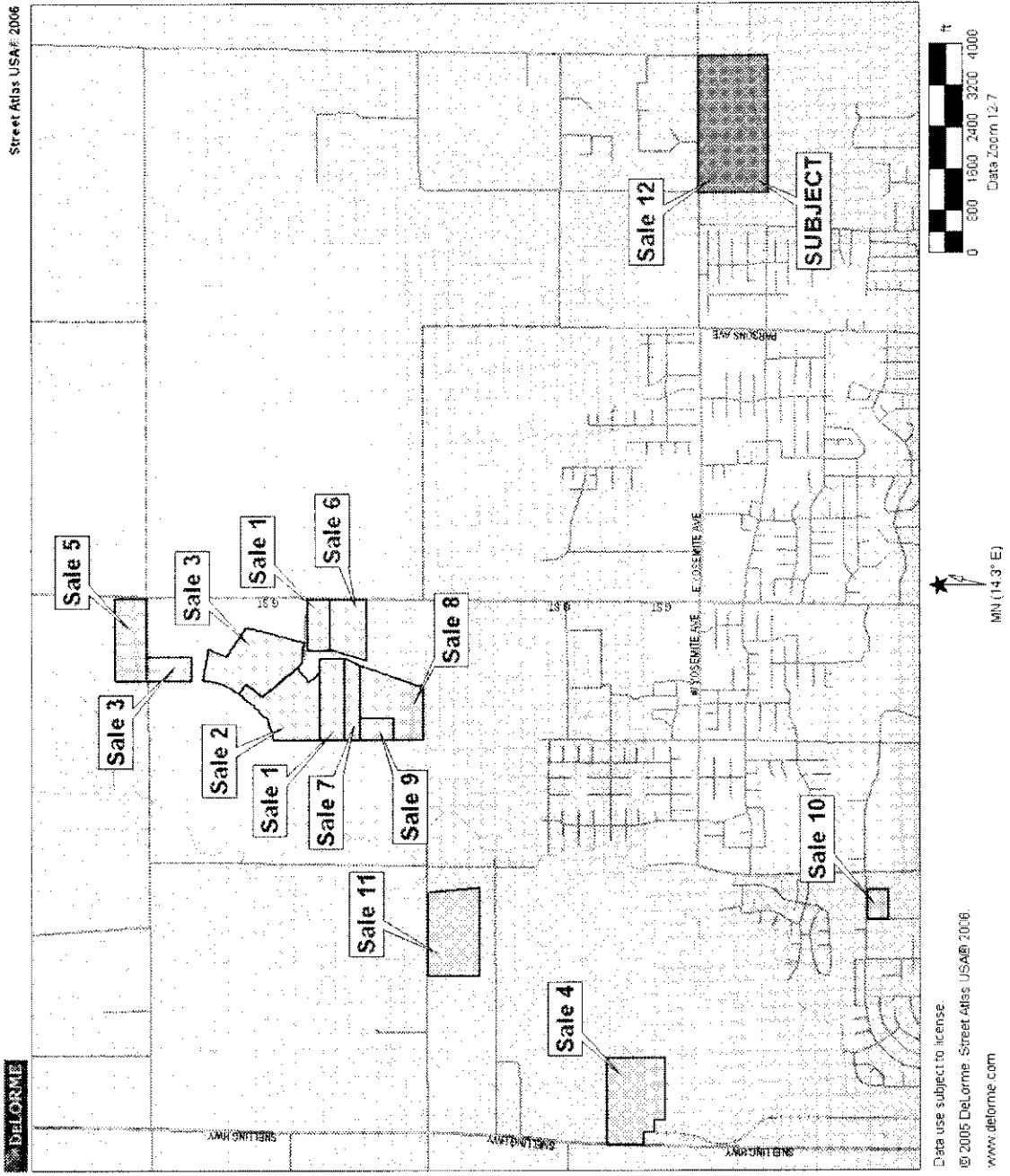
COMPARABLE SALES ANALYSIS
Potential Subdivision Land Sales
Merced, California

Sale No.	Location APN	Sale Date	Sale Price	Size (Acres)	Map Inc? # of Lots	Density (Lots/Acre)	Price/Acre	Price/Paper Lot	Zoning Gen. Plan	Utilities Offsites	Rec. Date Doc. No.	Seller Buyer	Database Ref. No.
1	Bellevue Ranch East Lots V-8A & V-9 Merced, CA	2/23/05	\$7,770,000	33.90	Yes 148	4.37	\$229,204	\$52,500	PD-42 Res.	S.W.G.E C.G	3/24/05 05-021361	Crosswind Communities Kimball Hill Homes	RPA1-4482
2	Bellevue Ranch East Lots V-14 & V-15A Merced, CA	2/24/05	\$6,970,000	30.00	Yes 164	5.47	\$232,333	\$42,500	PD-42 Res.	S.W.G.E C.G	3/18/05 05-019771	Crosswind Communities Ryland Homes	RPA1-4483
3	Bellevue Ranch East Lots V-15B, V-15D, & V-16B Merced, CA	2/25/05	\$7,900,000	28.79	Yes 158	5.49	\$274,401	\$50,000	PD-42 Res.	S.W.G.E C.G	3/18/05 05-19985	Bellevue Ranch - Merced, L.P. Merced Bellevue Ranch, L.P.	RPA1-4484
4	ES Hwy 59 N/O Yosemite Merced, CA 206-040-001	2/16/05	\$8,476,000	42.38	Yes 253	5.97	\$200,000	\$33,502	PD-46 Bus. Pk.	S.W.G.E None	3/1/05 05-14639	Absolute, LLC Morrison Homes, Inc.	RPA1-4485
5	NWC "G" Street & Bellevue Merced, CA 052-380-008	7/18/05	\$6,615,000	17.64	No 93	5.27	\$375,000	\$71,129	PD-42 Res.	S.W.G.E None	11/15/05 05-90983	Gragnani Merced University Village, LLC, etal	RPA1-4759
6	Bellevue Ranch East Lot V-8B Merced, CA	1/30/06	\$5,400,000	13.47	Yes 60	4.45	\$400,891	\$90,000	PD-42 Res.	S.W.G.E C.G	2/9/06 06-11121	Bellevue Ranch-Merced LP Kimball Hill Bellevue Ranch LLC	RPA1-4761
7	Bellevue Ranch East Lot Q1 (Portion) Merced, CA	3/22/06	\$1,890,000	3.72	Yes 21	5.65	\$508,065	\$90,000	PD-42 Res.	S.W.G.E C.G	4/4/06 06-024381	Bellevue Ranch-Merced LP Kimball Hill Bellevue Ranch LLC	RPA1-4824
8	Bellevue Ranch East Lot Q1 (Portion) Merced, CA	3/24/06	\$10,412,000	26.08	Yes 137	5.25	\$399,233	\$76,000	PD-42 Res.	S.W.G.E C.G	3/30/06 06-023221	Bellevue Ranch-Merced LP Merced Bellevue Ranch LP	RPA1-4825
9	Bellevue Ranch East Lot Q1 (Portion) Merced, CA	5/3/06	\$1,640,000	9.24	Yes 82	8.87	\$177,489	\$20,000	PD-42 Res.	S.W.G.E C.G	5/8/06 06-032863	Bellevue Ranch-Merced LP Envision Homes, LLC	RPA1-4826
10	SEC Loughborough & Meadow Merced, CA 058-030-028	12/23/05	\$2,800,000	6.92	No 78	11.27	\$404,624	\$35,897	PD-8 Res.	S.W.G.E C.G	12/30/05 05-103274	Collins, etal Ashley Investments, LLC	RPA1-4762
11	NS Monaco @ Horizons Ave. Merced, CA 206-030-011	4/18/05 Contract	\$12,500,000	40.24	No 260	6.96	\$310,636	\$44,643	PD Res.	S.W.G.E C.G	5/15/06 06-034659	Cuttone & Bard YCH Development	RPA1-4832
12	SEC Yosemite & Hatch Road Merced, CA 008-010-061	Jul-03 Contract	\$12,237,750 \$9,881,550 For Moraga	116.55 94.11	No 520	5.53	----- \$105,000	----- \$19,003	PD-52 Res.	S.W.G.E None	7/18/05 05-54306	LWH Farms, LLC Lakemont LWH, LLC	RPA1-4867

COMPARABLE SALES ANALYSIS – RESIDENTIAL LAND SALES

ANALYSES AND CONCLUSIONS

COMPARABLE SALES MAP – RESIDENTIAL LAND SALES



\$50,000 per paper lot. Based upon the number of lots, the indicated density for this property is 5.49 lots per acre. The property was zoned PD-42, which allows for single-family residential subdivision development. All utility services were available to the site at the time of purchase. Offsite improvements were partially installed and consisted of concrete curbs, gutters and sidewalks.

Sale 4 is located on the east side of Highway 59, north of Yosemite Avenue in Merced and sold in February of 2005. This property contains approximately 42.38 acres, and the selling broker indicated that the purchase price was \$200,000 per acre, or \$8,476,000. At the time of sale, the property was mapped for 253 single-residential lots, indicating a purchase price of \$33,502 per paper lot. Based upon the number of lots, the indicated density for this property is 5.97 lots per acre. The property is zoned PD-46, which allows for residential subdivision development, and is generally planned for residential uses. All municipal utility services were available to this property at the time of purchase. This property was purchased by the developer of an adjacent subdivision. According to the broker involved in a transaction, the buyer did not pay any premium for the property due to its proximity to their existing subdivision.

Sale 5 is located at the northwest corner of "G" Street and Bellevue Road in Bellevue Ranch North. It sold in July 2005 for \$6,615,000. The property contains approximately 17.64 acres, indicating a purchase price of \$375,000 per acre. At the time of sale, the property had no tentative tract map in place. However, it is reasonable that the property could be developed to a density of 5.27 lots per acre based on the typical densities in the Bellevue Ranch development. This equates to 93 lots or \$71,129 per paper lot. The property is zoned PD-42, which allows for single-family residential subdivision development. All utility services were available to the site and no offsite improvements were in place at the time of purchase.

Sale 6 is identified as Lots V-8B of Bellevue Ranch East, which contains total of 13.47 acres. This property sold in January of 2006 at a purchase price of \$5,400,000. At the time of sale an approved tentative subdivision map was in place for 60 residential lots. Analysis of this sale indicates that the property was purchased on the basis of \$400,891 per acre, or \$90,000 per paper lot. Based upon the number of lots, the indicated density for this property is 4.45 lots per acre. The property was zoned PD-42, which allows for single-family residential subdivision development. All utility services were available to the site at the time of purchase. Offsite improvements were partially installed and consisted of concrete curbs, gutters and sidewalks primarily along Bancroft Drive.

Sale 7 is a 3.72 acre property that was sold to Kimball Hill homes in March 2006. The purchase price was \$1,890,000, indicating a Phase price of \$508,065 per acre. The property will be subdivided into 21 residential homesites at a density of 5.65 lots per acre, indicating a Phase price of \$90,000 per lot. The property was zoned PD-42 at the time of sale, which allows for single family

residential development. All utility services were available to the site at the time of purchase. Offsite improvements were partially installed and consisted of concrete curbs, gutters and sidewalks primarily along "M" Street. Terms of the sale call for the seller to construct the offsite improvements along Noble Drive, thus delivering a finished superpad to the buyer. Included in the sales price was a final map for the 21 lots.

Sale 8 is a 26.08 acre property that was sold to Merced Bellevue Ranch (Matthews Homes) in March 2006. The purchase price was \$10,412,000, indicating a Phase price of \$399,233 per acre. The property will be subdivided into 137 residential homesites at a density of 5.25 lots per acre, indicating a Phase price of \$76,000 per lot. The property was zoned PD-42 at the time of sale, which allows for single family residential development. All utility services were available to the site at the time of purchase. Offsite improvements were partially installed and consisted of concrete curbs, gutters and sidewalks primarily along "M" Street and Cardella Road. Terms of the sale call for the seller to construct the offsite improvements along Bancroft Drive, thus delivering a finished superpad to the buyer. Included in the sales price was a final map for the 137 lots.

Sale 9 is a 9.24 acre property that was sold to Envision Homes in May 2006. The purchase price was \$1,640,000, indicating a Phase price of \$177,489 per acre. The property will be subdivided into 82 residential homesites at a density of 8.87 lots per acre, indicating a Phase price of \$20,000 per lot. The property was zoned PD-42 at the time of sale, which allows for single family residential development. All utility services were available to the site at the time of purchase. Offsite improvements were partially installed and consisted of concrete curbs, gutters and sidewalks primarily along "M" Street. Included in the sales price was a final map for the 82 lots.

Sale 10 is located at the southeast corner of Loughborough Drive and Meadow Avenue in Merced. The property sold in December 2005 for \$2,800,000. There was no tentative map in place at the time of sale. However, the buyer indicated that the property will be developed to approximately 78 town homes. This indicates a density of 11.23 lots per acre and a price per paper lot of \$35,897. At the time of sale, the property was zoned PD-8, which allows for single-family residential subdivision development. It also had all utility services available and offsite improvements were fully installed, which consisted of concrete curbs, gutters and sidewalks.

Sale 11 is located on the north side of Monaco Drive at Horizons Avenue in north Merced. It went into contract in April 2005 at a price of \$12,500,000, all cash. The property contains 40.24 acres and sold on the basis of \$310,636 per acre. There was no tentative map in place at the time the property went into contract, but the buyer processed a map for 280 lots that was finalized just prior to the May 2006 closing date. This indicates a density of 6.96 lots per acre. At the time of sale, the property was zoned PD, which allows for single-family

residential subdivision development. All utilities necessary for development were present in Monaco Drive. There were offsite improvements in place on the south side of Monaco, but not on the north side of the street that forms this sale's south property line.

Sale 12 is the subject property, which entered into contract in July 2003 at a price of \$12,237,750 for 116.55 gross acres, indicating a purchase price of \$105,000 per acre. At the time the sale agreement was signed, the property had no entitlements, and the purchase was contingent upon the developer being able to annex the land into the City of Merced, obtain the necessary P-D (52) zoning, and getting approval from the City for the 520-lot Moraga of Merced residential development that will encompass 94.11 gross acres of the purchased property. Based upon the 94.11 acre area, the proposed density for the subdivision is 5.53 lots per acre. Within the development, a 7.16 acre park site/water detention basin will be dedicated to the City of Merced. The remaining 15.28 acres is located north and east of a 115kV power line and will not be part of the final development. All utilities necessary for development were available to the property, but no offsite improvements were in place.

In summary, the comparable sale properties sold between July 2003 and May of 2006. The sale properties range in price from \$105,000 to \$508,065 per acre. For those sale properties that have approved final subdivision maps included in their purchase prices (Sales 1 through 4 and 6 through 9), the indicated value range is between \$20,000 per paper lot to \$90,000 per paper lot. In order to determine the value of the residential acreage within the subject development, the preceding sales have been used and an individual discussion of each sale attribute can be found in the following paragraphs.

Real Property Rights Conveyed

The fee simple interest in the subject property is valued in this appraisal. All of the sales were transfers of fee simple interests. Therefore, all are considered equal with respect to property rights conveyed.

Financing Terms

The subject property is appraised assuming a cash or cash-equivalent sale. All of the sales sold on this basis. Hence, all are considered equal with respect to financing terms.

Conditions of Sale

The subject is appraised assuming normal conditions of sale. The comparable sales were considered "arm's length" transactions. Sale No. 9, however, was sold at a steep discount because the master developer of Bellevue Ranch East was required to provide income-restricted housing in a portion of the overall Bellevue

development. This sale was deeply discounted to allow the buyer to develop such housing and still make a profit.

Market Conditions

As indicated by the sales, the market has been trending upward in prices. We were able to compare sales that occurred in Bellevue Ranch East to obtain a time adjustment. When comparing Sales 1 through 3 to Sale 7, the increase was approximately \$125,000 to \$175,000 per acre per year. Due to the current residential market slowing, we have estimated the time adjustment conservatively at \$125,000 per acre.

Sale 5 was time adjusted at a rate of 2% per month between its July 2005 sale date and September 2005, the point in time when the market began to level off. Sale 12 was time adjusted at the same 2% per month rate for the 27 months between its July 2003 contract date and September 2005.

Physical Characteristics

The physical characteristics that were considered were location, size, zoning, topography and proposed use.

Size: Sales 1 to 12 range from 3.72 to 94.11 acres in size. Phase 1 of Moraga contains 50.79 gross acres. Sales 1 to 11 are smaller and considered superior, while Sale 12 is larger and considered inferior.

Tract Map Included: Sales 1 through 4 and 6 through 9 had tract maps included in the sale price. The subject has a recorded final tract map on Phase 1. As such, these eight sales are considered similar to the subject.

Sales 5, 10, 11 and 12 had no tentative maps included in the sales price, and are considered inferior to the subject.

Density: The densities for neighborhoods 2, 3, and 4 of Phase 1 range from 4.96 to 6.70 units per acre. These densities are similar to those shown for Sales 1 to 8, 11 and 12.

The densities of Sales 9 and 10 are 8.87 and 11.27 units per acre. These sales are considered inferior to the subject.

Zoning: All sales have similar zoning and require no adjustment.

Utilities: All sales have all utilities services available and warrant no adjustment.

Offsites: The subject is being appraised as if the offsite improvements along Yosemite Avenue are in place. Offsite improvements were in place in Sales 1 to 3, and 6 to 11, and these sales are considered similar to the subject.

Sales 4, 5 and 12 had no offsite improvements in place and are considered inferior to the subject.

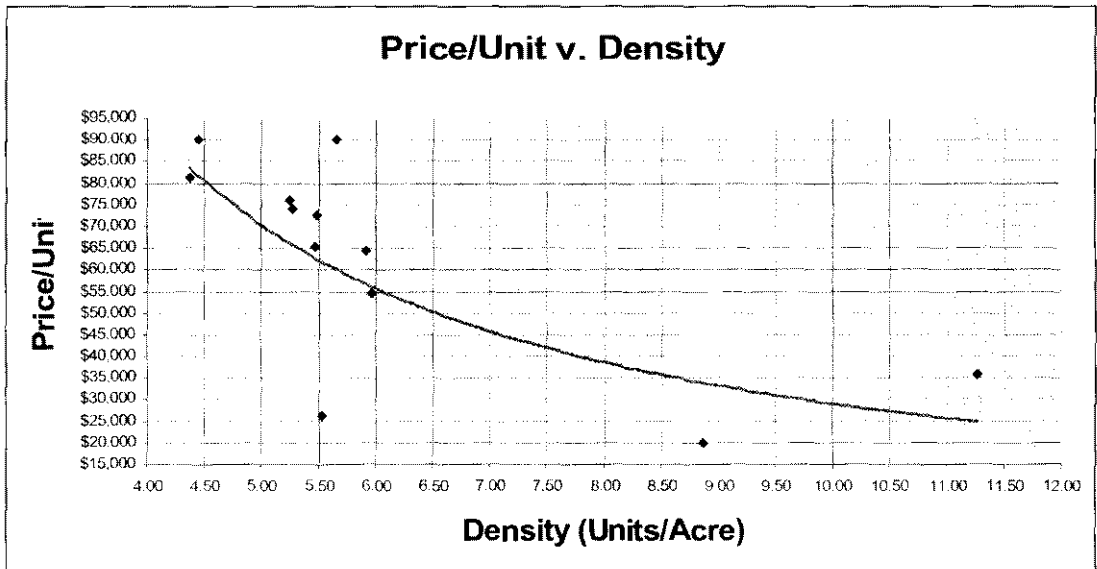
Summary of Comparisons – Phase 1

The chart on the below summarizes the comparisons discussed in the preceding paragraphs.

Sale No.	Price/Acre	Sale Date	Time Adj	Time Adj Price/Acre	Size (Acres)	Map Incl?	Density (Lots/Acre)	Zoning	Utilities	Offsites	Overall Adj	Indicated Value
1	\$229,204	Feb-05		\$125,000	33.90	Yes	4.37	PD-42	S,W,G,E	C,G	-	<\$354,204
2	\$232,333	Feb-05		\$125,000	30.00	Yes	5.47	PD-42	S,W,G,E	C,G	-	<\$357,333
3	\$274,401	Feb-05		\$125,000	28.79	Yes	5.49	PD-42	S,W,G,E	C,G	-	<\$399,401
4	\$200,000	Feb-05		\$125,000	42.38	Yes	5.97	PD-46	S,W,G,E	None	+	>\$325,000
5	\$375,000	Jul-05 4%		\$15,000	17.64	No	5.27	R-1	S,W,G,E	None	+	<\$480,000
6	\$380,068	Sep-05 0%		\$0	11.84	No	5.91	R-1	S,W,G,E	C,G	-	<\$471,284
7	\$400,891	Jan-06 0%		\$0	13.47	Yes	4.45	PD-42	S,W,G,E	C,G	-	<\$400,891
8	\$508,065	Mar-06 0%		\$0	3.72	Yes	5.65	PD-42	S,W,G,E	C,G	-	<\$508,065
9	\$399,233	Mar-06 0%		\$0	26.08	Yes	5.25	PD-42	S,W,G,E	C,G	-	<\$399,233
10	\$177,489	May-06 0%		\$0	9.24	Yes	8.87	PD-42	S,W,G,E	C,G	+	>\$177,489
11	\$404,624	Dec-05 0%		\$0	6.92	No	11.27	PD-8	S,W,G,E	C,G	-	<\$404,624
12	\$105,000	Jul-03 54%		\$56,700	94.11	No	5.53	PD-52	S,W,G,E	None	+	>\$184,800
Subj	-----	Sep-06	-----	-----	50.79 Phase 1	Yes	5.53	PD-52	S,W,G,E	C,G	+	-----

The bracketed range in value for the subject property appears to be \$325,000 to \$354,204 per acre. In order to check this range, the following table and the graph shown on the following page were prepared:

Sale No.	Adj. Price/Acre	Size (Acres)	Adjusted Sales Price	No. of Lots	Price per Lot	Density Units/Acre
1	\$354,204	x 33.90 =	\$12,007,500	÷ 148 =	\$81,132	4.37
2	\$357,333	x 30.00 =	\$10,720,000	÷ 164 =	\$65,366	5.47
3	\$399,401	x 28.79 =	\$11,498,750	÷ 158 =	\$72,777	5.49
4	\$325,000	x 42.38 =	\$13,773,500	÷ 253 =	\$54,441	5.97
5	\$390,000	x 17.64 =	\$6,879,600	÷ 93 =	\$73,974	5.27
6	\$380,068	x 11.84 =	\$4,500,000	÷ 70 =	\$64,286	5.91
7	\$400,891	x 13.47 =	\$5,400,000	÷ 60 =	\$90,000	4.45
8	\$508,065	x 3.72 =	\$1,890,002	÷ 21 =	\$90,000	5.65
9	\$399,233	x 26.08 =	\$10,411,997	÷ 137 =	\$76,000	5.25
10	\$177,489	x 9.24 =	\$1,639,998	÷ 82 =	\$20,000	8.87
11	\$404,624	x 6.92 =	\$2,799,998	÷ 78 =	\$35,897	11.27
12	\$161,700	x 94.11 =	\$15,217,587	÷ 580 =	\$26,237	5.53



The subject neighborhoods have densities of 6.70, 5.48 and 4.96 units per acre. From the graph, we have estimated unit values of \$51,000, \$62,500 and \$70,000 per lot. This translates into the following value opinions for the land in undeveloped condition, but with all entitlements in place. The per acre value opinions range from \$341,501 to \$347,222, which is well within the \$325,000 to \$354,204 range indicated by the bracketed time adjusted sales.

Phase 1

Neighborhood	Product Line	Density Units/Ac	Unit Value Opinion	Mapped Lots	Total Value Opinion	Gross Acreage	Per Acre Value Opinion
2	Mariposa	6.70	\$51,000/Lot	x 91 =	\$4,641,000	÷ 13.59 =	\$341,501
3	Presidio	5.48	\$62,500/Lot	x 121 =	\$7,562,500	÷ 22.08 =	\$342,505
4	Mercedes	4.96	\$70,000/Lot	x 75 =	\$5,250,000	÷ 15.12 =	\$347,222

The total value opinions expressed in this chart are the target values that will be used in the land residual analyses contained in the valuation discussions for Neighborhoods 2, 3 and 4 of Phase 1.

PHASE 1, NEIGHBORHOOD 2 – MARIPOSA COLLECTION

This neighborhood consists of 91 single family homesites. Three of the lots are improved with completed model homes, five of the lots have homes under construction that are less than 95% complete, and the balance of 83 lots are vacant.

For purposes of this valuation, the values of the three completed model homes will be broken out separately. No discounting will be applied because, at the anticipated absorption rate of one-half home per week, all three homes would likely be sold in less than six months.

The five homes that are currently under construction are less than 95% complete. For this reason, they will be treated as vacant lots and valued in bulk with the 83 vacant homesites. The retail value of these 88 lots will be calculated using a land residual analysis. This method was necessary because there have been no individual sales of residential lots in Merced in the past several months. All of the new residential developments have been subdivided and built-out by production home builders that have sold both lot and home as a package.

Once the average retail value has been calculated, a Discounted Cash Flow Analysis (DCF) will be used to derive an opinion of the bulk sale value of the 88 lots.

Retail Value of 3 Model Homes

The model homes in Neighborhood 2 are in the Mariposa Collection. Each has three possible elevations. The base square footage may increase if optional bedrooms, lofts, game rooms, etc. are added. The following information was provided by the developer, Lakemont Homes.

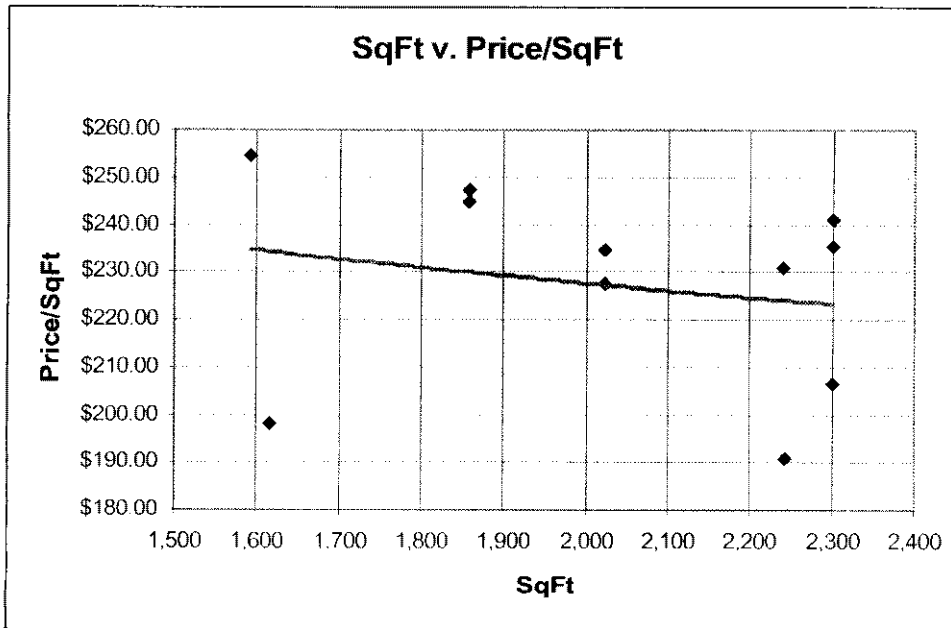
Model	BR	Bath	Base SqFt	Base Price*	Price/ SqFt*
Gossamer	4	2	1,683	\$336,500	\$199.94
Emperor	4-5	2.5	2,092	\$365,700	\$174.81
Monarch	4-6	2.5-3	2,229	\$382,900	\$171.78

** The Base Price reflects the builder's current asking price.*

In forming our opinion of the market value of the three model homes that have been constructed as a marketing tool for the Mariposa collection, we referred to the re-sales of recently constructed homes in the North Merced marketplace that appear in the chart on the following page:

Sale No.	APN	Address	House SqFt	Price	Price/SqFt	BR	Bath	Garage	Pool	Lot SqFt	Built	Rec. Date	Doc. No.
1	206-091-014	1376 Jenner Dr.	1,591	\$405,000	\$255	4	2	2-Car	No	5,250	2005	2/3/06	9235
2	206-083-015	1183 Solstice Ave.	1,617	\$320,000	\$198	2	2.5	2-Car	No	5,000	2005	2/28/06	15434
3	206-067-022	1230 Brightday Dr.	1,859	\$455,000	\$245	4	2.5	2-Car	No	5,000	2004	6/12/06	41288
4	206-062-029	3762 Beam Ave.	1,859	\$460,000	\$247	4	2.5	2-Car	No	---	2004	4/17/06	27306
5	206-066-006	3733 Beam Ave.	2,023	\$460,000	\$227	3	2.5	2-Car	No	3,600	2004	4/18/06	27642
6	206-064-010	3734 Morning Glory Ave.	2,023	\$475,000	\$235	4	2.5	2-Car	No	3,600	2004	4/6/06	25104
7	058-290-034	3530 Paseo Verde Dr.	2,241	\$518,000	\$231	5	3	2-Car	No	7,453	2004	4/19/06	28058
8	058-290-025	1143 Mazatlan Pl.	2,243	\$428,000	\$191	4	3	2-Car	No	6,500	2004	3/9/06	17363
9	058-443-009	3569 Sepulveda Ave.	2,300	\$475,000	\$207	5	3	3-Car	No	6,300	2004	5/10/06	33365
10	058-441-012	1337 Esplanade Dr.	2,300	\$542,000	\$236	5	3	3-Car	No	6,300	2004	6/6/06	39982
11	058-412-019	1229 Catalina Dr.	2,300	\$554,000	\$241	4	3	3-Car	No	6,000	2003	6/23/06	44693

The sales are also depicted in the following graph which compares home square footage with price per square foot paid.



Based upon the above information, the estimated value of the model homes ranges from \$390,456 to \$499,296. These values are substantially higher than the asking prices for homes in Moraga, but reflect the fact that the model homes have many features and upgrades that the base prices for the models do not consider. These would include such items as back yard landscaping, substantial options/upgrades, and window coverings.

The sales prices obtained from re-sales of comparable homes in the Merced marketplace reflect homes built between 2003 and 2005. While we could not inspect the interior of these homes, it is reasonable to assume that most of them have back yard landscaping and window coverings installed, and that most of them have at least some options/upgrades.

The values of the model homes are summarized in the chart on the following page.

Model	BR	Bath	Base SqFt	Price/ SqFt	Value
Gossamer	4	2	1,683	\$232	\$ 390,456
Emperor	4-5	2.5	2,092	\$227	\$ 474,884
Monarch	4-6	2.5-3	2,229	\$224	\$ 499,296
Total					\$1,364,636

Retail Value of a Typical Residential Lot

For purposes of this discussion, retail value is defined as the market value of an individual lot sold to an individual buyer in an individual transaction. Retail value must be established because it is an indispensable variable in the discounted cash flow analysis that will be used to estimate the “bulk sale value” of the 88 residential lots.

In the Merced marketplace, there have been two single family lots sold in the past six months. These are either infill or custom lots. The only other single-family residential lots that have sold in recent months are custom home lots that are generally in excess of 1.0± acre in size and are not comparable to the subject lots. Although there has been an abundance of single-family residential development on lots similar in size to the subject lots, there have been no individual sales of such lots to determine the retail value. These lots have been sold together with single-family residences as part of various production-housing tracts.

Because we had no recent sales of individual single-family lots to compare to the subject lots, the land residual method was used to establish the retail value of the subject lots.

In this land residual analysis, the appraiser must determine an appropriate retail lot price that will be sufficient to cover the costs associated with developing the finished lots such as offsite improvements costs, real estate taxes, marketing and administrative expenses, developer’s profit, etc. In addition, a discount rate must also be addressed to allow for the absorption of the subject lots over a period of time.

The variables considered in this land residual analysis are described below.

Number of Lots: 88 residential lots.

Number of Lots Sold Per Quarter: As previously discussed in the Highest and Best Use section of this report, we have estimated the absorption rate for the 88 lots at 7.00 units per quarter.

Target Land Residual Value: The target land residual value is the value of the property in its as-is superpad condition - \$4,488,000 (88 lots x \$51,000 per lot).

Annual Lot Appreciation: Current demand for residential housing in the Merced marketplace suggests there is a slowing trend in residential properties and lot prices. Thus, we have given a 2.00% annual lot appreciation. This rate is supported by the Second Quarter 2006 *Korpacz Real Estate Investor Survey* published by PriceWaterhouseCoopers which indicates that market participants report an average increase in growth rates for lot pricing at 3.1%.

Offsite Costs: The offsite costs for the subject lots were provided to the appraiser by the developer, Lakemont Homes. They total \$16,773 per lot, or a total of \$1,472,504 for 88 lots.

Taxes per Lot: Taxes per lot have been calculated based upon the subject's current tax rate.

Tax Rate: The tax rate increase has been projected at 2.0% per annum, which is the maximum statutory increase for taxes in the State of California under Proposition 13.

Administrative Expenses: Administrative expenses have been deducted at a rate of 2.0% of the retail value of the finished lots. This expense is associated with fire liability insurance, workmen's compensation, FICA, State unemployment insurance, overhead, etc.

Marketing Expense: A marketing expense has been projected at 3.00% of the gross sales. The 3.00% level is considered to be appropriate for a production-built subdivision.

Discount Rate: Discount rates for real estate investments typically include a safe rate of return to compensate for the time value of money, as well as premium for risk. According to the Second Quarter 2006 *Real Estate Investor Survey* published by PriceWaterhouseCoopers, the discount rates (including developer's profit) for development properties, not subject to financing, ranged from 12.00% to 25.00%, with the average discount rate being 18.15%. We have selected a discount rate of 18% as appropriate for this analysis.

Construction/Presale Period: We have assumed a construction period of 3 months, resulting in absorption of 0 homes during the first quarter.

Conclusion of Retail Lot Price:

Based upon this analysis, an average retail lot price of \$96,500 is required to cover the expenses associated with the development and sale of the finished lots over a specified absorption period, while still providing the developer an appropriate reward (profit) for the risk and capital expenditure associated with the project. Using this average retail lot price, the indicated land residual value

is \$4,477,674, which closely approximates our target land residual value of \$4,488,000.

Retail Value of Typical Lot in Phase 1, Neighborhood 2	\$96,500
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CALCULATION OF LAND RESIDUAL VALUE
Phase 1 - Neighborhood 2 - Mariposa Collection
88 Single Family Lots

VARIABLES	
Number of Gross Acres	13.59
Number of Lots*	88
Number Sold Per Qtr	7
Average Retail Lot Price	\$96,500
Annual Lot Appreciation	2.00%
Offsite Costs	\$1,472,504
Tax Rate	1.060000%
Tax Per Lot	\$767
Tax Increase Rate	2.00%
Administrative Expense	2.00%
Marketing Expense	3.00%
Discount Rate	18.00%
Land Residual Value	\$4,477,674
Construction/Presale Period (months)	3

*Does Not Include 3 Lots for Model Homes

Qtr	No. of Lot Sales	Average Lot Price	Average Lot Appr.	Quarterly Income	Offsite Costs	Real Estate Taxes	Admin. Expense 2.00%	Marketing Expense 3.00%	SUBTOTAL	Discount Factor 18.00%	NET CASH FLOW
1	0	\$0	1.0000	\$0	(\$1,472,504)	(\$16,878)	\$0	\$0	(\$1,489,382)	0.9569	(\$1,425,246)
2	7	\$96,500	1.0050	\$678,878	\$0	(\$15,539)	(\$13,578)	(\$20,366)	\$629,395	0.9157	\$576,356
3	7	\$96,500	1.0100	\$682,272	\$0	(\$14,196)	(\$13,645)	(\$20,468)	\$633,962	0.8763	\$555,539
4	7	\$96,500	1.0151	\$685,683	\$0	(\$12,854)	(\$13,714)	(\$20,570)	\$638,545	0.8386	\$535,459
5	7	\$96,500	1.0202	\$689,112	\$0	(\$11,741)	(\$13,782)	(\$20,673)	\$642,915	0.8025	\$515,908
6	7	\$96,500	1.0253	\$692,557	\$0	(\$10,372)	(\$13,851)	(\$20,777)	\$647,557	0.7679	\$497,257
7	7	\$96,500	1.0304	\$696,020	\$0	(\$9,003)	(\$13,920)	(\$20,881)	\$652,216	0.7348	\$479,267
8	7	\$96,500	1.0355	\$699,500	\$0	(\$7,633)	(\$13,990)	(\$20,985)	\$656,892	0.7032	\$461,917
9	7	\$96,500	1.0407	\$702,998	\$0	(\$6,387)	(\$14,060)	(\$21,090)	\$661,461	0.6729	\$445,100
10	7	\$96,500	1.0459	\$706,513	\$0	(\$4,990)	(\$14,130)	(\$21,195)	\$666,197	0.6439	\$428,982
11	7	\$96,500	1.0511	\$710,045	\$0	(\$3,594)	(\$14,201)	(\$21,301)	\$670,949	0.6162	\$413,438
12	7	\$96,500	1.0564	\$713,595	\$0	(\$2,198)	(\$14,272)	(\$21,408)	\$675,718	0.5897	\$398,446
13	7	\$96,500	1.0617	\$717,163	\$0	(\$817)	(\$14,343)	(\$21,515)	\$680,488	0.5643	\$383,980
14	4	\$96,500	1.0670	\$411,857	\$0	(\$2)	(\$8,237)	(\$12,356)	\$391,262	0.5400	\$211,271
15	0	\$0	1.0723	\$0	\$0	\$0	\$0	\$0	\$0	0.5167	\$0
16	0	\$0	1.0777	\$0	\$0	\$0	\$0	\$0	\$0	0.4945	\$0
17	0	\$0	1.0831	\$0	\$0	\$0	\$0	\$0	\$0	0.4732	\$0
Total	88			\$8,786,192	(\$1,472,504)	(\$116,203)	(\$175,724)	(\$263,566)	\$6,758,176		\$4,477,674

LAND RESIDUAL VALUE ESTIMATE **\$4,477,674**
TARGET VALUE **\$4,488,000**

Bulk Sale Value of 88 Residential Lots

Having established the retail value of an average lot in this neighborhood at \$96,500, we can incorporate this value into the discounted cash flow analysis used to determine the bulk sale value of the 88 subject lots.

Under this premise, the residential lots are not valued at their full “aggregate retail price.” If a developer were to purchase all of the lots in a single transaction, it is unlikely that the full “aggregate retail price” would be paid. Rather, the developer would require a discount from retail, in anticipation of selling the lots over some reasonable period of time (the absorption period). The bulk sale value is defined as:

“The most probable price, in a sale of *all* parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or in terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue stress. The bulk sale is executed in lieu of the seller proceeding with development and/or marketing of the individual parcels or tracts to end users, or merchant builders over a market-oriented absorption period for the type of project.” (*Appraisal Standards for Land-Secured Financings, California Debt and Investment Advisory Commission, Revised July 2004, CDIA 04-07, Page 29*)

The method used by the appraiser to determine the “bulk sale value” of the lots is the discounted cash flow analysis, defined as:

“A valuation method under which the dates of sale and prices of finished properties are estimated to derive a cash flow which is discounted to present value by a market discount rate. This valuation method is also referred to as the *Subdivision Development or Land Development Approach to Value* in appraisal literature.” (*Appraisal Standards for Land-Secured Financings, California Debt and Investment Advisory Commission, Revised July 2004, CDIA 04-07, Page 30*)

The discounted cash flow analysis estimates the net cash flow over the anticipated absorption period by subtracting expenses from the revenues generated by lot sales. Each period’s net cash flow is then discounted to a present worth to yield the total discounted property value. The variables used in this discounted cash flow analysis presented on the following page are as follows:

Number of Lots: 88 residential lots.

Number of Lots Sold Per Quarter: 7.00.

Average Retail Lot Price: \$96,500 per lot.

Annual Lot Appreciation: 2.0%

Taxes per Lot: Taxes per lot have been calculated based upon the subject's current tax rate.

Tax Rate: 2.0% per annum (Proposition 13).

Administrative Expenses: 2.00%

Marketing Expense: 3.00%.

Discount Rate: 18.00%

Construction/Presale Period: 1 quarter.

Conclusion of Bulk Sale Value:

Based upon the assumptions and variables discussed, the bulk sale value of the 88 vacant lots in Phase 1 - Neighborhood 2 is estimated by the Discounted Cash Flow Analysis at \$5,886,769, or approximately \$67,000 per lot (rounded). This equates to a discount rate of approximately 30.57% from the retail lot value.

Our experience has shown that typical discounts for residential subdivisions range between 10.0% and 25.0% based upon the price range of the development, marketing conditions, and the size of development. The 30.57% rate calculated for the subject is outside of the upper end of this range, reflecting its extended 3.25+ year projected absorption period.

Bulk Sale Value of 88 Residential Lots	\$5,886,769
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CALCULATION OF BULK SALE VALUE
Phase 1 - Neighborhood 2 - Mariposa Collection
88 Single Family Lots

VARIABLES	
Number of Lots*	88
Number Sold Per Qtr	7
Average Retail Lot Price	\$96,500
Annual Lot Appreciation	2.00%
Tax Rate	1.0600000
Tax Per Lot	\$767
Tax Increase Rate	2.00%
Administrative Expense	2.00%
Marketing Expense	3.00%
Discount Rate	18.00%
Final Bulk Sale Value Estimate	\$5,886,769
Construction/Presale Period (months)	3

*Does Not Include 3 Lots for Model Homes

Qtr	No. of Lot Sales	Average Lot Price	Average Lot Appr.	Quarterly Income	Real Estate Taxes	Admin. Expense 2.00%	Marketing Expense 3.00%	SUBTOTAL	Discount Factor 18.00%	NET CASH FLOW
1	0	\$0	1.0000	\$0	(\$16,878)	\$0	\$0	(\$16,878)	0.9569	(\$16,151)
2	7	\$96,500	1.0050	\$678,878	(\$15,539)	(\$13,578)	(\$20,366)	\$629,395	0.9157	\$576,356
3	7	\$96,500	1.0100	\$682,272	(\$14,196)	(\$13,645)	(\$20,468)	\$633,962	0.8763	\$555,539
4	7	\$96,500	1.0151	\$685,683	(\$12,854)	(\$13,714)	(\$20,570)	\$638,545	0.8386	\$535,459
5	7	\$96,500	1.0202	\$689,112	(\$11,741)	(\$13,782)	(\$20,673)	\$642,915	0.8025	\$515,908
6	7	\$96,500	1.0253	\$692,557	(\$10,372)	(\$13,851)	(\$20,777)	\$647,557	0.7679	\$497,257
7	7	\$96,500	1.0304	\$696,020	(\$9,003)	(\$13,920)	(\$20,881)	\$652,216	0.7348	\$479,267
8	7	\$96,500	1.0355	\$699,500	(\$7,633)	(\$13,990)	(\$20,985)	\$656,892	0.7032	\$461,917
9	7	\$96,500	1.0407	\$702,998	(\$6,387)	(\$14,060)	(\$21,090)	\$661,461	0.6729	\$445,100
10	7	\$96,500	1.0459	\$706,513	(\$4,990)	(\$14,130)	(\$21,195)	\$666,197	0.6439	\$428,982
11	7	\$96,500	1.0511	\$710,045	(\$3,594)	(\$14,201)	(\$21,301)	\$670,949	0.6162	\$413,438
12	7	\$96,500	1.0564	\$713,595	(\$2,198)	(\$14,272)	(\$21,408)	\$675,718	0.5897	\$398,446
13	7	\$96,500	1.0617	\$717,163	(\$817)	(\$14,343)	(\$21,515)	\$680,488	0.5643	\$383,980
14	4	\$96,500	1.0670	\$411,857	(\$2)	(\$8,237)	(\$12,356)	\$391,262	0.5400	\$211,271
15	0	\$0	1.0723	\$0	\$0	\$0	\$0	\$0	0.5167	\$0
16	0	\$0	1.0777	\$0	\$0	\$0	\$0	\$0	0.4945	\$0
17	0	\$0	1.0831	\$0	\$0	\$0	\$0	\$0	0.4732	\$0
Total	88			\$8,786,192	(\$116,203)	(\$175,724)	(\$263,586)	\$8,230,680		\$5,886,769

Total	\$5,886,769
FINAL BULK SALE VALUE ESTIMATE	\$5,886,769
PER LOT	\$66,895
ROUNDED	\$67,000
INDICATED DISCOUNT FROM RETAIL	30.57%

PHASE 1, NEIGHBORHOOD 3 – PRESIDIO COLLECTION

This neighborhood consists of 121 single family homesites. Three of the lots are improved with completed model homes, ten of the lots have homes under construction that are less than 95% complete, and the balance of 108 lots are vacant.

For purposes of this valuation, the values of the three completed model homes will be broken out separately. No discounting will be applied because, at the anticipated absorption rate of one home per week, all three homes would likely be sold in less than one month.

The ten homes that are currently under construction are less than 95% complete. For this reason, they will be treated as vacant lots and valued in bulk with the 108 vacant homesites. The retail value of these 118 lots will be calculated using a land residual analysis. This method was necessary because there have been no individual sales of residential lots in Merced in the past several months. All of the new residential developments have been subdivided and built-out by production home builders that have sold both lot and home as a package.

Once the average retail value has been calculated, a Discounted Cash Flow Analysis (DCF) will be used to derive an opinion of the bulk sale value of the 118 lots.

Retail Value of 3 Model Homes

The model homes in Neighborhood 3 are in the Presidio Collection. Each has three possible elevations. The base square footage may increase if optional bedrooms, lofts, game rooms, etc. are added. The following information was provided by the developer, Lakemont Homes.

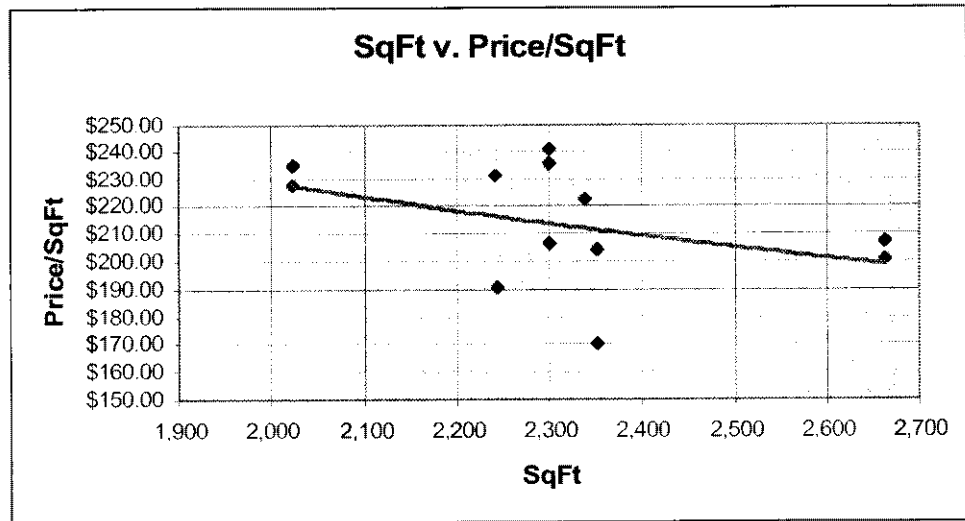
Model	BR	Bath	Base SqFt	Base Price*	Price/ SqFt*
Willow	3	2.5	2,014	\$359,245	\$178.37
Cypress	4	2.5	2,389	\$394,655	\$165.20
Sequoia	4	3	2,644	\$418,580	\$158.31

** The Base Price reflects the builder's current asking price.*

In forming our opinion of the market value of the three model homes that have been constructed as a marketing tool for the Presidio collection, we referred to the re-sales of recently constructed homes in the North Merced marketplace that appear in the chart on the following page:

Sale No.	APN	Address	House SqFt	Price	Price/SqFt	BR	Bath	Garage	Pool	Lot SqFt	Built	Rec. Date	Doc. No.
1	206-066-006	3733 Beam Ave.	2,023	\$460,000	\$227	3	2.5	2-Car	No	3,600	2004	4/18/06	27642
2	206-064-010	3734 Morning Glory Ave.	2,023	\$475,000	\$235	4	2.5	2-Car	No	3,600	2004	4/6/06	25104
3	058-290-034	3530 Paseo Verde Dr.	2,241	\$518,000	\$231	5	3	2-Car	No	7,453	2004	4/19/06	28058
4	058-290-025	1143 Mazatlan Pl.	2,243	\$428,000	\$191	4	3	2-Car	No	6,500	2004	3/9/06	17363
5	058-443-009	3569 Sepulveda Ave.	2,300	\$475,000	\$207	5	3	3-Car	No	6,300	2004	5/10/06	33365
6	058-441-012	1337 Esplanade Dr.	2,300	\$542,000	\$236	5	3	3-Car	No	6,300	2004	6/6/06	39982
7	058-412-019	1229 Catalina Dr.	2,300	\$554,000	\$241	4	3	3-Car	No	6,000	2003	6/23/06	44693
8	058-451-017	1430 Santa Nella Ct.	2,338	\$520,000	\$222	5	3	2-Car	No	6,233	2004	7/21/06	51115
9	206-067-020	1238 Brightday Dr.	2,352	\$480,000	\$204	3	2.5	2-Car	No	3,600	2004	4/28/06	30933
10	206-067-028	3724 Beam Ave.	2,352	\$400,000	\$170	3	2.5	2-Car	No	3,952	2004	6/22/06	44123
11	058-416-001	1244 Catalina Dr.	2,663	\$535,000	\$201	5	3	2-Car	No	7,773	2003	4/18/06	27711
12	058-411-004	1277 Esplanade Dr.	2,663	\$551,500	\$207	5	3	2-Car	No	6,000	2003	2/3/06	9605

The sales are also depicted in the following graph which compares home square footage with price per square foot paid.



Based upon the above information, the estimated value of the model homes ranges from \$461,206 to \$528,800. These values are substantially higher than the asking prices for homes in Moraga, but reflect the fact that the model homes have many features and upgrades that the base prices for the models do not consider. These would include such items as back yard landscaping, substantial options/upgrades, and window coverings.

The sales prices obtained from re-sales of comparable homes in the Merced marketplace reflect homes built between 2003 and 2004. While we could not inspect the interior of these homes, it is reasonable to assume that most of them have back yard landscaping and window coverings installed, and that most of them have at least some options/upgrades.

The values of the model homes are summarized in the chart on the following page.

Model	BR	Bath	Base SqFt	Price/ SqFt	Value
Willow	3	2.5	2,014	\$229	\$ 461,206
Cypress	4	2.5	2,389	\$210	\$ 501,690
Sequoia	4	3	2,644	\$200	\$ 528,800
Total					\$1,491,696

Retail Value of a Typical Residential Lot

For purposes of this discussion, retail value is defined as the market value of an individual lot sold to an individual buyer in an individual transaction. Retail value must be established because it is an indispensable variable in the discounted cash flow analysis that will be used to estimate the "bulk sale value" of the 118 residential lots.

In the Merced marketplace, there have been two single family lots sold in the past six months. These are either infill or custom lots. The only other single-family residential lots that have sold in recent months are custom home lots that are generally in excess of 1.0± acre in size and are not comparable to the subject lots. Although there has been an abundance of single-family residential development on lots similar in size to the subject lots, there have been no individual sales of such lots to determine the retail value. These lots have been sold together with single-family residences as part of various production-housing tracts.

Because we had no recent sales of individual single-family lots to compare to the subject lots, the land residual method was used to establish the retail value of the subject lots.

In this land residual analysis, the appraiser must determine an appropriate retail lot price that will be sufficient to cover the costs associated with developing the finished lots such as offsite improvements costs, real estate taxes, marketing and administrative expenses, developer's profit, etc. In addition, a discount rate must also be addressed to allow for the absorption of the subject lots over a period of time.

The variables considered in this land residual analysis are described below.

Number of Lots: 118 residential lots.

Number of Lots Sold Per Quarter: As previously discussed in the Highest and Best Use section of this report, we have estimated the absorption rate for the 118 lots at 7.00 units per quarter

Target Land Residual Value: The target land residual value is the value of the property in its as-is superpad condition - \$7,375,000 (118 units x \$62,500 per unit).

Annual Lot Appreciation: Current demand for residential housing in the Merced marketplace suggests there is a slowing trend in residential properties and lot prices. Thus, we have given a 2.00% annual lot appreciation. This rate is supported by the Second Quarter 2006 *Korpacz Real Estate Investor Survey* published by PriceWaterhouseCoopers which indicates that market participants report an average increase in growth rates for lot pricing at 3.1%.

Offsite Costs: The offsite costs for the subject lots were provided to the appraiser by the developer, Lakemont Homes. They total \$16,773 per lot, or a total of \$1,979,214 for 118 lots.

Taxes per Lot: Taxes per lot have been calculated based upon the subject's current tax rate.

Tax Rate: The tax rate increase has been projected at 2.0% per annum, which is the maximum statutory increase for taxes in the State of California under Proposition 13.

Administrative Expenses: Administrative expenses have been deducted at a rate of 2.0% of the retail value of the finished lots. This expense is associated with fire liability insurance, workmen's compensation, FICA, State unemployment insurance, overhead, etc.

Marketing Expense: A marketing expense has been projected at 3.00% of the gross sales. The 3.00% level is considered to be appropriate for a production-built subdivision.

Discount Rate: Discount rates for real estate investments typically include a safe rate of return to compensate for the time value of money, as well as premium for risk. According to the Second Quarter 2006 *Real Estate Investor Survey* published by PriceWaterhouseCoopers, the discount rates (including developer's profit) for development properties, not subject to financing, ranged from 12.00% to 25.00%, with the average discount rate being 18.15%. We have selected a discount rate of 18% as appropriate for this analysis.

Construction/Presale Period: We have assumed a construction period of 3 months, resulting in absorption of 0 homes during the first quarter.

Conclusion of Retail Lot Price:

Based upon this analysis, an average retail lot price of \$123,000 is required to cover the expenses associated with the development and sale of the finished lots over a specified absorption period, while still providing the developer an appropriate reward (profit) for the risk and capital expenditure associated with the project. Using this average retail lot price, the indicated land residual value

is \$7,383,807, which closely approximates our target land residual value of \$7,375,000.

Retail Value of Typical Lot in Neighborhood 3	\$123,000
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CALCULATION OF LAND RESIDUAL VALUE
Phase 1 - Neighborhood 3 - Presidio Collection
118 Single Family Lots

VARIABLES	
Number of Gross Acres	22.08
Number of Lots*	118
Number Sold Per Qtr	7
Average Retail Lot Price	\$123,000
Annual Lot Appreciation	2.00%
Offsite Costs	\$1,979,214
Tax Rate	1.0600000
Tax Per Lot	\$978
Tax Increase Rate	2.00%
Administrative Expense	2.00%
Marketing Expense	3.00%
Discount Rate	18.00%
Land Residual Value	\$7,383,807
Construction/Presale Period (months)	3

*Does Not Include 3 Lots for Model Homes

Qtr	No. of Lot Sales	Average Lot Price	Average Lot Appr.	Quarterly Income	Offsite Costs	Real Estate Taxes	Admin. Expense 2.00%	Marketing Expense 3.00%	SUBTOTAL	Discount Factor 18.00%	NET CASH FLOW
1	0	\$0	1.0000	\$0	(\$1,979,214)	(\$28,847)	\$0	\$0	(\$2,008,061)	0.9569	(\$1,921,589)
2	7	\$123,000	1.0050	\$865,305	\$0	(\$27,139)	(\$17,306)	(\$25,959)	\$794,901	0.9157	\$727,915
3	7	\$123,000	1.0100	\$869,632	\$0	(\$25,428)	(\$17,393)	(\$26,089)	\$800,722	0.8763	\$701,670
4	7	\$123,000	1.0151	\$873,980	\$0	(\$23,716)	(\$17,480)	(\$26,219)	\$806,564	0.8386	\$676,354
5	7	\$123,000	1.0202	\$878,350	\$0	(\$22,445)	(\$17,567)	(\$26,350)	\$811,987	0.8025	\$651,580
6	7	\$123,000	1.0253	\$882,741	\$0	(\$20,700)	(\$17,655)	(\$26,482)	\$817,904	0.7879	\$628,065
7	7	\$123,000	1.0304	\$887,155	\$0	(\$18,954)	(\$17,743)	(\$26,615)	\$823,843	0.7348	\$605,383
8	7	\$123,000	1.0355	\$891,591	\$0	(\$17,209)	(\$17,832)	(\$26,748)	\$829,802	0.7032	\$583,505
9	7	\$123,000	1.0407	\$896,049	\$0	(\$15,773)	(\$17,921)	(\$26,881)	\$835,474	0.6729	\$562,194
10	7	\$123,000	1.0459	\$900,529	\$0	(\$13,992)	(\$18,011)	(\$27,016)	\$841,510	0.6439	\$541,872
11	7	\$123,000	1.0511	\$905,032	\$0	(\$12,212)	(\$18,101)	(\$27,151)	\$847,568	0.6162	\$522,270
12	7	\$123,000	1.0564	\$909,557	\$0	(\$10,432)	(\$18,191)	(\$27,287)	\$853,647	0.5897	\$503,365
13	7	\$123,000	1.0617	\$914,105	\$0	(\$8,824)	(\$18,282)	(\$27,423)	\$859,575	0.5643	\$485,034
14	7	\$123,000	1.0670	\$918,675	\$0	(\$7,008)	(\$18,374)	(\$27,560)	\$865,733	0.5400	\$467,472
15	7	\$123,000	1.0723	\$923,268	\$0	(\$5,192)	(\$18,465)	(\$27,698)	\$871,913	0.5167	\$450,535
16	7	\$123,000	1.0777	\$927,885	\$0	(\$3,376)	(\$18,558)	(\$27,837)	\$878,114	0.4945	\$434,201
17	7	\$123,000	1.0831	\$932,524	\$0	(\$1,591)	(\$18,650)	(\$27,976)	\$884,307	0.4732	\$418,433
18	6	\$123,000	1.0885	\$803,303	\$0	(\$3)	(\$16,066)	(\$24,099)	\$763,135	0.4528	\$345,548
19	0	\$0	1.0939	\$0	\$0	\$0	\$0	\$0	\$0	0.4333	\$0
20	0	\$0	1.0994	\$0	\$0	\$0	\$0	\$0	\$0	0.4146	\$0
Total	112			\$15,179,680	(\$1,979,214)	(\$262,841)	(\$303,594)	(\$455,390)	\$12,178,640		\$7,383,807

Total
LAND RESIDUAL VALUE ESTIMATE \$7,383,807
TARGET VALUE \$7,375,000

Bulk Sale Value of 118 Residential Lots

Having established the retail value of an average lot in this neighborhood at \$123,000, we can incorporate this value into the discounted cash flow analysis used to determine the bulk sale value of the 118 subject lots.

Under this premise, the residential lots are not valued at their full "aggregate retail price." If a developer were to purchase all of the lots in a single transaction, it is unlikely that the full "aggregate retail price" would be paid. Rather, the developer would require a discount from retail, in anticipation of selling the lots over some reasonable period of time (the absorption period). The bulk sale value is defined as:

"The most probable price, in a sale of *all* parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or in terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue stress. The bulk sale is executed in lieu of the seller proceeding with development and/or marketing of the individual parcels or tracts to end users, or merchant builders over a market-oriented absorption period for the type of project." (*Appraisal Standards for Land-Secured Financings*, California Debt and Investment Advisory Commission, Revised July 2004, CDIA 04-07, Page 29)

The method used by the appraiser to determine the "bulk sale value" of the lots is the discounted cash flow analysis, defined as:

"A valuation method under which the dates of sale and prices of finished properties are estimated to derive a cash flow which is discounted to present value by a market discount rate. This valuation method is also referred to as the *Subdivision Development or Land Development Approach to Value* in appraisal literature." (*Appraisal Standards for Land-Secured Financings*, California Debt and Investment Advisory Commission, Revised July 2004, CDIA 04-07, Page 30)

The discounted cash flow analysis estimates the net cash flow over the anticipated absorption period by subtracting expenses from the revenues generated by lot sales. Each period's net cash flow is then discounted to a present worth to yield the total discounted property value. The variables used in this discounted cash flow analysis presented on the following page are as follows:

Number of Lots: 118 residential lots.

Number of Lots Sold Per Quarter: 7.00.

Average Retail Lot Price: \$123,000 per lot.

Annual Lot Appreciation: 2.0%

Taxes per Lot: Taxes per lot have been calculated based upon the subject's current tax rate.

Tax Rate: 2.0% per annum (Proposition 13).

Administrative Expenses: 2.00%

Marketing Expense: 3.00%.

Discount Rate: 18.00%

Construction/Presale Period: 1 quarter.

Conclusion of Bulk Sale Value:

Based upon the assumptions and variables discussed, the bulk sale value of the 118 vacant lots in Neighborhood 3 is estimated by the Discounted Cash Flow Analysis at \$9,277,791, or approximately \$79,000 per lot (rounded). This equates to a discount rate of approximately 35.77% from the retail lot value.

Our experience has shown that typical discounts for residential subdivisions range between 10.0% and 25.0% based upon the price range of the development, marketing conditions, and the size of development. The 35.77% rate calculated for the subject is well above the upper end of this range, reflecting its extended 4.25+ year projected absorption period.

Bulk Sale Value of 118 Residential Lots	\$9,277,791
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CALCULATION OF BULK SALE VALUE
Phase 1 - Neighborhood 3 - Presidio Collection
118 Single Family Lots

VARIABLES	
Number of Lots*	118
Number Sold Per Qtr	7
Average Retail Lot Price	\$123,000
Annual Lot Appreciation	2.00%
Tax Rate	1.0600000
Tax Per Lot	\$978
Tax Increase Rate	2.00%
Administrative Expense	2.00%
Marketing Expense	3.00%
Discount Rate	18.00%
Final Bulk Sale Value Estimate	\$9,277,791
Construction/Presale Period (months)	3

*Does Not include 3 Lots for Model Homes

Qtr	No. of Lot Sales	Average Lot Price	Average Lot Appr	Quarterly Income	Real Estate Taxes	Admin. Expense 2.00%	Marketing Expense 3.00%	SUBTOTAL	Discount Factor 18.00%	NET CASH FLOW
1	0	\$0	1.0000	\$0	(\$28,847)	\$0	\$0	(\$28,847)	0.9669	(\$27,604)
2	7	\$123,000	1.0050	\$865,305	(\$27,139)	(\$17,306)	(\$25,959)	\$794,901	0.9157	\$727,915
3	7	\$123,000	1.0100	\$869,632	(\$25,428)	(\$17,393)	(\$26,089)	\$800,722	0.8763	\$701,670
4	7	\$123,000	1.0151	\$873,980	(\$23,716)	(\$17,480)	(\$26,219)	\$806,564	0.8386	\$676,354
5	7	\$123,000	1.0202	\$878,350	(\$22,445)	(\$17,567)	(\$26,350)	\$811,987	0.8025	\$651,580
6	7	\$123,000	1.0253	\$882,741	(\$20,700)	(\$17,655)	(\$26,482)	\$817,904	0.7679	\$628,065
7	7	\$123,000	1.0304	\$887,155	(\$18,954)	(\$17,743)	(\$26,615)	\$823,843	0.7348	\$605,383
8	7	\$123,000	1.0355	\$891,591	(\$17,209)	(\$17,832)	(\$26,748)	\$829,802	0.7032	\$583,505
9	7	\$123,000	1.0407	\$896,049	(\$15,773)	(\$17,921)	(\$26,881)	\$835,474	0.6729	\$562,194
10	7	\$123,000	1.0459	\$900,529	(\$13,992)	(\$18,011)	(\$27,016)	\$841,510	0.6439	\$541,872
11	7	\$123,000	1.0511	\$905,032	(\$12,212)	(\$18,101)	(\$27,151)	\$847,568	0.6162	\$522,270
12	7	\$123,000	1.0564	\$909,557	(\$10,432)	(\$18,191)	(\$27,287)	\$853,647	0.5897	\$503,365
13	7	\$123,000	1.0617	\$914,105	(\$8,824)	(\$18,282)	(\$27,423)	\$859,575	0.5643	\$485,034
14	7	\$123,000	1.0670	\$918,675	(\$7,008)	(\$18,374)	(\$27,560)	\$865,733	0.5400	\$467,472
15	7	\$123,000	1.0723	\$923,268	(\$5,192)	(\$18,465)	(\$27,698)	\$871,913	0.5167	\$450,535
16	7	\$123,000	1.0777	\$927,885	(\$3,376)	(\$18,558)	(\$27,837)	\$878,114	0.4945	\$434,201
17	7	\$123,000	1.0831	\$932,524	(\$1,591)	(\$18,650)	(\$27,976)	\$884,307	0.4732	\$418,433
18	6	\$123,000	1.0885	\$803,303	(\$3)	(\$16,066)	(\$24,099)	\$763,135	0.4528	\$345,548
19	0	\$0	1.0939	\$0	\$0	\$0	\$0	\$0	0.4333	\$0
20	0	\$0	1.0994	\$0	\$0	\$0	\$0	\$0	0.4146	\$0
Total	118			\$15,179,680	(\$262,841)	(\$303,594)	(\$455,390)	\$14,157,854		\$9,277,791

FINAL BULK SALE VALUE ESTIMATE \$9,277,791
PER LOT \$78,625
ROUNDED \$79,000
INDICATED DISCOUNT FROM RETAIL 35.77%

PHASE 1, NEIGHBORHOOD 4 – MERCEDES COLLECTION

This neighborhood consists of 75 single family homesites. Three of the lots are improved with completed model homes, four of the lots have homes under construction that are less than 95% complete, and the balance of 68 lots are vacant.

For purposes of this valuation, the values of the three completed model homes will be broken out separately. No discounting will be applied because, at the anticipated absorption rate of one home per week, all three homes would likely be sold in less than one month.

The four homes that are currently under construction are less than 95% complete. For this reason, they will be treated as vacant lots and valued in bulk with the 68 vacant homesites. The retail value of these 72 lots will be calculated using a land residual analysis. This method was necessary because there have been no individual sales of residential lots in Merced in the past several months. All of the new residential developments have been subdivided and built-out by production home builders that have sold both lot and home as a package.

Once the average retail value has been calculated, a Discounted Cash Flow Analysis (DCF) will be used to derive an opinion of the bulk sale value of the 138 lots.

Retail Value of 3 Model Homes

The model homes in Neighborhood 4 are in the Mercedes Collection. Each has three possible elevations. The base square footage may increase if optional bedrooms, lofts, game rooms, etc. are added. The following information was provided by the developer, Lakemont Homes.

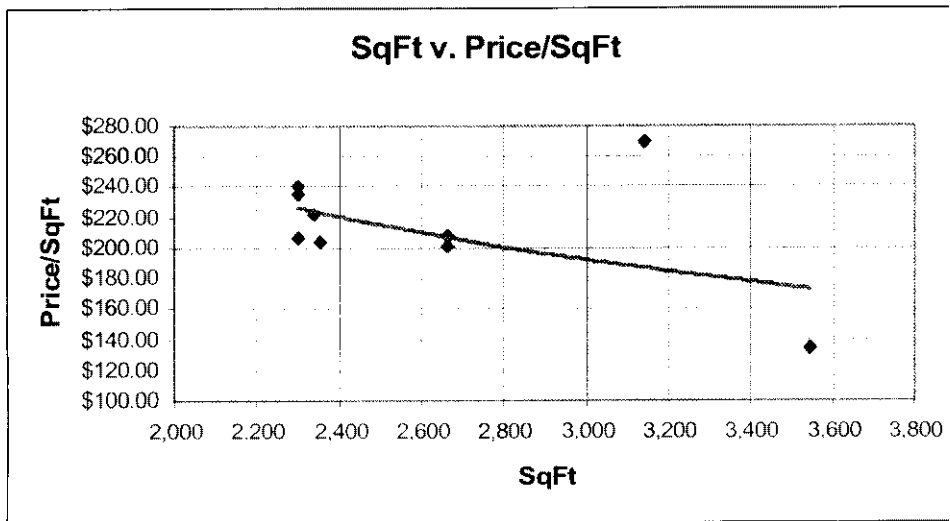
Model	BR	Bath	Base SqFt	Base Price*	Price/ SqFt*
Meadow	4	2.5	2,544	\$421,125	\$165.54
Falls	4	3.5	3,142	\$497,180	\$158.24
Canyon	6	4	3,505	\$520,105	\$148.39

** The Base Price reflects the builder's current asking price.*

In forming our opinion of the market value of the three model homes that have been constructed as a marketing tool for the Mercedes collection, we referred to the re-sales of recently constructed homes in the North Merced marketplace that appear in the chart on the following page:

Sale No.	APN	Address	House SqFt	Price	Price/SqFt	BR	Bath	Garage	Pool	Lot SqFt	Built	Rec Date	Doc. No.
1	058-443-009	3569 Sepulveda Ave.	2,300	\$475,000	\$207	5	3	3-Car	No	6,300	2004	5/10/06	33365
2	058-441-012	1337 Esplanade Dr.	2,300	\$542,000	\$236	5	3	3-Car	No	6,300	2004	6/6/03	39982
3	058-412-019	1229 Catalina Dr.	2,300	\$554,000	\$241	4	3	3-Car	No	6,000	2003	6/23/06	44693
4	058-451-017	1430 Santa Nella Ct.	2,338	\$520,000	\$222	5	3	2-Car	No	6,233	2004	7/21/06	51115
5	206-067-020	1238 Brightday Dr.	2,352	\$480,000	\$204	3	2.5	2-Car	No	3,600	2004	4/28/06	30933
6	058-416-001	1244 Catalina Dr.	2,663	\$535,000	\$201	5	3	2-Car	No	7,773	2003	4/18/06	27711
7	058-411-004	1277 Esplanade Dr.	2,663	\$551,500	\$207	5	3	2-Car	No	6,000	2003	2/3/03	9605
8	008-350-049	3318 Canterbury	3,142	\$849,500	\$270	4	3.5	3-Car	No	11032	2005	2/24/06	14600
9	206-083-004	1164 Pinnacle Dr.	3,545	\$476,000	\$134	5	2.5	2-Car	No	6,000	2005	4/18/06	27982

The sales are also depicted in the following graph which compares home square footage with price per square foot paid.



Based upon the above information, the estimated value of the model homes ranges from \$539,328 to \$613,375. These values are substantially higher than the asking prices for homes in Moraga, but reflect the fact that the model homes have many features and upgrades that the base prices for the models do not consider. These would include such items as back yard landscaping, substantial options/upgrades, and window coverings.

The sales prices obtained from re-sales of comparable homes in the Merced marketplace reflect homes built between 2003 and 2005. While we could not inspect the interior of these homes, it is reasonable to assume that most of them have back yard landscaping and window coverings installed, and that most of them have at least some options/upgrades.

The values of the model homes are summarized in the chart on the following page.

Model	BR	Bath	Base SqFt	Price/ SqFt	Value
Meadow	4	2.5	2,544	\$212	\$ 539,328
Falls	4	3.5	3,142	\$185	\$ 581,270
Canyon	6	4	3,505	\$175	\$ 613,375
Total					\$1,733,973

Retail Value of a Typical Residential Lot

For purposes of this discussion, retail value is defined as the market value of an individual lot sold to an individual buyer in an individual transaction. Retail value must be established because it is an indispensable variable in the discounted cash flow analysis that will be used to estimate the “bulk sale value” of the 72 residential lots.

In the Merced marketplace, there have been two single family lots sold in the past six months. These are either infill or custom lots. The only other single-family residential lots that have sold in recent months are custom home lots that are generally in excess of 1.0± acre in size and are not comparable to the subject lots. Although there has been an abundance of single-family residential development on lots similar in size to the subject lots, there have been no individual sales of such lots to determine the retail value. These lots have been sold together with single-family residences as part of various production-housing tracts.

Because we had no recent sales of individual single-family lots to compare to the subject lots, the land residual method was used to establish the retail value of the subject lots.

In this land residual analysis, the appraiser must determine an appropriate retail lot price that will be sufficient to cover the costs associated with developing the finished lots such as offsite improvements costs, real estate taxes, marketing and administrative expenses, developer’s profit, etc. In addition, a discount rate must also be addressed to allow for the absorption of the subject lots over a period of time.

The variables considered in this land residual analysis are described below.

Number of Lots: 72 residential lots.

Number of Lots Sold Per Quarter: As previously discussed in the Highest and Best Use section of this report, we have estimated the absorption rate for the 72 lots at 7.0 units per quarter

Target Land Residual Value: The target land residual value is the value of the property in its as-is superpad condition - \$5,040,000 (72 units x \$70,000 per unit).

Annual Lot Appreciation: Current demand for residential housing in the Merced marketplace suggests there is a slowing trend in residential properties and lot prices. Thus, we have given a 2.00% annual lot appreciation. This rate is supported by the Second Quarter 2006 *Korpacz Real Estate Investor Survey* published by PriceWaterhouseCoopers which indicates that market participants report an average increase in growth rates for lot pricing at 3.1%.

Offsite Costs: The offsite costs for the subject lots were provided to the appraiser by the developer, Lakemont Homes. They total \$16,773 per lot, or a total of \$1,207,656 for 72 lots.

Taxes per Lot: Taxes per lot have been calculated based upon the subject's current tax rate.

Tax Rate: The tax rate increase has been projected at 2.0% per annum, which is the maximum statutory increase for taxes in the State of California under Proposition 13.

Administrative Expenses: Administrative expenses have been deducted at a rate of 2.0% of the retail value of the finished lots. This expense is associated with fire liability insurance, workmen's compensation, FICA, State unemployment insurance, overhead, etc.

Marketing Expense: A marketing expense has been projected at 3.00% of the gross sales. The 3.00% level is considered to be appropriate for a production-built subdivision.

Discount Rate: Discount rates for real estate investments typically include a safe rate of return to compensate for the time value of money, as well as premium for risk. According to the Second Quarter 2006 *Real Estate Investor Survey* published by PriceWaterhouseCoopers, the discount rates (including developer's profit) for development properties, not subject to financing, ranged from 12.00% to 25.00%, with the average discount rate being 18.15%. We have selected a discount rate of 18% as appropriate for this analysis.

Construction/Presale Period: We have assumed a construction period of 3 months, resulting in absorption of 0 homes during the first quarter.

Conclusion of Retail Lot Price:

Based upon this analysis, an average retail lot price of \$119,000 is required to cover the expenses associated with the development and sale of the finished lots over a specified absorption period, while still providing the developer an appropriate reward (profit) for the risk and capital expenditure associated with the project. Using this average retail lot price, the indicated land residual value

is \$5,051,934, which closely approximates our target land residual value of \$5,040,000.

Retail Value of Typical Lot in Neighborhood 4	\$119,000
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**CALCULATION OF LAND RESIDUAL VALUE
Phase 1 - Neighborhood 4 - Mercedes Collection
72 Single Family Lots**

VARIABLES	
Number of Gross Acres	15.12
Number of Lots*	72
Number Sold Per Qtr	7
Average Retail Lot Price	\$119,000
Annual Lot Appreciation	2.00%
Offsite Costs	\$1,207,656
Tax Rate	1.0600000
Tax Per Lot	\$946
Tax Increase Rate	2.00%
Administrative Expense	2.00%
Marketing Expense	3.00%
Discount Rate	18.00%
Land Residual Value	\$5,051,934
Construction/Presale Period (months)	3

*Does Not Include 3 Lots for Model Homes

Qtr	No. of Lot Sales	Average Lot Price	Average Lot Appr.	Quarterly Income	Offsite Costs	Real Estate Taxes	Admin. Expense 2.00%	Marketing Expense 3.00%	SUBTOTAL	Discount Factor 18.00%	NET CASH FLOW
1	0	\$0	1.0000	\$0	(\$1,207,656)	(\$17,029)	\$0	\$0	(\$1,224,685)	0.9569	(\$1,171,947)
2	7	\$119,000	1.0050	\$837,165	\$0	(\$15,377)	(\$16,743)	(\$25,115)	\$779,930	0.9157	\$714,205
3	7	\$119,000	1.0100	\$841,351	\$0	(\$13,721)	(\$16,827)	(\$25,241)	\$785,562	0.8763	\$688,385
4	7	\$119,000	1.0151	\$845,558	\$0	(\$12,066)	(\$16,911)	(\$25,367)	\$791,214	0.8386	\$663,482
5	7	\$119,000	1.0202	\$849,785	\$0	(\$10,618)	(\$16,996)	(\$25,494)	\$796,678	0.8025	\$639,295
6	7	\$119,000	1.0253	\$854,034	\$0	(\$8,930)	(\$17,081)	(\$25,621)	\$802,403	0.7679	\$616,162
7	7	\$119,000	1.0304	\$858,304	\$0	(\$7,241)	(\$17,166)	(\$25,749)	\$808,148	0.7348	\$593,850
8	7	\$119,000	1.0355	\$862,596	\$0	(\$5,552)	(\$17,252)	(\$25,878)	\$813,914	0.7032	\$572,332
9	7	\$119,000	1.0407	\$866,909	\$0	(\$3,939)	(\$17,338)	(\$26,007)	\$819,624	0.6729	\$551,529
10	7	\$119,000	1.0459	\$871,244	\$0	(\$2,217)	(\$17,425)	(\$26,137)	\$825,464	0.6439	\$531,539
11	7	\$119,000	1.0511	\$875,600	\$0	(\$496)	(\$17,512)	(\$26,268)	\$831,324	0.6162	\$512,261
12	2	\$119,000	1.0564	\$251,422	\$0	(\$1)	(\$5,028)	(\$7,543)	\$238,850	0.5897	\$140,841
13	0	\$0	1.0617	\$0	\$0	\$0	\$0	\$0	\$0	0.5643	\$0
14	0	\$0	1.0670	\$0	\$0	\$0	\$0	\$0	\$0	0.5400	\$0
15	0	\$0	1.0723	\$0	\$0	\$0	\$0	\$0	\$0	0.5167	\$0
16	0	\$0	1.0777	\$0	\$0	\$0	\$0	\$0	\$0	0.4945	\$0
17	0	\$0	1.0831	\$0	\$0	\$0	\$0	\$0	\$0	0.4732	\$0
Total	72			\$6,613,968	(\$1,207,656)	(\$97,187)	(\$176,279)	(\$264,419)	\$7,068,427		\$5,051,934

Total
LAND RESIDUAL VALUE ESTIMATE \$5,051,934
TARGET VALUE \$5,040,000

Bulk Sale Value of 72 Residential Lots

Having established the retail value of an average lot in this neighborhood at \$119,000, we can incorporate this value into the discounted cash flow analysis used to determine the bulk sale value of the 72 subject lots.

Under this premise, the residential lots are not valued at their full “aggregate retail price.” If a developer were to purchase all of the lots in a single transaction, it is unlikely that the full “aggregate retail price” would be paid. Rather, the developer would require a discount from retail, in anticipation of selling the lots over some reasonable period of time (the absorption period). The bulk sale value is defined as:

“The most probable price, in a sale of *all* parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or in terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue stress. The bulk sale is executed in lieu of the seller proceeding with development and/or marketing of the individual parcels or tracts to end users, or merchant builders over a market-oriented absorption period for the type of project.” (*Appraisal Standards for Land-Secured Financings*, California Debt and Investment Advisory Commission, Revised July 2004, CDIAC 04-07, Page 29)

The method used by the appraiser to determine the “bulk sale value” of the lots is the discounted cash flow analysis, defined as:

“A valuation method under which the dates of sale and prices of finished properties are estimated to derive a cash flow which is discounted to present value by a market discount rate. This valuation method is also referred to as the *Subdivision Development or Land Development Approach to Value* in appraisal literature.” (*Appraisal Standards for Land-Secured Financings*, California Debt and Investment Advisory Commission, Revised July 2004, CDIAC 04-07, Page 30)

The discounted cash flow analysis estimates the net cash flow over the anticipated absorption period by subtracting expenses from the revenues generated by lot sales. Each period’s net cash flow is then discounted to a present worth to yield the total discounted property value. The variables used in this discounted cash flow analysis presented on the following page are as follows:

Number of Lots: 72 residential lots.

Number of Lots Sold Per Quarter: 7.0.

Average Retail Lot Price: \$119,000 per lot.

Annual Lot Appreciation: 2.0%

Taxes per Lot: Taxes per lot have been calculated based upon the subject's current tax rate.

Tax Rate: 2.0% per annum (Proposition 13).

Administrative Expenses: 2.00%

Marketing Expense: 3.00%.

Discount Rate: 18.00%

Construction/Presale Period: 1 quarter.

Conclusion of Bulk Sale Value:

Based upon the assumptions and variables discussed, the bulk sale value of the 72 vacant lots in Neighborhood 4 is estimated by the Discounted Cash Flow Analysis at \$6,207,586, or approximately \$86,000 per lot (rounded). This equates to a discount rate of approximately 27.73% from the retail lot value.

Our experience has shown that typical discounts for residential subdivisions range between 10.0% and 25.0% based upon the price range of the development, marketing conditions, and the size of development. The 27.73% rate calculated for the subject is slightly above the upper end of this range, reflecting its extended 2.75+ year projected absorption period.

Bulk Sale Value of 72 Residential Lots	\$6,207,586
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CALCULATION OF BULK SALE VALUE
Phase 1 - Neighborhood 4 - Mercedes Collection
72 Single Family Lots

VARIABLES	
Number of Lots*	72
Number Sold Per Qtr	7
Average Retail Lot Price	\$119,000
Annual Lot Appreciation	2.00%
Tax Rate	1.0600000
Tax Per Lot	\$946
Tax Increase Rate	2.00%
Administrative Expense	2.00%
Marketing Expense	3.00%
Discount Rate	18.00%
Final Bulk Sale Value Estimate	\$6,207,586
Construction/Presale Period (months)	3

*Does Not Include 3 Lots for Model Homes

Qtr	No. of Lot Sales	Average Lot Price	Average Lot Appr.	Quarterly Income	Real Estate Taxes	Admin. Expense 2.00%	Marketing Expense 3.00%	SUBTOTAL	Discount Factor 18.00%	NET CASH FLOW
1	0	\$0	1.0000	\$0	(\$17,029)	\$0	\$0	(\$17,029)	0.9569	(\$16,296)
2	7	\$119,000	1.0050	\$837,165	(\$15,377)	(\$16,743)	(\$25,115)	\$779,930	0.9157	\$714,205
3	7	\$119,000	1.0100	\$841,351	(\$13,721)	(\$16,827)	(\$25,241)	\$785,562	0.8763	\$688,385
4	7	\$119,000	1.0151	\$845,558	(\$12,066)	(\$16,911)	(\$25,367)	\$791,214	0.8386	\$663,482
5	7	\$119,000	1.0202	\$849,785	(\$10,618)	(\$16,996)	(\$25,494)	\$796,678	0.8025	\$639,295
6	7	\$119,000	1.0253	\$854,034	(\$8,930)	(\$17,081)	(\$25,621)	\$802,403	0.7679	\$616,162
7	7	\$119,000	1.0304	\$858,304	(\$7,241)	(\$17,166)	(\$25,749)	\$808,148	0.7348	\$593,850
8	7	\$119,000	1.0355	\$862,596	(\$5,552)	(\$17,252)	(\$25,878)	\$813,914	0.7032	\$572,332
9	7	\$119,000	1.0407	\$866,909	(\$3,939)	(\$17,338)	(\$26,007)	\$819,624	0.6729	\$551,529
10	7	\$119,000	1.0459	\$871,244	(\$2,217)	(\$17,425)	(\$26,137)	\$825,464	0.6439	\$531,539
11	7	\$119,000	1.0511	\$875,600	(\$496)	(\$17,512)	(\$26,268)	\$831,324	0.6162	\$512,261
12	2	\$119,000	1.0564	\$251,422	(\$1)	(\$5,028)	(\$7,543)	\$238,850	0.5897	\$140,841
13	0	\$0	1.0617	\$0	\$0	\$0	\$0	\$0	0.5643	\$0
14	0	\$0	1.0670	\$0	\$0	\$0	\$0	\$0	0.5400	\$0
15	0	\$0	1.0723	\$0	\$0	\$0	\$0	\$0	0.5167	\$0
16	0	\$0	1.0777	\$0	\$0	\$0	\$0	\$0	0.4945	\$0
17	0	\$0	1.0831	\$0	\$0	\$0	\$0	\$0	0.4732	\$0
Total	72			\$8,813,968	(\$97,187)	(\$176,279)	(\$264,419)	\$8,276,083		\$6,207,586

	Total
FINAL BULK SALE VALUE ESTIMATE	\$6,207,586
PER LOT	\$86,216
ROUNDED	\$86,000
INDICATED DISCOUNT FROM RETAIL	27.73%

PHASE 2 – VALUE OF LAND WITH PAPER LOTS

For purposes of this valuation, the following assumptions have been made about the Phase 2 property.

- 1) The land area is 43.87 gross acres, as shown on the “Phase 2 Survey Map” that appears on page 43 of this report. Of this total acreage, 43.32 gross acres is devoted to future residential development and 0.55 acres is a bicycle path the parallels the east property line
- 2) There is an unrecorded, tentative tract map that divides the property into 233 “paper” lots at an overall density of 5.38 lots per gross acre, based upon the 43.32 gross acres of land that will be devoted to the residential subdivision.
- 3) Offsite improvements consisting of asphalt paving and concrete curb and gutter have been installed along the Yosemite Avenue frontage.
- 4) Underground water, sewer, natural gas and electricity have been stubbed to the property line.

The same 12 sales discussed in the “Phase 1 – Value of Land with Paper Lots” were used in this valuation and will not be reiterated in this discussion. In summary, the comparable sale properties sold between July 2003 and May of 2006. The sale properties range in price from \$105,000 to \$508,065 per acre. For those sale properties that have approved final subdivision maps included in their purchase prices (Sales 1 through 4 and 6 through 9), the indicated value range is between \$20,000 per paper lot to \$90,000 per paper lot. In order to determine the value of the residential acreage within Phase 2, an individual discussion of each sale attribute can be found in the following paragraphs.

Real Property Rights Conveyed

The fee simple interest in the subject property is valued in this appraisal. All of the sales were transfers of fee simple interests. Therefore, all are considered equal with respect to property rights conveyed.

Financing Terms

The subject property is appraised assuming a cash or cash-equivalent sale. All of the sales sold on this basis. Hence, all are considered equal with respect to financing terms.

Conditions of Sale

The subject is appraised assuming normal conditions of sale. The comparable sales were considered “arm’s length” transactions. Sale No. 9, however, was sold at a steep discount because the master developer of Bellevue Ranch East was required to provide income-restricted housing in a portion of the overall Bellevue

development. This sale was deeply discounted to allow the buyer to develop such housing and still make a profit.

Market Conditions

As indicated by the sales, the market has been trending upward in prices. We were able to compare sales that occurred in Bellevue Ranch East to obtain a time adjustment. When comparing Sales 1 through 3 to Sale 7, the increase was approximately \$125,000 to \$175,000 per acre per year. Due to the current residential market slowing, we have estimated the time adjustment conservatively at \$125,000 per acre.

Sale 5 was time adjusted at a rate of 2% per month between its July 2005 sale date and September 2005, the point in time when the market began to level off. Sale 12 was time adjusted at the same 2% per month rate for the 27 months between its July 2003 contract date and September 2005.

Physical Characteristics

The physical characteristics that were considered were location, size, zoning, topography and proposed use.

Size: Sales 1 to 12 range from 3.72 to 94.11 acres in size. Phase 1 of Moraga contains 50.79 gross acres. Sales 1 to 11 are smaller and considered superior, while Sale 12 is larger and considered inferior.

Tract Map Included: Sales 1 through 4 and 6 through 9 had approved tentative tract maps included in the sale price. The subject has an approved, unrecorded tentative tract map for Phase 2 of Moraga. As such, these eight sales are considered similar to the subject.

Sales 5, 10, 11 and 12 had no tentative maps included in the sales price, and are considered inferior to the subject.

Density: The overall density for Phase 2 is 5.38 units per acre (233 lots on 43.32 gross acres). These densities are similar to those shown for Sales 1 to 8, 11 and 12.

The densities of Sales 9 and 10 are 8.87 and 11.27 units per acre. These sales are considered inferior to the subject.

Zoning: All sales have similar zoning and require no adjustment.

Utilities: All sales have all utilities services available and warrant no adjustment.

Offsites: Phase 2 is being appraised as if the offsite improvements along Yosemite Avenue are completed. Offsite improvements were in place in Sales 1 to 3, and 6 to 11, and these sales are considered similar to the subject.

Sales 4, 5 and 12 had no offsite improvements in place and are considered inferior to the subject.

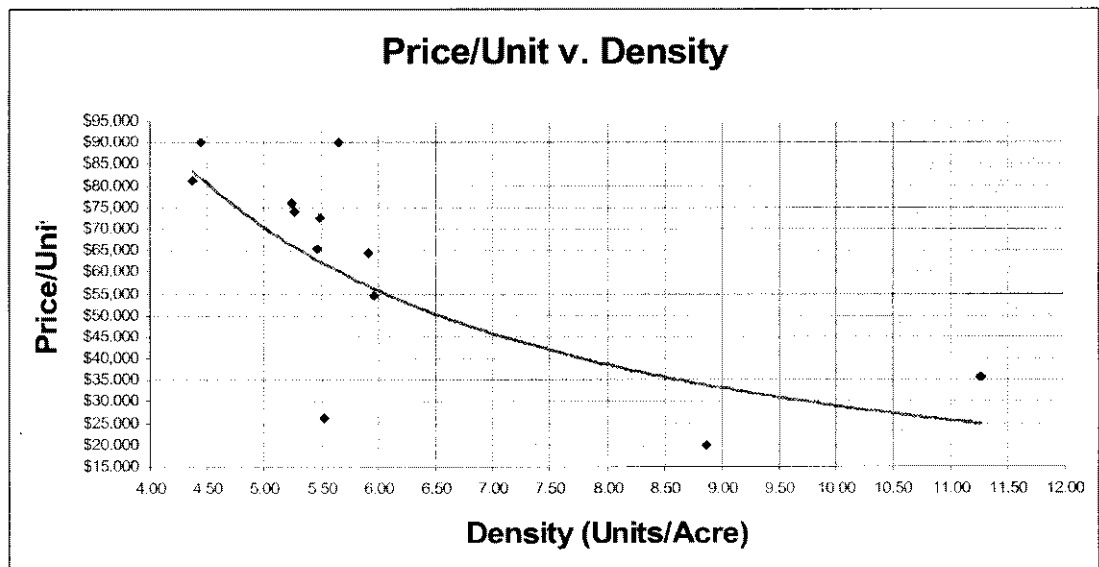
Summary of Comparisons – Phase 2

The chart on the below summarizes the comparisons discussed in the preceding paragraphs.

Sale No.	Price/Acre	Sale Date	Time Adj	Time Adj Price/Acre	Size (Acres)	Map Incl?	Density (Lots/Acre)	Zoning	Utilities	Offsites	Overall Adj	Indicated Value
1	\$229,204	Feb-05		\$125,000	33.90	Yes	4.37	PD-42	S,W,G,E	C,G	-	<\$354,204
2	\$232,333	Feb-05		\$125,000	30.00	Yes	5.47	PD-42	S,W,G,E	C,G	-	<\$357,333
3	\$274,401	Feb-05		\$125,000	28.79	Yes	5.49	PD-42	S,W,G,E	C,G	-	<\$399,401
4	\$200,000	Feb-05		\$125,000	42.38	Yes	5.97	PD-46	S,W,G,E	None	+	>\$325,000
5	\$375,000	Jul-05	4%	\$15,000	17.64	No	5.27	R-1	S,W,G,E	None	-	<\$480,000
6	\$380,068	Sep-05	0%	\$0	11.84	No	5.91	R-1	S,W,G,E	C,G	-	<\$471,284
7	\$400,891	Jan-06	0%	\$0	13.47	Yes	4.45	PD-42	S,W,G,E	C,G	-	<\$400,891
8	\$508,065	Mar-06	0%	\$0	3.72	Yes	5.65	PD-42	S,W,G,E	C,G	-	<\$508,065
9	\$399,233	Mar-06	0%	\$0	26.08	Yes	5.25	PD-42	S,W,G,E	C,G	-	<\$399,233
10	\$177,489	May-06	0%	\$0	9.24	Yes	8.87	PD-42	S,W,G,E	C,G	+	>\$177,489
11	\$404,624	Dec-05	0%	\$0	6.92	No	11.27	PD-8	S,W,G,E	C,G	-	<\$404,624
12	\$105,000	Jul-03	54%	\$56,700	94.11	No	5.53	PD-52	S,W,G,E	None	+	>\$184,800
Subj		Sep-06			43.87	Yes	5.53	PD-52	S,W,G,E	C,G		
					Phase 2							

The bracketed range in value for the subject property appears to be \$325,000 to \$354,204 per acre. In order to check this range, the table and graph shown on the following page were prepared:

Sale No.	Adj. Price/Acre	Size (Acres)	Adjusted Sales Price	No. of Lots	Price per Lot	Density Units/Acre
1	\$354,204	x 33.90 =	\$12,007,500 ÷	148 =	\$81,132	4.37
2	\$357,333	x 30.00 =	\$10,720,000 ÷	164 =	\$65,366	5.47
3	\$399,401	x 28.79 =	\$11,498,750 ÷	158 =	\$72,777	5.49
4	\$325,000	x 42.38 =	\$13,773,500 ÷	253 =	\$54,441	5.97
5	\$390,000	x 17.64 =	\$6,879,600 ÷	93 =	\$73,974	5.27
6	\$380,068	x 11.84 =	\$4,500,000 ÷	70 =	\$64,286	5.91
7	\$400,891	x 13.47 =	\$5,400,000 ÷	60 =	\$90,000	4.45
8	\$508,065	x 3.72 =	\$1,890,002 ÷	21 =	\$90,000	5.65
9	\$399,233	x 26.08 =	\$10,411,997 ÷	137 =	\$76,000	5.25
10	\$177,489	x 9.24 =	\$1,639,998 ÷	82 =	\$20,000	8.87
11	\$404,624	x 6.92 =	\$2,799,998 ÷	78 =	\$35,897	11.27
12	\$161,700	x 94.11 =	\$15,217,587 ÷	580 =	\$26,237	5.53



The subject neighborhoods planned for Phase 2 have densities of 5.62, 5.47 and 4.95 units per acre. From the graph, we have estimated unit values of \$62,000, \$62,500 and \$70,000 per lot. This translates into the following value opinions for the land in undeveloped condition, but with all entitlements in place. The per acre value opinions range from \$342,105 to \$348,145, which is well within the \$325,000 to \$354,204 range indicated by the bracketed time adjusted sales.

Phase 2

Neighborhood	Product Line	Density Units/Ac	Unit Value Opinion	Mapped x Lots =	Total Value Opinion ÷	Gross Acreage =	Per Acre Value Opinion
2	Mariposa	5.62	\$62,000/Lot x	115 =	\$7,130,000 ÷	20.48 =	\$348,145
3	Presidio	5.47	\$62,500/Lot x	52 =	\$3,250,000 ÷	9.50 =	\$342,105
4	Mercedes	4.95	\$70,000/Lot x	66 =	\$4,620,000 ÷	13.34 =	\$346,327

We have reconciled the price per acre at \$345,000. Multiplying this unit value by the subject's 43.87 gross acres results in a value opinion of \$15,135,150.

43.87 Gross Acres x \$345,000 per Gross Acre = \$15,135,150

SUMMARY OF VALUES AND VALUE CONCLUSION

Phase 1 - Aggregate Retail Value of Model Homes

Neighborhood 2 – Mariposa Collection	\$ 1,364,636
Neighborhood 3 – Presidio Collection	\$ 1,491,696
Neighborhood 4 – Mercedes Collection	<u>\$ 1,733,973</u>
Total Aggregate Retail Value of Models	\$ 4,590,305

Phase 1 - Bulk Sale Value of Vacant Homesites

Neighborhood 2 – Mariposa Collection	\$ 5,886,769
Neighborhood 3 – Presidio Collection	\$ 9,277,791
Neighborhood 4 – Mercedes Collection	<u>\$ 6,207,586</u>
Total Bulk Sale Value of Vacant Homesites	\$21,372,146

Phase 1 - Total Aggregate Value \$25,962,451

Phase 2 – Value of Land with Paper Lots \$15,135,150

Total Aggregate Value \$41,097,601

Rounded \$41,100,000

VALUATION

After carefully considering all of the data and pertinent information in regard to the property under appraisal, it is our opinion that the market value as of the effective date of appraisal, October 31, 2006, is as follows:

Total Hypothetical Market Value	\$41,100,000
---------------------------------	--------------

The above opinion of value is linked to an exposure period of 6 to 12 months. This report was prepared on November 1, 2006.

Market Value Definition

This appraisal has been prepared in accordance with the following market value definition:

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 a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress. (*Appraisal Standards for Land-Secured Financings, California Debt and Investment Advisory Commission, Revised July 2004, CDIAAC 04-07, Page 30*)

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. (*The Dictionary of Real Estate Appraisal, 4th Edition, Chicago: Appraisal Institute, 2002, page 113*)

Bulk Sale Value

The most probable price, in a sale of *all* parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or in terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue stress. The bulk sale is executed in lieu of the seller proceeding with development and/or marketing of the individual parcels or tracts to end users, or merchant builders over a market-oriented absorption period for the type of project. (*Appraisal Standards for Land-Secured Financings, California Debt and Investment Advisory Commission, Revised July 2004, CDIAAC 04-07, Page 29*)

Discounted Cash Flow Analysis

A valuation method under which the dates of sale and prices of finished properties are estimated to derive a cash flow which is discounted to present value by a market discount rate. This valuation method is also referred to as the *Subdivision Development or Land Development Approach to Value* in appraisal

literature. (*Appraisal Standards for Land-Secured Financings, California Debt and Investment Advisory Commission, Revised July 2004, CDIAC 04-07, Page 30*)

EXPOSURE TIME

Standards Rule 1-2(b) of USPAP requires the appraiser to provide an estimate of exposure time for the subject property. Exposure time is always presumed to precede the effective date of the appraisal. Exposure time may be defined as follows:

"The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market." (Appraisal Standards Board of the Appraisal Foundation. *Statement on Appraisal Standards No. 6, "Reasonable Exposure Time in Market Value Estimates,"* October 1992).

Based upon the current market conditions in Merced, we estimate the exposure time prior to sale at the appraised value at 6 to 12 months.

CERTIFICATION**I, Lawrence D. Hopper, certify that:**

- I have made a personal inspection of the subject property that is the subject of this report, and have considered all of the pertinent facts affecting the value thereof.
- All market data pertaining to the final value opinion has been accumulated from various sources and, where possible, personally examined and verified as to details, motivation and validity.
- As of the date of this report, I have completed the continuing education program of the Appraisal Institute.
- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property or the transaction that is the subject of this report, and no personal interest or bias with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved in this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the 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.
- The 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.
- No one provided significant professional assistance to the person signing this report.

- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- I have the appropriate education and experience to complete the assignment in a competent manner. The reader is referred to the appraiser's statement of qualifications in the Addenda.



Lawrence D. Hopper, MAI
CA #AG001738

Dated at Fresno, California
this 31st Day of October, 2006.

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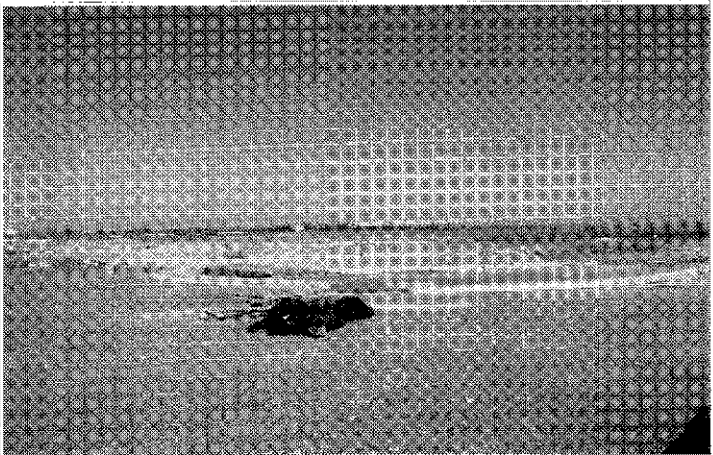
ADDENDA

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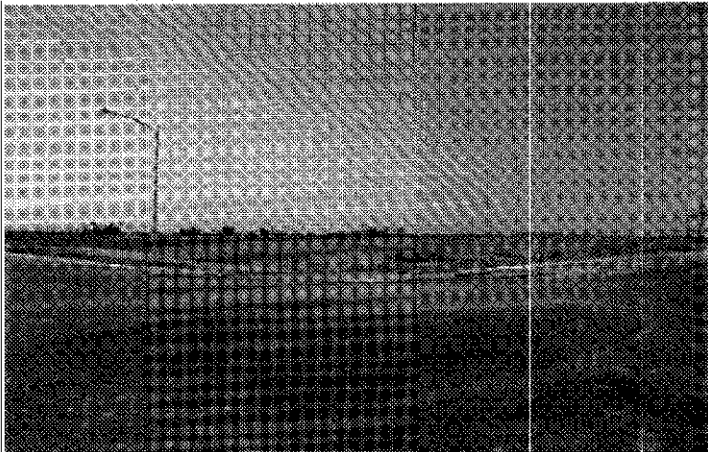
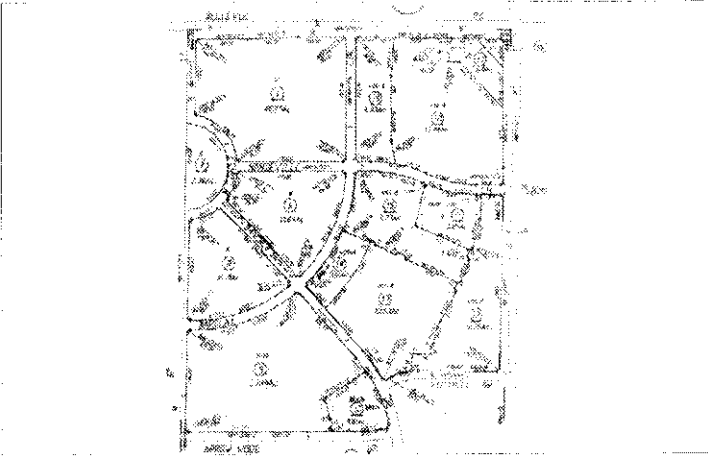
6740 N. West Avenue, Suite 107, Fresno, CA 93711 (559) 261-9136

Land Sale No. 01

RPA1-4482

RESIDENTIAL LAND Bellevue Ranch Lots V-8A & V-9 Merced CA														
SELLER Bellevue Ranch - Merced, L.P. Crosswind Communities														
BUYER Kimball Hill Bellevue Ranch LLC														
SALE DATE & RECORDING INFORMATION Date of Deed 02/23/05 Date Recorded 03/24/05 Document Number 05-021361 Book/Volume Page														
APN/THOMAS BROS ATLAS Assessor's Parcel Number Merced County 224-030-001.002 Thomas Bros. Atlas 754 E 5														
LAND DESCRIPTION Size in SqFt 1,476,684 Size in Acres 33.900 No. of Units 148 4.37 Units/Acr Shape Irregular Frontage Corner Topography Level Zoning PD-42 Zone Class Single Family Residential Street Type Paved Utilities Sewer Water Natural Gas Electricity Offsite Imps Curb Gutter Sidewalk Storm Drain Rail Served No Highest & Best Use Residential Subdivision														
SALES PRICE INFORMATION Property Rights Transferred Fee Simple Marketing Period Not Exposed Unadjusted Sales Price \$7,770,000.00 Adjustment to Sales Price \$0.00 Adjusted Sales Price \$7,770,000.00 Reason for Adjustment		LOAN INFORMATION Downpayment \$7,770,000.00 1st TD Amount \$0.00 Debt Service Terms Lender All Cash Transaction 2nd TD Amount \$0.00 Debt Service Terms Lender												
VALUE INDICATORS <table border="1"> <thead> <tr> <th></th> <th>From Actual Sales Price</th> <th>From Adjusted Sales Price</th> </tr> </thead> <tbody> <tr> <td>Price/SqFt</td> <td>\$5.26</td> <td>\$5.26</td> </tr> <tr> <td>Price/Acre</td> <td>\$229,204</td> <td>\$229,204</td> </tr> <tr> <td>Price/Unit</td> <td>\$52,500</td> <td>\$52,500</td> </tr> </tbody> </table>				From Actual Sales Price	From Adjusted Sales Price	Price/SqFt	\$5.26	\$5.26	Price/Acre	\$229,204	\$229,204	Price/Unit	\$52,500	\$52,500
	From Actual Sales Price	From Adjusted Sales Price												
Price/SqFt	\$5.26	\$5.26												
Price/Acre	\$229,204	\$229,204												
Price/Unit	\$52,500	\$52,500												
REMARKS This sale property is identified as Lots V-8A and V-9 of Bellevue Ranch, which contain total of 33.90 acres. This property sold in February of 2005 at a purchase price of \$7,770,000. At the time of sale an approved tentative subdivision map was in place for 148 residential lots. Analysis of this sale indicates that the property was purchased on the basis of \$229,204 per acre, or \$52,500 per paper lot. The property was zoned PD-42, which allows for single-family residential subdivision development. All utility services were available to the site at the time of purchase. Offsite improvements were partially installed and consisted of concrete curbs, gutters and sidewalks.														

We have obtained the information contained herein from sources that are deemed to be reliable. We make no representation, warranty or guarantee, express or implied, as to the accuracy or reliability of the information contained herein. We are licensed subscribers of COMPS Infosystems data services for Fresno, Madeta and Merced Counties, California. Because we may have obtained all or part of this information from COMPS, reproduction without our expressed written consent is prohibited.

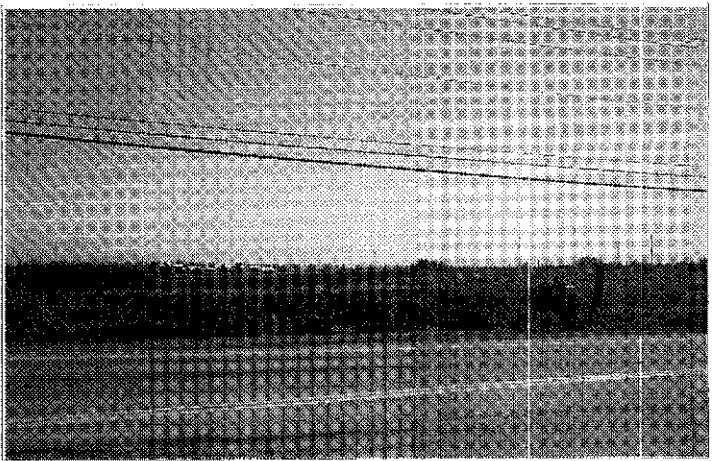
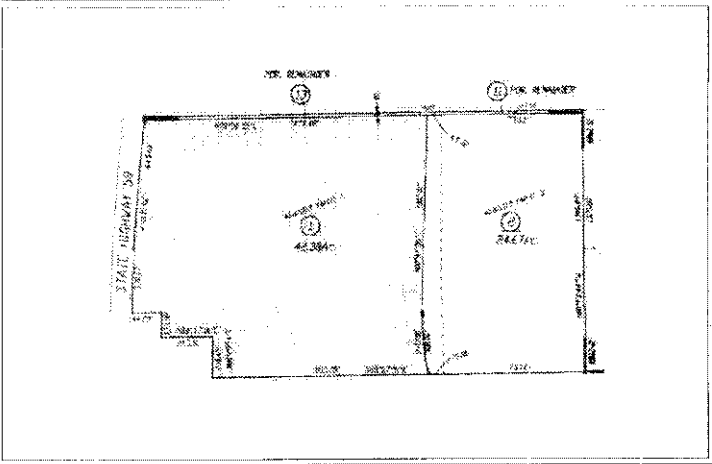
Bellevue Ranch Lots V-14 & V-15A Merced CA			
SELLER	Bellevue Ranch-Merced, L.P.		
BUYER	Ryland Homes of California, Inc.		
SALE DATE & RECORDING INFORMATION			
Date of Deed 02/24/05 Date Recorded 03/18/05 Document Number 05-19771 Book/Volume Page			
APN/THOMAS BROS ATLAS			
Assessor's Parcel Number	Merced County		
224-020-009.014			
Thomas Bros. Atlas	754 E 5		
LAND DESCRIPTION			
Size in SqFt	1,306,800		
Size in Acres	30.000		
No. of Units	164	5.47 Units/Acr	
Shape	Irregular		
Frontage	Corner		
Topography	Level		
Zoning	PD-42		
Zone Class	Single Family Residential		
Street Type	Paved		
Utilities	Sewer Water Natural Gas Electricity		
Offsite Imps	Curb Gutter Sidewalk Storm Drain		
Rail Served	No		
Highest & Best Use	Residential Subdivision		
SALES PRICE INFORMATION		LOAN INFORMATION	
Property Rights Transferred	Fee Simple	Downpayment	\$6,970,000.00
Marketing Period	Not Exposed	1st TD Amount	\$0.00
Unadjusted Sales Price	\$6,970,000.00	Debt Service	
Adjustment to Sales Price	\$0.00	Terms	
Adjusted Sales Price	\$6,970,000.00	Lender	All Cash Transaction
Reason for Adjustment		2nd TD Amount	\$0.00
		Debt Service	
		Terms	
		Lender	
VALUE INDICATORS			
	From Actual Sales Price	From Adjusted Sales Price	
Price/SqFt	\$5.33	\$5.33	
Price/Acre	\$232,333	\$232,333	
Price/Unit	\$42,500	\$42,500	
REMARKS			
This sale is identified as Lots V-14 and V-15A of Bellevue Ranch, which contain total of 30.00 acres. This property also sold in February of 2005 at a purchase price of \$6,970,000. An approved tentative subdivision map was in place for this sale property, and calls for 164 residential lots. Analysis of this sale indicates that the property was purchased on the basis of \$232,333 per acre, or \$42,500 per paper lot. The property was zoned PD-42, which allows for single-family residential subdivision development. All utility services were available to the site at the time of purchase. Offsite improvements were partially installed and consisted of concrete curbs, gutters and sidewalks.			

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RESIDENTIAL LAND Bellevue Ranch Lots V-15B, V-15D, & V-16B Merced CA													
SELLER Bellevue Ranch-Merced, L.P. Crosswinds Communities													
BUYER Merced Bellevue Ranch, L.P. (Matthews Homes)													
SALE DATE & RECORDING INFORMATION Date of Deed 02/25/05 Date Recorded 02/25/05 Document Number 05-19985 Book/Volume Page													
APN/THOMAS BROS ATLAS Assessor's Parcel Number Merced County 224-020-013.015.019 Thomas Bros. Atlas 754 E 5													
LAND DESCRIPTION Size in SqFt 1,254,092 Size in Acres 28.790 No. of Units 158 5.49 Units/Acr Shape Irregular Frontage Corner Topography Level Zoning PD-42 Zone Class Single Family Residential Street Type Paved Utilities Sewer, Water, Natural Gas, Electricity Offsite Imps Curb, Gutter, Sidewalk, Storm Drain Rail Served No Highest & Best Use Residential Subdivision													
SALES PRICE INFORMATION Property Rights Transferred Fee Simple Marketing Period Not Exposed Unadjusted Sales Price \$7,900,000.00 Adjustment to Sales Price \$0.00 Adjusted Sales Price \$7,900,000.00 Reason for Adjustment	LOAN INFORMATION Downpayment \$7,900,000.00 1st TD Amount \$0.00 Debt Service Terms Lender All Cash Transaction 2nd TD Amount \$0.00 Debt Service Terms Lender												
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	From Actual Sales Price	From Adjusted Sales Price											
Price/SqFt	\$6.30	\$6.30											
Price/Acre	\$274,401	\$274,401											
Price/Unit	\$50,000	\$50,000											
REMARKS This sale is identified as Lots V-15B, V-15D, and V-16B of Bellevue Ranch, which contains approximately 28.79 acres. This property sold in February 2005 at a purchase price of \$7,900,000, or \$274,401 per acre. There is an approved tentative subdivision map of 158 single-family residential lots included in the purchase. Based on a purchase price, this equates to a purchase price of \$50,000 per paper lot. The property was zoned PD-42, which allows for single-family residential subdivision development. All utility services were available to the site at the time of purchase. Offsite improvements were partially installed and consisted of concrete curbs, gutters and sidewalks.													

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RESIDENTIAL LAND ES Hwy 59, N/O Yosemite Ave. Merced CA																																									
SELLER Absolute, LLC																																									
BUYER Morrison Homes, Inc	<table border="1"> <thead> <tr> <th colspan="2">SALES PRICE INFORMATION</th> <th colspan="2">LOAN INFORMATION</th> </tr> </thead> <tbody> <tr> <td>Property Rights Transferred</td> <td>Fee Simple</td> <td>Downpayment</td> <td>\$8,476,000.00</td> </tr> <tr> <td>Marketing Period</td> <td>Not Available</td> <td>1st TD Amount</td> <td>\$0.00</td> </tr> <tr> <td>Unadjusted Sales Price</td> <td>\$8,476,000.00</td> <td>Debt Service</td> <td></td> </tr> <tr> <td>Adjustment to Sales Price</td> <td>\$0.00</td> <td>Terms</td> <td></td> </tr> <tr> <td>Adjusted Sales Price</td> <td>\$8,476,000.00</td> <td>Lender</td> <td>All Cash Transaction</td> </tr> <tr> <td>Reason for Adjustment</td> <td></td> <td>2nd TD Amount</td> <td>\$0.00</td> </tr> <tr> <td></td> <td></td> <td>Debt Service</td> <td></td> </tr> <tr> <td></td> <td></td> <td>Terms</td> <td></td> </tr> <tr> <td></td> <td></td> <td>Lender</td> <td></td> </tr> </tbody> </table>	SALES PRICE INFORMATION		LOAN INFORMATION		Property Rights Transferred	Fee Simple	Downpayment	\$8,476,000.00	Marketing Period	Not Available	1st TD Amount	\$0.00	Unadjusted Sales Price	\$8,476,000.00	Debt Service		Adjustment to Sales Price	\$0.00	Terms		Adjusted Sales Price	\$8,476,000.00	Lender	All Cash Transaction	Reason for Adjustment		2nd TD Amount	\$0.00			Debt Service				Terms				Lender	
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		Terms																																							
		Lender																																							
SALE DATE & RECORDING INFORMATION Date of Deed 02/14/05 Date Recorded 03/01/05 Document Number 05-14639 Book/Volume Page	<table border="1"> <thead> <tr> <th>VALUE INDICATORS</th> <th>From Actual Sales Price</th> <th>From Adjusted Sales Price</th> </tr> </thead> <tbody> <tr> <td>Price/SqFt</td> <td>\$4.59</td> <td>\$4.59</td> </tr> <tr> <td>Price/Acre</td> <td>\$200,000</td> <td>\$200,000</td> </tr> <tr> <td>Price/Unit</td> <td>\$33,502</td> <td>\$33,502</td> </tr> </tbody> </table>	VALUE INDICATORS	From Actual Sales Price	From Adjusted Sales Price	Price/SqFt	\$4.59	\$4.59	Price/Acre	\$200,000	\$200,000	Price/Unit	\$33,502	\$33,502																												
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Price/Acre	\$200,000	\$200,000																																							
Price/Unit	\$33,502	\$33,502																																							
APN/THOMAS BROS ATLAS Assessor's Parcel Number 206-040-001 Merced County Thomas Bros. Atlas 794 B 1	REMARKS This sale is located on the east side of Highway 59, north of Yosemite Avenue in Merced and sold in February of 2005. This property contains approximately 42.38 acres, and the selling broker indicated that the purchase price was \$200,000 per acre, or \$8,476,000. At the time of sale, the property was mapped for 253 single residential lots, indicating a purchase of \$33,502 per paper lot. The property is zoned PD 46, which allows for residential subdivision development, and is general planned for residential uses. All municipal utility services were available to this property at the purchase. This property was purchased by the developer of an adjacent subdivision. According to the broker involved in a transaction, the buyer did not pay any premium for the property due to its proximity to their existing subdivision.																																								
LAND DESCRIPTION Size in SqFt 1,846,073 Size in Acres 42.380 No. of Units 253 5.97 Units/Acr Shape Irregular Frontage Interior Topography Level Zoning PD-46 Zone Class Single Family Residential Street Type Paved Utilities Sewer, Water, Natural Gas, Electricity Offsite Imps None Rail Served No Highest & Best Use Residential Subdivision																																									

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Land Sale No. 05

RPA1-4759

RESIDENTIAL LAND NWC "G" Street & Bellevue Road Merced CA 95348														
SELLER Gragnani														
BUYER Merced University Village, LLC, et al														
SALE DATE & RECORDING INFORMATION Date of Deed 07/18/05 Date Recorded 11/15/05 Document Number 05-00983 Book/Volume Page														
APN/THOMAS BROS ATLAS Assessor's Parcel Number Merced County 052-380-008 Thomas Bros. Atlas 754 E 2														
LAND DESCRIPTION Size in SqFt 768,398 Size in Acres 17.640 No. of Units 93 5.27 Units/Acr Shape Irregular Frontage Corner Topography Level Zoning PD-42 Zone Class Potential Subdivision Street Type Paved Utilities Sewer Water Natural Gas Electricity Offsite Imps None Rail Served No Highest & Best Use Single Family Residential														
SALES PRICE INFORMATION Property Rights Transferred Fee Simple Marketing Period N/A Unadjusted Sales Price \$6,615,000.00 Adjustment to Sales Price Adjusted Sales Price \$6,615,000.00 Reason for Adjustment		LOAN INFORMATION Downpayment 1st TD Amount Debt Service Terms Cash to Seller Lender 2nd TD Amount Debt Service Terms Lender												
VALUE INDICATORS <table border="1"> <thead> <tr> <th></th> <th>From Actual Sales Price</th> <th>From Adjusted Sales Price</th> </tr> </thead> <tbody> <tr> <td>Price/SqFt</td> <td>\$8.61</td> <td>\$8.61</td> </tr> <tr> <td>Price/Acre</td> <td>\$375,000</td> <td>\$375,000</td> </tr> <tr> <td>Price/Unit</td> <td>\$71.129</td> <td>\$71.129</td> </tr> </tbody> </table>					From Actual Sales Price	From Adjusted Sales Price	Price/SqFt	\$8.61	\$8.61	Price/Acre	\$375,000	\$375,000	Price/Unit	\$71.129
	From Actual Sales Price	From Adjusted Sales Price												
Price/SqFt	\$8.61	\$8.61												
Price/Acre	\$375,000	\$375,000												
Price/Unit	\$71.129	\$71.129												
REMARKS At the time of sale, the property had no tentative tract map in place. However, it is reasonable that the property could be developed to a density of 5.3 lots per acre based on the typical densities in the Bellevue Ranch development.														

RESIDENTIAL LAND Bellevue Ranch East Lot V-8B Merced CA 95348														
SELLER Bellevue Ranch - Merced, L.P														
BUYER Kimball Hill Bellevue Ranch LLC														
SALE DATE & RECORDING INFORMATION Date of Deed 12/23/05 Date Recorded 12/30/05 Document Number 05-103274 Book/Volume Page														
APN/THOMAS BROS ATLAS Assessor's Parcel Number Merced County 224-030-003 Thomas Bros. Atlas 754 E 6														
LAND DESCRIPTION Size in SqFt 586,753 Size in Acres 13.470 No. of Units 60 4.45 Units/Acr Shape Rectangular Frontage Corner Topography Level Zoning PD-42 Zone Class Single Family Residential Street Type Paved Utilities Sewer, Water, Natural Gas, Electricity Offsite Imps Curb, Gutter, Sidewalk Rail Served No Highest & Best Use Single Family Residential														
SALES PRICE INFORMATION Property Rights Transferred Fee Simple Marketing Period Unadjusted Sales Price \$5,400,000.00 Adjustment to Sales Price Adjusted Sales Price \$5,400,000.00 Reason for Adjustment			LOAN INFORMATION Downpayment 1st TD Amount Debt Service Terms Lender 2nd TD Amount Debt Service Terms Lender											
VALUE INDICATORS <table border="1"> <thead> <tr> <th></th> <th>From Actual Sales Price</th> <th>From Adjusted Sales Price</th> </tr> </thead> <tbody> <tr> <td>Price/SqFt</td> <td>\$9.20</td> <td>\$9.20</td> </tr> <tr> <td>Price/Acre</td> <td>\$400,891</td> <td>\$400,891</td> </tr> <tr> <td>Price/Unit</td> <td>\$90,000</td> <td>\$90,000</td> </tr> </tbody> </table>				From Actual Sales Price	From Adjusted Sales Price	Price/SqFt	\$9.20	\$9.20	Price/Acre	\$400,891	\$400,891	Price/Unit	\$90,000	\$90,000
	From Actual Sales Price	From Adjusted Sales Price												
Price/SqFt	\$9.20	\$9.20												
Price/Acre	\$400,891	\$400,891												
Price/Unit	\$90,000	\$90,000												
REMARKS At the time of sale an approved tentative subdivision map was in place for 60 residential lots. Offsite improvements were partially installed and consisted of concrete curbs, gutters and sidewalks primarily along Bancroft Drive. We were unable to confirm this sale with any of the parties involved with it. Thus, we used the sales price from the taxes paid on the Grant Deed of \$5,940.														

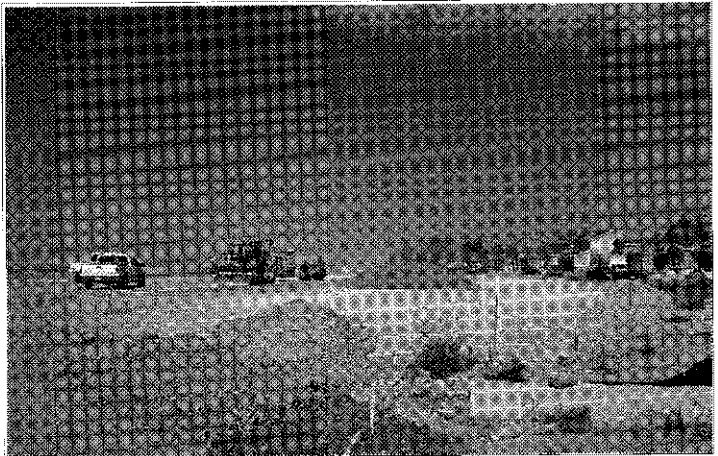
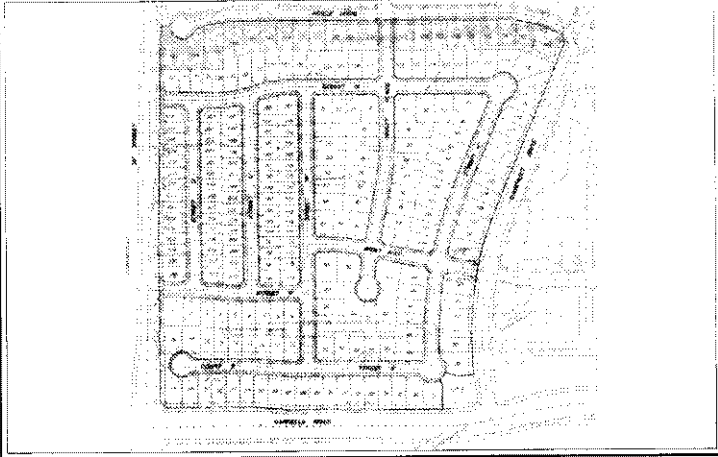
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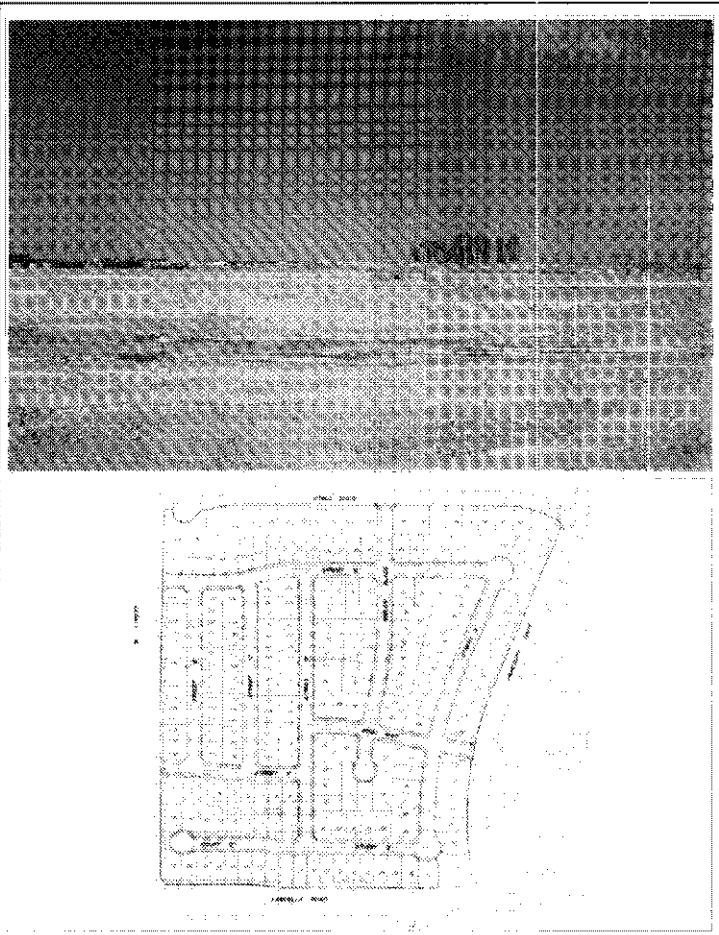
Land Sale No. 07

RPA1-4824

RESIDENTIAL LAND SS Noble; Blwn "M" & Bancroft Merced CA 95340														
SELLER Bellevue Ranch - Merced, L.P. A California Limited Liability Company														
BUYER Kimball Hill Bellevue Ranch, LLC A California Limited Liability Company														
SALE DATE & RECORDING INFORMATION Date of Deed 03/22/06 Date Recorded 04/04/06 Document Number 2006-024381 Book/Volume Page														
APN/THOMAS BROS ATLAS Assessor's Parcel Number Merced County 224-030-020 Thomas Bros. Atlas 754 E 6														
LAND DESCRIPTION Size in SqFt 162,043 Size in Acres 3.720 No. of Units 21 5.65 Units/Acr Shape Irregular Frontage Corner Topography Level Zoning PD-42 Bellevue Ranch Zone Class Single Family Residential Street Type Paved Utilities Sewer Water Natural Gas Electricity Offsite Imps Curb Gutter Sidewalk Storm Drain Rail Served No Highest & Best Use Residential Subdivision														
SALES PRICE INFORMATION Property Rights Transferred Fee Simple Marketing Period Not Exposed Unadjusted Sales Price \$1,890,000.00 Adjustment to Sales Price \$0.00 Adjusted Sales Price \$1,890,000.00 Reason for Adjustment			LOAN INFORMATION Downpayment \$1,890,000.00 1st TD Amount \$0.00 Debt Service Terms Lender All Cash Transaction 2nd TD Amount \$0.00 Debt Service Terms Lender											
VALUE INDICATORS <table border="1"> <thead> <tr> <th></th> <th>From Actual Sales Price</th> <th>From Adjusted Sales Price</th> </tr> </thead> <tbody> <tr> <td>Price/SqFt</td> <td>\$11.66</td> <td>\$11.66</td> </tr> <tr> <td>Price/Acre</td> <td>\$508,065</td> <td>\$508,065</td> </tr> <tr> <td>Price/Unit</td> <td>\$90,000</td> <td>\$90,000</td> </tr> </tbody> </table>				From Actual Sales Price	From Adjusted Sales Price	Price/SqFt	\$11.66	\$11.66	Price/Acre	\$508,065	\$508,065	Price/Unit	\$90,000	\$90,000
	From Actual Sales Price	From Adjusted Sales Price												
Price/SqFt	\$11.66	\$11.66												
Price/Acre	\$508,065	\$508,065												
Price/Unit	\$90,000	\$90,000												
REMARKS This is a sale of Parcel 1 of Parcel Map of Bellevue Ranch East recorded in Book 101, Pages 50-53 of Parcel Maps, Merced County. The parcel contains 3.72 gross acres before street dedications, and 3.59 net acres divided into 21 residential homesites. The verified purchase price was \$1,890,000 for 3.72 acres, or \$508,065 per acre. The vesting tentative subdivision map calls for 21 single family lots with an average lot size of 7,451 square feet. The indicated price per lot is \$90,000. Additional money could be paid should the sales prices of the proposed homes exceed a specified level (not reported to the appraiser). The land was bought in superpad condition, with all backbone infrastructure in place. The buyer is responsible for the cost of installing the streets and utilities within the superpad. The purchase of these 21 lots took place in conjunction with an additional 60 lots located on Lot 8B (not a part of this appraisal).														

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RESIDENTIAL LAND		
WS Bancroft, Blwn Noble & Cardella Merced CA 95340		
SELLER	Bellevue Ranch - Merced, L.P. A California Limited Liability Company	
BUYER	Merced Bellevue Ranch, L.P. A California Limited Partnership	
SALE DATE & RECORDING INFORMATION		
Date of Deed	03/24/06	
Date Recorded	03/30/06	
Document Number	2006-023221	
Book/Volume		
Page		
APN/THOMAS BROS ATLAS		
Assessor's Parcel Number	Merced County 224-030-021	
Thomas Bros. Atlas	754 E. 6	
LAND DESCRIPTION		
Size in SqFt	1,136,045	
Size in Acres	26.080	
No. of Units	137	5.25 Units/Acr
Shape	Irregular	
Frontage	Interior	
Topography	Level	
Zoning	PD-42 Bellevue Ranch	
Zone Class	Single Family Residential	
Street Type	Paved	
Utilities	Sewer Water Natural Gas Electricity	
Offsite Imps	Curb Gutter Sidewalk Storm Drain	
Rail Served	No	
Highest & Best Use	Residential Subdivision	
SALES PRICE INFORMATION		
Property Rights Transferred	Fee Simple	
Marketing Period	Not Exposed	
Unadjusted Sales Price	\$10,412,000.00	
Adjustment to Sales Price	\$0.00	
Adjusted Sales Price	\$10,412,000.00	
Reason for Adjustment		
VALUE INDICATORS		
	From Actual Sales Price	From Adjusted Sales Price
Price/SqFt	\$9.17	\$9.17
Price/Acre	\$399,233	\$399,233
Price/Unit	\$76,000	\$76,000
REMARKS		
<p>This is a sale of Parcel 2 of Parcel Map of Bellevue Ranch East recorded in Book 101, Pages 50-53 of Parcel Maps, Merced County. The parcel contains 26.08 gross acres before street dedications, and 20.01 net acres divided into 137 residential homesites.</p> <p>The verified purchase price was \$10,412,000 for 26.08 acres, or \$399,233 per acre. The vesting tentative subdivision map calls for 137 single family lots with an average lot size of 6,362 square feet. The indicated price per lot is \$76,000. Additional money could be paid should the sales prices of the proposed homes exceed a specified level (not reported to the appraiser). The land was bought in superpad condition, with all backbone infrastructure in place.</p>		




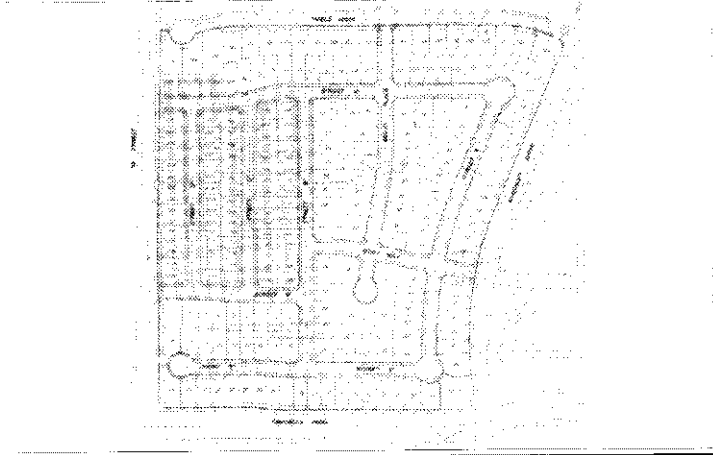
LOAN INFORMATION	
Downpayment	\$10,412,000.00
1st TD Amount	\$0.00
Debt Service	
Terms	
Lender	All Cash Transaction
2nd TD Amount	\$0.00
Debt Service	
Terms	
Lender	

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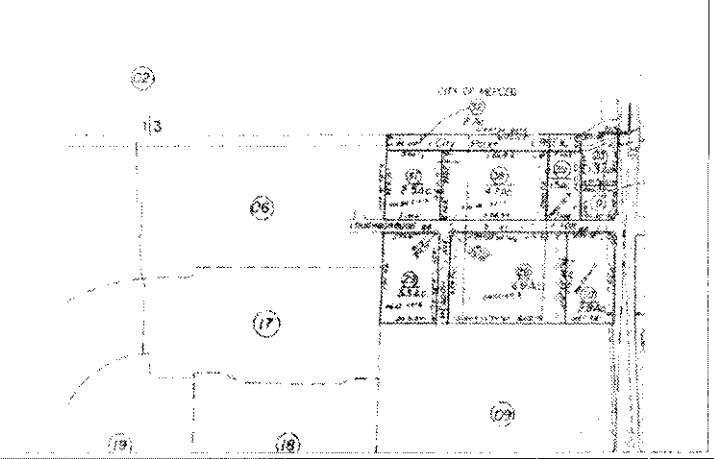
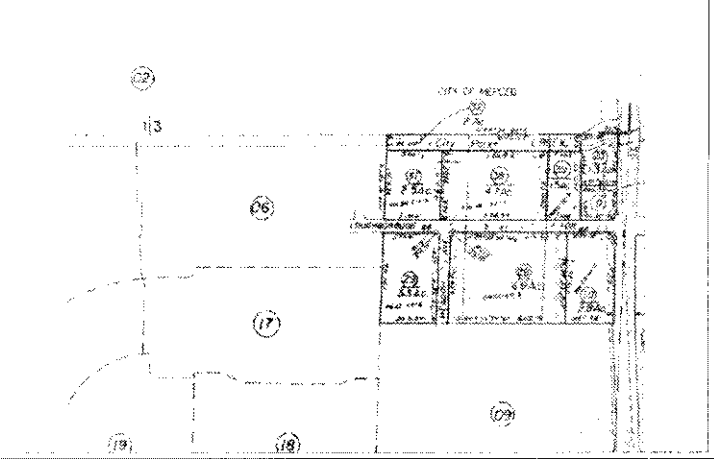
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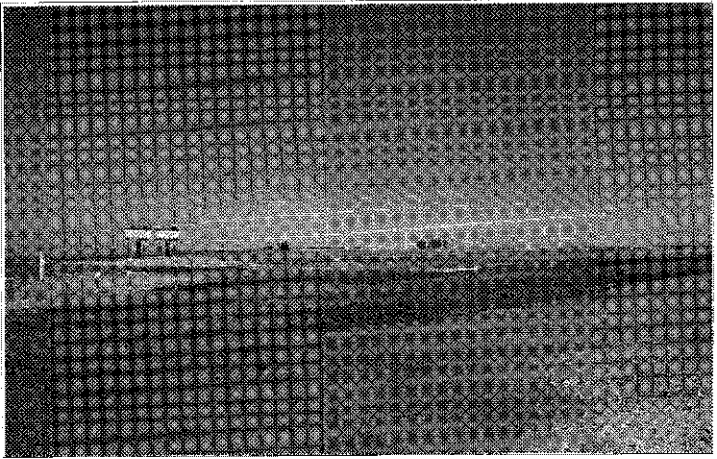
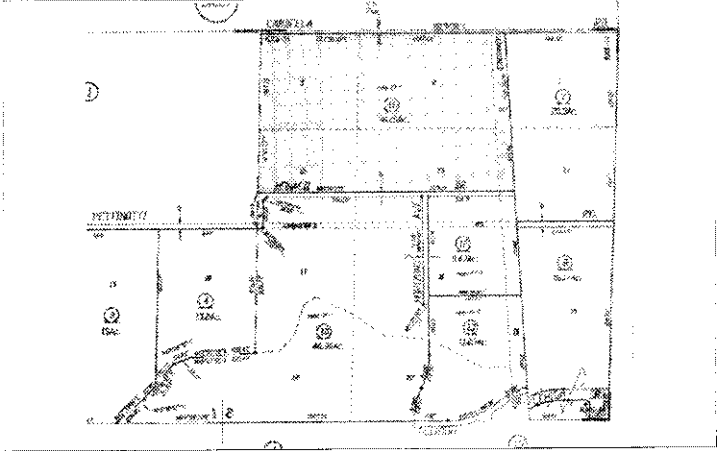
Land Sale No. 09

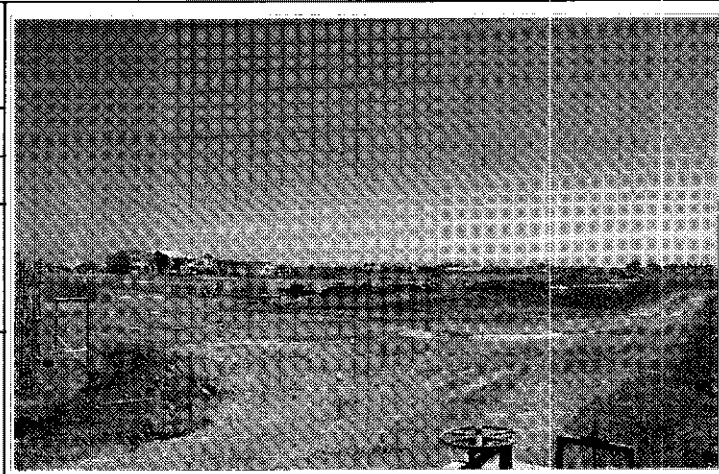
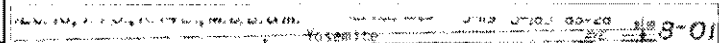
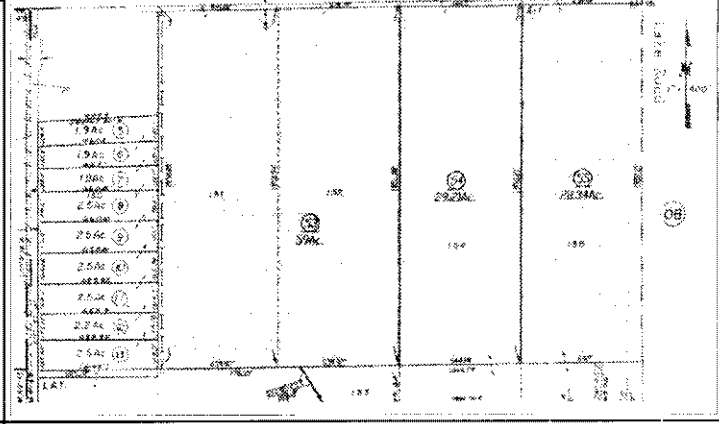
RPA1-4826

RESIDENTIAL LAND E/S "M" Street, Btwn Streets "F" and "G" Merced CA 95340																			
SELLER Bellevue Ranch - Merced, L.P. A California Limited Liability Company																			
BUYER Envision Homes, LLC A California Limited Liability Company																			
SALE DATE & RECORDING INFORMATION Date of Deed 05/03/06 Date Recorded 05/08/06 Document Number 2006-032853 Book/Volume Page																			
APN/THOMAS BROS ATLAS Assessor's Parcel Number Merced County 224-030-022 Thomas Bros. Atlas 754 E 6																			
LAND DESCRIPTION Size in SqFt 402,494 Size in Acres 9.240 No. of Units 82 8.87 Units/Acr Shape Irregular Frontage Interior Topography Level Zoning PD-42 Bellevue Ranch Zone Class Single Family Residential Street Type Paved Utilities Sewer Water Natural Gas Electricity Offsite Imps Curb Gutter Sidewalk Storm Drain Rail Served No Highest & Best Use Residential Subdivision																			
SALES PRICE INFORMATION Property Rights Transferred Fee Simple Marketing Period Not Exposed Unadjusted Sales Price \$1,640,000.00 Adjustment to Sales Price \$0.00 Adjusted Sales Price \$1,640,000.00 Reason for Adjustment																			
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Price/Unit	\$20,000	\$20,000																	
LOAN INFORMATION <table border="1"> <tbody> <tr> <td>Downpayment</td> <td>\$1,640,000.00</td> </tr> <tr> <td>1st TD Amount</td> <td>\$0.00</td> </tr> <tr> <td>Debt Service</td> <td></td> </tr> <tr> <td>Terms</td> <td></td> </tr> <tr> <td>Lender</td> <td>All Cash Transaction</td> </tr> <tr> <td>2nd TD Amount</td> <td>\$0.00</td> </tr> <tr> <td>Debt Service</td> <td></td> </tr> <tr> <td>Terms</td> <td></td> </tr> <tr> <td>Lender</td> <td></td> </tr> </tbody> </table>		Downpayment	\$1,640,000.00	1st TD Amount	\$0.00	Debt Service		Terms		Lender	All Cash Transaction	2nd TD Amount	\$0.00	Debt Service		Terms		Lender	
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2nd TD Amount	\$0.00																		
Debt Service																			
Terms																			
Lender																			
REMARKS This is a sale of Parcel 3 of Parcel Map of Bellevue Ranch East recorded in Book 101, Pages 50-53 of Parcel Maps, Merced County. The parcel contains 9.24 gross acres before street dedications, and 6.58 net acres divided into 137 residential homesites. The verified purchase price was \$1,640,000 for 9.24 acres, or \$177,489 per acre. The vesting tentative subdivision map calls for 82 single family lots with an average lot size of 3,498 square feet. The indicated price per lot is \$20,000. Additional money could be paid should the sales prices of the proposed homes exceed a specified level (not reported to the appraiser). The land was bought in superpac condition, with all backbone infrastructure in place. According to the seller, these lots will be developed to income-restricted single family homes. The master plan for Bellevue Ranch calls for a portion of the land to be devoted to low income housing. Hence the steeply discounted purchase price. Buyers of these homes must meet the moderate income category (no more than 120% of the median income for the area). During the first 5 years after purchase, they cannot re-sell the homes to other than buyers that meet the moderate income requirement. The finished homes will likely be 900± to 1,700± square feet in size.																			

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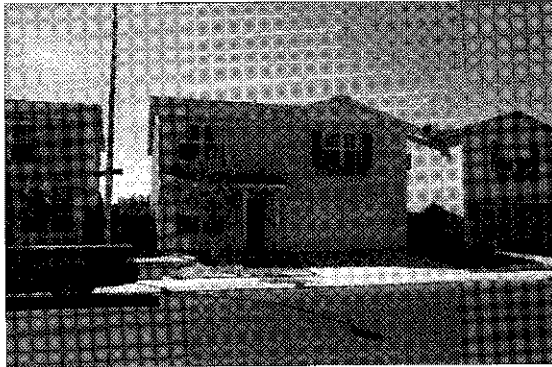
<p>RESIDENTIAL LAND SEC Loughborough & Meadow Merced CA 95348</p>													
<p>SELLER Collins, etal</p>													
<p>BUYER Ashley Investments, LLC</p>													
<p>SALE DATE & RECORDING INFORMATION Date of Deed 12/23/05 Date Recorded 12/30/05 Document Number 05-103274 Book/Volume Page</p>													
<p>APN/THOMAS BROS ATLAS Assessor's Parcel Number Merced County 058-030-028 Thomas Bros. Atlas 794 B 3</p>													
<p>LAND DESCRIPTION Size in SqFt 301,215 Size in Acres 6.915 No. of Units 78 11.28 Units/Acr Shape Rectangular Frontage Corner Topography Level Zoning PD-8 Zone Class Single Family Residential Street Type Paved Utilities Sewer Water Natural Gas Electricity Offsite Imps Curb Gutter Sidewalk Rail Served No Highest & Best Use Single Family Residential</p>													
<p>SALES PRICE INFORMATION Property Rights Transferred Fee Simple Marketing Period 730 Days Unadjusted Sales Price \$2,800,000.00 Adjustment to Sales Price Adjusted Sales Price \$2,800,000.00 Reason for Adjustment</p>	<p>LOAN INFORMATION Downpayment 1st TD Amount Debt Service Terms Lender 2nd TD Amount Debt Service Terms Lender</p>												
<table border="1" style="width:100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">VALUE INDICATORS</th> <th style="text-align: center;">From Actual Sales Price</th> <th style="text-align: center;">From Adjusted Sales Price</th> </tr> </thead> <tbody> <tr> <td>Price/SqFt</td> <td style="text-align: center;">\$9.30</td> <td style="text-align: center;">\$9.30</td> </tr> <tr> <td>Price/Acre</td> <td style="text-align: center;">\$404,920</td> <td style="text-align: center;">\$404,920</td> </tr> <tr> <td>Price/Unit</td> <td style="text-align: center;">\$35,897</td> <td style="text-align: center;">\$35,897</td> </tr> </tbody> </table>	VALUE INDICATORS	From Actual Sales Price	From Adjusted Sales Price	Price/SqFt	\$9.30	\$9.30	Price/Acre	\$404,920	\$404,920	Price/Unit	\$35,897	\$35,897	
VALUE INDICATORS	From Actual Sales Price	From Adjusted Sales Price											
Price/SqFt	\$9.30	\$9.30											
Price/Acre	\$404,920	\$404,920											
Price/Unit	\$35,897	\$35,897											
<p>REMARKS There was no tentative map in place at the time of sale. However, the buyer indicated that the property will be developed to approximately 78 town homes.</p>													

RESIDENTIAL LAND NS Monaco @ Horizons Avenue Merced CA 95340														
SELLER Frank J. & Marsha Guttone H&W as JT Jack L. & Dianna C. Bard, H&W as JT														
BUYER YCH Merced, LP A California Limited Partnership														
SALE DATE & RECORDING INFORMATION Date of Deed 05/12/06 Date Recorded 05/15/06 Document Number 2006-034659 Book/Volume Page														
APN/THOMAS BROS ATLAS Assessor's Parcel Number 206-030-11 (Portion) Merced County Thomas Bros. Atlas														
LAND DESCRIPTION Size in SqFt 1,752,854 Size in Acres 40.240 No. of Units 280 6.96 Units/Acr Shape Rectangular Frontage Interior Topography Level Zoning PD Zone Class Single Family Residential Street Type Paved Utilities Sewer Water Natural Gas Electricity Offsite Imps None Rail Served No Highest & Best Use Residential Subdivision														
SALES PRICE INFORMATION Property Rights Transferred Fee Simple Marketing Period Not Available Unadjusted Sales Price \$12,500,000.00 Adjustment to Sales Price \$0.00 Adjusted Sales Price \$12,500,000.00 Reason for Adjustment			LOAN INFORMATION Downpayment \$12,500,000.00 1st TD Amount \$0.00 Debt Service Terms Lender All Cash Transaction 2nd TD Amount \$0.00 Debt Service Terms Lender											
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	From Actual Sales Price	From Adjusted Sales Price												
Price/SqFt	\$7.13	\$7.13												
Price/Acre	\$310,636	\$310,636												
Price/Unit	\$44,643	\$44,643												
REMARKS A memorandum of agreement to sell was recorded on this property on April 18, 2005, and that is the date where the "meeting of the minds" occurred. Between this date and the date of recording, the buyer processed two maps for a total of 280 residential units. Utilities were stubbed to the property line in the Monaco Drive frontage. The buyer intends to develop 118 of the lots with production homes for sale to individual buyers, and to develop the remaining 162 lots to the finished lot stage before selling them to other builders. The homes developed by the buyer will be 1,400 to 2,000 SF in size, and the asking prices will likely fall in the mid to high \$300,000 range. Offsite improvements in the form of curb, gutter and sidewalk are in place along the south side of Monaco Drive, but not along the north side of the street where the sale property fronts. The sale is located just north of the Centex Millhouse development. The sale consists of Parcels 1, 2 and 3 of Parcel Map for YCH recorded May 11, 2006 in Book 102 of Maps, Pages 45 and 46.														

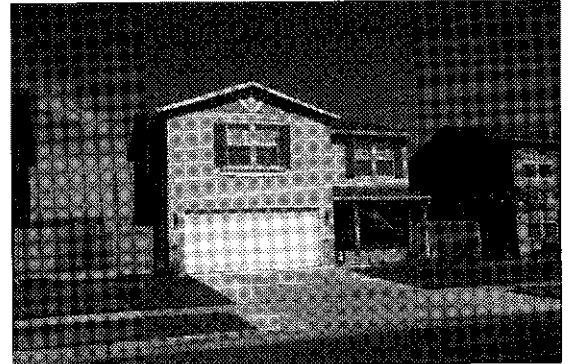
RESIDENTIAL LAND Moraga of Merced Raw Land Purchase SS Yosemite Btwn Hatch & Lake Merced CA 95340													
SELLER LWH Farms, LLC A California Limited Liability Company													
BUYER Lakemont LWH, LLC A Delaware Limited Liability Company													
SALE DATE & RECORDING INFORMATION Date of Deed 07/01/03 Date Recorded 07/18/05 Document Number 05-54306, 0-39874 Book/Volume Page	LAND DESCRIPTION Size in SqFt 5,076,918 Size in Acres 116.550 No. of Units 520 4.46 Units/Acr Shape Rectangular Frontage Corner Topography Level Zoning PD-52, R-1-6 Zone Class Single Family Residential Street Type Paved Utilities Sewer, Water, Natural Gas, Electricity Offsite Imps None Rail Served No Highest & Best Use Residential Subdivision												
APN/THOMAS BROS ATLAS Assessor's Parcel Number Merced County 008-001-053.054.055 Thomas Bros. Atlas 794 J 2	SALES PRICE INFORMATION Property Rights Transferred Fee Simple Marketing Period Not Available Unadjusted Sales Price \$12,237,750.00 Adjustment to Sales Price \$0.00 Adjusted Sales Price \$12,237,750.00 Reason for Adjustment LOAN INFORMATION Downpayment \$3,640,000.00 1st TD Amount \$3,956,450.00 Debt Service Terms Market Rate for a 5-year term Lender Seller 2nd TD Amount \$4,641,300.00 Debt Service Terms Market Rate for a 5-year term Lender Seller VALUE INDICATORS <table border="1"> <thead> <tr> <th></th> <th>From Actual Sales Price</th> <th>From Adjusted Sales Price</th> </tr> </thead> <tbody> <tr> <td>Price/SqFt</td> <td>\$2.41</td> <td>\$2.41</td> </tr> <tr> <td>Price/Acre</td> <td>\$105,000</td> <td>\$105,000</td> </tr> <tr> <td>Price/Unit</td> <td>\$23,534</td> <td>\$23,534</td> </tr> </tbody> </table> REMARKS The purchase and sale agreement for this property was dated July 2003, and called for a total purchase price of \$12,237,750 for approximately 116.55 gross acres, indicating a price of \$105,000 per acre. At the time the sale agreement was signed, the property had no entitlements. The buyer paid to have the property annexed into the City of Merced, and paid for all costs associated with subdivision mapping. The agreement called for an initial \$250,000 deposit to be made 08/01/03 provided that LAFCO approved the property for annexation into the City of Merced; an additional \$250,000 deposit to be made on 01/01/04; an additional \$250,000 deposit to be made on 07/05/04, and an additional \$250,000 deposit to be made on 01/05/2005. Phase 1 of the purchase was by Grant Deed dated 07/12/05 and recorded 07/18/05 as Document No. 05-54306. The indicated purchase price was \$6,096,500. The seller carried a note for \$3,596,450 for a 5-year term at an interest rate equal to the Applicable Federal Rate most recently promulgated by the Internal Revenue Service at the date of the note. The note contains a partial release clause that comes into play as each home is sold. Phase 2 of the purchase was by Grant Deed dated 06/01/06 and recorded 06/05/06 as Document No. 06-39874. The balance of \$6,141,250 was paid in this second transfer. The seller carried a note for \$4,641,300 for a 5-year term at an interest rate equal to the Applicable Federal Rate most recently promulgated by the Internal Revenue Service at the date of the note. The note contains a partial release clause that comes into play as each home is sold. The property was purchased by Lakemont Homes for development of Units 1 and 2 of Moraga of Merced. Unit 1 will contain 287 lots, while Unit 2 will have 233 for a total of 520 single family homes upon completion of the development. Moraga will encompass 94.11 gross acres, indicating an overall density of 5.53 homes per acre. A 7.16-acre park site will be dedicated to the City of Merced. The remaining 15.28 acres is located north and east of a 115kV power line, and will not be a part of the final development.		From Actual Sales Price	From Adjusted Sales Price	Price/SqFt	\$2.41	\$2.41	Price/Acre	\$105,000	\$105,000	Price/Unit	\$23,534	\$23,534
	From Actual Sales Price	From Adjusted Sales Price											
Price/SqFt	\$2.41	\$2.41											
Price/Acre	\$105,000	\$105,000											
Price/Unit	\$23,534	\$23,534											

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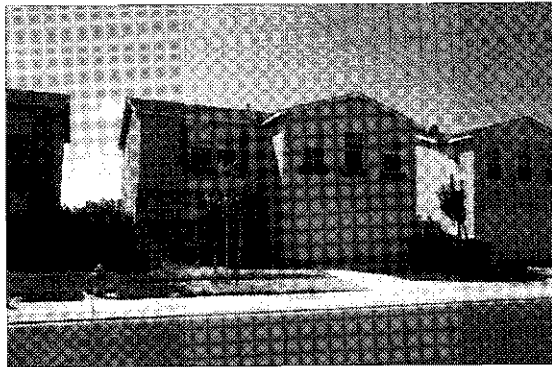
SINGLE FAMILY RESIDENCE RE-SALES



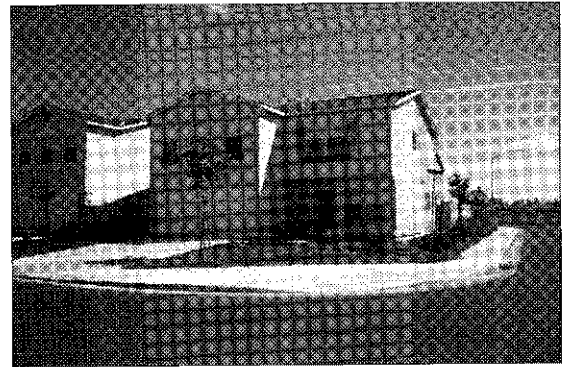
1376 Jenner Drive



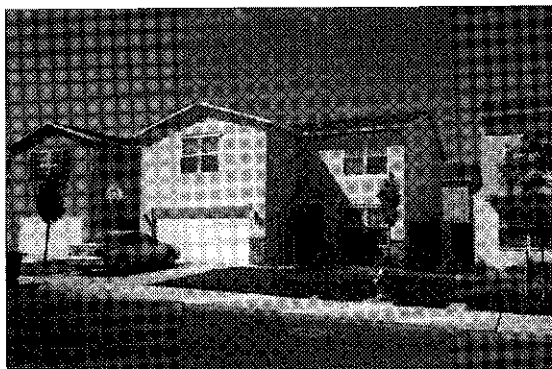
1183 Solstice Avenue



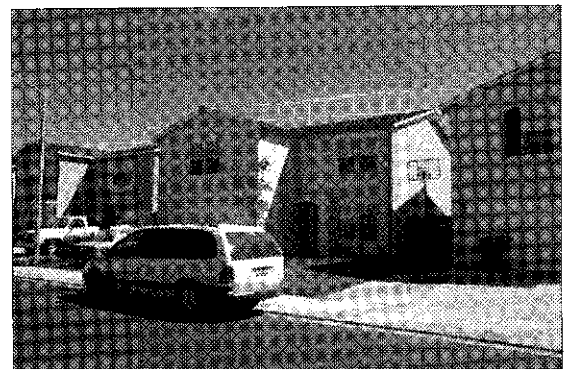
1230 Brightday Drive



3762 Beam Avenue

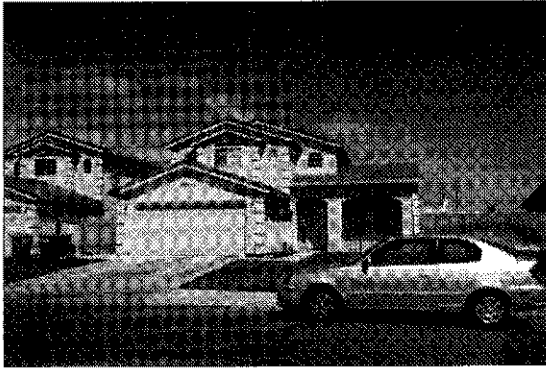


3733 Beam Avenue

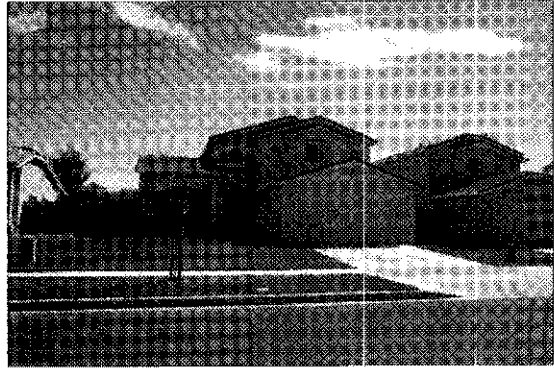


3734 Morning Glory Avenue

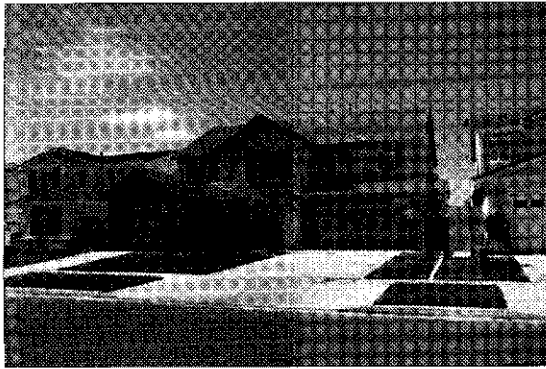
SINGLE FAMILY RESIDENCE RE-SALES



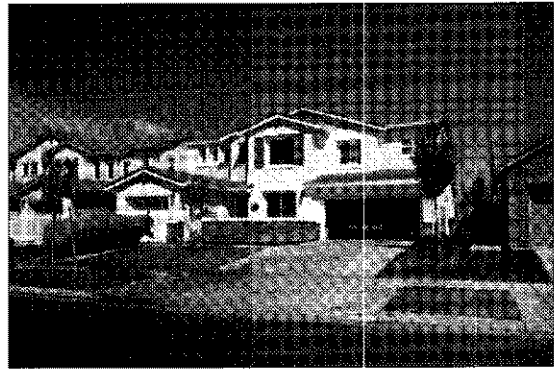
3530 Paseo Verde Drive



1143 Mazatlan Place



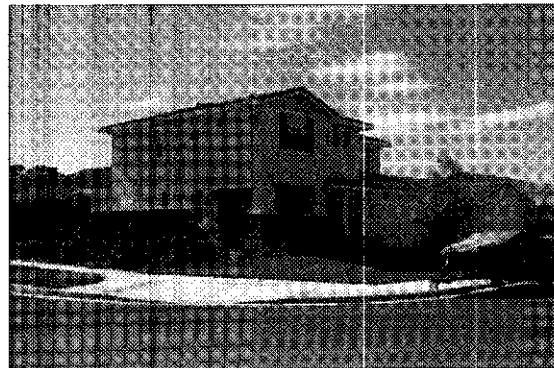
3569 Sepulveda Avenue



1337 Esplanade Drive

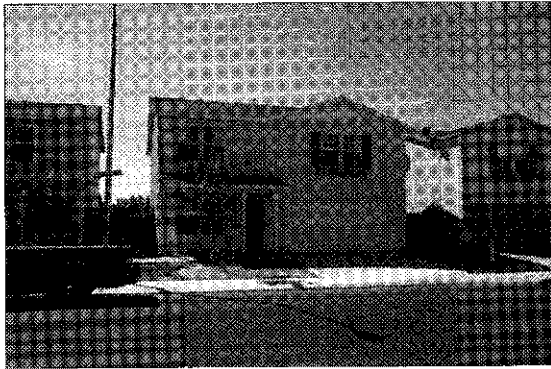


1229 Catalina Drive

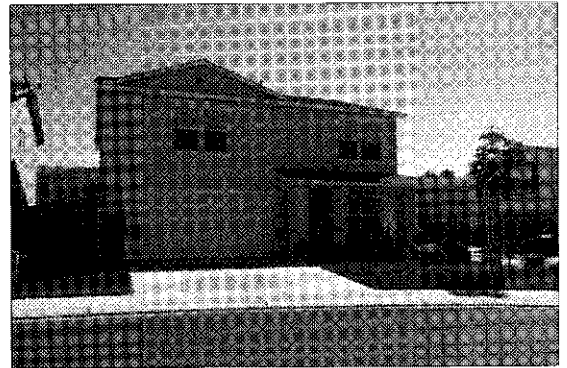


1430 Santa Nella Court

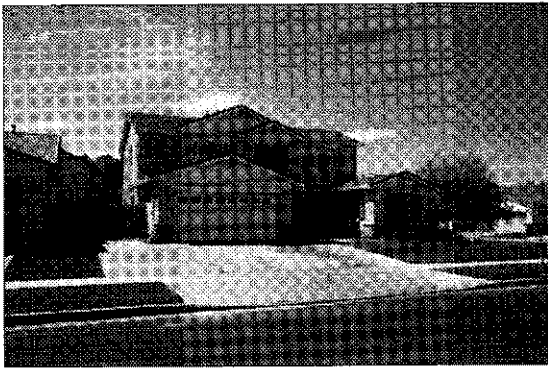
SINGLE FAMILY RESIDENCE RE-SALES



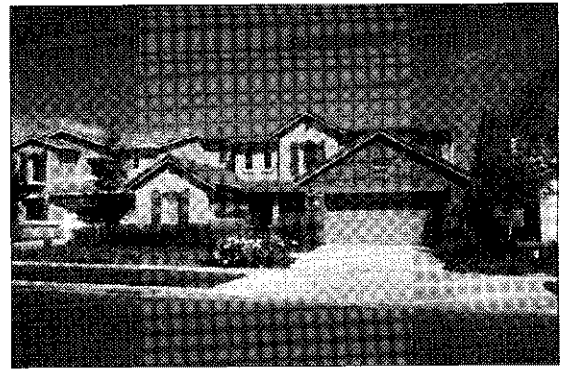
1238 Brightday Drive



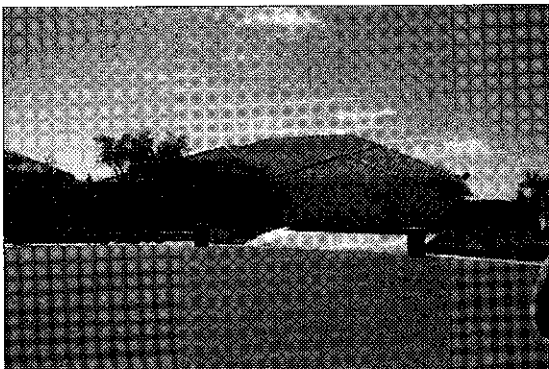
3724 Beam Avenue



1244 Catalina Drive



1277 Esplanade Drive



3318 Canterbury Court



1164 Pinnacle Drive



Fidelity National Title Company
OF CALIFORNIA

2720 Transworld Drive, Suite 100 • Stockton, CA 95206
209 932-5800 • FAX 209 932-5832

PRELIMINARY REPORT

Amended

Title Officer: Diane Robinson

Title No.: 05-706003-C-DR

Locate No.: CAFNT0924-0924-0051-0000706003

Escrow No.: Moraga

TO: Lakemont Homes
9370 Studio Court, Suite 160
Elk Grove, CA 95758

ATTN: Brian Kessler
YOUR REFERENCE: Moraga

SHORT TERM RATE:

PROPERTY ADDRESS: Morago Phase 1 - City of Merced, Merced, California

EFFECTIVE DATE: August 14, 2006, 07:30 A.M.

The form of Policy or Policies of title insurance contemplated by this report is:

ALTA Loan Policy (10/17/92) with ALTA Endorsement-Form 1 Coverage

1. THE ESTATE OR INTEREST IN THE LAND HEREINAFTER DESCRIBED OR REFERRED TO COVERED BY THIS REPORT IS:

A Fee

2. TITLE TO SAID ESTATE OR INTEREST AT THE DATE HEREOF IS VESTED IN:

Lakemont LWH, LLC, a Delaware limited liability company

3. THE LAND REFERRED TO IN THIS REPORT IS DESCRIBED AS FOLLOWS:

SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF

\ 09/14/2005

LEGAL DESCRIPTION

EXHIBIT "A"

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE COUNTY OF MERCED, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

Lots 1 through 287, as shown on that certain Map entitled "MORAGA OF MERCED - UNIT NO. 1" filed in the office of the recorder of the County of Merced, State of California, on March 27, 2006 in Book 72 of Maps at page(s) 45 thru 56, and Certificate of Correction recorded March 28, 2006 as Instrument No. 2006-022262, Merced County Records.

SUBJECT TO THE PROVISIONS AND INTERESTS IN AND TO THE COMMON AREA AND COMMON FACILITIES, TOGETHER WITH MEMBERSHIP INTEREST AND OBLIGATIONS TO THE MORAGA OF MERCED COMMUNITY ASSOCIATION, A CALIFORNIA NON-PROFIT MUTUAL BENEFIT CORPORATION, ITS SUCCESSORS AND ASSIGNS, AND OTHER MATTERS CONTAINED IN THE DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS FOR MORAGA OF MERCED RECORDED ON _____ AS INSTRUMENT NO. _____, MERCED COUNTY RECORDS, INCORPORATED HEREIN BY THIS REFERENCE.

AT THE DATE HEREOF, ITEMS TO BE CONSIDERED AND EXCEPTIONS TO COVERAGE IN ADDITION TO THE PRINTED EXCEPTIONS AND EXCLUSIONS IN SAID POLICY FORM WOULD BE AS FOLLOWS:

1. **Property taxes**, which are a lien not yet due and payable, including any assessments collected with taxes to be levied for the fiscal year 2006-2007.

2. **Supplemental assessment** for 2005-2006

Bill No.: 990-111-683
1st Installment: \$45,861.76 paid
Must be paid by: February 16, 2006
2nd Installment: \$45,861.76 paid
Must be paid by: July 3, 2006

3. **The lien of supplemental taxes**, if any, assessed pursuant to the provisions of Chapter 3.5 (Commencing with Section 75) of the Revenue and Taxation code of the State of California.

4. **The herein described property** lies within the boundaries of a Mello-Roos Community Facilities District ("CFD"), as follows:

CFD No.: 2006-01 East Merced County Public Facilities Financing Authority
For: Merced Union High School District Facilities; Merced City School District Facilities; Incidental Expenses Directly Related to Capital Facilities, etc.
Disclosed By: Notice of Special Tax Lien
Recorded: June 19, 2006, Instrument No. 2006-043296, of Official Records

This property, along with all other parcels in the CFD, is liable for an annual special tax. This special tax is included with and payable with the general property taxes of the City of Merced, County of Merced. The tax may not be prepaid.

Further information may be obtained by contacting:

Michael Belluomini, Director of Facilities Planning
for the Merced Union High School District
P.O. Box 2147
3430 A Street, Castle Airport
Atwater, CA 95301
Phone: 209-385-6558

5. In addition to the annual assessments collected in the above Notice of Special Tax Lien (2006-43296), a ONE-TIME SPECIAL TAX shall be collected from the owner of each lot at the time of issuance of a building permit or on the date of transfer to a homeowner for the current school fee per unit.

ESCROW: THIS FEE IS SUBJECT TO A DEMAND AND MUST BE PAID AT THE TIME OF CLOSING.

- 6. **The herein described property** lies within the boundaries of a Mello-Roos Community Facilities District ("CFD"), as follows:

CFD No.: 2006-01 (MORAGA OF MERCED)
 For: street and road facilities, including street lights and traffic signals, storm drainage facilities, water system facilities, including capacity in existing facilities, and sewer system facilities, including capacity in existing facilities, public facilities included in the city's development impact fee, connection or capacity fee programs and dry utilities.
 Disclosed By: Notice of Special Tax Lien
 Recorded: July 14, 2006, Instrument No. 2006-049560, of Official Records

This property, along with all other parcels in the CFD, is liable for an annual special tax. This special tax is included with and payable with the general property taxes of the City of Merced, County of Merced. The tax may not be prepaid.

Further information may be obtained by contacting:

City Manager
 City of Merced
 678 West 18th Street
 Merced, CA 95340
 Phone: 209-385-6834

- 7. **Water charges, assessments** and any other obligations of Merced Irrigation District. According to the records of Merced County Recorder's office there are no recorded "Certificates of Lien for Charges for Water and/or Other Services".
- 8. Any right, privilege or easement granted by Crocker Huffman Land and Water Company, a Corporation, to Merced Irrigation District by deed recorded February 1, 1922 in Book 12 of Official Records, page 1 and as reserved on Map of Bradley's Addition No. 3 filed in Vol. 4 of Official Plats at page 43.
- 9. **Matters** contained in that certain document entitled "Waiver Agreement Affecting Real Property" dated January 21, 2003, executed by and between The City of Merced, California, and LWH Farms, LLC recorded February 3, 2003, Instrument No. 2003-006645, of Official Records.

Reference is hereby made to said document for full particulars.

- 10. **Matters** contained in that certain document entitled "Developer Agreement" dated , executed by and between City of Merced, a California Charter Law and municipal corporation and LWH Farms, LLC, a Limited Liability Company recorded February 13, 2003, Instrument No. 2003-008770, of Official Records.

Reference is hereby made to said document for full particulars.

- 11. **Matters** contained in that certain document entitled "First Amendment to Developer Agreement" dated July 7, 2003, executed by and between City of Merced, a California Charter Law and municipal corporation and LWH Farms, LLC, a Limited Liability Company recorded August 11, 2003, Instrument No. 2003-049997, of Official Records.

Reference is hereby made to said document for full particulars.

- 12. **A covenant and agreement** entitled "Developer Agreement"

Executed by: City of Merced, a California Charter Law Municipal Corporation and LWH, LLC, a Delaware Limited Liability Company
 In favor of: City of Merced
 Recorded: September 28, 2004, Instrument No. 2004-063979, of Official Records

Reference is hereby made to said document for full particulars.

- 13. **A deed of trust** to secure an indebtedness in the amount shown below, and any other obligations secured thereby

Amount: \$43,000,000.00
 Dated: July 7, 2005
 Trustor: Lakemont LWH, LLC, a Delaware limited liability company
 Trustee: Fidelity National Title Company
 Beneficiary: Ohio Savings Bank, a Federal Savings Bank
 Address: 200 Ohio Savings Plaza, 1801 East Ninth Street
 Cleveland, OH 44114
 Loan No.:
 Recorded: July 18, 2005, Instrument No. 2005-054307, of Official Records

- 14. **An assignment** of all the moneys due, or to become due, as rental, as additional security for the obligations secured by deed of trust shown as item no. 4, Schedule A.

Assigned to: Ohio Savings Bank , a Federal Savings Bank
 by Assignment
 Recorded: July 18, 2005, Instrument No. 2005-054308, of Official Records

- 15. **An assignment** of certain of the lessor's interests under leases referred to therein, which assignment recites, among other things, that it is given as additional security for the deed of trust shown as item No. 4, of Schedule A.

Recorded: July 18, 2005, Instrument No. 2005-054308, of Official Records

16. A deed of trust to secure an indebtedness in the amount shown below, and any other obligations secured thereby

Amount: \$3,596,450.00
Dated: July 7, 2005
Trustor: Lakemont LWH, LLC, a Delaware limited liability company
Trustee: Fidelity National Title Company of California, a California corporation
Beneficiary: LWH Farms, LLC, a California Limited Liability Company
Address: c/o Sharon Hunt Dicker 3758 Lake Road
Merced, CA 95340

Loan No.:
Recorded: July 18, 2005, Instrument No. 2005-054309, of Official Records

By the provisions of an agreement

Dated: July 7, 2005
Executed by: Lakemont LWH, LLC, a Delaware limited liability company
Recorded: July 18, 2005, Instrument No. 2005-054310, of Official Records

Said instrument was made subordinate to the lien of the document or interest shown as item No. 11.

17. Matters contained in that certain document entitled "Joint Memorandum of Agreement and Lien to Secure Payment of Impact and reconciliation Fees" dated May 20, 2005, executed by and between Lakemont LWH, LLL, a Delaware Limited Liability Company and LWH Farms, LLC, a California Limited Liability Company (jointly as developer) and the Merced City School District (the recorded August 29, 2005, Instrument No. 2005-067430, of Official Records, which document, among other things, contains or provides for: SCHOOL IMPACT MITIGATION AGREEMENT between the Merced City School District and Lakemont LWH, LLC regarding new residential lots, and SCHOOL IMPACT MITIGATION AGREEMENT between the Merced Union High School District and Lakemont LWH, LLC regarding new residential lots.

Reference is hereby made to said document for full particulars.

18. A claim of lien for IMPACT FEES due upon CLOSE OF ESCROW, for the amount shown and any other amounts due,

Amount SUBJECT TO DEMAND PER COMPLETED LOT
Claimant Merced City School District c/o SUPERINTENDENT
Recorded August 29, 2005, Instrument No. 2005-067430, of Official Records

Merced City School District and
Merced Union High School District
C/O Merced City School District
SUPERINTENDENT - District Office
MUHSD
3430 "A" Street, Atwater, CA 95301
Re: Lakemont Communities - Morago of Merced

ATTN ESCROW OFFICER: You must have a separate demand for each lot as the Impact Fee is subject to review based on the number of permits issued and a RECONCILIATION FEE under the terms of the agreement.

- 19. **Matters** contained in that certain document entitled "Construction Agreement" dated September 16, 2005, executed by and between Merced Irrigation District and Lakemont LWH, LLC, a Delaware limited liability company recorded September 19, 2005, Instrument No. 2005-073908, of Official Records, which document, among other things, contains or provides for: construction of a temporary bypass channel assembly (bypass assembly) for the conveyance of irrigation water around the perimeter of the development to facilitate the continued irrigation of MID lands adjacent to and immediately downstream of the development while work on the development can continue uninterrupted.

Reference is hereby made to said document for full particulars.

- 20. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as granted in a document.

Granted to: Merced Irrigation District, an irrigation district
 Purpose: irrigation easement
 Recorded: December 8, 2005, Instrument No. 2005-098010, of Official Records
 Affects: Reference is made to the document for full particulars.

- 21. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: Merced Irrigation District , an irrigation district
 Purpose: irrigation
 Recorded: December 14, 2005, Instrument No. 2005-099402, of Official Records
 Affects: Reference is made to the document for full particulars.

- 22. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: public utility easement - 7 feet in width
 Affects: as shown on the subdivision map filed in Vol. 72 at pages 45-46

- 23. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: public utility easement - 12.5 feet in width
 Affects: as shown on the subdivision map filed in Vol. 72 at pages 45-46

- 24. Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: public utility easement - 20.5 feet in width
Affects: as shown on the subdivision map filed in Vol. 72 at pages 45-46

- 25. Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: sidewalk easement - 13 feet in width
Affects: as shown on the subdivision map filed in Vol. 72 at pages 45-46

- 26. Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: sidewalk easement - 5 feet in width
Affects: as shown on the subdivision map filed in Vol. 72 at pages 45-46

- 27. Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: landscape easement - 13 feet in width
Affects: as shown on the subdivision map filed in Vol. 72 at pages 45-46

- 28.** The following as disclosed on the Official Plat referenced on the legal description attached herewith:
RIGHT TO FARM STATEMENT The property described on the final map is in the vicinity of land utilized for agricultural and residents of this property may be subject to inconvenience or discomfort arising from the use of agricultural chemicals, including, but not limited to, pesticides and fertilizers, and from the pursuit of agricultural operations, but not limited to, plowing, spraying and burning which occasionally may generate dust, smoke, noise and odor. The County of Merced has established agriculture as a priority use in agricultural zones which are outside of an established Specific Urban Development Plan (SUDP) boundary, Rural Residential Center (RRC) boundary, Highway Interchange Center (HIC) boundary, or Agricultural Service Center (ASC) boundary, and residents of property in the vicinity of such agricultural zones should be prepared to accept inconvenience or discomfort from normal, necessary agricultural operations.

- 29. The matters** set forth in the document shown below which, among other things, contains or provides for: certain easements; liens and the subordination thereof; provisions relating to partition; restrictions on severability of component parts; and covenants, conditions and restrictions, but omitting any covenants or restrictions, if any, including, but not limited to those based upon race, color, religion, sex, sexual orientation, familial status, marital status, disability, handicap, national origin, ancestry, or source of income, as set forth in applicable state or federal laws, except to the extent that said covenant or restriction is permitted by applicable law.

Entitled: Declaration of Covenants, Conditions and Restrictions for Moraga of Merced
Recorded: Instrument No. PROFORMA, of Official Records

Liens and charges for upkeep and maintenance as set forth in the above mentioned declaration, payable to MORAGA OF MERCED COMMUNITY ASSOCIATION, A CALIFORNIA NONPROFIT MUTUAL BENEFIT CORPORATION.

Said instrument also provides for the levy of assessments, the lien of which are stated to be subordinate to the lien of a first mortgage or first deed of trust made in good faith and for value.

- 30. Notice** that no transfer of title shall be made until requirements for transfer of membership in the MORAGA OF MERCED COMMUNITY ASSOCIATION, A CALIFORNIA NONPROFIT MUTUAL BENEFIT CORPORATION Owners' Association have been complied with and any unpaid assessments and transfer fees have been paid.

Owners Association: MORAGA OF MERCED COMMUNITY ASSOCIATION, A CALIFORNIA
NONPROFIT MUTUAL BENEFIT CORPORATION
Recorded: Instrument No. PROFORMA, of Official Records

- 31. No known matters** otherwise appropriate to be shown have been deleted from this report, which is not a policy of title insurance but a report to facilitate the issuance of a policy of title insurance.

For the purpose of policy issuance, items, if any, which may be eliminated on the basis of an indemnity agreement or other agreement satisfactory to the Company are as follows: see item A.

- A.** Any facts, rights, interests, or claims which may exist or arise by reason of the following facts, and any other facts, disclosed by survey, Job No. 03031, dated July 13, 2005, prepared by Mid-Valley Engineering, 1117 L Street, Modesto, Ca 95354:

A. 24 inch Standpipe located near the West boundary

B. Utility Note: The location of underground utilities depicted on this map were created using observable evidence in the filed and/or record information as supplied to Mid-Valley Engineering, Inc., actual locations may vary. Prior to construction of new facilities or excavation for actual utility locations, contractor shall call Underground Service Alert at 1-800-227-2600, two working days before beginning any work.

END OF ITEMS

Note 1. Please contact Escrow Office for Wire Instructions.

Note 2. Section 12413.1, California Insurance Code became effective January 1, 1990. This legislation deals with the disbursement of funds deposited with any title entity acting in an escrow or subescrow capacity. The law requires that all funds be deposited and collected by the title entity's escrow and/or subescrow account prior to disbursement of any funds. Some methods of funding may subject funds to a holding period which must expire before any funds may be disbursed. In order to avoid any such delays, all funding should be done through wire transfer, certified check or checks drawn on California financial institutions.

- Note 3.** The charge where an order is canceled after the issuance of the report of title, will be that amount which in the opinion of the Company is proper compensation for the services rendered or the purpose for which the report is used, but in no event shall said charge be less than the minimum amount required under Section 12404.1 of the Insurance Code of the State of California. If the report cannot be canceled "no fee" pursuant to the provisions of said Insurance Code, then the minimum cancellation fee shall be that permitted by law.
- Note 4.** California Revenue and Taxation Code Section 18662, effective January 1, 1994 and by amendment effective January 1, 2003, provides that the buyer in all sales of California Real Estate may be required to withhold 3 and 1/3% of the total sales price as California State Income Tax, subject to the various provisions of the law as therein contained.



Fidelity National Title Company

OF CALIFORNIA

2720 Transworld Drive, Suite 100 • Stockton, CA 95206
209 932-5800 • FAX 209 932-5832

PRELIMINARY REPORT

Amended

Title Officer: Diane Robinson

Title No.: 05-**706004**-D-DR

Locate No.: CAFNT0924-0924-0051-0000706004

Escrow No.: Moraga - Phase 2

TO: Lakemont Homes
9370 Studio Court, Suite 160
Elk Grove, CA 95758

ATTN: Brian Kessler
YOUR REFERENCE: Moraga - Phase 2

SHORT TERM RATE:

PROPERTY ADDRESS: Remainder parcel, Merced, California

EFFECTIVE DATE: August 14, 2006, 07:30 A.M.

The form of Policy or Policies of title insurance contemplated by this report is:

CLTA Standard Coverage Policy - 1990

1. THE ESTATE OR INTEREST IN THE LAND HEREINAFTER DESCRIBED OR REFERRED TO COVERED BY THIS REPORT IS:

A Fee

2. TITLE TO SAID ESTATE OR INTEREST AT THE DATE HEREOF IS VESTED IN:

Lakemont LWH, LLC, a Delaware Limited Liability Company

3. THE LAND REFERRED TO IN THIS REPORT IS DESCRIBED AS FOLLOWS:

SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF

09/15/2005

LEGAL DESCRIPTION

EXHIBIT "A"

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE COUNTY OF MERCED, STATE OF CALIFORNIA AND IS DESCRIBED AS FOLLOWS:

See attached Engineers Description:

EXCEPTING THEREFROM an undivided one-half interest in and to all oil, gas and other hydrocarbons lying below a depth of 500 feet, as excepted in Deed recorded August 4, 1961 in Volume 1539, page 594, Merced County Records.

Future Assessor's Parcel Number: 008-010-062

AND

Adjusted Lot 155 as shown on the Record of Survey for Hunt Farms, filed in Volume 25 of Surveys, pages 23, 24 and 25, in the office of the County Recorder of said County and being Lot 155, "MAP OF BRADLEY'S ADDITION NO. 3 TO MERCED, CALIFORNIA," as per plat recorded in Book 4, page 43, records of said County.

EXCEPTING THEREFROM a strip of land 24 feet wide, situate along the North boundary of Lot 155 as conveyed to Lakemont LWH, a Delaware Limited Liability Company by Grant Deed recorded December 14, 2005 as Instrument No. 2005-099402, Merced County Records.

EXCEPTING THEREFROM an undivided one-half interest in and to all oil, gas and other hydrocarbons lying below a depth of 500 feet, as excepted in Deed recorded August 4, 1961 in Volume 1539, page 594, Merced County Records.

Assessor's Parcel Number: 008-010-055

EXHIBIT A

ADJUSTED PARCEL B

All that certain real property, being a portion of "Adjusted Parcel 2", as per Boundary Adjustment #05-06, filed on July 7, 2005 as Document No. 2005-051840, Merced County Records, and lying in the northeast quarter of Section 16, Township 7 South, Range 14 East, Mount Diablo Meridian, City and County of Merced, State of California, more particularly described as follows:


BEGINNING at the southeast corner of said "Adjusted Parcel 2"; thence along the East line of last said "Adjusted Parcel 2", North 00°51'09" East, a distance of 1927.61 feet to a point on the South line of the 24' wide M.I.D. Canal Reserve, as shown on said "Map of Bradley's Addition No. 3 to Merced, California", last said point being also a point on the South line of Lot "I", as shown on that certain map titled "Moraga of Merced", filed for record in Volume 72 of Official Plats, at Page 45, Merced County Records; thence along last said South line, South 89°54'08" West, a distance of 665.11 feet; thence leaving last said South line and along the East line of said Lot "I", South 00°51'18" West, a distance of 822.32 feet to a point on the northeasterly boundary of Lot 137 of said "Moraga of Merced"; thence along last said northeasterly line, North 51°50'21" West, a distance of 30.17 feet; thence leaving last said northeasterly line, along the westerly line of said Lot "I", North 00°51'18" East, a distance of 803.63 feet to a point on said South line of said 24' wide M.I.D. Canal Reserve and said South line of said Lot "I"; thence along last said South line, South 89°54'08" West, a distance of 190.94 feet; thence leaving last said South line, South 44°57'05" West, a distance of 8.42 feet; thence South 00°05'52" East, a distance of 102.57 feet to the beginning of a non-tangent curve concave to the northeast having a radius of 32.00 feet, to which beginning a radial line bears South 21°55'32" West; thence easterly 12.25 feet along said curve through a central angle of 21°55'32"; thence North 90°00'00" East, a distance of 10.01 feet; thence South 00°22'22" East, a distance of 20.00 feet; thence North 90°00'00" West, a distance of 9.99 feet to the beginning of a curve concave to the southeast having a radius of 32.00 feet; thence westerly 12.35 feet along said curve through a central angle of 22°07'15" to the endpoint of last said curve, to which endpoint a radial line bears North 22°07'15" West; thence along a non-tangent line, South 00°05'52" East, a distance of 222.29 feet to the beginning of a non-tangent curve concave to the northeast having a radius of 32.00 feet, to which beginning a radial line bears South 21°55'32" West; thence easterly 10.66 feet along said curve through a central angle of 19°05'42" to the beginning of a reverse curve concave to the southwest having a radius of 752.00 feet, to which beginning a radial line bears North 02°49'50" East; thence easterly 10.00 feet through a central angle of 00°45'43" to the endpoint of last said curve, to which endpoint a radial line bears North 03°35'33" East; thence along a non-

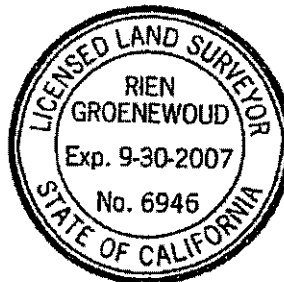
EXHIBIT A (CONTINUED)

tangent line South 03°35'33" West, a distance of 1.50 feet; thence South 12°03'59" East, a distance of 17.67 feet; thence South 03°57'54" West, a distance of 1.50 feet to the beginning of a non-tangent curve concave to the southwest having a radius of 732.00 feet, to which beginning a radial line bears North 03°57'54" East; thence westerly 10.00 feet along said curve through a central angle of 00°46'57" to the beginning of a compound curve concave to the southeast having a radius of 32.00 feet, to which beginning a radial line bears North 03°10'57" East; thence southwesterly 14.13 feet along said curve through a central angle of 25°18'12" to the endpoint of last said curve, to which endpoint a radial line bears North 22°07'15" West; thence along a non-tangent line South 00°05'52" East, a distance of 221.68 feet to the beginning of a non-tangent curve concave to the northeast having a radius of 32.00 feet, to which beginning a radial line bears South 21°55'32" West; thence easterly 9.92 feet along said curve through a central angle of 17°45'14" to the beginning of a reverse curve concave to the southwest having a radius of 506.00 feet, to which beginning a radial line bears North 04°10'18" East; thence easterly 10.00 feet through a central angle of 01°07'56" to the endpoint of last said curve, to which endpoint a radial line bears North 05°18'14" East; thence along a non-tangent line South 05°18'14" West, a distance of 1.50 feet; thence South 17°23'49" East, a distance of 18.48 feet; thence South 06°08'33" West, a distance of 1.50 feet to the beginning of a non-tangent curve concave to the southwest having a radius of 486.00 feet, to which beginning a radial line bears North 06°08'33" East; thence westerly 10.00 feet along said curve through a central angle of 01°10'44" to the beginning of a compound curve concave to the southeast having a radius of 32.00 feet, to which beginning a radial line bears North 04°57'49" East; thence southwesterly 15.13 feet along said curve through a central angle of 27°05'04" to the endpoint of last said curve, to which endpoint a radial line bears North 22°07'15" West; thence along a non-tangent line South 00°05'52" East, a distance of 110.00 feet; thence South 78°13'59" East, a distance of 98.04 feet; thence South 64°24'00" East, a distance of 81.61 feet; thence South 51°50'21" East, a distance of 81.61 feet; thence South 39°16'42" East, a distance of 81.61 feet; thence South 26°43'02" East, a distance of 81.61 feet; thence South 14°09'23" East, a distance of 78.73 feet; thence South 03°24'47" East, a distance of 70.97 feet; thence South 00°00'00" East, a distance of 666.64 feet; thence South 90°00'00" East, a distance of 26.83 feet; thence South 00°00'00" West, a distance of 133.81 feet to a point on the South line of said "Adjusted Parcel 2"; thence along last said South line, North 89°57'20" East, a distance of 483.67 feet to the Point of Beginning.

SUBJECT TO all easements and/or rights of way of record.

Containing 29.21 Acres more or less.


Rien Groenewoud, P.L.S. 6946
License expiration date: 09-30-2007



AT THE DATE HEREOF, ITEMS TO BE CONSIDERED AND EXCEPTIONS TO COVERAGE IN ADDITION TO THE PRINTED EXCEPTIONS AND EXCLUSIONS IN SAID POLICY FORM WOULD BE AS FOLLOWS:

1. **Property taxes**, which are a lien not yet due and payable, including any assessments collected with taxes to be levied for the fiscal year 2006-2007.
2. **The lien of supplemental taxes**, if any, assessed pursuant to the provisions of Chapter 3.5 (Commencing with Section 75) of the Revenue and Taxation code of the State of California.
3. **The herein described property** lies within the boundaries of a Mello-Roos Community Facilities District ("CFD"), as follows:

CFD No.: 2006-01 East Merced County Public Facilities Financing Authority
For: Merced Union High School District Facilities; Merced City School District Facilities; Incidental Expenses Directly Related to Capital Facilities, Etc.
Disclosed By: Notice of Special Tax Lien
Recorded: June 19, 2006, Instrument No. 2006-043296, of Official Records

This property, along with all other parcels in the CFD, is liable for an annual special tax. This special tax is included with and payable with the general property taxes of the City of Merced, County of Merced. The tax may not be prepaid.

Further information may be obtained by contacting:

Michael Belluomini, Director of Facilities Planning
for the Merced Union High School District
P.O. Box 2147
3430 A Street, Castle Airport
Atwater, CA 95301
Phone: 209-385-6558

4. In addition to the annual assessments collected in the above Notice of Special Tax Lien (2006-43296), a ONE-TIME SPECIAL TAX shall be collected from the owner of each lot at the time of issuance of a building permit or on the date of transfer to a homeowner for the current school fee per unit.

ESCROW: THE FEE IS SUBJECT TO A DEMAND AND MUST BE PAID AT THE TIME OF CLOSING.

5. **The herein described property** lies within the boundaries of a Mello-Roos Community Facilities District ("CFD"), as follows:

CFD No.: 2006-01 (MORAGA OF MERCED)
For: street and road facilities, including street lights and traffic signals, storm drainage facilities, water system facilities, including capacity in existing facilities, and sewer system facilities, including capacity in existing facilities, public facilities included in the city's development impact fee, connection or capacity fee programs and dry utilities
Disclosed By: Notice of Special Tax Lien
Recorded: July 14, 2006, Instrument No. 2006-049560, of Official Records

This property, along with all other parcels in the CFD, is liable for an annual special tax. This special tax is included with and payable with the general property taxes of the City of Merced, County of Merced. The tax may not be prepaid.

Further information may be obtained by contacting:

City Manager
City of Merced
678 West 18th Street
Merced, CA 95340
Phone: 209-385-6834

6. **Water charges, assessments** and any other obligations of Merced Irrigation District. According to the records of Merced County Recorder's office there are no recorded "Certificates of Lien for Charges for Water and/or Other Services".

7. **Easement(s)** for the purpose(s) shown below and rights incidental thereto as delineated or as offered for dedication, on the map of said tract.

Purpose: public road
Affects: all that portion of the herein described property lying within Yosemite Avenue

8. Any right, privilege or easement granted by Crocker Huffman Land and Water Company, a Corporation, to Merced Irrigation District by deed recorded February 1, 1922 in Book 12 of Official Records, page 1 and as reserved on Map of Bradley's Addition No. 3 filed in Vol. 4 of Official Plats at page 43.

9. Right of way for power lines now vested in Pacific Gas and Electric Company, as successor in interest, as provided in deed recorded December 4, 1925 in Book 128 of Official Records, page 344.

(A 70 foot strip of land running through Lots 154 and 155)

10. Easement(s) for the purpose(s) shown below and rights incidental thereto as granted in a document.

Granted to:	Pacific Gas and Electric Company
Purpose:	right of way and easement to erect, construct, reconstruct, replace, remove, maintain and use one (1) line of towers with such wires and cables as Pacific shall from time to time suspend therefrom for the transmission of electric energy and all necessary and proper foundations, footings crossarms and other appliances, and fixtures for use in connection with said towers, wires and cables, in, on and along the strip of land situate in the County of Merced, State of California
Recorded:	June 4, 1959, Instrument No. 10107, Book 1423, Page 507, of Official Records

11. Matters contained in that certain document entitled "Waiver Agreement Affecting Real Property" dated January 21, 2003, executed by and between The City of Merced, California, and LWH Farms, LLC recorded February 3, 2003, Instrument No. 2003-006645, of Official Records.

Reference is hereby made to said document for full particulars.

12. Matters contained in that certain document entitled "Developer Agreement" dated , executed by and between City of Merced, a California Charter Law and municipal corporation and LWH Farms, LLC, a Limited Liability Company recorded February 13, 2003, Instrument No. 2003-008770, of Official Records.

Reference is hereby made to said document for full particulars.

13. Matters contained in that certain document entitled "First Amendment to Developer Agreement" dated July 7, 2003, executed by and between City of Merced, a California Charter Law and municipal corporation and LWH Farms, LLC, a Limited Liability Company recorded August 11, 2003, Instrument No. 2003-049997, of Official Records.

Reference is hereby made to said document for full particulars.

14. A covenant and agreement entitled "Developer Agreement"

Executed by:	City of Merced, a California Charter Law Municipal Corporation and LWH, LLC, a Delaware Limited Liability Company
In favor of:	City of Merced
Recorded:	September 28, 2004, Instrument No. 2004-063979, of Official Records

Reference is hereby made to said document for full particulars.

- 15. **Matters** contained in that certain document entitled "Joint Memorandum of Agreement and Lien to Secure Payment of Impact and reconciliation fees" dated May 20, 2005, executed by and between Lakemont LWH, LLL, a Delaware Limited Liability Company and LWH Farms, LLC, a California Limited Liability Company (jointly as developer) and the Merced City School District recorded August 29, 2005, Instrument No. 2005-067430, of Official Records, which document, among other things, contains or provides for: School Impact Mitigation Agreement between the Merced City School District and Lakemont LWH, LLC regarding new residential lots, and School impact mitigation agreement between the Merced Union High School District and Lakemont LWH, LLC regarding new residential lots..

Reference is hereby made to said document for full particulars.

- 16. **A claim of lien** for IMPACT FEES due upon CLOSE OF ESCROW, for the amount shown and any other amounts due,

Amount	SUBJECT TO DEMAN PER COMPLETED LOT
Claimant	Merced City School District c/o Superintendent
Recorded	August 29, 2005, Instrument No. 2005-067430, of Official Records

Merced City School District and
 Merced Union High School District
 C/O Merced City School District
 Superintendent-District Office
 MUHSD
 3430 "A" Street, Atwater, CA 95301
 Re: Lakemont Communities - Morago of Merced

ATTN. ESCROW OFFICER: You must have a separate demand for each lot as the Impact Fee is subject to review based on the number of permits issued and a RECONCILIATION FEE under the terms of the agreement.

- 17. **Matters** contained in that certain document entitled "Construction Agreement" dated September 16, 2005, executed by and between Merced Irrigation District, and Lakemont LWH, LLC, a Delaware limited liability company, and LWH Farms LLC, a California Limited Liability Company recorded September 19, 2005, Instrument No. 2005-073908, of Official Records, which document, among other things, contains or provides for: construction of a temporary bypass channel assembly (bypass assembly) for the conveyance of irrigation water around the perimeter of the development to facilitate the continued irrigation of MID lands adjacent to and immediately downstream of the development while work on the development can continue uninterrupted.

Reference is hereby made to said document for full particulars.

18. Easement(s) for the purpose(s) shown below and rights incidental thereto as reserved in a document;

Reserved by: Merced Irrigation District, an irrigation district
 Purpose: irrigation
 Recorded: December 14, 2005, Instrument No. 2005-099402, of Official Records
 Affects: Reference is made to the document for full particulars.

19. A deed of trust to secure an indebtedness in the amount shown below, and any other obligations secured thereby

Amount: \$9,000,000.00
 Dated: May 12, 2006
 Trustor: Lakemont LWH, LLC, a Delaware Limited Liability Company
 Trustee: Comerica Bank
 Beneficiary: Comerica Bank
 Address: 1331 N. California Blvd., Suite 400
 Walnut Creek, CA 94596-9504
 Loan No.:
 Recorded: June 5, 2006, Instrument No. 2006-039875, of Official Records

20. A deed of trust to secure an indebtedness in the amount shown below, and any other obligations secured thereby

Amount: \$8,237,750.00
 Dated: May 30, 2006
 Trustor: Lakemont LWH, LLC, a Delaware Limited Liability Company
 Trustee: Fidelity National Title Company of California, a California Corporation
 Beneficiary: LWH Farms LLC, a California Limited Liability Company
 Address: 3738 Lake Road
 Merced, CA 95340
 Loan No.:
 Recorded: June 5, 2006, Instrument No. 2006-039876, of Official Records

By the provisions of an agreement

Dated: May 12, 2006
 Executed by: Lakemont LWH, LLC, a Delaware Limited Liability Company (owner) and
 LWH Farms LLC, a California Limited Liability Company (Beneficiary)
 Recorded: June 5, 2006, Instrument No. 2006-039877, of Official Records

Said instrument was made subordinate to the lien of the document or interest described in the instrument

Recorded: June 5, 2006, Instrument No. 2006-039875, of Official Records

- 21. Information in possession** of the Company indicates that a division of land, as defined in Government Code Section 66424, is contemplated in the current transaction involving the land described in this report. Such contemplated division of land would appear to fall within the purview of the Subdivision Map Act (commencing with Government Code Section 66410), and as a prerequisite to the issuance of any title assurance under this application, at least one of the following requirements must be accomplished to this Company's satisfaction:
- (a) That a Final (Tract) Map has been recorded in compliance with the Subdivision Map Act and related ordinance;
 - (b) That a Parcel Map has been recorded in compliance with the Subdivision Map Act and related ordinances;
 - (c) That a Certificate of Compliance as provided for in the Subdivision Map Act has been recorded, or will be recorded through this application.
 - (d) Other evidence, satisfactory to this Company, indicating compliance or nonviolation must be furnished.
- 22. No known matters** otherwise appropriate to be shown have been deleted from this report, which is not a policy of title insurance but a report to facilitate the issuance of a policy of title insurance.

For the purpose of policy issuance, items, if any, which may be eliminated on the basis of an indemnity agreement or other agreement satisfactory to the Company are as follows: NONE.

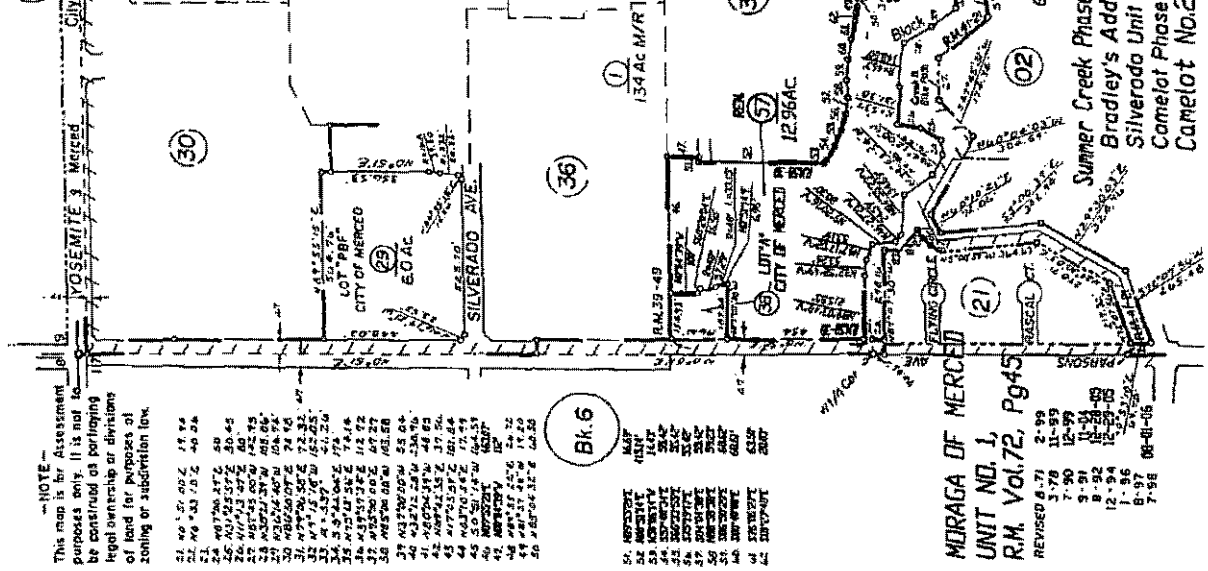
END OF ITEMS

- Note 1.** Please contact Escrow Office for Wire Instructions.
- Note 2.** Section 12413.1, California Insurance Code became effective January 1, 1990. This legislation deals with the disbursement of funds deposited with any title entity acting in an escrow or subescrow capacity. The law requires that all funds be deposited and collected by the title entity's escrow and/or subescrow account prior to disbursement of any funds. Some methods of funding may subject funds to a holding period which must expire before any funds may be disbursed. In order to avoid any such delays, all funding should be done through wire transfer, certified check or checks drawn on California financial institutions.
- Note 3.** The charge where an order is canceled after the issuance of the report of title, will be that amount which in the opinion of the Company is proper compensation for the services rendered or the purpose for which the report is used, but in no event shall said charge be less than the minimum amount required under Section 12404.1 of the Insurance Code of the State of California. If the report cannot be canceled "no fee" pursuant to the provisions of said Insurance Code, then the minimum cancellation fee shall be that permitted by law.

NOTES: (continued)

Title No. 05-706004-D-DR
Locate No. CAFNT0924-0924-0051-0000706004

Note 4. California Revenue and Taxation Code Section 18662, effective January 1, 1994 and by amendment effective January 1, 2003, provides that the buyer in all sales of California Real Estate may be required to withhold 3 and 1/3% of the total sales price as California State Income Tax, subject to the various provisions of the law as therein contained.



NOTE - This map is for Assessment purposes only. It is not to be construed as partitioning legal ownership or divisions of land for purposes of zoning or subdivision law.

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MORAGA OF MERCED
 UNIT NO. 1,
 R.M. Vol. 72, Pg 45
 REVISED 8-71 2-99
 3-78 11-99
 9-91 12-99
 12-92 1-01
 1-01 1-01
 6-96 6-96
 7-98 8-01

NOTE - Assessor's Block Numbers Shown in Ellipses
 Assessor's Forest Numbers Shown in Circles
 Assessor's Map Bk. 8 -Pg. 01
 County of Merced, Calif.
 1967

Summer Creek Phase 1, RM Vol. 62 Pg. 43
 Bradley's Add. No. 3, R.M. Vol. 4, Pg. 43
 Silverado Unit No. 1, R.M. Vol. 39, Pg. 49
 Camelot Phase 1, R.M. Vol. 41, Pg. 21
 Camelot No. 2 Phase 2, R.M. Vol. 58, Pg. 38

QUALIFICATIONS OF LAWRENCE D. HOPPER, MAI

LAWRENCE D. HOPPER has been in the real estate and appraisal business in Fresno County since 1977, and is a certified general real estate appraiser and licensed real estate broker in the State of California. He is president of the firm of rpa Wakefield & Hopper, Inc., dba Real Property Analysts.

CERTIFICATION Mr. Hopper is registered with the State of California Office of Real Estate Appraisers as a Certified General Real Estate Appraiser, #AG001738.

PROFESSIONAL ORGANIZATIONS Mr. Hopper is a designated member of the Appraisal Institute, an organization formed in 1990 by merger of the American Institute of Real Estate Appraisers with the Society of Real Estate Appraisers.

Designations

- MAI - Member, Appraisal Institute (#7493, November 1986)
- SRPA - Senior Real Property Appraiser (1986)
- RM - Residential Member (#1463, November 1980)
- SRA - Senior Residential Appraiser (1980)

Activities

- President, Fresno Chapter, Society of Real Estate Appraisers, 1982-83
- President, Central California Chapter, Appraisal Institute, 1994
- Member, Board of Directors, Northern California Chapter, Appraisal Institute, 2005-2007.

EDUCATION **California State University, Fresno**

- BA - Bachelor of Arts, Biological Science, 1975
- MA - Master of Arts, Biological Science, 1977

Fresno City College

Classes in Real Estate Principles, Practice, Finance, Law & Economics

The Appraisal Institute

- Course 1A - Basic Principles, Methods & Techniques
- Course 1B-1,2,3 - Capitalization Theory & Techniques, Parts 1-3
- Course 2-1 - Case Studies in Real Estate Valuation
- Course 2-2 - Valuation Analysis & Report Writing
- Course 4 - Litigation Valuation
- Course 720 - Condemnation Appraising – Advanced Topics & Apps.
- Course 8 - Single Family Residential Appraisal
- Course SPP - Standards of Professional Practice
- Course E3 - Advanced Rural Case Studies

APPRAISAL EXPERIENCE Commercial, Industrial, Multiple-Family, & Agricultural Properties. Single-Family Residences, Condominiums & Subdivisions

COURT EXPERIENCE Mr. Hopper has qualified as an expert witness in the Superior Courts of Fresno, Merced, Kern & Tulare Counties and in the Federal Bankruptcy Court. He has also testified before the Assessment Appeals Board of Fresno County.

PARTIAL LIST OF CLIENTS Bank of America; Wells Fargo Bank; Union Bank of California; Tokai Bank; Bank of Stockdale; Clovis Community Bank; United Security Bank; Westamerica Bank; US Forest Service; Nat'l Park Service; FDIC; Cities of Fresno, Clovis & Bakersfield; Clovis, Hanford, Atwater & Madera Unified School Districts; Community Hospitals of Central California; Texaco; ARCO Petroleum; State Farm Insurance Co.; PPG Industries; US Dept. of the Navy. Numerous other individuals, firms & public agencies.

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APPENDIX E

MARKET ABSORPTION STUDY SUMMARY AND CONCLUSIONS

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**MORAGA DEVELOPMENT
CITY OF MERCED
MARKET ASSESSMENT**

OCTOBER 2006

PREPARED FOR:

**CITY OF MERCED
678 WEST 18TH STREET
MERCED, CA 95340**

PREPARED BY:

**THE GREGORY GROUP
381 SOUTH LEXINGTON DRIVE, SUITE 108
FOLSOM, CA 95630**

October 31, 2006

Mr. Brad Grant
Finance Department
City of Merced
678 West 18th Street
Merced, CA 95340

Subject: Market Assessment Services Related to the Moraga Development Located in the City of Merced, Merced County, California

Dear Brad:

Pursuant to our discussion, we have completed our assignment relative to the above subject. The primary objective of this assignment was to update the competitive for-sale housing market in Merced County in order to provide conclusions for the most appropriate pricing and absorption for the proposed project. This report summarizes our conclusions, which include pricing and absorption, while the accompanying exhibit package contains supporting material which forms the basis for the conclusions.

The subject development Moraga by Lakemont Homes opened for sales to the public on July 15, 2006. The development is planned to include a total of 520 homes within three distinct neighborhoods surrounding a community park. Specifically, Neighborhood 2 (the Mariposa Collection) includes 206 homes situated on lots that are a minimum of 5,085 square feet (in a 45-foot wide by 113-foot deep configuration), Neighborhood 3 (the Presidio Collection) includes 173 homes situated on lots that are a minimum of 6,215 square feet (in a 55-foot wide by 113-foot deep configuration) and Neighborhood 4 (the Mercedes Collection) includes 141 homes that are situated on lots that are a minimum of 7,345 square feet (in a 65-foot wide by 113-foot deep configuration). Overall home sizes range from 1,537 to 3,505 square feet and each neighborhood offers a specific product line with home sizes ranging from 1,537 to 2,229 square feet in Neighborhood 2, from 1,895 to 2,644 in Neighborhood 3 and from 2,419 to 3,505 square feet in Neighborhood 4. Since the opening the subject development has released 273 homes, 18 of which have sold.

The conclusions contained in this report were obtained from a thorough analysis of primary data for Merced County. Specific pricing and absorption was based primarily on an analysis of currently selling product within the surveyed market area and secondarily from within the greater Central Valley Region. Finally, the conclusions take into consideration factors such as inventory in the market place, new-home prices and absorption rates.

The product and pricing for the subject project (as submitted by the builder) includes the following: a price range of \$314,900 to \$369,900 for Neighborhood 2, a price range of \$344,900 to \$409,900 for Neighborhood 3 and a price range from \$404,900 to \$509,900 for Neighborhood 4. It is concluded that Neighborhood 2 can absorb 0.50 units per week, Neighborhood 3 can absorb 0.50 units per week and Neighborhood 4 can absorb 0.50 units per week over the marketing life of the development. Finally, the concluded pricing and absorption will result in an 88-month time period for buyers to absorb all of the production homes within the Moraga development.

The following tables summarize this result:

Neighborhood	Qtr 4/06	Qtr 1/07	Qtr 2/07	Qtr 3/07	Qtr 4/07	Qtr 1/08	Qtr 2/08	Qtr 3/08	Qtr 4/08
Mariposa - 2	2	7	7	7	7	7	7	7	7
Presidio - 3	2	7	7	7	7	7	7	7	7
Mercedes - 4	7	7	7	7	7	7	7	7	7
Units Sold:	11	21	21	21	21	21	21	21	21

Neighborhood	Qtr 1/09	Qtr 2/09	Qtr 3/09	Qtr 4/09	Qtr 1/10	Qtr 2/10	Qtr 3/10	Qtr 4/10	Qtr 1/11	Qtr 2/11	Qtr 3/11	Qtr 4/11
Mariposa - 2	7	7	7	7	7	7	7	7	7	7	7	7
Presidio - 3	7	7	7	7	7	7	7	7	7	7	7	7
Mercedes - 4	7	7	7	7	7	7	7	7	7	7	4	0
Units Sold:	21	21	21	21	21	21	21	21	21	21	18	14

Neighborhood	Qtr 1/12	Qtr 2/12	Qtr 3/12	Qtr 4/12	Qtr 1/13	Qtr 2/13	Qtr 3/13	Qtr 4/13	Qtr 1/14	Qtr 2/14
Mariposa - 2	7	7	7	7	7	7	7	7	2	0
Presidio - 3	7	7	7	2	0	0	0	0	0	0
Mercedes - 4	0	0	0	0	0	0	0	0	0	0
Units Sold:	14	14	14	9	7	7	7	7	2	0

Note: The Units Sold represents the total number of units sold to buyers per quarter within the subject projects. The Months to Absorb Production Homes represents an estimate of the number of months that is required to sell all of the production homes to buyers.

Following this letter are specific conclusions related to the Moraga development including summary text and detailed exhibits. If you have any questions or comments please do not hesitate to give us a call.

Sincerely,

The Gregory Group
 Greg Paquin
 President

Amber Poe
 Consultant

**EXHIBIT 1
CONCLUSION TABLE
MERCED MARKET AREA**

**The Gregory Group
CA06.07003Merced**

Project Name: Moraga

Total Units: A total of 520 Single-Family Detached Units

Project Location: South of Yosemite Avenue
East of McKee Road
West of Lake Road
In the City of Merced

Concluded Base Pricing:

Neighborhood	Number of Units	Minimum Lot Size		Home Size	Home Price	Price/ Sq. Foot	Abs.
2 Mariposa	206	5,085	45 X 113	1,537	\$314,900	\$204.88	0.50
				1,683	\$327,900	\$194.83	
				2,092	\$359,900	\$172.04	
				2,229	\$369,900	\$165.95	
3 Presidio	173	6,215	55 X 113	1,895	\$344,900	\$182.01	0.50
				2,014	\$354,900	\$176.22	
				2,389	\$389,900	\$163.21	
				2,644	\$409,900	\$155.03	
4 Mercedes	141	7,345	65 x 113	2,419	\$404,900	\$167.38	0.50
				2,544	\$418,900	\$164.66	
				3,142	\$484,900	\$154.33	
				3,505	\$509,900	\$145.48	
Averages/Totals:	520	6,215	--	2,341	\$390,900	\$170.50	--

Note: Prices are net of incentives and as of October, 2006. Homebuyers are offered an incentive totaling \$14,000 (a combination of a \$4,000 incentive to be applied toward closing costs when utilizing the preferred lender and home upgrades totaling \$10,000).

**EXHIBIT 2
MARKET ENTRY CONCLUSION SUMMARY
MERCED MARKET AREA**

The Gregory Group
CA06.07003Merced

Neighborhood	Total Units	Total* Units Sold	Lot Size	Con. Abs. Rate	Estimated Units Sold Per Qtr	Estimated Units Sold																								
						4/06	1/07	2/07	3/07	4/07	1/08	2/08	3/08	4/08	1/09	2/09	3/09	4/09	1/10	2/10	3/10	4/10	1/11	2/11	3/11	4/11	1/12	2/12	3/12	4/12
Mariposa 2	206	6	5,085	0.50	7	2	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Presidio 3	173	8	6,215	0.50	7	2	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	2
Mercedes 4	141	4	7,345	0.50	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	4	0	0	0	0	0
Total Number of Units Sold/1:						11	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	18	14	14	14	14	9

1/13	2/13	3/13	4/13	1/14	2/14
7	7	7	7	2	0
0	0	0	0	0	0
0	0	0	0	0	0
7	7	7	7	2	0

Months to Absorb Production Homes/1: 88

Note/1: The Total Number of Units Sold represents the total number of units sold per quarter within the subject projects. The Months to Absorb Production Homes represents an estimate of the number of months that is required to sell all of the production homes to buyers.

*Note: During the first four weeks of the Fourth Quarter, 2006. Both the Mariposa Collection (N2) and the Presidio Collection (N3) posted 5 sales each.

EXHIBIT 4
SUBJECT MARKETING POSITION--NET PRICING
MERCED MARKET AREA
OCTOBER, 2006

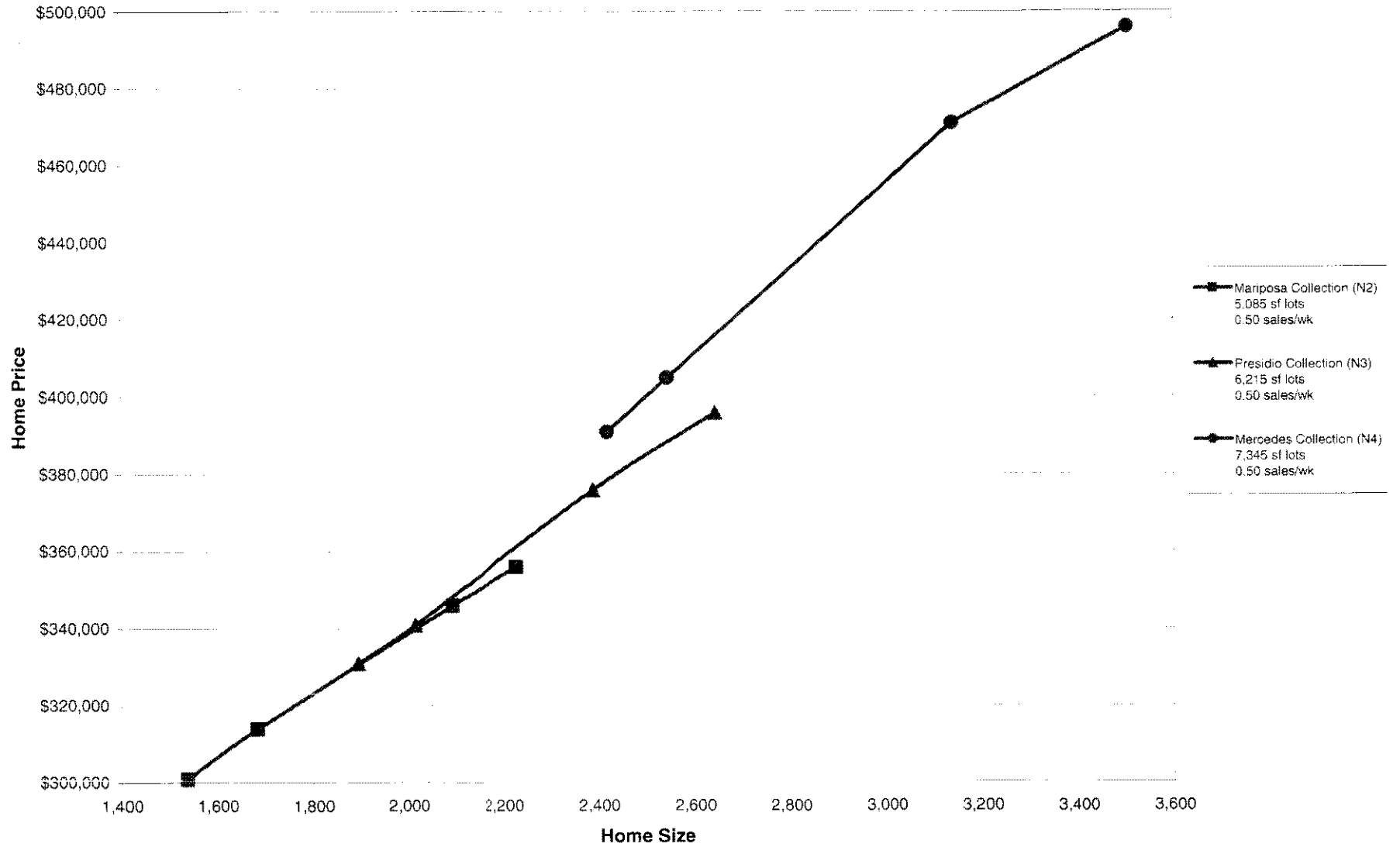


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SECTION I
PROJECT ANALYSIS

Subject Description and Locational Assessment

The subject development Moraga by Lakemont Homes opened for sales to the public on July 15, 2006. The development is planned to include a total of 520 homes within three distinct neighborhoods surrounding a community park. Specifically, Neighborhood 2 (the Mariposa Collection) includes 206 homes situated on lots that are a minimum of 5,085 square feet (in a 45-foot wide by 113-foot deep configuration), Neighborhood 3 (the Presidio Collection) includes 173 homes situated on lots that are a minimum of 6,215 square feet (in a 55-foot wide by 113-foot deep configuration) and Neighborhood 4 (the Mercedes Collection) includes 141 homes that are situated on lots that are a minimum of 7,345 square feet (in a 65-foot wide by 113-foot deep configuration). Overall home sizes range from 1,537 to 3,505 square feet and each neighborhood offers a specific product line with home sizes ranging from 1,537 to 2,229 square feet in Neighborhood 2, from 1,895 to 2,644 in Neighborhood 3 and from 2,419 to 3,505 square feet in Neighborhood 4. Since the opening the subject development has released 273 homes, 18 of which have sold.

Moraga is located in the northeastern section of the City of Merced south of Yosemite Avenue and east of McKee Road in an area that is characterized by a mix of existing housing and agricultural use land. An existing subdivision with homes that are five-to-ten years old in good condition is located west across McKee Road. Farmland and open space are located to the east and fifteen- to twenty-year old homes on large lots are located north across Yosemite Avenue. Merced College is northwest of the development and the downtown area of the City of Merced is southeast. To the northwest is the site of the new race track as well as Castle Air Park and to the northeast is Lake Yosemite and the new University of California at Merced campus.

During the past several years due to migration from the San Francisco Bay Area and Southern California, there has been increased growth in retail, services and entertainment centers as well as new housing in areas throughout the city. New growth includes a new mall, an increase in the number of retail centers being developed within the development areas, and an increase in the number of restaurant and services-related businesses. Areas north of Highway 99 have traditionally offered a combination of first-time buyer product as well as move-up and move-down product while the areas south of Highway 99 have consisted primarily of affordably-priced product aimed at the first-time home buyer.

With the grand opening of the University of California, Merced in the fall of 2005 the City of Merced is poised to embark on an extended period of sustainable growth. Currently, the university has approximately 150 faculty members and 600 staff employees. At maximum capacity, however, the university is projected to provide 5,538 full-time positions. Additionally, it is expected that the maximum number of students at the university will be 25,000 full-time students and an undetermined number of part-time students. Forecasts suggest that the university will enroll just under 10,000 students during its first decade, growing to full capacity within the next twenty years. It is believed that the presence of the UC Merced faculty, staff, students and their families will stimulate growth through an increase in the demand for goods and services providing the impetus to growth and expansion of local businesses and a corresponding increase in regional employment. Additionally, the presence of the university, a research institution, will tend to draw businesses and industry that are currently missing from the employment landscape

in Merced County. It is anticipated that the university will serve as a catalyst to diversification of the local labor force and the businesses and industry they support. The infusion of students and associated businesses in the City of Merced is expected to increase demand in the new housing sector.

In addition to the university, a new motorsports park is being proposed northwest of the subject site. Riverside Motorsports Park will consist of 1,300 acres to be developed into a racing complex that will include eight different tracks able to accommodate all types of racing, including NASCAR and NHRA. It is the intent of the park to become a regional recreation destination, operating year-round and running races approximately forty weekends throughout the year. It is estimated that this complex will require 200 full-time employees and up to 1,000 part-time or seasonal employees. Additionally, plans call for 300 acres, which allow Castle Air Base, to be available for industry and services related to the racing industry. The developer noted that there is a severe shortage of hospitality services in Merced County today and that that would need to change in order to support the draw of out-of-town racers and fans. The race track will also draw complementary services, including industries that support racing and use race track facilities in their business. Amenities included in this motorsports park consist of RV facilities, family restaurants, including a British pub, picnic greens, an upscale food court, playgrounds, and video arcades. This project has experienced some delays and had to resubmit an environmental impact report that was reviewed in June before the Board of Supervisors. This delay has pushed back the anticipated construction date to late 2006. Riverside Motorsports Park is hopeful that final approval will be granted by the county so that construction can begin by 2006 with a tentative open date of 2007.

Adjacent to the proposed motor sports park is Castle Air Base. The air base currently consists of 700 undeveloped acres of flight line activity and a business park. The Board of Supervisors recently reclassified the base as a "redevelopment area" in order to stimulate interest and attract additional sources of funding. The Castle complex could accommodate 25,000 people with existing utility support and there is opportunity for businesses to co-develop with the university in areas such as research and development, high-tech and education-related businesses. Additionally, there is ample opportunity to co-develop with the motor sports park, providing space for hospitality services as well as to industries related to racing. There is also potential for the development of light industry and multi-story business buildings and the location is ideally suited for the development of a conference center/retreat. With regard to the airfield, specifically, fire service industry and commercial and cargo air companies have negotiated contracts with the air base, however, previous plans for the Air National Guard to relocate units from the Bay Area to the Castle Base have since dissolved.

Competitive Market Analysis

Central Valley Region Analysis

Within the Central Valley Region (including the Counties of San Joaquin, Stanislaus and Merced), there are a total of 224 new-home attached and detached subdivisions that are currently selling as of the Third Quarter of 2006. In the Central Valley Region, the average home size is

2,340 square feet and the average price is \$462,092 (resulting in an average price per square foot value of \$202.17). The surveyed developments are averaging 0.94 sales per week overall (since the beginning of sales) and 0.43 sales per week during the Third Quarter (with 1,263 homes sold). Within the Central Valley developments, there are a total of 31,439 units planned for eventual development, of which 19,149 units (60.9% of the planned units) have been offered for sale and 16,434 units (85.8% of the offered units) have been sold. This results in a total of 2,715 units of unsold inventory and, given current absorption rates there is a less than a thirteen-week supply of unsold inventory remaining.

Over the past several years, a greater demand than supply of new-home product and a significant increase in the number of new-home buyers from outside the Central Valley Region (including the San Francisco Bay Area, Southern California and other western and mid-western states) has caused a dramatic increase in new-home pricing. For example, the average new-home price in the region increased 15.0% between the First Quarter of 2003 and the First Quarter of 2004 (from \$286,889 to \$329,994) and 31.6% between the First Quarter of 2004 and the First Quarter of 2005 (to \$433,868). Furthermore, the average price increased 11.3% between the First Quarter of 2005 and the First Quarter of 2006 (to \$482,925).

The influx of out-of-area buyers migrating due to the low cost of housing and the local buyers riding a wave of a booming real estate market that contributed to an unsustainably high level of new-home pricing in the Central Valley Region has begun to decline. Factors including a normalizing housing market, rising interest rates and the tightening of lending practices have attributed to slowing absorption rates and the flattening of new-home pricing throughout the region. Furthermore, investor buyers and buyers who planned to purchase homes in the area and commute back to employment centers have nearly vanished in response to rising inventory levels, slowing appreciation and record high gas prices. Builders have responded to the shifting market by strengthening marketing and advertising campaigns, decreasing pricing or foregoing price increases and dramatically increasing the value of incentive programs offered to buyers. This response is evidenced by the decline in the average new-home base price between the First Quarter, 2006 and the Third Quarter, 2006 from \$482,925 to \$462,092 (a 4.3% decrease). Likewise, the average incentive offered increased 80.6% during the same time period (from \$7,449 to \$13,455) causing average net price to decline 5.6% (from \$475,476 to \$448,638).

Merced County Analysis

As of the Third Quarter of 2006, there are a total of 57 new-home projects selling in Merced County (including the Communities of Atwater, Delhi, Gustine, Dos Palos, Livingston, Los Banos, Merced, Planada and Winton). The average home size in Merced County is 2,107 square feet and the average price is \$386,984 (resulting in an average price per square foot value of \$188.16). These surveyed developments are averaging 0.80 sales per week overall (since the beginning of sales) and 0.30 sales per week during the Third Quarter (when 216 homes sold—17.1% of the Central Valley Region total). Within the surveyed developments in Merced County, there are a total of 10,421 units planned for eventual development of which, 5,259 units (50.5% of the planned units) have been offered for sale. A total of 4,395 units (83.6% of the

offered units) have sold. This results in a total of 900 units of unsold inventory and given current absorption rates, there is less than a twenty-week supply of unsold inventory remaining.

The average new-home price within Merced County increased 17.6% between the First Quarter of 2003 and the First Quarter of 2004 (from \$219,674 to \$258,283) and 36.5% between the First Quarter of 2004 and the First Quarter of 2005 (to \$352,432). Furthermore, the average price increased 15.0% between the First Quarter of 2005 and the First Quarter of 2006 (to \$405,427). Merced County demonstrated a slightly larger decline in the average base home price between the First Quarter, 2006 and the Third Quarter, 2006 than the Central Valley Region as a whole with a 4.5% decrease (from \$405,427 to \$386,984). Furthermore, the average Merced County incentive increased 149.1% (from \$6,148 to \$15,315) causing the average net price to decrease 6.9% (from \$399,279 to \$371,669).

An analysis of sales by price range within Merced County demonstrates the shift that has occurred during the past several years. For instance, in 2004 a total of 75.3% of the sales were for homes priced at less than \$350,000, this percentage fell to 36.4% of total sales in 2005 and is currently 24.8% of total sales during the first three quarters of 2006. Of the remaining new-home sales during the first three quarters of 2006, 15.0% were priced between \$350,000 and \$374,999, 12.3% were priced between \$375,000 and \$399,999, 15.9% were priced between \$400,000 and \$424,999, 15.8% were priced between \$425,000 and \$449,999, 7.5% were priced between \$450,000 and \$474,999, 6.4% were priced between \$475,000 and \$499,999, and only 2.3% were priced \$500,000 and greater.

In terms of sales by average home size in Merced County during the first three quarters of 2006, there were no sales of homes sized less than 1,250 square feet. For homes sized between 1,250 and 1,499 square feet, there were 6.2% of total sales and homes sized between 1,500 and 1,749 square feet accounted for 17.6%. A total of 12.0% of sales were represented by homes sized between 1,750 and 1,999 square feet and 28.3% of sales were for homes sized between 2,000 and 2,249 square feet. Homes sized between 2,250 and 2,499 square feet represented 21.6% of total sales and homes sized from 2,500 and 2,749 square feet accounted for 4.6%. A total of 3.2% of sales were represented by homes sized between 2,750 and 2,999 square feet. Finally, the remaining 6.5% of total sales were for homes sized at 3,000 square feet and greater.

An analysis of home sales by lot size concludes that 7.5% of total sales during the first three quarters of 2006 were for homes that were situated on lots sized less than 4,000 square feet. It should be noted that historically, the lack of sales in this lot size category has been a result of a lack of supply and not a lack of demand. Traditionally, there has been a significant lack of small-lot detached product for sale within the market area especially considering the recent price increases. As new-home product has increased in price during the past several years, there is more opportunity for the development of small-lot detached product that is more affordable than traditional detached product (generally detached homes situated on larger lots). No homes that were sold had lots sized between 4,000 and 4,499 square feet and 6.0% of sales were for homes situated on lots sized between 4,500 and 4,999 square feet. Lots sized from 5,000 to 5,499 square feet represented 23.2% of total sales and lots sized from 5,500 to 5,999 square feet represented 15.0%. The largest concentration of sales (35.8%) was for lots sized between 6,000

and 6,499 square feet. Finally, the remaining 12.5% of total home sales was represented by homes situated on lots sized 6,500 square feet and greater.

Within the Merced County market area an analysis of product distribution by average home price reveals that there is only one project selling as of the Third Quarter, 2006 with an average price below \$250,000. This development is selling at a cumulative rate of 1.82 units per week. There are five projects currently selling that offer an average price between \$250,000 and \$299,999, selling at a cumulative rate of 1.76 units per week and there are twelve projects with an average price between \$300,000 and \$349,999 that are selling at a cumulative rate of 0.83 units per week. There are nineteen projects that are priced between \$350,000 and \$400,000, selling at a cumulative sales rate of 0.78 units per week, nine projects with an average price between \$400,000 and \$450,000, selling at a sales rate of 1.05 units per week and there are eleven projects selling that offer an average price at \$450,000 and greater, with an overall sales rate of 0.74 units per week.

An analysis of product distribution by lot size reveals that there are no attached projects that are currently selling as of the Third Quarter. There are five projects that offer lot sizes less than 4,000 square feet and average \$280,811 in home price and 1,558 square feet in home size. Additionally, these three projects are averaging 0.88 sales per week overall. There are five projects that offer a lot size between 4,500 and 4,999 square feet and average 2,204 square feet in home size and \$376,569 in home price. These projects have a cumulative sales rate of 0.78 units per week. For lots sized between 5,000 and 5,499 square feet, there are twelve projects currently selling. These projects average 2,136 square feet in home size, \$385,230 in price and have a cumulative sales rate of 0.61 units per week. There are seven projects that offer lots sized from 5,500 to 5,999 square feet. These projects offer an average price of \$385,230, home size of 2,136 square feet and have been averaging 0.61 cumulative unit sales per week.

There are twenty projects that offer lots sized from 6,000 to 6,499 square feet that average 2,136 square feet in home size and \$394,030 in price. Additionally, these projects have a cumulative sales rate of 0.94 units per week. For lots sized from 6,500 to 6,999 square feet, there are three projects selling that average \$467,578 in price, 2,654 square feet in size and have a cumulative sale rate of 0.98 units per week. There are three projects selling with lots sized between 7,000 and 7,499 square feet that average 2,617 square feet in size, \$490,150 in price and have been selling at a cumulative sale rate of 0.30 units per week. There is one project that offers a lot size from 7,500 to 7,999 square feet. This project averages 2,813 square feet in size, \$472,400 in price and averages 0.96 sales per week overall. Finally, there is one project that offers a lot size greater than 8,000 square feet and averages 3,097 square feet in size, \$738,250 in price and 0.39 sales per week overall.

An analysis of the total inventory (the total homes available now and in future phases within currently selling projects) within the Merced County market area reveals a total of 5,503 total units available (in all currently selling projects as of the Third Quarter of 2006). If we consider the current average weekly sales rates within each project and apply them to the total inventory within each project, there will be 563 total units sold during the Fourth Quarter of 2006 and 408 units sold during the Fourth Quarter of 2007. Furthermore, it is anticipated that there will be 348

units sold during the First Quarter of 2008 followed by 277 units sold in the Second Quarter, 211 units sold during the Third Quarter and 197 units sold during the Fourth Quarter

Proposed Development

In terms of proposed future development within the subject property market area (including the Communities of Atwater and Merced), there is a total of 26,078 units that are planned within projects that are actively in the planning process and not currently selling. A total of 367 units have final approval, 2,616 units have tentative approval and 23,095 units are in the planning stages. Of the total number of units planned in the market area, there are 23,032 units that are planned for five major master planned communities.

The Atwater Ranch Master Planned Community will be developed by Florsheim Homes and is located in the City of Atwater south of Hwy 99. The City of Atwater recently annexed the land from the County of Merced. This project will consist of 1,584 total units on 395 total acres (4.0 dwelling units per acre) and is in the preliminary planning stages. Castle Farms, by Brookfield Land Company, is located in the City of Merced at the northwest corner of Bellevue Road and Hwy 59 and is planned to consist of 12,914 total units on a total of 2,559 acres (5.1 dwelling units per acre). The Merced City Council approved the inclusion of Castle Farms into the updated version of the City of Merced General Plan. This project is in the early planning stages and has not yet received tentative map approval. Bellevue Ranch East, by Crosswinds Communities, is located north of Merced College from M Street east to G Street south of Bellevue Road. This planned community has already begun construction of the first phase of 581 single-family, for sale units and has tentative map approval for the remaining 812 single-family units within the second phase. Other builders at Bellevue Ranch East include Kimball Hill Homes, Ryland Homes and Mathews Homes. Bellevue Ranch West by Woodside Homes has also begun construction and sales of the first phase of 711 single-family, for sale units. Finally, the second phase of 592 single-family, for-sale units within Bellevue Ranch West has received tentative map approval.

Of the 24,127 total units planned in the City of Merced (excluding the City of Atwater), 7,850 of those units will be developed in several villages as part of the single-family, for sale portion University Community Plan. Additionally, the project will consist of 3,850 units of multi-family attached development in various configurations. All of the units have been submitted to the City of Merced planning department and it is anticipated that the first phase of the University Community Plan will begin sales in 2007.

Economics and Demographics

In the Merced County market area (including the Merced, Madera and Fresno Metropolitan Statistical Areas) there were 348,400 total non-farm jobs during 2005, representing an increase of 7,100 jobs (1.9%) from 2004 (with a total of 377,300 total non-farm jobs). Between 1999 and 2005, total non-farm employment increased 12.8% or 43,600 total new jobs. It is estimated that in the first three quarters of 2006 there will be 390,200 total non-farm jobs in the area, representing an increase of 0.2% from 2005. The construction sector posted 27,800 jobs in

September of 2005 and during September of 2006, the sector remained constant with the year previous. The manufacturing sector also remained constant with the same time last year posting 44,400 jobs in September. Government employment posted 91,400 jobs representing a 2.2% increase from 2005 with 89,400 jobs. Finally, the services sector posted a 0.6% decline from 2005 with 211,700 total jobs (down from 213,000 total jobs). The unemployment rate decreased from 7.2% during September, 2005 to 6.5% during September, 2006.

A total of 10,172 building permits were recorded in 2005 representing a decrease of 7.7% (or 843 units) from the 11,015 permits recorded for 2004 in the Merced market area (including the Merced, Madera and Fresno Metropolitan Statistical Areas). Of the total permits issued in 2005, 8,586 were for single-family construction and 1,586 were for multi-family development. It is estimated that there will be 7,823 permits recorded for 2006 representing a decrease of 23.1% (or 2,349 units) from 2005. Likewise, of the projected building permits for 2006, 6,354 are anticipated to be for single-family construction and 1,469 are anticipated to be for multi-family development.

The total population for Merced County has increased steadily over the last ten years. With the region becoming increasingly more attractive to prospective residents (especially from the San Francisco Bay Area), the area is growing rapidly. Since 1996 the total population has increased 20.9% from 198,600 to 240,162 in 2005. The population for Merced County is expected to reach 246,842 residents in 2006, an increase of 2.8% from 2005. In the City of Merced, population has increased 20.1% from 61,300 in 1996 to 73,610 in 2005 and the population is expected to increase to 76,113 in 2006 (an increase of 3.4% from 2005).

Competitive Market Analysis

Within the subject property market area (including the communities of Atwater and Merced) there are thirty-four new-home projects currently selling. The homes average \$379,979 in home price and 2,094 square feet in home size (resulting in an average price per square foot value of \$185.86). The competitive developments are averaging 0.79 sales per week overall (since the beginning of sales) and 0.26 sales per week during the Third Quarter of 2006 (with 115 homes sold). There are a total of 449 units of unsold inventory and given current absorption rates, there is less than a seventeen-week supply of unsold inventory remaining. The homes are situated on lots that average 6,487 square feet in size and range from 2,275 square feet to one-acre. Thirty of the projects offer incentives ranging from \$2,000 to \$75,000 and averaging \$18,015.

During the Third Quarter, many developments have posted pricing adjustments and almost all developments have experienced slowing sales activity. Average base pricing decreased between the Second and Third Quarters from \$389,242 to \$379,979 (a 2.4% decrease). Likewise, the average incentive offered decreased 7.9% (from \$19,565 to \$18,015) and average net pricing decreased 2.1% (from \$369,677 to \$361,964). Furthermore, overall product absorption rates fell from 0.95 sales per week (since the beginning of sales) during the Second Quarter, 2006 to 0.79 sales per week during the Third Quarter. Current absorption rates fell from 0.45 sales per week for the Second Quarter to 0.26 sales per week during the Third Quarter. Sales professionals at several developments are reporting cancellations on an almost daily basis primarily because of

the effect of the slowdown on the resale market and the inability of the prospective homebuyer to sell his existing home. In some cases, however, increased incentive packages have brought in enough buyers to offset the previous reservation cancellations causing a "break even" effect. The types of incentives offered to buyers have evolved over the past several months. Before the market transition, buyers were typically offered a choice between home interior upgrades or a set cash amount to be applied toward closing costs. Currently, buyers are offered a wide array of incentives ranging from cash to be applied to the base price of the home to inclusive yard landscaping and a pool. Likewise, builders are now negotiating with buyers who are considering canceling their contract in order to convince them to go through with the purchase.

Moraga is the only development in the Merced market area that currently has a monthly Homeowner's Association fee. The monthly fee of \$86.50 is in addition to monthly special taxes for community development. Estimated monthly taxes for Neighborhood 2 are \$174.67, Neighborhood 3 are \$196.23 and Neighborhood 4 are \$230.32. Currently, twenty-two of the thirty developments have monthly specialty taxes that range from \$41.25 to \$230.32 resulting in an average total monthly obligation of \$76.25 for all currently selling projects.

Resale and Listing Analysis

A survey of homes sold within the City of Merced was conducted from June, 2006 through August, 2006. There were a total of 135 homes sold that averaged \$348,726 in price and 1,543 square feet in size (resulting in an average price per square foot value of \$235.98). The homes were built, on average, in 1976 and offer an average lot size of 18,790 square feet. However, if only homes that were built after 2000 are analyzed (with an average year built of 2004), the average price is \$376,567 for a home that is sized at 1,707 square feet, resulting in an average price per square foot value of \$224.06. Of the total homes sold, only 3.7% sold for a price that was less than \$200,000, 37.0% sold for a price that was between \$200,000 and \$299,999, 35.6% were priced between \$300,000 and \$399,999, 14.1% were priced between \$400,000 and \$499,999, 5.2% were priced between \$500,000 and \$599,999 and 4.4% sold for a price that was \$600,000 and greater.

A survey of listings within the City of Merced concluded that there are 759 homes currently listed for sale. The average listing price is \$401,199 for a home that was built, on average, in 1981, with an average lot size of 9,137 square feet and home size of 1,747 square feet. If only homes that were built after 2000 are analyzed (with an average year built of 2004), the average listing price is \$438,998, home size is 1,976 square feet and lot size is 10,024 square feet. Of the total homes listed for sale, only 1.2% are priced below \$200,000, 26.1% are priced between \$200,000 and \$299,999, 42.3% are priced between \$300,000 and \$399,999, 14.9% are priced between \$400,000 and \$499,999, 5.6% are priced between \$500,000 and \$599,999, 3.3% are priced between \$600,000 and \$699,999, 2.8% are priced between \$700,000 and \$799,999 and 3.8% are priced at \$800,000 and greater.

Buyer Profile

The buyers at the surveyed developments are generally first- and second-time move-up buyers. There are also some empty-nesters and retirees who are downsizing. The buyers are generally couples between 25 and 50 years of age with school aged children and younger. There are also some younger couples who are planning to have children in the future and older couples whose children have left home. There has been a shift in the number of out-of-town buyers in the Merced market area. Previously, homebuyers in the area were a fifty percent split between out-of-town buyers (primarily from the San Francisco Bay Area) and local buyers. Due to the slowing market and rising gas prices, this percentage has shifted to approximately thirty percent out-of-town buyers and seventy percent local buyers. Local buyers are typically families who are selling their existing homes and purchasing a new-home because of the desired amenities.

The buyers who are moving from out of the area are a combination of buyers who are migrating due to the relative low cost of housing, the lower cost of living and the continuing maturing of the region (an increasing number of services, entertainment venues, restaurants, recreation, education etc.) and those who are moving because of UC Merced. A notable amount of parents are buying homes for their children to live in while they attend the university in addition to a number of professors who are purchasing homes for themselves. The majority of the buyers to the Merced market area work in Merced County and to the south in the City of Fresno.

Conclusions

Given the submitted product type and current market conditions, it is concluded that base pricing (as submitted by the builder) at Moraga include the following ranges:

Neighborhood	Lot Size	Total Units	Home Size Range	Base Pricing Range	Price/Sq. Ft. Range
Mariposa - 2	5,085	206	1,537 – 2,229	\$314,900 - \$369,900	\$204.88 - \$165.95
Presidio - 3	6,215	173	1,895 – 2,644	\$344,900 - \$409,900	\$182.01 - \$155.03
Mercedes - 4	7,345	141	2,419 – 3,505	\$404,900 - \$509,900	\$167.38 - \$145.48

Additionally, homebuyers at Moraga will be offered a \$4,000 incentive to be applied toward closing costs when utilizing the preferred lender and a \$10,000 incentive to be applied toward home upgrades. The pricing position of the subject development is generally, in-line with the new home, competitive subdivisions, based on price and square footage evaluations within the subject market area for competitive projects with similar lot sizes and product types. Additionally, the position is generally, in-line with the recent home resales and current home listings in the area based on price and square footage evaluations.

In conclusion, within the Moraga development, Neighborhood 2 can absorb 0.50 units per week, Neighborhood 3 can absorb 0.50 units per week and Neighborhood 4 can absorb 0.50 units per week over the marketing life of the development. Furthermore, the above pricing and absorption will result in an 88-month time period for buyers to absorb all of the production homes within the Moraga development. The following tables summarize this result.

Neighborhood	Qtr 4/06	Qtr 1/07	Qtr 2/07	Qtr 3/07	Qtr 4/07	Qtr 1/08	Qtr 2/08	Qtr 3/08	Qtr 4/08
Mariposa - 2	2	7	7	7	7	7	7	7	7
Presidio - 3	2	7	7	7	7	7	7	7	7
Mercedes - 4	7	7	7	7	7	7	7	7	7
Units Sold:	11	21	21	21	21	21	21	21	21

Neighborhood	Qtr 1/09	Qtr 2/09	Qtr 3/09	Qtr 4/09	Qtr 1/10	Qtr 2/10	Qtr 3/10	Qtr 4/10	Qtr 1/11	Qtr 2/11	Qtr 3/11	Qtr 4/11
Mariposa - 2	7	7	7	7	7	7	7	7	7	7	7	7
Presidio - 3	7	7	7	7	7	7	7	7	7	7	7	7
Mercedes - 4	7	7	7	7	7	7	7	7	7	7	4	0
Units Sold:	21	21	21	21	21	21	21	21	21	21	18	14

Neighborhood	Qtr 1/12	Qtr 2/12	Qtr 3/12	Qtr 4/12	Qtr 1/13	Qtr 2/13	Qtr 3/13	Qtr 4/13	Qtr 1/14	Qtr 2/14
Mariposa - 2	7	7	7	7	7	7	7	7	2	0
Presidio - 3	7	7	7	2	0	0	0	0	0	0
Mercedes - 4	0	0	0	0	0	0	0	0	0	0
Units Sold:	14	14	14	9	7	7	7	7	2	0

Note: The Units Sold represents the total number of units sold to buyers per quarter within the subject projects. The Months to Absorb Production Homes represents an estimate of the number of months that is required to sell all of the production homes to buyers.

SECTION II
EXHIBITS

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
Cottages at Compass Point	2,500	1,375	\$275,990	\$200.72	\$10,000	3/2.5	1/2	138	48	36	1.13	-2	-0.15
Bennett Homes	--	1,430	\$295,990	\$206.99	\$10,000	3/2.5	1/2						
Merced		1,663	\$310,990	\$187.01	\$10,000	4/2.5	1/2						
None		1,806	\$325,990	\$180.50	\$10,000	4/2.5	1/2						
		1,901	\$335,990	\$176.74	\$10,000	4/3	1/2						
		2,029	\$345,990	\$170.52	\$10,000	4/2.5	1/2						
Cypress Terrace	5,000	1,191	\$239,000	\$200.67	\$10,000	3/2	1/2	303	220	213	1.15	3	0.23
Ranchwood Homes	50 X 100	1,251	\$243,900	\$194.96	\$10,000	3/2	1/2						
Merced		1,475	\$255,900	\$173.49	\$10,000	3/2	1/2						
None		1,633	\$262,900	\$160.99	\$10,000	4/2	1/2						
		1,846	\$273,900	\$148.37	\$10,000	4/2	1/2						
El Capitan	6,000	1,375	\$326,900	\$237.75	\$45,000	3/2	1/2	229	170	146	1.04	-9	-0.69
Ranchwood Homes	60 X 100	1,565	\$338,950	\$216.58	\$45,000	3/2	1/2						
Merced		1,633	\$345,950	\$211.85	\$45,000	4/2	1/2						
None		1,729	\$349,950	\$202.40	\$45,000	4/2	1/3						
		1,953	\$370,950	\$189.94	\$45,000	4/2	2/2						
		1,960	\$372,950	\$190.28	\$45,000	4/2	1/3						
		2,355	\$406,950	\$172.80	\$45,000	4/3	2/3						
Fairview Meadows	4,750	1,979	\$340,000	\$171.80	\$0	3/2.5/L	2/2	112	28	5	0.15	-3	-0.23
KB Home	50 X 95	2,093	\$350,000	\$167.22	\$0	3/2.5/L	2/2						
Merced		2,177	\$360,000	\$165.37	\$0	3/2.5/L	2/2						
None		2,452	\$380,000	\$154.98	\$0	3/2.5/L	2/2						
		2,763	\$410,000	\$148.39	\$0	4/2.5/L	2/2						
Mariposa Collection at Moraga (Neighborhood 2)	5,085	1,537	\$314,900	\$204.88	\$14,000	3/2	1/2	206	5	2	0.18	2	0.15
Lakemont Homes	45 X 113	1,683	\$327,900	\$194.83	\$14,000	4/2	1/2						
Merced		2,092	\$359,900	\$172.04	\$14,000	4/2.5	2/2						
None		2,229	\$369,900	\$165.95	\$14,000	4/2.5	2/3T						
Presidio Collection at Moraga (Neighborhood 3)	6,215	1,895	\$404,900	\$213.67	\$14,000	3/2	1/2	173	6	4	0.36	4	0.31
Lakemont Homes	55 X 113	2,014	\$418,900	\$207.99	\$14,000	3/2	1/2						
Merced		2,389	\$484,900	\$202.97	\$14,000	3/2/D	1/3T						
None		2,644	\$509,900	\$192.85	\$14,000	4/2.5/D	2/3T						
Mercedes Collection Moraga (Neighborhood 4)	7,345	2,419	\$423,000	\$174.87	\$14,000	3/3	1/3	141	4	1	0.09	1	0.08
Lakemont Homes	65 X 113	2,544	\$434,000	\$170.60	\$14,000	4/3	1/3T						
Merced		3,142	\$479,000	\$152.45	\$14,000	4/3.5/D	2/2						
None		3,505	\$499,000	\$142.37	\$14,000	6/4	2/3T						

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
								Renaissance California Homes Merced None	5,500 55 X 100	1,408 1,411 1,631 1,688 1,898 1,926			
Sandcastle California Homes Merced None	5,000 50 X 100	1,272 1,554 1,660 1,899 2,140 2,555	\$307,990 \$341,990 \$337,990 \$357,990 \$374,990 \$411,990	\$242.13 \$220.07 \$203.61 \$188.52 \$175.23 \$161.25	\$2,000 \$2,000 \$2,000 \$2,000 \$2,000 \$2,000	3/2 3/2.5 3/2 4/2.5 4/2.5 4/3/D	1/2 2/2 1/2 2/2 2/2 2/2	334	168	136	1.26	-1	-0.08
Sierra Vista Summerton Homes Merced None	4,700 47 X 100	1,277 1,637 2,055 2,346 2,637 2,900 3,288 3,553	\$289,990 \$314,990 \$359,990 \$379,990 \$399,990 \$439,990 \$459,990 \$479,990	\$227.09 \$192.42 \$175.18 \$161.97 \$151.68 \$151.72 \$139.90 \$135.09	\$0 \$0 \$0 \$0 \$0 \$0 \$0 \$0	2/2 2/2.5 3/2.5 3/2.5 3/2.5 3/2.5/D 3/2.5/D 3/2.5/D	1/2 1/2 1/2 2/2 2/2 2/2 2/2 2/2	43	43	25	0.46	-1	-0.08
Summercreek Bright Homes Merced None	6,000 60 X 100	1,400 1,547 1,606 1,854 1,936 2,323 3,297	\$299,990 \$315,990 \$325,990 \$444,990 \$446,990 \$479,990 \$573,990	\$214.28 \$204.26 \$202.98 \$240.02 \$230.88 \$206.63 \$174.09	\$75,000 \$75,000 \$75,000 \$75,000 \$75,000 \$75,000 \$75,000	3/2 3/2.5 3/2 3/2 4/3 5/3 5/3.5/B	1/2 2/3 1/2 1/2 2/2 2/2 2/2	133	133	113	1.27	2	0.15
Summit Meadows Ranchwood Homes Merced None	5,000 50 X 100	1,301 1,405 1,536 1,785	\$289,900 \$294,900 \$301,900 \$314,900	\$222.83 \$209.89 \$196.55 \$176.41	\$35,000 \$35,000 \$35,000 \$35,000	3/2 3/2 4/2 4/2	1/2 1/2 1/2 1/2	154	100	95	0.72	-4	-0.31
The Crossing at River Oaks Sutco Const Merced None	6,000 60 X 100	1,403 1,725 2,216 2,295	\$312,900 \$337,900 \$375,900 \$379,900	\$223.02 \$195.88 \$169.63 \$165.53	\$10,000 \$10,000 \$10,000 \$10,000	3/2 3/2 4/2 3/2	1/2 1/2 1/2 1/2	72	7	0	0.00	0	0.00

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
Tuscany Estates	5,000	1,251	\$286,900	\$229.34	\$25,000	3/2	1/2	92	92	72	0.69	2	0.15
Ranchwood Homes	50 X 100	1,475	\$298,900	\$202.64	\$25,000	3/2	1/2						
Merced		1,633	\$305,900	\$187.32	\$25,000	4/2	1/2						
None		1,846	\$316,900	\$171.67	\$25,000	4/2	1/2						
University Park	5,500	1,513	\$328,990	\$217.44	\$5,000	3/2	1/2	131	84	76	1.17	2	0.15
Morrison Homes	50 X 110	1,847	\$361,990	\$195.99	\$5,000	4/2	1/2						
Merced		2,276	\$409,990	\$180.14	\$5,000	4/2.5/D	2/3						
None		2,468	\$420,990	\$170.58	\$5,000	4/2.5	2/2						
		2,781	\$450,990	\$162.17	\$5,000	4/3/B	2/3						
Gardenstone At Bellevue Ranch	7,865	2,484	\$440,900	\$177.50	\$5,000	3/2	1/3	111	61	52	0.96	10	0.77
Crosswinds Communities	65 X 121	2,699	\$450,900	\$167.06	\$5,000	4/3/L	2/3						
Merced		2,799	\$468,900	\$167.52	\$5,000	4/4/L	2/3						
Bellevue Ranch		3,273	\$528,900	\$161.59	\$5,000	5/4	2/3						
Redhawk at Bellevue Ranch	6,500	2,172	\$354,990	\$163.44	\$2,000	3/2	1/3	148	98	66	1.27	2	0.15
Kimball Hill Homes	65 X 100	2,214	\$369,990	\$167.11	\$2,000	4/2.5/D	1/3						
Merced		2,327	\$371,990	\$159.86	\$2,000	4/2	1/3						
Bellevue Ranch		2,504	\$388,990	\$155.35	\$2,000	4/2.5/D	2/3						
Reverie at Bellevue Ranch	5,250	1,453	\$299,990	\$206.46	\$7,000	3/2	1/2	164	82	68	1.17	-3	-0.23
Ryland Homes	50 X 105	1,685	\$346,990	\$205.93	\$7,000	4/2	1/2						
Merced		1,723	\$359,990	\$208.93	\$7,000	4/2.5	2/2						
Bellevue Ranch		1,849	\$369,990	\$200.10	\$7,000	4/3	2/2						
Silverleaf	3,120	800	\$199,990	\$249.99	\$0	2/2	1/2	82	54	40	1.82	13	1.00
Envision Homes	40 X 78	1,201	\$219,990	\$183.17	\$0	3/2	2/2						
Merced		1,476	\$249,990	\$169.37	\$0	3/2	2/2						
Bellevue Ranch		1,668	\$269,990	\$161.86	\$0	3/2	2/2						
		1,835	\$289,990	\$158.03	\$0	4/2	2/2						
The Meadows at Bellevue Ranch	4,725	1,540	\$318,990	\$207.14	\$10,000	3/2	1/2	245	50	40	1.08	7	0.54
Woodside Homes	45 X 105	1,900	\$344,990	\$181.57	\$10,000	3/2.5/L	2/2						
Merced		2,063	\$357,990	\$173.53	\$10,000	3/2.5/L	2/2						
Bellevue Ranch		2,275	\$370,990	\$163.07	\$10,000	3/2.5/B	2/2						
The Prairies at Bellevue Ranch	5,500	1,826	\$339,990	\$186.19	\$20,000	4/2	1/2	139	20	12	0.32	1	0.08
Woodside Homes	50 X 110	2,182	\$366,990	\$168.19	\$20,000	4/2.5	2/2						
Merced		2,333	\$379,990	\$162.88	\$20,000	4/2.5	2/2						
Bellevue Ranch		2,687	\$408,990	\$152.21	\$20,000	4/3/L	2/2						

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
The Villages at Bellevue Ranch	2,275	1,429	\$264,990	\$185.44	\$10,000	2/2/L	2/2	227	24	15	0.56	12	0.92
Woodside Homes	35 X 68	1,487	\$268,990	\$180.89	\$10,000	3/2	2/2						
Merced		1,556	\$274,990	\$176.73	\$10,000	3/2	2/2						
Bellevue Ranch		1,733	\$287,990	\$166.18	\$10,000	3/2.5/D	2/1						
		1,747	\$288,990	\$165.42	\$10,000	3/2.5/D	2/2						
		1,768	\$291,990	\$165.15	\$10,000	3/2.5/D	2/2						
The Willows at Bellevue Ranch	5,775	2,184	\$393,990	\$180.40	\$20,000	4/2.5	2/3	100	53	41	0.76	14	1.08
Woodside Homes	55 X 105	2,841	\$445,990	\$156.98	\$20,000	4/3/L	2/2						
Merced		3,056	\$475,990	\$155.76	\$20,000	4/3	2/3						
Bellevue Ranch													
Windsong at Bellevue Ranch	5,000	1,883	\$373,990	\$198.61	\$32,000	4/2	1/2	158	48	29	0.56	0	0.00
California Homes	50 X 100	1,932	\$381,990	\$197.72	\$42,000	4/2.5	2/2						
Merced		2,000	\$393,990	\$197.00	\$52,000	3/2/D	1/2						
Bellevue Ranch		2,140	\$413,990	\$193.45	\$52,000	4/2.5	2/2						
Shadow Creek	5,000	1,568	\$366,990	\$234.05	\$60,000	3/2	1/2	160	110	91	1.08	-4	-0.31
California Homes	50 X 100	1,883	\$396,990	\$210.83	\$60,000	4/2	1/2						
Merced		2,000	\$416,990	\$208.50	\$60,000	3/2/D	1/2						
Compass Point		2,396	\$436,990	\$182.38	\$60,000	4/2.5	2/2						
		2,749	\$436,990	\$158.96	\$60,000	4/3/D	2/2						
		3,101	\$468,990	\$151.24	\$60,000	5/3/D	2/2						
Copper Creek	5,500	1,457	\$378,093	\$259.50	\$30,000	3/2	1/2	279	259	251	1.18	7	0.54
Dunmore Homes	55 X 100	1,708	\$371,512	\$217.51	\$30,000	3/2	1/2						
Merced		1,848	\$378,250	\$204.68	\$30,000	4/2	1/3						
Fahren's Creek		2,338	\$427,845	\$183.00	\$30,000	5/3	2/3						
Mill House at Fahren's Creek	6,700	2,470	\$490,990	\$198.78	\$3,500	3/2.5	1/3	215	87	78	1.07	10	0.77
Centex Homes	67 X 100	2,635	\$517,990	\$196.58	\$3,500	4/2.5	2/3						
Merced		3,291	\$557,990	\$169.55	\$3,500	4/2.5	2/3						
Fahren's Creek		3,376	\$561,990	\$166.47	\$3,500	4/3.5	2/3						
		3,620	\$571,990	\$158.01	\$3,500	5/3.5	2/3						
The Crossing at Fahren's Creek	4,725	1,475	\$289,990	\$196.60	\$5,000	3/2	1/2	253	28	17	1.13	11	0.85
Morrison Homes	45 x 105	1,607	\$310,990	\$193.52	\$5,000	3/2/D	1/2						
Merced		2,061	\$350,990	\$170.30	\$5,000	4/2.5/D	2/2						
None		2,265	\$375,990	\$166.00	\$5,000	4/3/B	2/2						
		2,459	\$390,990	\$159.00	\$5,000	4/2.5/D	2/2						
Total Market Average:		2,094	\$379,979	\$185.86	\$18,015	--	--	5,485	2,514	2,065	0.79	115	0.26

EXHIBIT II - 1B
SUBJECT PROJECT VERSUS MOST COMPETITIVE DEVELOPMENTS -- NET PRICING
MERCED MARKET AREA
OCTOBER, 2006

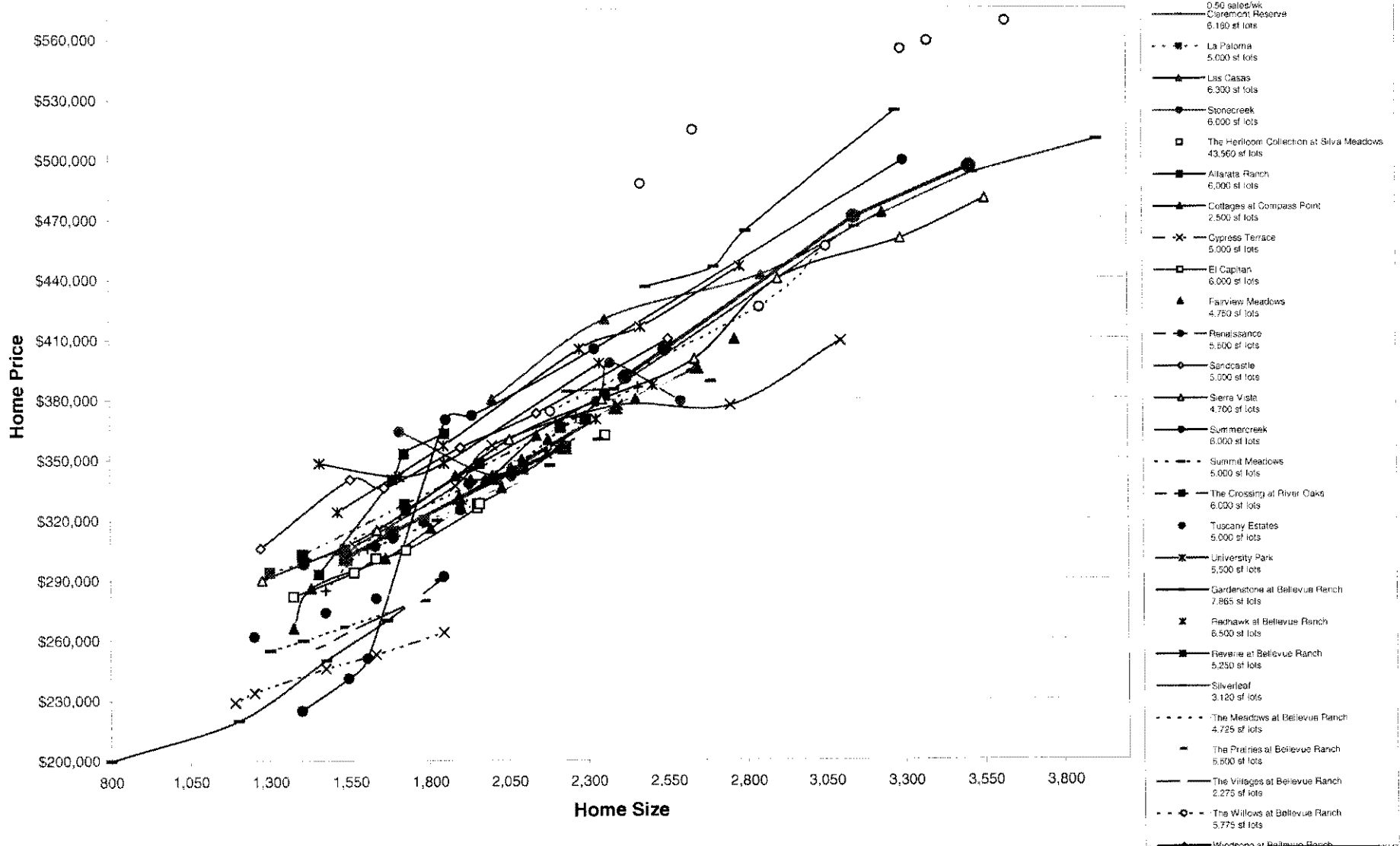


EXHIBIT II - 2A
MOST COMPETITIVE SUMMARY TABLE
(Lots Sized Between 4,000 and 5,500 Square Feet)
MERCED MARKET AREA

The Gregory Group
CA06.07003Merced

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
Atwater													
La Paloma	5,000	1,301	\$293,900	\$225.90	\$0	3/2	1/2	33	29	21	0.31	21	1.62
Ranchwood Homes	50 X 100	1,406	\$298,900	\$212.74	\$0	3/2	1/2						
Atwater		1,536	\$305,900	\$199.15	\$0	4/2	1/2						
None		1,785	\$319,900	\$179.22	\$0	4/2	1/2						
		1,953	\$327,900	\$167.90	\$0	4/2	1/2						
Merced													
Cypress Terrace	5,000	1,191	\$239,000	\$200.67	\$10,000	3/2	1/2	303	220	213	1.15	3	0.23
Ranchwood Homes	50 X 100	1,251	\$243,900	\$194.96	\$10,000	3/2	1/2						
Merced		1,475	\$255,900	\$173.49	\$10,000	3/2	1/2						
None		1,633	\$262,900	\$160.99	\$10,000	4/2	1/2						
		1,846	\$273,900	\$148.37	\$10,000	4/2	1/2						
Fairview Meadows	4,750	1,979	\$340,000	\$171.80	\$0	3/2.5/L	2/2	112	28	5	0.15	-3	-0.23
KB Home	50 X 95	2,093	\$350,000	\$167.22	\$0	3/2.5/L	2/2						
Merced		2,177	\$360,000	\$165.37	\$0	3/2.5/L	2/2						
None		2,452	\$380,000	\$154.98	\$0	3/2.5/L	2/2						
		2,763	\$410,000	\$148.39	\$0	4/2.5/L	2/2						
Mariposa Collection at Moraga (Neighborhood 2)	5,085	1,537	\$314,900	\$204.88	\$14,000	3/2	1/2	206	5	2	0.18	2	0.15
Lakemont Homes	45 X 113	1,683	\$327,900	\$194.83	\$14,000	4/2	1/2						
Merced		2,092	\$359,900	\$172.04	\$14,000	4/2.5	2/2						
None		2,229	\$369,900	\$165.95	\$14,000	4/2.5	2/3T						
Renaissance	5,500	1,408	\$312,990	\$222.29	\$15,000	3/2.5	2/2	166	36	17	0.40	5	0.38
California Homes	55 X 100	1,411	\$314,990	\$223.24	\$15,000	3/2	1/2						
Merced		1,631	\$321,990	\$197.42	\$15,000	4/3	2/2						
None		1,688	\$325,990	\$193.12	\$15,000	3/2	1/2						
		1,898	\$339,990	\$179.13	\$15,000	4/2.5	2/2						
		1,926	\$352,990	\$183.28	\$15,000	4/2.5	2/2						

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
Sandcastle California Homes Merced None	5,000 50 X 100	1,272 1,554 1,660 1,899 2,140 2,555	\$307,990 \$341,990 \$337,990 \$357,990 \$374,990 \$411,990	\$242.13 \$220.07 \$203.61 \$188.52 \$175.23 \$161.25	\$2,000 \$2,000 \$2,000 \$2,000 \$2,000 \$2,000	3/2 3/2.5 3/2 4/2.5 4/2.5 4/3/D	1/2 2/2 1/2 2/2 2/2 2/2	334	168	136	1.26	-1	-0.08
Sierra Vista Summerton Homes Merced None	4,700 47 X 100	1,277 1,637 2,055 2,346 2,637 2,900 3,288 3,553	\$289,990 \$314,990 \$359,990 \$379,990 \$399,990 \$439,990 \$459,990 \$479,990	\$227.09 \$192.42 \$175.18 \$161.97 \$151.68 \$151.72 \$139.90 \$135.09	\$0 \$0 \$0 \$0 \$0 \$0 \$0 \$0	2/2 2/2.5 3/2.5 3/2.5 3/2.5 3/2.5/D 3/2.5/D 3/2.5/D	1/2 1/2 1/2 2/2 2/2 2/2 2/2 2/2	43	43	25	0.46	-1	-0.08
Summit Meadows Ranchwood Homes Merced None	5,000 50 X 100	1,301 1,405 1,536 1,785	\$289,990 \$294,990 \$301,990 \$314,990	\$222.83 \$209.89 \$196.55 \$176.41	\$35,000 \$35,000 \$35,000 \$35,000	3/2 3/2 4/2 4/2	1/2 1/2 1/2 1/2	154	100	95	0.72	-4	-0.31
Tuscany Estates Ranchwood Homes Merced None	5,000 50 X 100	1,251 1,475 1,633 1,846	\$286,990 \$298,990 \$305,990 \$316,990	\$229.34 \$202.64 \$187.32 \$171.67	\$25,000 \$25,000 \$25,000 \$25,000	3/2 3/2 4/2 4/2	1/2 1/2 1/2 1/2	92	92	72	0.69	2	0.15
University Park Morrison Homes Merced None	5,500 50 X 110	1,513 1,847 2,276 2,468 2,781	\$328,990 \$361,990 \$409,990 \$420,990 \$450,990	\$217.44 \$195.99 \$180.14 \$170.58 \$162.17	\$5,000 \$5,000 \$5,000 \$5,000 \$5,000	3/2 4/2 4/2.5/D 4/2.5 4/3/B	1/2 1/2 2/3 2/2 2/3	131	84	76	1.17	2	0.15
Reverie at Bellevue Ranch Ryland Homes Merced Bellevue Ranch	5,250 50 X 105	1,453 1,685 1,723 1,849	\$299,990 \$346,990 \$359,990 \$369,990	\$206.46 \$205.93 \$208.93 \$200.10	\$7,000 \$7,000 \$7,000 \$7,000	3/2 4/2 4/2.5 4/3	1/2 1/2 2/2 2/2	164	82	68	1.17	-3	-0.23
The Meadows at Bellevue Ranch Woodside Homes Merced Bellevue Ranch	4,725 45 X 105	1,540 1,900 2,063 2,275	\$318,990 \$344,990 \$357,990 \$370,990	\$207.14 \$181.57 \$173.53 \$163.07	\$10,000 \$10,000 \$10,000 \$10,000	3/2 3/2.5/L 3/2.5/L 3/2.5/B	1/2 2/2 2/2 2/2	245	50	40	1.08	7	0.54

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
The Prairies at Bellevue Ranch	5,500	1,826	\$339,990	\$186.19	\$20,000	4/2	1/2	139	20	12	0.32	1	0.08
Woodside Homes	50 X 110	2,182	\$366,990	\$168.19	\$20,000	4/2.5	2/2						
Merced		2,333	\$379,990	\$162.88	\$20,000	4/2.5	2/2						
Bellevue Ranch		2,687	\$408,990	\$152.21	\$20,000	4/3/L	2/2						
Windsong at Bellevue Ranch	5,000	1,883	\$373,990	\$198.61	\$32,000	4/2	1/2	158	48	29	0.56	0	0.00
California Homes	50 X 100	1,932	\$381,990	\$197.72	\$42,000	4/2.5	2/2						
Merced		2,000	\$393,990	\$197.00	\$52,000	3/2/D	1/2						
Bellevue Ranch		2,140	\$413,990	\$193.45	\$52,000	4/2.5	2/2						
Shadow Creek	5,000	1,568	\$366,990	\$234.05	\$60,000	3/2	1/2	160	110	91	1.08	-4	-0.31
California Homes	50 X 100	1,883	\$396,990	\$210.83	\$60,000	4/2	1/2						
Merced		2,000	\$416,990	\$208.50	\$60,000	3/2/D	1/2						
Compass Point		2,396	\$436,990	\$182.38	\$60,000	4/2.5	2/2						
		2,749	\$436,990	\$158.96	\$60,000	4/3/D	2/2						
		3,101	\$468,990	\$151.24	\$60,000	5/3/D	2/2						
Copper Creek	5,500	1,457	\$378,093	\$259.50	\$30,000	3/2	1/2	279	259	251	1.18	7	0.54
Dunmore Homes	55 X 100	1,708	\$371,512	\$217.51	\$30,000	3/2	1/2						
Merced		1,848	\$378,250	\$204.68	\$30,000	4/2	1/3						
Fahren's Creek		2,338	\$427,845	\$183.00	\$30,000	5/3	2/3						
The Crossing at Fahren's Creek	4,725	1,475	\$289,990	\$196.60	\$5,000	3/2	1/2	253	28	17	1.13	11	0.85
Morrison Homes	45 x 105	1,607	\$310,990	\$193.52	\$5,000	3/2/D	1/2						
Merced		2,061	\$350,990	\$170.30	\$5,000	4/2.5/D	2/2						
None		2,265	\$375,990	\$166.00	\$5,000	4/3/B	2/2						
		2,459	\$390,990	\$159.00	\$5,000	4/2.5/D	2/2						
Total Market Average:		1,935	\$352,688	\$187.41	\$15,711	--	--	2,972	1,402	1,170	0.77	45	0.20

EXHIBIT II - 2B
SUBJECT PROJECT VERSUS MOST COMPETITIVE DEVELOPMENTS -- NET PRICING
LOTS SIZED BETWEEN 4,000 AND 5,500 SQUARE FEET
MERCED MARKET AREA
OCTOBER, 2006

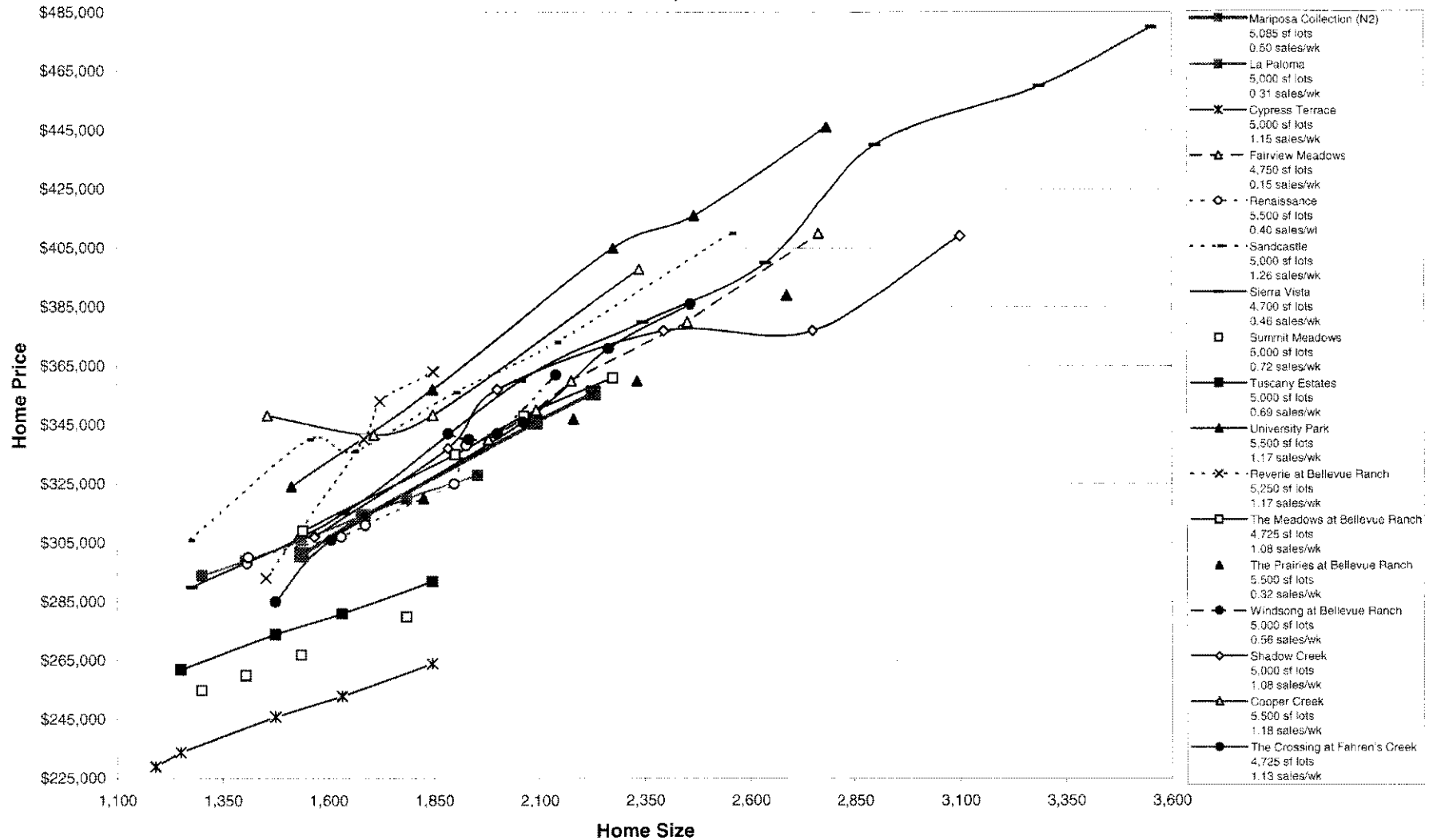
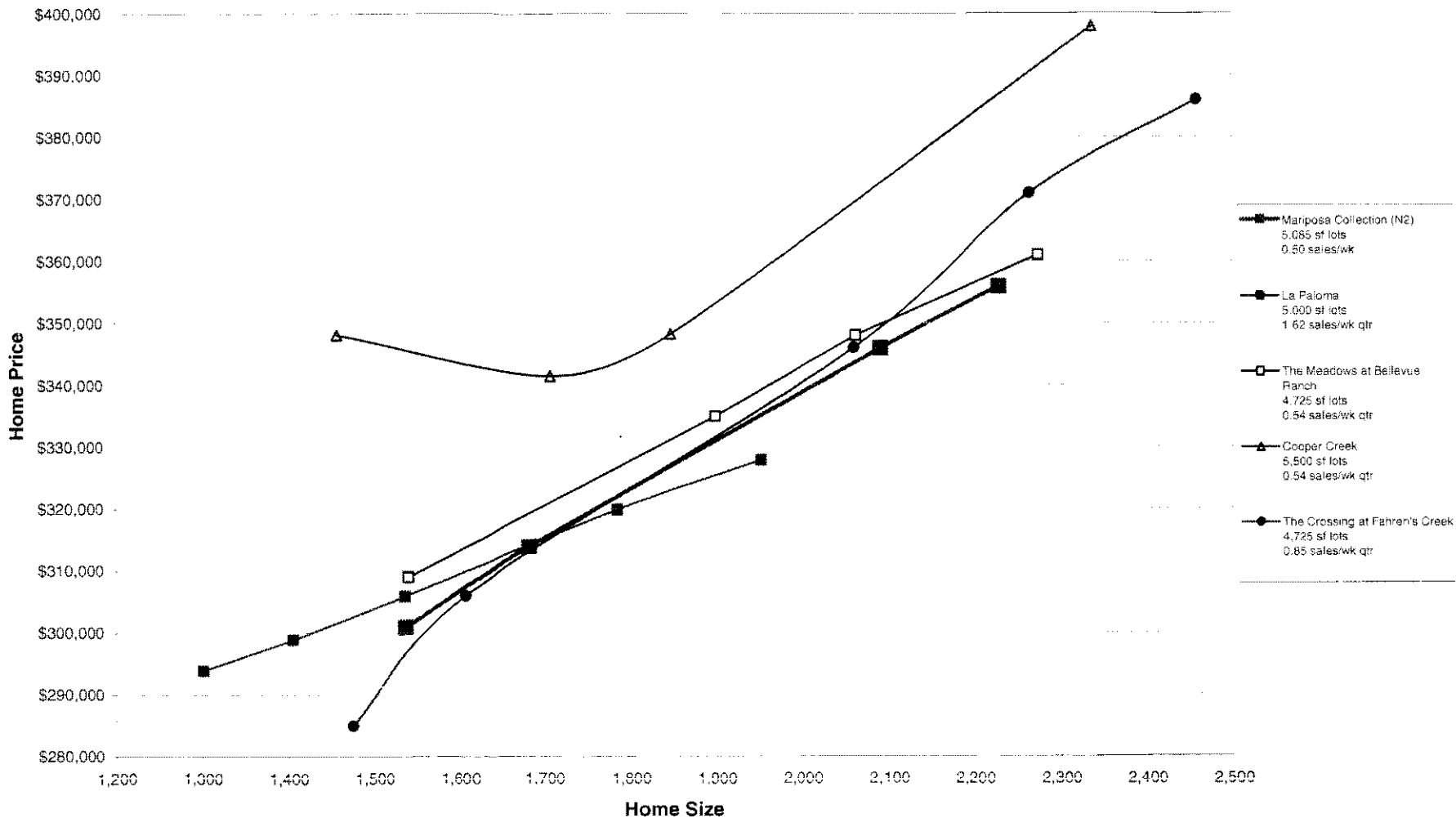


EXHIBIT II - 2C
SUBJECT PROJECT VERSUS MOST COMPETITIVE DEVELOPMENTS -- NET PRICING
LOTS SIZED BETWEEN 4,000 AND 5,500 SQUARE FEET
WITH A THIRD QUARTER ABSORPTION RATE OF 0.50 UNITS PER WEEK AND GREATER
MERCED MARKET AREA
OCTOBER, 2006



**EXHIBIT II - 3A
 MOST COMPETITIVE SUMMARY TABLE
 (Lots Sized Between 5,500 And 6,500 Square Feet)
 MERCED MARKET AREA**

**The Gregory Group
 CA06.07003Merced**

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
Atwater													
Las Casas	6,300	2,000	\$389,990	\$195.00	\$10,000	3/2.5/D/L	2/3	130	92	78	1.16	1	0.08
Syncon Homes	60 X 105	2,356	\$429,990	\$182.51	\$10,000	3/2.5/D/L	2/3						
Atwater		2,846	\$451,990	\$158.82	\$10,000	3/3/D	1/3						
None		3,232	\$482,990	\$149.44	\$10,000	3/2	1/3						
Stonecreek	6,000	1,708	\$374,000	\$218.97	\$10,000	3/2	1/2	186	43	31	0.49	4	0.31
Dunmore Homes	60 X 100	2,060	\$351,545	\$170.65	\$10,000	4/2	1/2						
Atwater		2,329	\$388,703	\$166.90	\$10,000	4/2.5	1/3						
None		2,372	\$408,075	\$172.04	\$10,000	4/3	2/3						
Merced													
Alfarata Ranch	6,000	1,729	\$349,950	\$202.40	\$25,000	4/2	1/2	12	12	6	0.04	1	0.08
Ranchwood Homes	60 X 100	1,960	\$372,950	\$190.28	\$25,000	4/2	1/2						
Merced		2,355	\$406,950	\$172.80	\$25,000	4/3	2/3						
None													
El Capitan	6,000	1,375	\$326,900	\$237.75	\$45,000	3/2	1/2	229	170	146	1.04	-9	-0.69
Ranchwood Homes	60 X 100	1,565	\$338,950	\$216.58	\$45,000	3/2	1/2						
Merced		1,633	\$345,950	\$211.85	\$45,000	4/2	1/2						
None		1,729	\$349,950	\$202.40	\$45,000	4/2	1/3						
		1,953	\$370,950	\$189.94	\$45,000	4/2	2/2						
		1,960	\$372,950	\$190.28	\$45,000	4/2	1/3						
		2,355	\$406,950	\$172.80	\$45,000	4/3	2/3						
Presidio Collection at Moraga (Neighborhood 3)	6,215	1,895	\$404,900	\$213.67	\$14,000	3/2	1/2	173	6	4	0.36	4	0.31
Lakemont Homes	55 X 113	2,014	\$418,900	\$207.99	\$14,000	3/2	1/2						
Merced		2,389	\$484,900	\$202.97	\$14,000	3/2/D	1/3T						
None		2,644	\$509,900	\$192.85	\$14,000	4/2.5/D	2/3T						
Renaissance	5,500	1,408	\$312,990	\$222.29	\$15,000	3/2.5	2/2	166	36	17	0.40	5	0.38
California Homes	55 X 100	1,411	\$314,990	\$223.24	\$15,000	3/2	1/2						
Merced		1,631	\$321,990	\$197.42	\$15,000	4/3	2/2						
None		1,688	\$325,990	\$193.12	\$15,000	3/2	1/2						
		1,898	\$339,990	\$179.13	\$15,000	4/2.5	2/2						
		1,926	\$352,990	\$183.28	\$15,000	4/2.5	2/2						

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
Summercreek	6,000	1,400	\$299,990	\$214.28	\$75,000	3/2	1/2	133	133	113	1.27	2	0.15
Bright Homes	60 X 100	1,547	\$315,990	\$204.26	\$75,000	3/2.5	2/3						
Merced		1,606	\$325,990	\$202.98	\$75,000	3/2	1/2						
None		1,854	\$444,990	\$240.02	\$75,000	3/2	1/2						
		1,936	\$446,990	\$230.88	\$75,000	4/3	2/2						
		2,323	\$479,990	\$206.63	\$75,000	5/3	2/2						
		3,297	\$573,990	\$174.09	\$75,000	5/3.5/B	2/2						
The Crossing at River Oaks	6,000	1,403	\$312,900	\$223.02	\$10,000	3/2	1/2	72	7	0	0.00	0	0.00
Sutco Const	60 X 100	1,725	\$337,900	\$195.88	\$10,000	3/2	1/2						
Merced		2,216	\$375,900	\$169.63	\$10,000	4/2	1/2						
None		2,295	\$379,900	\$165.53	\$10,000	3/2	1/2						
University Park	5,500	1,513	\$328,990	\$217.44	\$5,000	3/2	1/2	131	84	76	1.17	2	0.15
Morrison Homes	50 X 110	1,847	\$361,990	\$195.99	\$5,000	4/2	1/2						
Merced		2,276	\$409,990	\$180.14	\$5,000	4/2.5/D	2/3						
None		2,468	\$420,990	\$170.58	\$5,000	4/2.5	2/2						
		2,781	\$450,990	\$162.17	\$5,000	4/3/B	2/3						
The Prairies at Bellevue Ranch	5,500	1,826	\$339,990	\$186.19	\$20,000	4/2	1/2	139	20	12	0.32	1	0.08
Woodside Homes	50 X 110	2,182	\$366,990	\$168.19	\$20,000	4/2.5	2/2						
Merced		2,333	\$379,990	\$162.88	\$20,000	4/2.5	2/2						
Bellevue Ranch		2,687	\$408,990	\$152.21	\$20,000	4/3/L	2/2						
The Willows at Bellevue Ranch	5,775	2,184	\$393,990	\$180.40	\$20,000	4/2.5	2/3	100	53	41	0.76	14	1.08
Woodside Homes	55 X 105	2,841	\$445,990	\$156.98	\$20,000	4/3/L	2/2						
Merced		3,056	\$475,990	\$155.76	\$20,000	4/3	2/3						
Bellevue Ranch													
Copper Creek	5,500	1,457	\$378,093	\$259.50	\$30,000	3/2	1/2	279	269	251	1.18	7	0.54
Dunmore Homes	55 X 100	1,708	\$371,512	\$217.51	\$30,000	3/2	1/2						
Merced		1,848	\$378,250	\$204.68	\$30,000	4/2	1/3						
Fahren's Creek		2,338	\$427,845	\$183.00	\$30,000	5/3	2/3						
Total Market Average:		2,061	\$388,043	\$192.69	\$26,655	--	--	1,750	915	775	0.68	32	0.21

EXHIBIT II - 3B
SUBJECT PROJECT VERSUS MOST COMPETITIVE DEVELOPMENTS -- NET PRICING
LOTS SIZED BETWEEN 5,500 AND 6,500 SQUARE FEET
MERCED MARKET AREA
OCTOBER, 2006

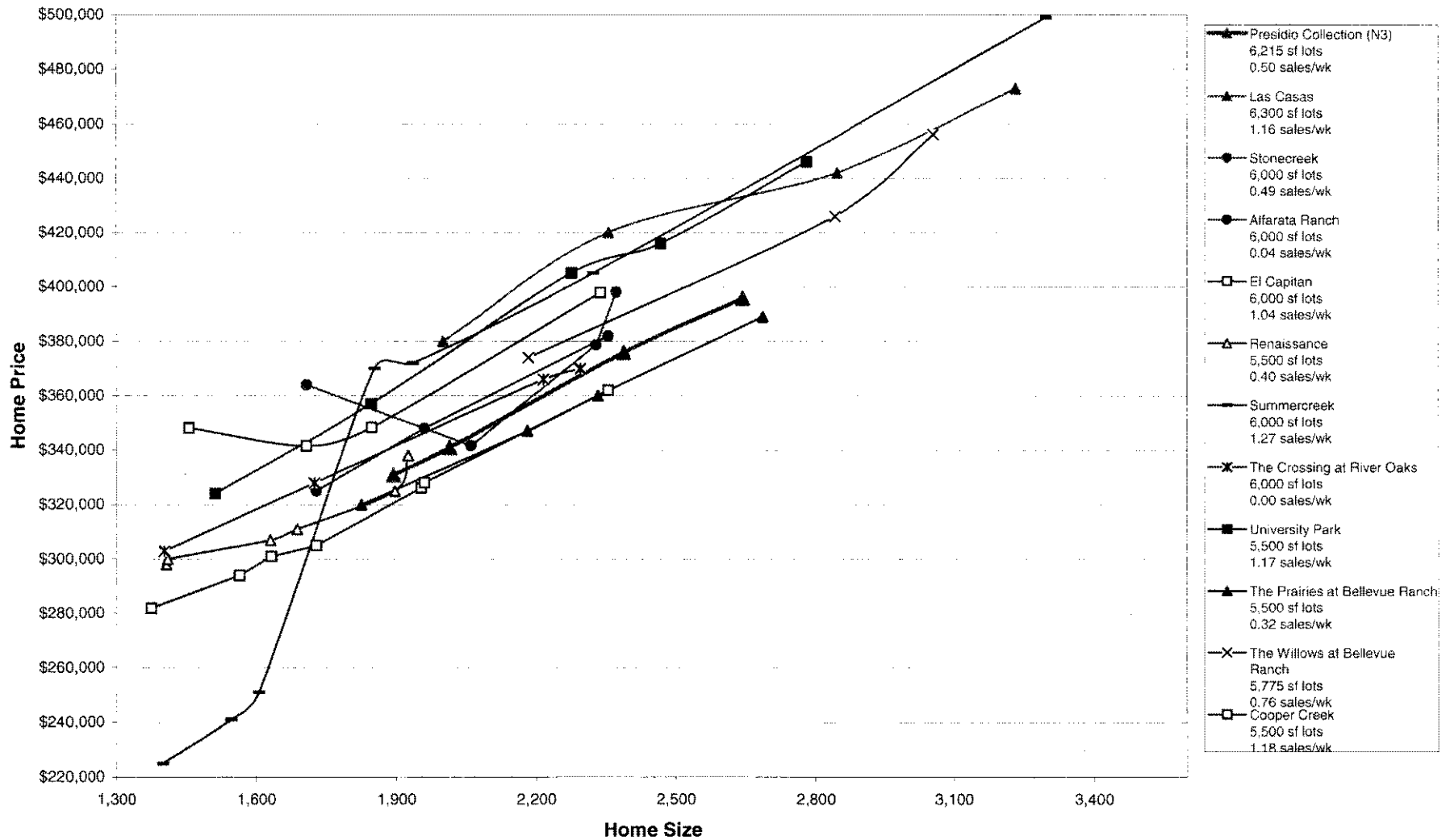
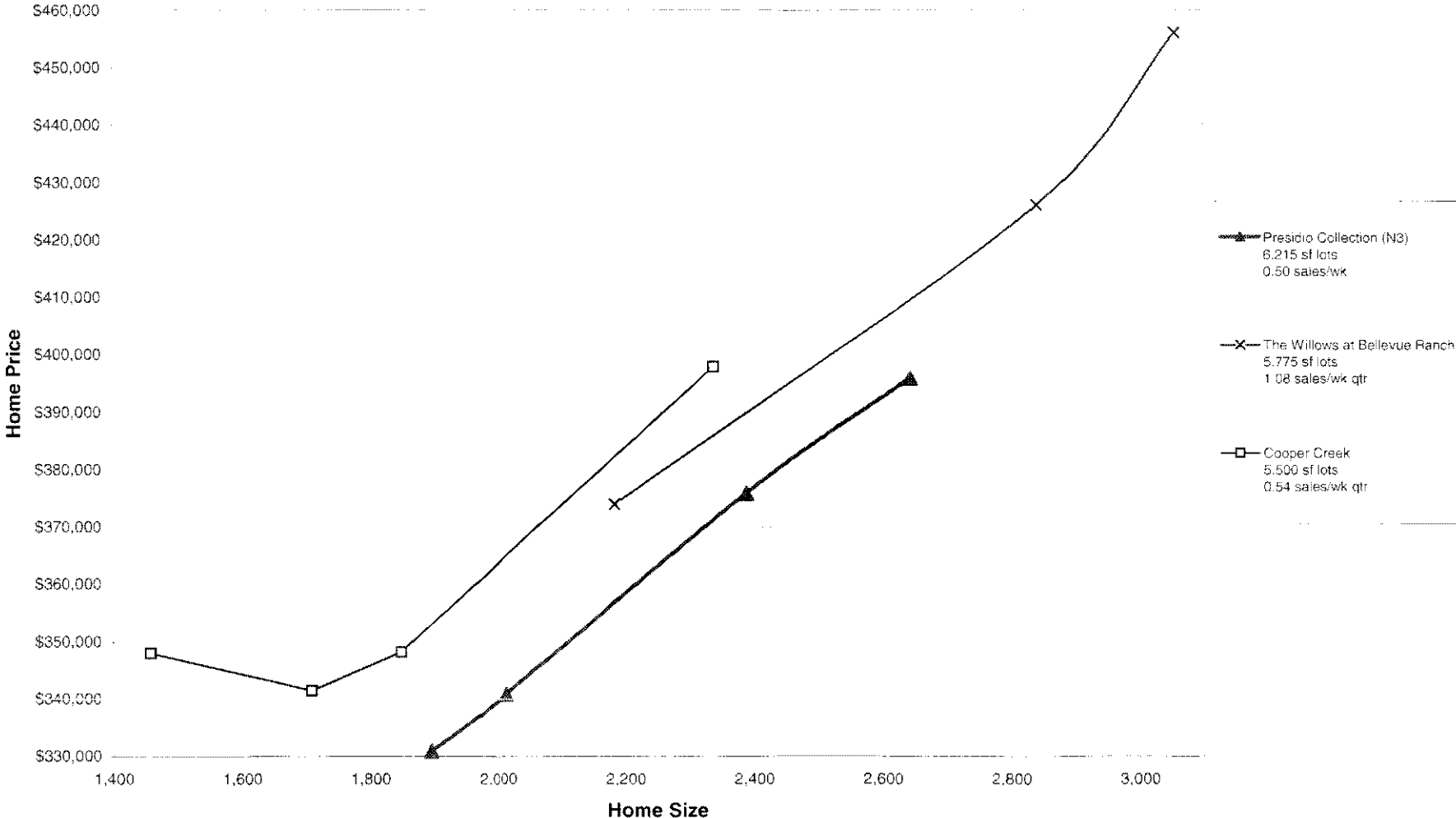


EXHIBIT II - 3C
SUBJECT PROJECT VERSUS MOST COMPETITIVE DEVELOPMENTS -- NET PRICING
LOTS SIZED BETWEEN 5,500 AND 6,500 SQUARE FEET
WITH A THIRD QUARTER ABSORPTION RATE OF 0.50 UNITS PER WEEK AND GREATER
MERCED MARKET AREA
OCTOBER, 2006



**EXHIBIT II - 4A
 MOST COMPETITIVE SUMMARY TABLE
 (Lot Sized 6,500 Square Feet And Greater)
 MERCED MARKET AREA**

The Gregory Group
 CA06.07003Merced

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
Merced													
Mercedes Collection Moraga (Neighborhood 4)	7,345	2,419	\$423,000	\$174.87	\$14,000	3/3	1/3	141	74	1	0.09	1	0.08
Lakemont Homes	65 X 113	2,544	\$434,000	\$170.60	\$14,000	4/3	1/3T						
Merced		3,142	\$479,000	\$152.45	\$14,000	4/3.5/D	2/2						
None		3,505	\$499,000	\$142.37	\$14,000	6/4	2/3T						
Gardenstone At Bellevue Ranch	7,865	2,484	\$440,900	\$177.50	\$5,000	3/2	1/3	111	61	52	0.96	10	0.77
Crosswinds Communities	65 X 121	2,699	\$450,900	\$167.06	\$5,000	4/3/L	2/3						
Merced		2,799	\$468,900	\$167.52	\$5,000	4/4/L	2/3						
Bellevue Ranch		3,273	\$528,900	\$161.59	\$5,000	5/4	2/3						
Redhawk at Bellevue Ranch	6,500	2,172	\$354,990	\$163.44	\$2,000	3/2	1/3	148	98	66	1.27	2	0.15
Kimball Hill Homes	65 X 100	2,214	\$369,990	\$167.11	\$2,000	4/2.5/D	1/3						
Merced		2,327	\$371,990	\$159.86	\$2,000	4/2	1/3						
Bellevue Ranch		2,504	\$388,990	\$155.35	\$2,000	4/2.5/D	2/3						
Mill House at Fahren's Creek	6,700	2,470	\$490,990	\$198.78	\$3,500	3/2.5	1/3	215	87	78	1.07	10	0.77
Centex Homes	67 X 100	2,635	\$517,990	\$196.58	\$3,500	4/2.5	2/3						
Merced		3,291	\$557,990	\$169.55	\$3,500	4/2.5	2/3						
Fahren's Creek		3,376	\$561,990	\$166.47	\$3,500	4/3.5	2/3						
		3,620	\$571,990	\$158.01	\$3,500	5/3.5	2/3						
Total Market Average:		2,793	\$465,383	\$167.59	\$5,971	--	--	615	320	197	0.85	23	0.44

EXHIBIT II - 4B
SUBJECT PROJECT VERSUS MOST COMPETITIVE DEVELOPMENTS -- NET PRICING
LOTS SIZED AT 6,500 SQUARE FEET AND GREATER
MERCED MARKET AREA
OCTOBER, 2006

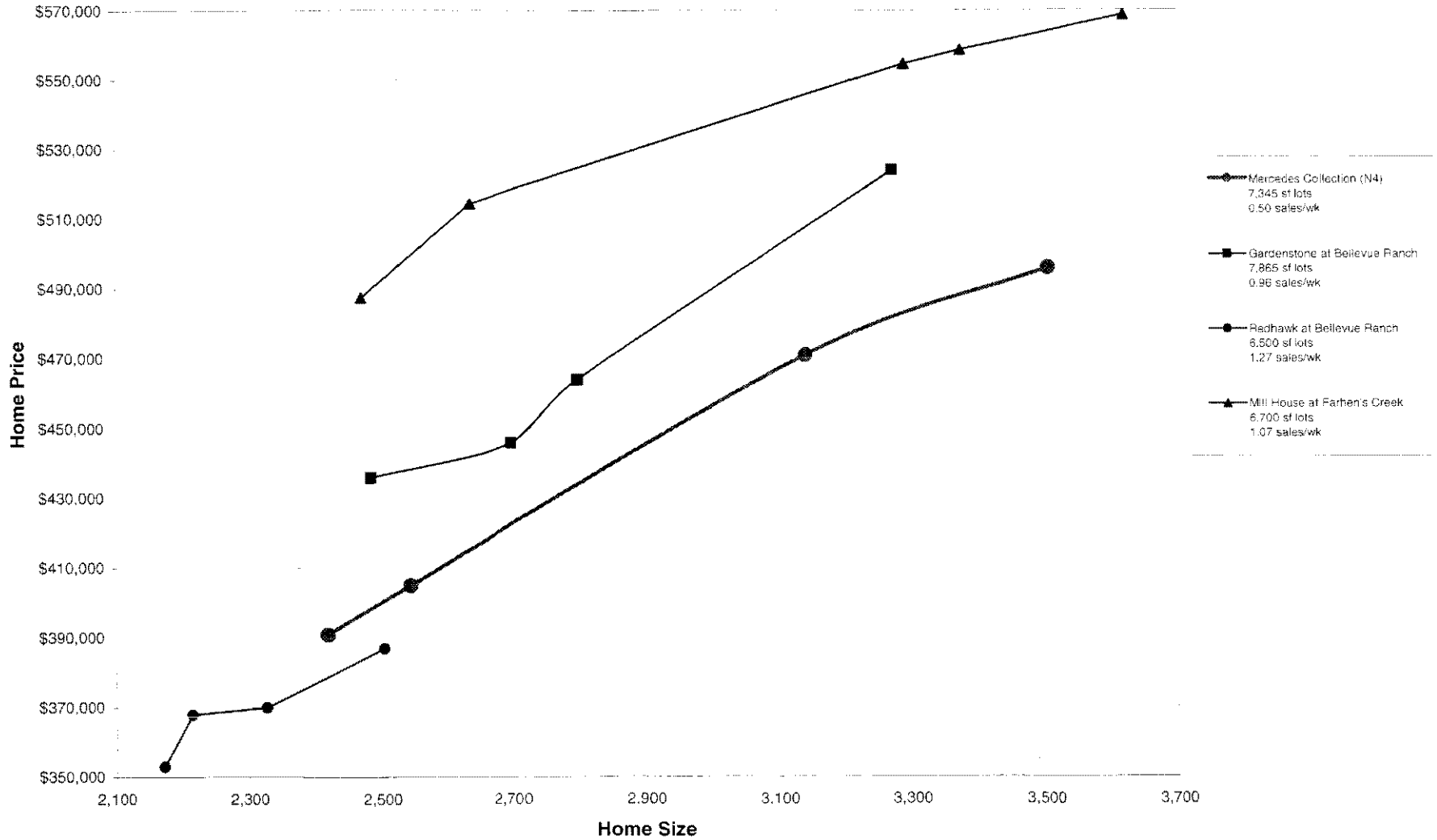


EXHIBIT II - 4C
SUBJECT PROJECT VERSUS MOST COMPETITIVE DEVELOPMENTS -- NET PRICING
LOTS SIZED AT 6,500 SQUARE FEET AND GREATER
WITH A THIRD QUARTER ABSORPTION RATE OF 0.50 UNITS PER WEEK AND GREATER
MERCED MARKET AREA
OCTOBER, 2006

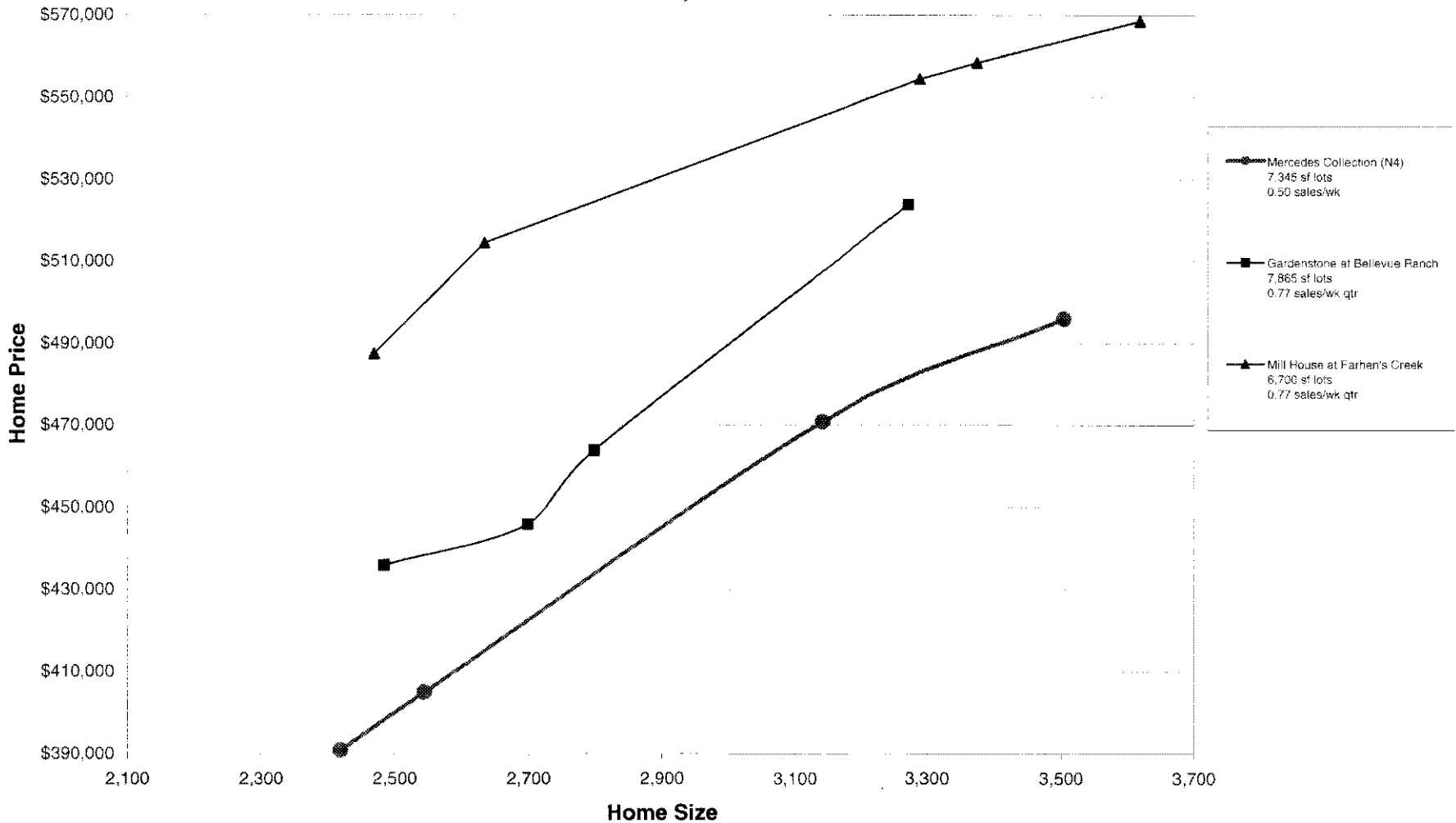


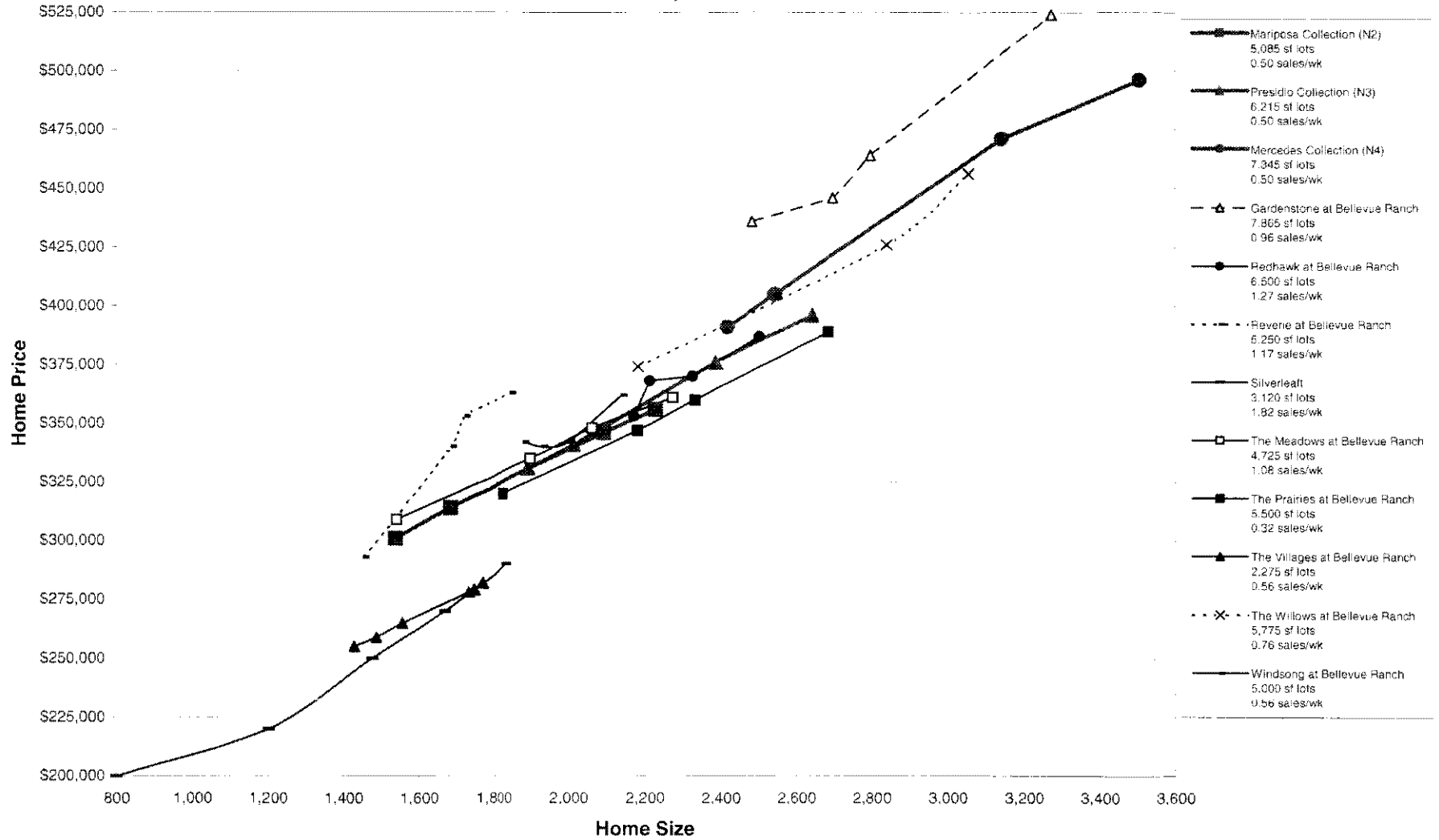
EXHIBIT II - 5A
MOST COMPETITIVE SUMMARY TABLE
(Developments Located in The Bellevue Ranch Master Planned Community)
MERCED MARKET AREA

The Gregory Group
CA06.07003Merced

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
Merced													
Gardenstone At Bellevue Ranch	7,865	2,484	\$440,900	\$177.50	\$5,000	3/2	1/3	111	61	52	0.96	10	0.77
Crosswinds Communities	65 X 121	2,699	\$450,900	\$167.06	\$5,000	4/3/L	2/3						
Merced		2,799	\$468,900	\$167.52	\$5,000	4/4/L	2/3						
Bellevue Ranch		3,273	\$528,900	\$161.59	\$5,000	5/4	2/3						
Redhawk at Bellevue Ranch	6,500	2,172	\$354,990	\$163.44	\$2,000	3/2	1/3	148	98	66	1.27	2	0.15
Kimball Hill Homes	65 X 100	2,214	\$369,990	\$167.11	\$2,000	4/2.5/D	1/3						
Merced		2,327	\$371,990	\$159.86	\$2,000	4/2	1/3						
Bellevue Ranch		2,504	\$388,990	\$155.35	\$2,000	4/2.5/D	2/3						
Reverie at Bellevue Ranch	5,250	1,453	\$299,990	\$206.46	\$7,000	3/2	1/2	164	82	68	1.17	-3	-0.23
Ryland Homes	50 X 105	1,685	\$346,990	\$205.93	\$7,000	4/2	1/2						
Merced		1,723	\$359,990	\$208.93	\$7,000	4/2.5	2/2						
Bellevue Ranch		1,849	\$369,990	\$200.10	\$7,000	4/3	2/2						
Silverleaf	3,120	800	\$199,990	\$249.99	\$0	2/2	1/2	82	54	40	1.82	13	1.00
Envision Homes	40 X 78	1,201	\$219,990	\$183.17	\$0	3/2	2/2						
Merced		1,476	\$249,990	\$169.37	\$0	3/2	2/2						
Bellevue Ranch		1,668	\$269,990	\$161.86	\$0	3/2	2/2						
		1,835	\$289,990	\$158.03	\$0	4/2	2/2						
The Meadows at Bellevue Ranch	4,725	1,540	\$318,990	\$207.14	\$10,000	3/2	1/2	245	50	40	1.08	7	0.54
Woodside Homes	45 X 105	1,900	\$344,990	\$181.57	\$10,000	3/2.5/L	2/2						
Merced		2,063	\$357,990	\$173.53	\$10,000	3/2.5/L	2/2						
Bellevue Ranch		2,275	\$370,990	\$163.07	\$10,000	3/2.5/B	2/2						
The Prairies at Bellevue Ranch	5,500	1,826	\$339,990	\$186.19	\$20,000	4/2	1/2	139	20	12	0.32	1	0.08
Woodside Homes	50 X 110	2,182	\$366,990	\$168.19	\$20,000	4/2.5	2/2						
Merced		2,333	\$379,990	\$162.88	\$20,000	4/2.5	2/2						
Bellevue Ranch		2,687	\$408,990	\$152.21	\$20,000	4/3/L	2/2						

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
The Villages at Bellevue Ranch	2,275	1,429	\$264,990	\$185.44	\$10,000	2/2/L	2/2	227	24	15	0.56	12	0.92
Woodside Homes	35 X 68	1,487	\$268,990	\$180.89	\$10,000	3/2	2/2						
Merced		1,556	\$274,990	\$176.73	\$10,000	3/2	2/2						
Bellevue Ranch		1,733	\$287,990	\$166.18	\$10,000	3/2.5/D	2/1						
		1,747	\$288,990	\$165.42	\$10,000	3/2.5/D	2/2						
		1,768	\$291,990	\$165.15	\$10,000	3/2.5/D	2/2						
The Willows at Bellevue Ranch	5,775	2,184	\$393,990	\$180.40	\$20,000	4/2.5	2/3	100	53	41	0.76	14	1.08
Woodside Homes	55 X 105	2,841	\$445,990	\$156.98	\$20,000	4/3/L	2/2						
Merced		3,056	\$475,990	\$155.76	\$20,000	4/3	2/3						
Bellevue Ranch													
Windsong at Bellevue Ranch	5,000	1,883	\$373,990	\$198.61	\$32,000	4/2	1/2	158	48	29	0.56	0	0.00
California Homes	50 X 100	1,932	\$381,990	\$197.72	\$42,000	4/2.5	2/2						
Merced		2,000	\$393,990	\$197.00	\$52,000	3/2/D	1/2						
Bellevue Ranch		2,140	\$413,990	\$193.45	\$52,000	4/2.5	2/2						
Total Market Average:		2,019	\$353,402	\$178.36	\$12,474	--	--	1,374	490	363	0.94	56	0.48

EXHIBIT II - 5B
SUBJECT PROJECT VERSUS MOST COMPETITIVE DEVELOPMENTS -- NET PRICING
PROJECTS ADJACENT AND LOCATED IN THE BELLEVUE RANCH MASTER PLANNED COMMUNITY
MERCED MARKET AREA
OCTOBER, 2006



**EXHIBIT II - 6A
MERCED COUNTY SUMMARY TABLE
MERCED MARKET AREA**

The Gregory Group
CA06.07003Merced

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
Atwater													
La Paloma	5,000	1,301	\$293,900	\$225.90	\$0	3/2	1/2	33	29	21	0.31	21	1.62
Ranchwood Homes	50 X 100	1,405	\$298,900	\$212.74	\$0	3/2	1/2						
Atwater		1,536	\$305,900	\$199.15	\$0	4/2	1/2						
None		1,785	\$319,900	\$179.22	\$0	4/2	1/2						
		1,953	\$327,900	\$167.90	\$0	4/2	1/2						
Stonecreek	6,000	1,708	\$374,000	\$218.97	\$10,000	3/2	1/2	186	43	31	0.49	4	0.31
Dunmore Homes	60 X 100	2,060	\$351,545	\$170.65	\$10,000	4/2	1/2						
Atwater		2,329	\$388,703	\$166.90	\$10,000	4/2.5	1/3						
None		2,372	\$408,075	\$172.04	\$10,000	4/3	2/3						
		2,593	\$388,990	\$150.02	\$10,000	4/3	2/3						
Claremont Reserve	6,180	2,237	\$388,990	\$173.89	\$5,000	4/3	2/2	302	181	161	1.56	3	0.23
Pacific Union Homes	60 X 103	2,384	\$389,990	\$163.59	\$5,000	3/3	1/3						
Atwater		3,144	\$470,990	\$149.81	\$5,000	5/3	2/3						
None		3,515	\$497,990	\$141.68	\$5,000	5/3	2/3						
		3,905	\$514,400	\$131.73	\$5,000	6/4.5/L	2/3						
Las Casas	6,300	2,000	\$389,990	\$195.00	\$10,000	3/2.5/D/L	2/3	130	92	78	1.16	1	0.08
Syncon Homes	60 X 105	2,356	\$429,990	\$182.51	\$10,000	3/2.5/D/L	2/3						
Atwater		2,846	\$451,990	\$158.82	\$10,000	3/3/D	1/3						
None		3,232	\$482,990	\$149.44	\$10,000	3/2	1/3						
The Heirloom Collection at Silva Meadows	43,560	2,706	\$689,500	\$254.80	\$40,000	4/3	1/3	114	39	27	0.39	4	0.31
Franco Construction	--	2,946	\$699,500	\$237.44	\$50,000	4/3	1/3						
Atwater		3,186	\$749,500	\$235.25	\$60,000	4/3	1/3						
None		3,552	\$814,500	\$229.31	\$75,000	5/3	1/3						
Delhi													
Countryside	5,000	1,411	\$311,990	\$221.11	\$2,000	3/2	1/2	148	148	137	1.34	-1	-0.08
California Homes	50 X 100	1,557	\$332,990	\$213.87	\$2,000	3/2.5/D	2/2						
Delhi		1,966	\$347,990	\$177.00	\$2,000	4/2	1/2						
None		2,032	\$359,990	\$177.16	\$2,000	4/2.5/B	2/2						
		2,555	\$385,990	\$151.07	\$2,000	4/3/B	2/2						
		3,009	\$421,990	\$140.24	\$2,000	5/3.5	2/3						

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								Planned	Offered	Sold			
Dos Palos													
Tatum Ranch	6,000	1,550	\$313,900	\$202.52	\$2,700	4/2	1/2	129	45	45	0.45	0	0.00
Ranchwood Homes	60 X 100	1,846	\$324,900	\$176.00	\$2,700	4/2	1/2						
Dos Palos		2,121	\$340,900	\$160.73	\$2,700	3/2	1/2						
None													
Landmark	6,000	1,733	\$330,900	\$190.94	\$5,000	3/2	1/2	119	76	64	1.00	13	1.00
K Hovnanian	60 X 100	1,878	\$339,900	\$180.99	\$5,000	4/2	1/2						
Dos Palos		1,905	\$342,990	\$180.05	\$5,000	4/3	2/2						
None		2,074	\$348,900	\$168.23	\$5,000	4/2.5	2/2						
		2,231	\$362,990	\$162.70	\$5,000	4/3	2/2						
Mayors Collection	6,000	1,801	\$354,900	\$197.06	\$10,647	3/2	1/2	71	13	6	1.20	6	0.46
Ranchwood Homes	60 X 100	1,953	\$366,900	\$187.86	\$11,000	4/2	1/2						
Dos Palos		1,960	\$366,900	\$187.19	\$11,000	4/2	1/2						
None		2,333	\$427,900	\$183.41	\$12,837	3/2.5	2/3						
		2,355	\$395,900	\$168.11	\$11,877	4/3	2/3						
		2,690	\$447,900	\$166.51	\$13,437	3/3	2/3						
		3,032	\$461,900	\$152.34	\$13,857	3/3	2/3						
Gustine													
Borrelli Ranch	6,000	1,844	\$442,900	\$240.18	\$25,000	4/2	1/3	70	8	5	0.13	0	0.00
Ranchwood Homes	60 X 100	2,333	\$477,900	\$204.84	\$25,000	4/2	2/3						
Merced		2,392	\$482,900	\$201.88	\$25,000	4/3	2/3						
None		2,690	\$497,900	\$185.09	\$25,000	4/2	2/3						
		3,032	\$512,900	\$169.16	\$25,000	5/3	2/3						
Livingston													
Country Lane	5,500	1,770	\$345,990	\$195.47	\$10,000	3/2	1/3	213	26	14	0.38	1	0.08
California Homes	55 X 100	2,023	\$369,990	\$182.89	\$10,000	3/2.5	2/3						
Livingston		2,053	\$372,990	\$181.68	\$10,000	3/2.5/D	1/3						
None		2,277	\$379,990	\$166.88	\$10,000	3/2/D	1/2						
		2,380	\$385,990	\$162.18	\$10,000	4/2.5	2/3						
		2,695	\$399,990	\$148.42	\$10,000	4/2.5	2/3						
		2,772	\$409,990	\$147.90	\$10,000	4/2.5/L/D	2/3						
Somerset	5,500	2,036	\$384,990	\$189.09	\$2,500	4/2	1/2	160	6	2	0.06	0	0.00
YCH Communities	55 X 100	2,538	\$422,990	\$166.66	\$2,500	4/3/L	2/3						
Livingston		2,669	\$429,990	\$161.11	\$2,500	4/3/L	2/2						
None		2,993	\$468,990	\$156.70	\$2,500	4/3/B	2/3						

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
Parkside	6,000	1,506	\$327,990	\$217.79	\$10,000	3/2	1/2	184	90	67	1.34	3	0.23
K Hovnanian	60 X 100	1,648	\$337,990	\$205.09	\$10,000	3/2	1/2						
Livingstone		1,733	\$347,990	\$200.80	\$10,000	3/2	1/2						
None		1,878	\$359,990	\$191.69	\$10,000	4/2	1/2						
		2,172	\$375,990	\$173.11	\$10,000	4/2.5	2/2						
		2,231	\$381,990	\$171.22	\$10,000	4/3	2/2						
Sundance II	6,000	1,708	\$327,490	\$191.74	\$5,000	3/2	1/2	97	24	12	0.55	2	0.15
Dunmore Homes	60 X 100	2,060	\$352,750	\$171.24	\$5,000	4/2	1/2						
Livingstone		2,338	\$353,990	\$151.41	\$5,000	4/2.5	2/3						
None		2,795	\$412,865	\$147.72	\$5,000	4/3	2/3						
Los Banos													
Four Seasons	2,000	1,423	\$284,990	\$200.27	\$6,000	2/2	1/2	185	40	3	0.23	3	0.23
K Hovnanian	40 X50	1,625	\$250,000	\$153.85	\$6,000	2/2.5	2/2						
Los Banos		1,993	\$309,990	\$155.54	\$6,000	3/2.5	2/2						
None													
Avalon	3,600	1,220	\$264,950	\$217.17	\$0	2/2	1/2	101	101	87	0.66	1	0.08
ECl Homes	45 X 80	1,298	\$274,950	\$211.83	\$0	3/2	1/2						
Los Banos		1,370	\$274,950	\$200.69	\$0	3/2	1/2						
None													
Meadow Glen	4,500	1,587	\$393,900	\$248.20	\$20,000	3/2/D	1/2	245	161	138	1.10	13	1.00
KB Home	45 X 100	1,975	\$420,900	\$213.11	\$20,000	4/2.5	2/2						
Los Banos		2,250	\$445,900	\$198.18	\$20,000	3/2.5/L	2/2						
Meadowlands		2,699	\$452,900	\$167.80	\$20,000	4/2.5	2/2						
Sandstone	5,000	1,568	\$397,990	\$253.82	\$10,000	3/2	1/2	154	46	30	0.73	1	0.08
California Homes	50 X 100	1,883	\$417,990	\$221.98	\$10,000	4/2	1/2						
Los Banos		2,000	\$427,990	\$214.00	\$10,000	3/2/D	1/2						
None		2,396	\$445,990	\$186.14	\$10,000	4/2.5	2/2						
		2,749	\$474,990	\$172.79	\$10,000	4/3/B	2/2						
		3,101	\$494,990	\$159.62	\$10,000	5/3	2/2						
Meadow Vista	6,000	1,760	\$411,990	\$231.46	\$20,000	4/2	1/2	242	140	139	1.10	3	0.23
KB Homes	60 X 100	1,906	\$419,990	\$220.35	\$20,000	3/2/D	1/2						
Los Banos		2,444	\$456,990	\$186.98	\$20,000	3/2.5/L	1/2						
None		2,873	\$486,990	\$169.51	\$20,000	4/2.5/L	2/2						
		2,927	\$500,990	\$171.16	\$20,000	4/2.5/D	2/2						
		3,060	\$510,990	\$166.99	\$20,000	5/3.5/D	2/2						

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								Planned	Offered	Sold			
Northgate Ranchwood Homes	6,000 60 X 100	1,242 1,533	\$343,900 \$360,900	\$276.89 \$235.42	\$30,000 \$30,000	3/2 4/2	1/3 1/2	544	352	352	1.49	31	2.38
Los Banos None		1,565 1,729	\$362,900 \$368,900	\$231.88 \$213.36	\$30,000 \$30,000	3/2 4/2	1/3 1/2						
Teal Landing Anderson Homes	6,000 60 X 100	1,706 1,869	\$424,900 \$444,900	\$249.06 \$238.04	\$20,000 \$20,000	3/2 3/2	1/3 1/3	161	119	80	1.19	12	0.92
Los Banos None		2,157 2,542	\$474,900 \$504,900	\$220.17 \$198.62	\$20,000 \$20,000	4/2/D 4/2/D	1/3 1/3						
Vineyards Ranchwood Homes	6,000 60 X 100	1,375 1,585	\$364,900 \$379,900	\$265.38 \$239.68	\$10,900 \$11,300	3/2 3/2	1/2 1/2	1,260	960	928	2.08	4	0.31
Los Banos None		1,960 2,355 2,980	\$404,900 \$434,900 \$469,900	\$206.58 \$184.67 \$157.68	\$12,100 \$13,000 \$14,000	4/2 4/3 5/3	1/3 2/3 2/3						
Mission Village Ranchwood Homes	6,500 65 X 100	1,844 2,333	\$432,900 \$467,900	\$234.76 \$200.56	\$10,000 \$10,000	4/2 4/2	1/3 2/3	400	100	64	0.60	5	0.38
Los Banos None		2,690 3,032	\$487,900 \$502,900	\$181.38 \$165.86	\$10,000 \$10,000	4/2/D 5/2	2/3 2/3						
Magnolia Grove Ranchwood Homes	7,000 70 X 100	1,844 2,333	\$487,900 \$522,900	\$264.59 \$224.13	\$20,000 \$20,000	4/2 4/2	1/3 2/3	31	25	18	0.17	5	0.38
Los Banos None		2,690 3,032	\$542,900 \$557,900	\$201.82 \$184.00	\$20,000 \$20,000	4/2/D 5/2	2/3 2/3						
Orchard Terrace Ranchwood Homes	7,000 70 X 100	1,844 2,333	\$432,900 \$487,900	\$234.76 \$209.13	\$9,000 \$9,700	3/2 3/2.5	1/2 2/3	78	78	32	0.64	-6	-0.46
Los Banos None		2,690 3,032	\$507,900 \$522,900	\$188.81 \$172.46	\$10,100 \$10,400	4/3 5/3	2/3 2/3						
Merced													
Alfarata Ranch Ranchwood Homes	6,000 60 X 100	1,729 1,960	\$349,950 \$372,950	\$202.40 \$190.28	\$25,000 \$25,000	4/2 4/2	1/2 1/2	12	12	6	0.04	1	0.08
Merced None		2,355	\$406,950	\$172.80	\$25,000	4/3	2/3						
Cottages at Compass Point Bennett Homes	2,500 --	1,375 1,430	\$275,990 \$295,990	\$200.72 \$206.99	\$10,000 \$10,000	3/2.5 3/2.5	1/2 1/2	138	48	36	1.13	-2	-0.15
Merced None		1,663 1,806 1,901 2,029	\$310,990 \$325,990 \$335,990 \$345,990	\$187.01 \$180.50 \$176.74 \$170.52	\$10,000 \$10,000 \$10,000 \$10,000	4/2.5 4/2.5 4/3 4/2.5	1/2 1/2 1/2 1/2						

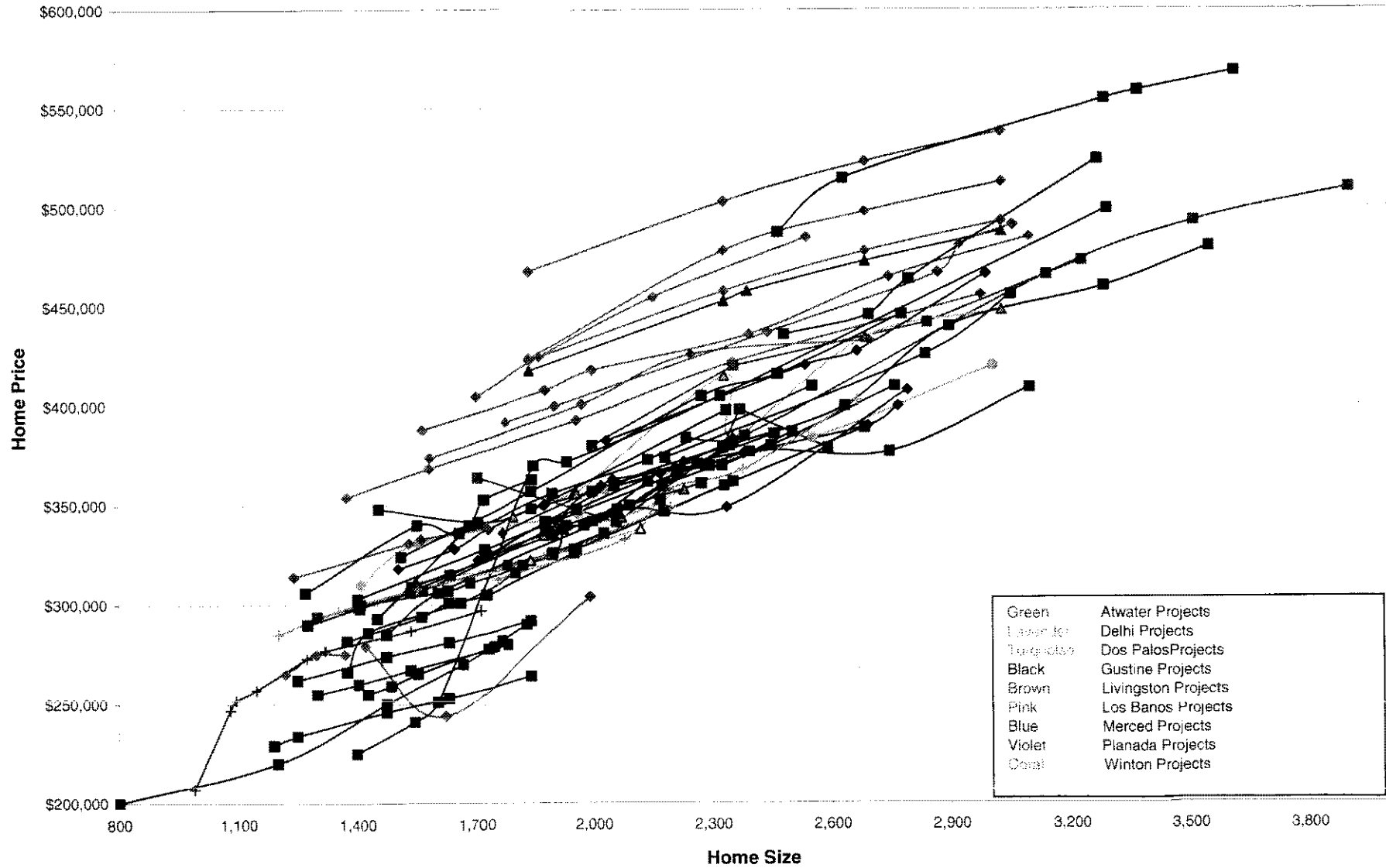
Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
								Planned	Offered	Sold			
Cypress Terrace	5,000	1,191	\$239,000	\$200.67	\$10,000	3/2	1/2	303	220	213	1.15	3	0.23
Ranchwood Homes	50 X 100	1,251	\$243,900	\$194.96	\$10,000	3/2	1/2						
Merced		1,475	\$255,900	\$173.49	\$10,000	3/2	1/2						
None		1,633	\$262,900	\$160.99	\$10,000	4/2	1/2						
		1,846	\$273,900	\$148.37	\$10,000	4/2	1/2						
El Capitan	6,000	1,375	\$326,900	\$237.75	\$45,000	3/2	1/2	229	170	146	1.04	-9	-0.69
Ranchwood Homes	60 X 100	1,565	\$338,950	\$216.58	\$45,000	3/2	1/2						
Merced		1,633	\$345,950	\$211.85	\$45,000	4/2	1/2						
None		1,729	\$349,950	\$202.40	\$45,000	4/2	1/3						
		1,953	\$370,950	\$189.94	\$45,000	4/2	2/2						
		1,960	\$372,950	\$190.28	\$45,000	4/2	1/3						
		2,355	\$406,950	\$172.80	\$45,000	4/3	2/3						
Fairview Meadows	4,750	1,979	\$340,000	\$171.80	\$0	3/2.5/L	2/2	112	28	5	0.15	-3	-0.23
KB Home	50 X 95	2,093	\$350,000	\$167.22	\$0	3/2.5/L	2/2						
Merced		2,177	\$360,000	\$165.37	\$0	3/2.5/L	2/2						
None		2,452	\$380,000	\$154.98	\$0	3/2.5/L	2/2						
		2,763	\$410,000	\$148.39	\$0	4/2.5/L	2/2						
Mariposa Collection at Moraga (Neighborhood 2)	5,085	1,537	\$314,900	\$204.88	\$14,000	3/2	1/2	206	5	2	0.18	2	0.15
Lakemont Homes	45 X 113	1,683	\$327,900	\$194.83	\$14,000	4/2	1/2						
Merced		2,092	\$359,900	\$172.04	\$14,000	4/2.5	2/2						
None		2,229	\$369,900	\$165.95	\$14,000	4/2.5	2/3T						
Presidio Collection at Moraga (Neighborhood 3)	6,215	1,895	\$404,900	\$213.67	\$14,000	3/2	1/2	173	6	4	0.36	4	0.31
Lakemont Homes	55 X 113	2,014	\$418,900	\$207.99	\$14,000	3/2	1/2						
Merced		2,389	\$484,900	\$202.97	\$14,000	3/2/D	1/3T						
None		2,644	\$509,900	\$192.85	\$14,000	4/2.5/D	2/3T						
Mercedes Collection Moraga (Neighborhood 4)	7,345	2,419	\$423,000	\$174.87	\$14,000	3/3	1/3	141	74	1	0.09	1	0.08
Lakemont Homes	65 X 113	2,544	\$434,000	\$170.60	\$14,000	4/3	1/3T						
Merced		3,142	\$479,000	\$152.45	\$14,000	4/3.5/D	2/2						
None		3,505	\$499,000	\$142.37	\$14,000	6/4	2/3T						
Renaissance	5,500	1,408	\$312,990	\$222.29	\$15,000	3/2.5	2/2	166	36	17	0.40	5	0.38
California Homes	55 X 100	1,411	\$314,990	\$223.24	\$15,000	3/2	1/2						
Merced		1,631	\$321,990	\$197.42	\$15,000	4/3	2/2						
None		1,688	\$325,990	\$193.12	\$15,000	3/2	1/2						
		1,898	\$339,990	\$179.13	\$15,000	4/2.5	2/2						
		1,926	\$352,990	\$183.28	\$15,000	4/2.5	2/2						

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Sandcastle California Homes Merced None	5,000 50 X 100	1,272 1,554 1,660 1,899 2,140 2,555	\$307,990 \$341,990 \$337,990 \$357,990 \$374,990 \$411,990	\$242.13 \$220.07 \$203.61 \$188.52 \$175.23 \$161.25	\$2,000 \$2,000 \$2,000 \$2,000 \$2,000 \$2,000	3/2 3/2.5 3/2 4/2.5 4/2.5 4/3/D	1/2 2/2 1/2 2/2 2/2 2/2	334	168	136	1.26	-1	-0.08
Sierra Vista Summerton Homes Merced None	4,700 47 X 100	1,277 1,637 2,055 2,346 2,637 2,900 3,288 3,553	\$289,990 \$314,990 \$359,990 \$379,990 \$399,990 \$439,990 \$459,990 \$479,990	\$227.09 \$192.42 \$175.18 \$161.97 \$151.68 \$151.72 \$139.90 \$135.09	\$0 \$0 \$0 \$0 \$0 \$0 \$0 \$0	2/2 2/2.5 3/2.5 3/2.5 3/2.5 3/2.5/D 3/2.5/D 3/2.5/D	1/2 1/2 1/2 2/2 2/2 2/2 2/2 2/2	43	43	25	0.46	-1	-0.08
Summercreek Bright Homes Merced None	6,000 60 X 100	1,400 1,547 1,606 1,854 1,936 2,323 3,297	\$299,990 \$315,990 \$325,990 \$444,990 \$446,990 \$479,990 \$573,990	\$214.28 \$204.26 \$202.98 \$240.02 \$230.88 \$206.63 \$174.09	\$75,000 \$75,000 \$75,000 \$75,000 \$75,000 \$75,000 \$75,000	3/2 3/2.5 3/2 3/2 4/3 5/3 5/3.5/B	1/2 2/3 1/2 1/2 2/2 2/2 2/2	133	133	113	1.27	2	0.15
Summit Meadows Ranchwood Homes Merced None	5,000 50 X 100	1,301 1,405 1,536 1,785	\$289,900 \$294,900 \$301,900 \$314,900	\$222.83 \$209.89 \$196.55 \$176.41	\$35,000 \$35,000 \$35,000 \$35,000	3/2 3/2 4/2 4/2	1/2 1/2 1/2 1/2	154	100	95	0.72	-4	-0.31
The Crossing at River Oaks Sutco Const Merced None	6,000 60 X 100	1,403 1,725 2,216 2,295	\$312,900 \$337,900 \$375,900 \$379,900	\$223.02 \$195.88 \$169.63 \$165.53	\$10,000 \$10,000 \$10,000 \$10,000	3/2 3/2 4/2 3/2	1/2 1/2 1/2 1/2	72	7	0	0.00	0	0.00
Tuscany Estates Ranchwood Homes Merced None	5,000 50 X 100	1,251 1,475 1,633 1,846	\$286,900 \$298,900 \$305,900 \$316,900	\$229.34 \$202.64 \$187.32 \$171.67	\$25,000 \$25,000 \$25,000 \$25,000	3/2 3/2 4/2 4/2	1/2 1/2 1/2 1/2	92	92	72	0.69	2	0.15
University Park Morrison Homes Merced None	5,500 50 X 110	1,513 1,847 2,276 2,468 2,781	\$328,990 \$361,990 \$409,990 \$420,990 \$450,990	\$217.44 \$195.99 \$180.14 \$170.58 \$162.17	\$5,000 \$5,000 \$5,000 \$5,000 \$5,000	3/2 4/2 4/2.5/D 4/2.5 4/3/B	1/2 1/2 2/3 2/2 2/3	131	84	76	1.17	2	0.15

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								Planned	Offered	Sold			
Windsong at Bellevue Ranch	5,000	1,883	\$373,990	\$198.61	\$32,000	4/2	1/2	158	48	29	0.56	0	0.00
California Homes	50 X 100	1,932	\$381,990	\$197.72	\$42,000	4/2.5	2/2						
Merced		2,000	\$393,990	\$197.00	\$52,000	3/2/D	1/2						
Bellevue Ranch		2,140	\$413,990	\$193.45	\$52,000	4/2.5	2/2						
Shadow Creek	5,000	1,568	\$366,990	\$234.05	\$60,000	3/2	1/2	160	110	91	1.08	-4	-0.31
California Homes	50 X 100	1,883	\$396,990	\$210.83	\$60,000	4/2	1/2						
Merced		2,000	\$416,990	\$208.50	\$60,000	3/2/D	1/2						
Compass Point		2,396	\$436,990	\$182.38	\$60,000	4/2.5	2/2						
		2,749	\$436,990	\$158.96	\$60,000	4/3/D	2/2						
		3,101	\$468,990	\$151.24	\$60,000	5/3/D	2/2						
Copper Creek	5,500	1,457	\$378,093	\$259.50	\$30,000	3/2	1/2	279	259	251	1.18	7	0.54
Dunmore Homes	56 X 100	1,708	\$371,512	\$217.51	\$30,000	3/2	1/2						
Merced		1,848	\$378,250	\$204.68	\$30,000	4/2	1/3						
Fahren's Creek		2,338	\$427,845	\$183.00	\$30,000	5/3	2/3						
Mill House at Fahren's Creek	6,700	2,470	\$490,990	\$198.78	\$3,500	3/2.5	1/3	215	87	78	1.07	10	0.77
Centex Homes	67 X 100	2,635	\$517,990	\$196.58	\$3,500	4/2.5	2/3						
Merced		3,291	\$557,990	\$169.55	\$3,500	4/2.5	2/3						
Fahren's Creek		3,376	\$561,990	\$166.47	\$3,500	4/3.5	2/3						
		3,620	\$571,990	\$158.01	\$3,500	5/3.5	2/3						
The Crossing at Fahren's Creek	4,725	1,475	\$289,990	\$196.60	\$5,000	3/2	1/2	253	28	17	1.13	11	0.85
Morrison Homes	45 x 105	1,607	\$310,990	\$193.52	\$5,000	3/2/D	1/2						
Merced		2,061	\$350,990	\$170.30	\$5,000	4/2.5/D	2/2						
None		2,265	\$375,990	\$166.00	\$5,000	4/3/B	2/2						
		2,459	\$390,990	\$159.00	\$5,000	4/2.5/D	2/2						
		1,538	\$291,950	\$189.82	\$5,000	3/2/D	1/2						
		1,715	\$301,950	\$176.06	\$5,000	3/2/D	1/2						
Winton													
Winfield Station	6,200	1,203	\$289,900	\$240.98	\$5,000	3/2	1/2	74	39	31	0.62	0	0.00
Lakemont Homes	60 X 105	1,354	\$301,900	\$222.97	\$5,000	4/2	1/2						
Winton		1,555	\$312,900	\$201.22	\$5,000	4/2	1/2						
None		1,878	\$328,900	\$175.13	\$5,000	3/2	1/2						
		2,196	\$353,900	\$161.16	\$5,000	4/3	4/3						
Quail Hollow	6,300	1,756	\$319,990	\$182.23	\$7,000	3/2	1/2	270	78	76	1.03	5	0.38
Ryland Homes	63 X 100	2,081	\$339,990	\$163.38	\$7,000	3/2.5	2/2						
Winton		2,194	\$364,990	\$166.36	\$7,000	3/2.5	1/3						
None		2,379	\$374,990	\$157.63	\$7,000	4/2.5	1/3						
		2,669	\$409,990	\$153.61	\$7,000	5/3.5	2/3						

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate											
								Planned	Offered	Sold														
Total Market Average:													2,107	\$386,984	\$188.16	\$15,315	--	--	10,421	5,259	4,395	0.80	216	0.30

**EXHIBIT II - 6B
 MERCED COUNTY DEVELOPMENTS -- NET PRICING
 MERCED MARKET AREA
 OCTOBER, 2006**



**EXHIBIT II - 7A
HISTORICAL SALES SUMMARY TABLE
MERCED MARKET AREA**

**The Gregory Group
CA06.07003Merced**

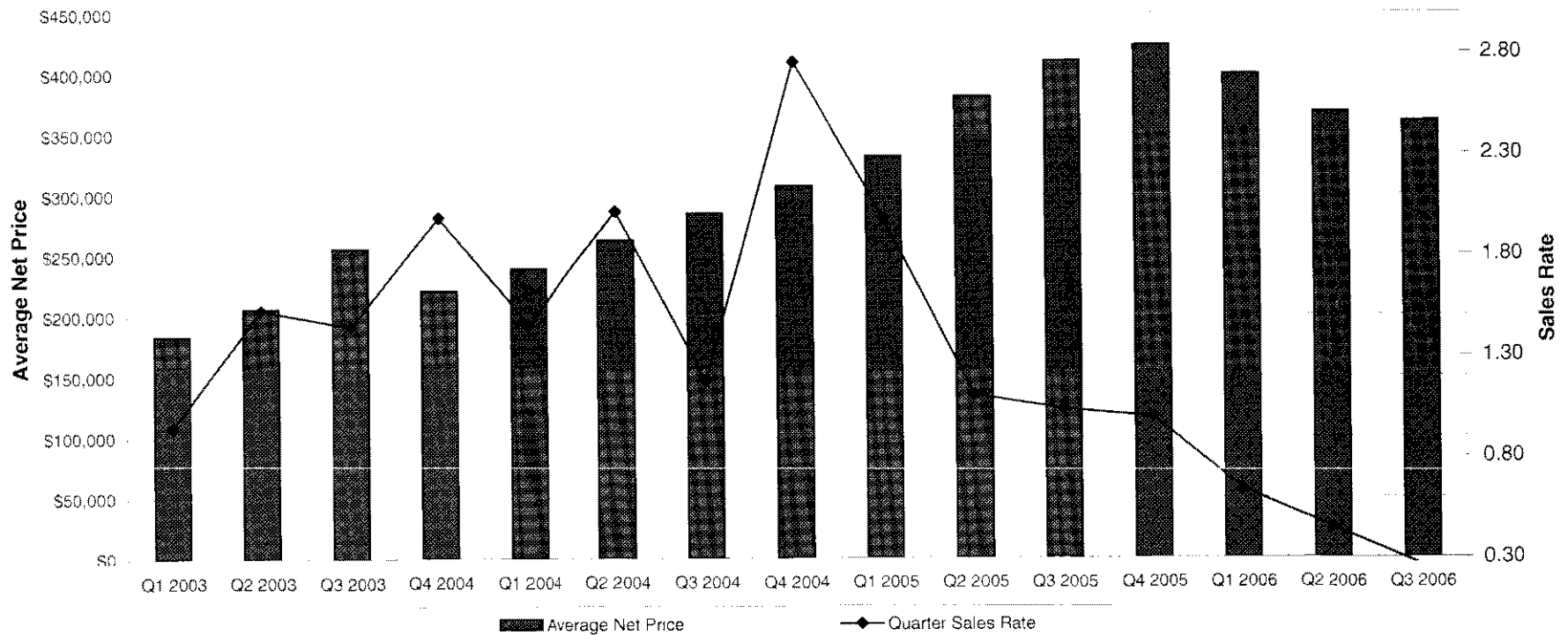
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr
<u>City of Merced</u>	2004				2005				2006		
Average Price	\$241,968	\$261,850	\$284,451	\$300,176	\$329,580	\$364,090	\$383,669	\$401,741	\$391,122	\$375,413	\$367,918
Average Size	1,961	1,934	1,855	1,829	1,891	2,076	2,057	1,999	2,022	2,030	2,030
Average Price/Sq Ft	\$128.08	\$141.04	\$159.39	\$170.49	\$185.39	\$185.43	\$195.81	\$207.62	\$198.91	\$190.01	\$184.60
Quarter New-Home Sales	172	268	129	352	240	197	138	185	174	149	82
Total Annual New-Home Sales	--	--	--	921	--	--	--	760	--	--	405
Quarter WSR	1.47	2.29	1.10	2.02	1.68	1.17	1.06	1.09	0.64	0.48	0.22
Total WSR	1.55	2.24	1.83	2.71	2.25	1.84	1.66	1.66	1.15	0.96	0.80
Average Lot Size	6,160	5,716	5,511	5,460	5,455	5,646	5,520	5,496	5,421	5,240	5,294
Number of Projects	9	9	9	10	11	13	13	13	21	24	29
Total Inventory	849	896	880	615	933	1,156	818	1,167	1,959	2,187	2,200
Unsold Inventory	46	45	64	25	16	66	140	194	247	324	453
Weeks of Inventory	3	2	4	0	0	3	8	9	10	14	19
<u>Merced County</u>											
Average Price	\$258,282	\$289,831	\$325,288	\$333,483	\$353,603	\$379,623	\$397,663	\$413,170	\$405,939	\$392,924	\$386,984
Average Size	1,979	2,026	2,087	2,062	2,076	2,134	2,117	2,103	2,100	2,100	2,107
Average Price/Sq Ft	\$134.27	\$148.07	\$160.62	\$167.86	\$177.66	\$185.16	\$194.91	\$202.78	\$198.94	\$192.54	\$187.47
Quarter New-Home Sales	443	599	380	717	495	507	344	412	374	251	216
Total Annual New-Home Sales	--	--	--	2,139	--	--	--	1,758	--	--	835
Quarter WSR	1.55	1.92	1.17	1.97	1.41	1.18	0.95	1.06	0.65	0.41	0.30
Total WSR	2.30	2.07	2.27	1.86	1.89	1.72	1.51	1.48	1.17	0.95	0.80
Average Lot Size	6,029	5,723	5,828	5,839	5,855	7,010	7,184	6,980	6,468	6,296	6,135
Number of Projects	22	24	25	28	27	33	28	30	44	47	57
Total Inventory	2,073	2,551	2,675	2,523	2,569	3,203	2,631	3,025	4,704	4,905	5,259
Unsold Inventory	166	127	113	88	54	133	258	588	782	831	864
Weeks of Inventory	3	3	2	2	1	2	6	13	15	19	19

**EXHIBIT II - 7B
HISTORICAL MARKET SUMMARY
MERCED MARKET AREA**

The Gregory Group
CA06.07003Merced

Merced Market Area	2003				2004				2005				2006		
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr
Average Base Price	\$185,543	\$208,205	\$227,114	\$222,752	\$241,178	\$264,439	\$286,125	\$308,958	\$333,729	\$383,033	\$411,862	\$425,662	\$406,069	\$389,242	\$379,979
Average Incentive	\$1,771	\$1,594	\$1,659	\$1,475	\$1,481	\$1,493	\$1,234	\$1,549	\$1,874	\$1,973	\$1,657	\$2,769	\$6,683	\$19,565	\$18,015
Average Net Price	\$183,772	\$206,611	\$256,217	\$221,277	\$239,697	\$262,946	\$284,891	\$307,408	\$331,854	\$381,060	\$410,206	\$422,892	\$399,386	\$367,677	\$359,957
Average Net Price Change	--	11.1%	19.4%	-15.8%	7.7%	8.8%	7.7%	7.3%	7.4%	12.9%	7.1%	3.0%	-5.9%	-8.6%	-2.1%
Average Sales Rate	1.20	1.77	1.90	1.46	1.56	2.06	1.73	2.20	2.30	1.79	1.63	1.55	1.09	0.95	0.79
Quarter Sales	62	119	132	479	190	315	184	467	361	231	163	207	209	169	115
Quarter Sales Rate	0.95	1.53	1.45	1.99	1.46	2.02	1.18	2.76	1.98	1.11	1.04	1.00	0.64	0.45	0.26
Total Sales	--	--	--	792	--	--	--	1,156	--	--	--	962	--	--	486

MERCED MARKET AREA AVERAGE NET HOME PRICE AND QUARTER SALES RATE



**EXHIBIT II - 8
COMPETITIVE PROJECTS HOA/SPECIALTY TAX SUMMARY TABLE
MERCED MARKET AREA**

**The Gregory Group
CA06.07003Merced**

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Monthly HOA Fees	Monthly Special Tax Fees	Total Monthly Fees
Atwater										
Claremont Reserve	6,180	2,237	\$388,990	\$173.89	\$5,000	4/3	2/2	\$0.00	\$0.00	\$0.00
Pacific Union Homes	60 X 103	2,384	\$429,990	\$180.36	\$5,000	3/3	1/3			
Atwater		3,144	\$485,990	\$154.58	\$5,000	5/3	2/3			
None		3,515	\$497,990	\$141.68	\$5,000	5/3	2/3			
		3,905	\$514,400	\$131.73	\$5,000	6/4.5/L	2/3			
La Paloma	5,000	1,301	\$293,900	\$225.90	\$35,000	3/2	1/2	\$0.00	\$0.00	\$0.00
Ranchwood Homes	50 X 100	1,405	\$298,900	\$212.74	\$35,000	3/2	1/2			
Atwater		1,536	\$305,900	\$199.15	\$35,000	4/2	1/2			
None		1,785	\$319,900	\$179.22	\$35,000	4/2	1/2			
		1,953	\$327,900	\$167.90	\$35,000	4/2	1/2			
Las Casas	6,300	2,000	\$389,990	\$195.00	\$10,000	3/2.5/D/L	2/3	\$0.00	\$45.00	\$45.00
Syncon Homes	60 X 105	2,356	\$429,990	\$182.51	\$10,000	3/2.5/D/L	2/3			
Atwater		2,846	\$451,990	\$158.82	\$10,000	3/3/D	1/3			
None		3,232	\$482,990	\$149.44	\$10,000	3/2	1/3			
Stonecreek	6,000	1,708	\$374,000	\$218.97	\$40,000	3/2	1/2	\$0.00	\$164.00	\$164.00
Dunmore Homes	60 X 100	2,060	\$399,990	\$194.17	\$40,000	4/2	1/2			
Atwater		2,329	\$423,990	\$182.05	\$40,000	4/2.5	1/3			
None		2,372	\$444,440	\$187.37	\$40,000	4/3	2/3			
		2,593	\$448,990	\$173.15	\$40,000	4/3	2/3			
The Heirloom Collection at Silva Meadows	43,560	2,706	\$689,500	\$254.80	\$40,000	4/3	1/3	\$0.00	\$0.00	\$0.00
Franco Construction	--	2,946	\$699,500	\$237.44	\$50,000	4/3	1/3			
Atwater		3,186	\$749,500	\$235.25	\$60,000	4/3	1/3			
None		3,552	\$814,500	\$229.31	\$75,000	5/3	1/3			

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Monthly HOA Fees	Monthly Special Tax Fees	Total Monthly Fees
Merced										
Alfarata Ranch	6.000	1,729	\$349,950	\$202.40	\$25,000	4/2	1/2	\$0.00	\$41.25	\$41.25
Ranchwood Homes	60 X 100	1,960	\$372,950	\$190.28	\$25,000	4/2	1/2			
Merced		2,355	\$406,950	\$172.80	\$25,000	4/3	2/3			
None										
Cottages at Compass Point	2,500	1,375	\$275,990	\$200.72	\$10,000	3/2.5	1/2	\$0.00	\$60.00	\$60.00
Bennett Homes	--	1,430	\$295,990	\$206.99	\$10,000	3/2.5	1/2			
Merced		1,663	\$310,990	\$187.01	\$10,000	4/2.5	1/2			
None		1,806	\$325,990	\$180.50	\$10,000	4/2.5	1/2			
		1,901	\$335,990	\$176.74	\$10,000	4/3	1/2			
		2,029	\$349,990	\$172.49	\$10,000	4/2.5	1/2			
Cypress Terrace	5,000	1,191	\$279,990	\$235.09	\$10,000	3/2	1/2	\$0.00	\$0.00	\$0.00
Ranchwood Homes	50 X 100	1,251	\$283,990	\$227.01	\$10,000	3/2	1/2			
Merced		1,475	\$395,990	\$268.47	\$10,000	3/2	1/2			
None		1,633	\$302,990	\$185.54	\$10,000	4/2	1/2			
		1,846	\$313,990	\$170.09	\$10,000	4/2	1/2			
El Capitan	6,000	1,375	\$326,900	\$237.75	\$45,000	3/2	1/2	\$0.00	\$0.00	\$0.00
Ranchwood Homes	60 X 100	1,565	\$338,950	\$216.58	\$45,000	3/2	1/2			
Merced		1,633	\$345,950	\$211.85	\$45,000	4/2	1/2			
None		1,729	\$349,950	\$202.40	\$45,000	4/2	1/3			
		1,953	\$370,950	\$189.94	\$45,000	4/2	2/2			
		1,960	\$372,950	\$190.28	\$45,000	4/2	1/3			
		2,355	\$406,950	\$172.80	\$45,000	4/3	2/3			
Fairview Meadows	4,750	1,979	\$340,000	\$171.80	\$0	3/2.5/L	2/2	\$0.00	\$0.00	\$0.00
KB Home	50X 95	2,093	\$350,000	\$167.22	\$0	3/2.5/L	2/2			
Merced		2,177	\$360,000	\$165.37	\$0	3/2.5/L	2/2			
None		2,452	\$380,000	\$154.98	\$0	3/2.5/L	2/2			
		2,763	\$410,000	\$148.39	\$0	4/2.5/L	2/2			
Moraga - Neighborhood 2	5,085	1,537	\$319,000	\$207.55	\$2,000	3/2	1/2	\$86.50	\$174.67	\$261.17
Lakemont Homes	45 X 113	1,683	\$329,000	\$195.48	\$2,000	4/2	1/2			
Merced		2,036	\$364,000	\$178.78	\$2,000	4/2.5	2/2			
None		2,229	\$384,000	\$172.27	\$2,000	4/2.5	2/3T			

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Monthly HOA Fees	Monthly Special Tax Fees	Total Monthly Fees
Moraga - Neighborhood 3	6,215	1,895	\$359,000	\$189.45	\$2,000	3/2	1/2	\$86.50	\$196.23	\$282.73
Lakemont Homes	55 X 113	2,014	\$374,000	\$185.70	\$2,000	3/2	1/2			
Merced		2,355	\$399,000	\$169.43	\$2,000	3/2/D	1/3T			
None		2,644	\$419,000	\$158.47	\$2,000	4/2.5/D	2/3T			
Moraga - Neighborhood 4	7,345	2,419	\$423,000	\$174.87	\$2,000	3/3	1/3	\$86.50	\$230.32	\$316.82
Lakemont Homes	65 X 113	2,544	\$434,000	\$170.60	\$2,000	4/3	1/3T			
Merced		3,142	\$479,000	\$152.45	\$2,000	4/3.5/D	2/2			
None		3,505	\$499,000	\$142.37	\$2,000	6/4	2/3T			
Renaissance	5,500	1,408	\$312,990	\$222.29	\$17,000	3/2.5	2/2	\$0.00	\$77.00	\$77.00
California Homes	55 X 100	1,411	\$314,990	\$223.24	\$17,000	3/2	1/2			
Merced		1,631	\$321,990	\$197.42	\$17,000	4/3	2/2			
None		1,688	\$325,990	\$193.12	\$17,000	3/2	1/2			
		1,898	\$339,990	\$179.13	\$17,000	4/2.5	2/2			
		1,926	\$352,990	\$183.28	\$17,000	4/2.5	2/2			
Sandcastle	5,000	1,272	\$307,990	\$242.13	\$45,000	3/2	1/2	\$0.00	\$75.00	\$75.00
California Homes	50 X 100	1,554	\$341,990	\$220.07	\$45,000	3/2.5	2/2			
Merced		1,660	\$337,990	\$203.61	\$45,000	3/2	1/2			
None		1,899	\$357,990	\$188.52	\$45,000	4/2.5	2/2			
		2,140	\$374,990	\$175.23	\$45,000	4/2.5	2/2			
		2,555	\$411,990	\$161.25	\$45,000	4/3/D	2/2			
Sierra Vista	4,700	1,277	\$289,990	\$227.09	\$5,000	2/2	1/2	\$0.00	\$43.25	\$43.25
Summerton Homes	47 X 100	1,637	\$314,990	\$192.42	\$5,000	2/2.5	1/2			
Merced		2,055	\$359,990	\$175.18	\$5,000	3/2.5	1/2			
None		2,346	\$379,990	\$161.97	\$5,000	3/2.5	2/2			
		2,637	\$399,990	\$151.68	\$5,000	3/2.5	2/2			
		2,900	\$439,990	\$151.72	\$5,000	3/2.5/D	2/2			
		3,288	\$459,990	\$139.90	\$5,000	3/2.5/D	2/2			
		3,553	\$479,990	\$135.09	\$5,000	3/2.5/D	2/2			

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Monthly HOA Fees	Monthly Special Tax Fees	Total Monthly Fees
Summercreek	6,000	1,400	\$299,990	\$214.28	\$75,000	3/2	1/2	\$0.00	\$52.36	\$52.36
Bright Homes	60 X 100	1,547	\$315,990	\$204.26	\$75,000	3/2.5	2/3			
Merced		1,606	\$325,990	\$202.98	\$75,000	3/2	1/2			
None		1,854	\$444,990	\$240.02	\$75,000	3/2	1/2			
		1,936	\$446,990	\$230.88	\$75,000	4/3	2/2			
		2,323	\$479,990	\$206.63	\$75,000	5/3	2/2			
		3,297	\$573,990	\$174.09	\$75,000	5/3.5/B	2/2			
Summit Meadows	5,000	1,301	\$289,900	\$222.83	\$35,000	3/2	1/2	\$0.00	\$0.00	\$0.00
Ranchwood Homes	50 X 100	1,405	\$394,900	\$281.07	\$35,000	3/2	1/2			
Merced		1,536	\$301,900	\$196.55	\$35,000	4/2	1/2			
None		1,785	\$314,900	\$176.41	\$35,000	4/2	1/2			
Tuscany Estates	5,000	1,251	\$286,900	\$229.34	\$25,000	3/2	1/2	\$0.00	\$41.25	\$41.25
Ranchwood Homes	50 X 100	1,475	\$298,900	\$202.64	\$25,000	3/2	1/2			
Merced		1,633	\$305,900	\$187.32	\$25,000	4/2	1/2			
None		1,846	\$316,900	\$171.67	\$25,000	4/2	1/2			
University Park	5,500	1,513	\$328,990	\$217.44	\$25,000	3/2	1/2	\$0.00	\$57.33	\$57.33
Morrison Homes	50 X 110	1,847	\$361,990	\$195.99	\$25,000	4/2	1/2			
Merced		2,276	\$409,990	\$180.14	\$25,000	4/2.5/D	2/3			
None		2,468	\$420,990	\$170.58	\$25,000	4/2.5	2/2			
		2,781	\$450,990	\$162.17	\$25,000	4/3/B	2/3			
Gardenstone At Bellevue Ranch	7,865	2,484	\$440,900	\$177.50	\$5,000	3/2	1/3	\$0.00	\$110.00	\$110.00
Crosswinds Communities	65 X 121	2,699	\$458,900	\$170.03	\$5,000	4/3/L	2/3			
Merced		2,799	\$483,900	\$172.88	\$5,000	4/4/L	2/3			
Bellevue Ranch		3,273	\$528,900	\$161.59	\$5,000	5/4	2/3			
Redhawk at Bellevue Ranch	6,500	2,172	\$425,990	\$196.13	\$7,000	3/2	1/3	\$0.00	\$112.00	\$112.00
Kimball Hill Homes	65 X 100	2,214	\$441,990	\$199.63	\$7,000	4/2.5/D	1/3			
Merced		2,327	\$443,990	\$190.80	\$7,000	4/2	1/3			
Bellevue Ranch		2,504	\$457,990	\$182.90	\$7,000	4/2.5/D	2/3			
Reverie at Bellevue Ranch	5,250	1,453	\$339,990	\$233.00	\$12,000	3/2	1/2	\$0.00	\$100.00	\$100.00
Ryland Homes	50 X 105	1,685	\$357,990	\$212.46	\$12,000	4/2	1/2			
Merced		1,723	\$367,990	\$213.58	\$12,000	4/2.5	2/2			
Bellevue Ranch		1,849	\$379,990	\$205.51	\$12,000	4/3	2/2			

Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Monthly HOA Fees	Monthly Special Tax Fees	Total Monthly Fees
The Meadows at Bellevue Ranch	4,725	1,540	\$318,990	\$207.14	\$20,000	3/2	1/2	\$0.00	\$135.00	\$135.00
Woodside Homes	47 X 105	1,900	\$344,990	\$181.57	\$20,000	3/2.5/L	2/2			
Merced		2,063	\$357,990	\$173.53	\$20,000	3/2.5/L	2/2			
Bellevue Ranch		2,275	\$370,990	\$163.07	\$20,000	3/2.5/B	2/2			
The Prairies at Bellevue Ranch	5,500	1,826	\$343,990	\$188.38	\$20,000	4/2	1/2	\$0.00	\$147.00	\$147.00
Woodside Homes	50 X 110	2,182	\$379,990	\$174.15	\$20,000	4/2.5	2/2			
Merced		2,333	\$392,990	\$168.45	\$20,000	4/2.5	2/2			
Bellevue Ranch		2,687	\$421,990	\$157.05	\$20,000	4/3/L	2/2			
The Villages at Bellevue Ranch	2,275	1,429	\$264,990	\$185.44	\$5,000	2/2/L	2/2	\$0.00	\$114.00	\$114.00
Woodside Homes	35 X 68	1,487	\$268,990	\$180.89	\$5,000	3/2	2/2			
Merced		1,556	\$274,990	\$176.73	\$5,000	3/2	2/2			
Bellevue Ranch		1,733	\$287,990	\$166.18	\$5,000	3/2.5/D	2/1			
		1,747	\$288,990	\$165.42	\$5,000	3/2.5/D	2/2			
		1,768	\$291,990	\$165.15	\$5,000	3/2.5/D	2/2			
The Willows at Bellevue Ranch	5,775	2,184	\$379,990	\$173.99	\$3,990	4/2.5	2/3	\$0.00	\$166.00	\$166.00
Woodside Homes	55 X 105	2,841	\$439,990	\$154.87	\$4,590	4/3/L	2/2			
Merced		3,056	\$462,990	\$151.50	\$4,810	4/3	2/3			
Bellevue Ranch										
Windsong at Bellevue Ranch	5,000	1,883	\$373,990	\$198.61	\$32,000	4/2	1/2	\$0.00	\$125.00	\$125.00
California Homes	50 X 100	1,932	\$381,990	\$197.72	\$32,000	4/2.5	2/2			
Merced		2,000	\$393,990	\$197.00	\$32,000	3/2/D	1/2			
Bellevue Ranch		2,140	\$413,990	\$193.45	\$32,000	4/2.5	2/2			
Shadow Creek	5,000	1,568	\$366,990	\$234.05	\$60,000	3/2	1/2	\$0.00	\$55.00	\$55.00
California Homes	50 X 100	1,883	\$401,990	\$213.48	\$60,000	4/2	1/2			
Merced		2,000	\$416,990	\$208.50	\$60,000	3/2/D	1/2			
Compass Point		2,396	\$439,990	\$183.64	\$60,000	4/2.5	2/2			
		2,749	\$458,990	\$166.97	\$60,000	4/3/D	2/2			
		3,101	\$494,990	\$159.62	\$60,000	5/3/D	2/2			
Copper Creek	5,500	1,457	\$378,093	\$259.50	\$3,000	3/2	1/2	\$0.00	\$0.00	\$0.00
Dunmore Homes	55 X 100	1,708	\$402,000	\$235.36	\$3,000	3/2	1/2			
Merced		1,848	\$403,250	\$218.21	\$3,000	4/2	1/3			
Fahren's Creek		2,338	\$444,845	\$190.27	\$3,000	5/3	2/3			

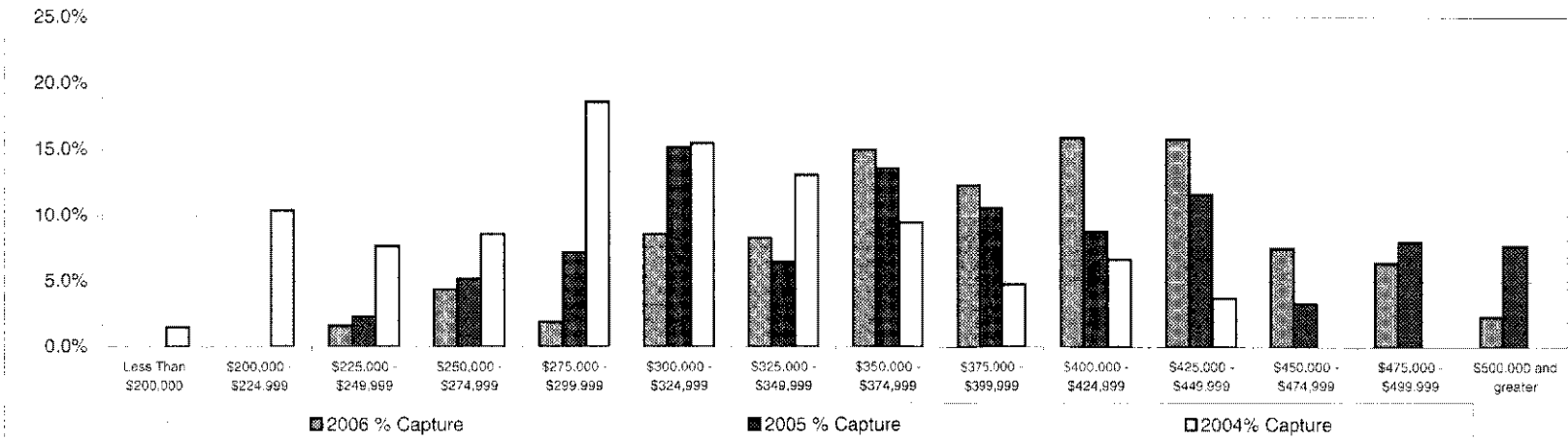
Project/ Developer/ Location/ Master Plan	Lot Size	Square Footage	Base Price	Price/ Sq. Ft.	Incentives	Bed/ Bath	Levels/ Garage	Monthly HOA Fees	Monthly Special Tax Fees	Total Monthly Fees
Mill House at Fahren's Creek	6,700	2,470	\$490,990	\$198.78	\$80,000	3/2.5	1/3	\$0.00	\$60.00	\$60.00
Centex Homes	67 X 100	2,635	\$517,990	\$196.58	\$80,000	4/2.5	2/3			
Merced		3,291	\$557,990	\$169.55	\$80,000	4/2.5	2/3			
Fahren's Creek		3,376	\$561,990	\$166.47	\$80,000	4/3.5	2/3			
		3,620	\$571,990	\$158.01	\$80,000	5/3.5	2/3			
The Crossing at Fahren's Creek	4,725	1,475	\$289,990	\$196.60	\$25,000	3/2	1/2	\$0.00	\$55.00	\$55.00
Morrison Homes	45 x 105	1,607	\$310,990	\$193.52	\$25,000	3/2/D	1/2			
Merced		2,061	\$350,990	\$170.30	\$25,000	4/2.5/D	2/2			
None		2,265	\$375,990	\$166.00	\$25,000	4/3/B	2/2			
		2,459	\$390,990	\$159.00	\$25,000	4/2.5/D	2/2			
Averages:		2,121	\$390,979	\$189.23	\$24,775	--	--	\$8.11	\$76.15	\$84.26

**EXHIBIT II - 9A
SALES BY PRICE RANGE
MERCED COUNTY MARKET AREA**

The Gregory Group
CA06.07003Merced

Price Range	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	2006		2005		2004	
	2006	2006	2006	2006	YTD Sales	YTD % Share	Sales	% Share	Sales	% Share
Less Than \$200,000	0	0	--	--	0	0.0%	0	0.0%	31	1.5%
\$200,000 - \$224,999	0	0	--	--	0	0.0%	0	0.0%	214	10.4%
\$225,000 - \$249,999	0	0	13	--	13	1.6%	40	2.3%	173	7.7%
\$250,000 - \$274,999	16	16	5	--	37	4.4%	91	5.2%	179	8.6%
\$275,000 - \$299,999	0	1	15	--	16	1.9%	128	7.2%	401	18.6%
\$300,000 - \$324,999	2	53	17	--	72	8.6%	267	15.2%	319	15.4%
\$325,000 - \$349,999	10	24	35	--	69	8.3%	115	6.5%	273	13.1%
\$350,000 - \$374,999	74	19	32	--	125	15.0%	241	13.6%	203	9.5%
\$375,000 - \$399,999	57	32	14	--	103	12.3%	184	10.6%	132	4.8%
\$400,000 - \$424,999	75	50	8	--	133	15.9%	154	8.8%	138	6.7%
\$425,000 - \$449,999	79	24	29	--	132	15.8%	204	11.6%	76	3.7%
\$450,000 - \$474,999	16	15	32	--	63	7.5%	58	3.3%	0	0.0%
\$475,000 - \$499,999	42	17	-6	--	53	6.4%	142	8.0%	0	0.0%
\$500,000 and greater	3	0	16	--	19	2.3%	134	7.7%	0	0.0%

**MERCED COUNTY
SALES BY PRICE RANGE**



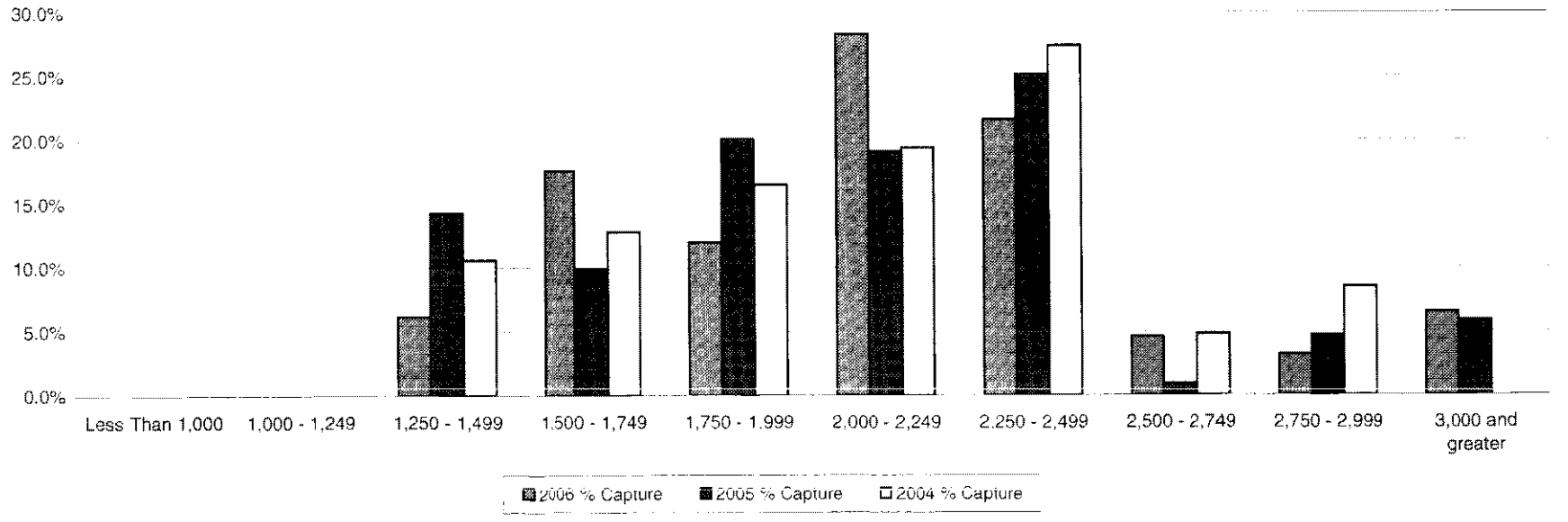
Note: Sales are based upon the average price for the project.

**EXHIBIT II - 9B
SALES BY HOME SIZE RANGE
MERCED COUNTY MARKET AREA**

The Gregory Group
CA06.07003Merced

Square Foot Range	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	2006	2006	2005	2005	2004	2004
	2006	2006	2006	2006	Sales	% Share	Sales	% Share	Sales	% Share
Less Than 1,000	0	0	--	--	0	0.0%	0	0.0%	0	0.0%
1,000 - 1,249	0	0	--	--	0	0.0%	0	0.0%	0	0.0%
1,250 - 1,499	22	14	16	--	52	6.2%	253	14.3%	257	10.6%
1,500 - 1,749	19	65	63	--	147	17.6%	172	9.9%	227	12.8%
1,750 - 1,999	41	21	38	--	100	12.0%	356	20.1%	292	16.5%
2,000 - 2,249	115	74	47	--	236	28.3%	332	19.1%	432	19.4%
2,250 - 2,499	102	69	9	--	180	21.6%	438	25.1%	586	27.4%
2,500 - 2,749	23	6	10	--	39	4.6%	18	0.9%	94	4.8%
2,750 - 2,999	21	-6	12	--	27	3.2%	84	4.7%	251	8.5%
3,000 and greater	31	8	15	--	54	6.5%	105	5.9%	0	0.0%

**MERCED COUNTY
SALES BY SQUARE FOOTAGE RANGE**



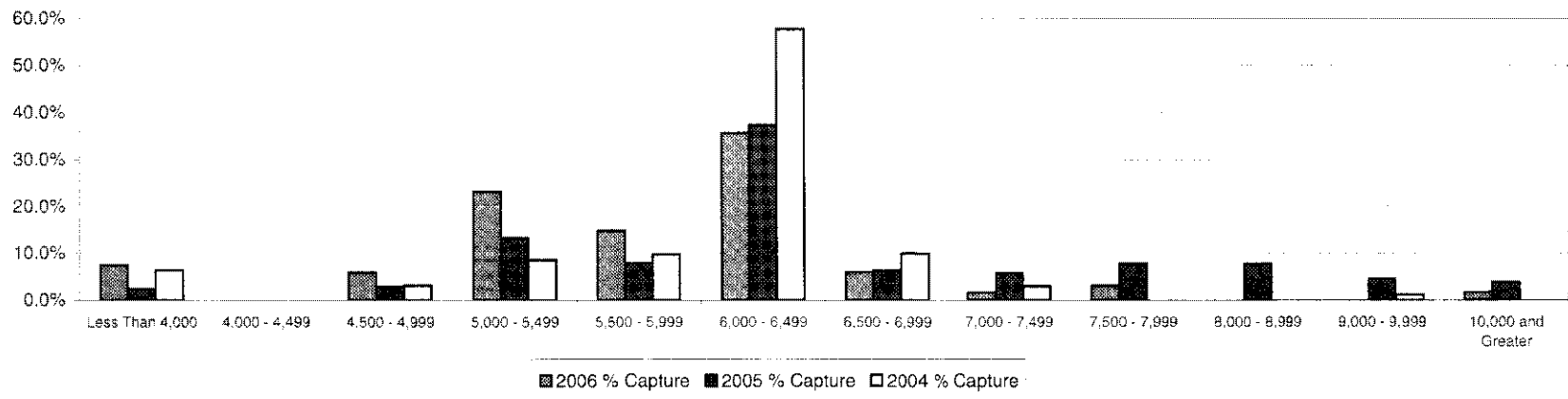
Note: Sales are based upon the average home size for the project.

**EXHIBIT II - 9C
SALES BY LOT SIZE RANGE
MERCED COUNTY MARKET AREA**

The Gregory Group
CA06.07003Merced

Lot Size Range	1st Qtr 2006	2nd Qtr 2006	3rd Qtr 2006	4th Qtr 2006	2006 Sales	2006 % Sales	2005 Sales	2005 % Sales	2004 Sales	2004 % Sales
Less Than 4,000	3	33	27	--	63	7.5%	0	2.4%	138	6.5%
4,000 - 4,499	0	0	0	--	0	0.0%	0	0.0%	0	0.0%
4,500 - 4,999	31	-3	22	--	50	6.0%	63	2.9%	68	3.2%
5,000 - 5,499	116	58	20	--	194	23.2%	442	13.3%	184	8.6%
5,500 - 5,999	61	34	30	--	125	15.0%	246	7.9%	208	9.7%
6,000 - 6,499	126	91	82	--	299	35.8%	782	37.5%	1,237	57.8%
6,500 - 6,999	13	24	14	--	51	6.1%	163	6.4%	213	10.0%
7,000 - 7,499	-4	16	1	--	13	1.6%	46	5.8%	65	3.0%
7,500 - 7,999	22	-6	10	--	26	3.1%	0	7.8%	0	0.0%
8,000 - 8,999	0	0	--	--	0	0.0%	0	7.7%	0	0.0%
9,000 - 9,999	0	0	--	--	0	0.0%	0	4.5%	26	1.2%
10,000 and Greater	6	4	4	--	14	1.7%	16	3.9%	0	0.0%

**MERCED COUNTY
SALES BY LOT SIZE RANGE**



Note: Sales are based upon the average lot size for the project.

**EXHIBIT II - 10A
PRICE SUMMARY TABLE
MERCED COUNTY MARKET AREA**

The Gregory Group
CA06.07003Merced

Project	Community	Master Plan	Lot Size	Average Square Footage	Average Base Price	Average Price/Sq. Ft.	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
							Planned	Offered	Sold			
Less than \$250,000												
Silverleaf	Merced	Bellevue Ranch	3,120	1,396	\$245,990	\$184.49	82	54	40	1.82	13	1.00
Totals/Averages:			3,120	1,396	\$245,990	184.49	82	54	40	1.82	13	1.00
\$250,000 to \$299,999												
Cypress Terrace	Merced	No	5,000	1,479	\$255,120	\$175.70	303	220	213	1.15	3	0.23
Monte Vista	Planada	No	5,000	1,270	\$267,075	\$213.46	109	100	92	1.18	1	0.08
Avalon	Los Banos	No	3,600	1,296	\$271,617	\$209.90	101	101	87	0.66	1	0.08
The Villages at Bellevue Ranch	Merced	Bellevue Ranch	2,275	1,620	\$279,657	\$173.30	227	24	15	0.56	12	0.92
Four Seasons at Los Banos	Los Banos	No	2,000	1,680	\$281,660	\$169.89	185	40	3	0.23	3	0.23
Totals/Averages:			3,575	1,448	\$269,999	\$190.61	925	485	410	1.76	20	0.31
\$300,000 to \$349,999												
Summit Meadows	Merced	No	5,000	1,506	\$300,400	\$201.42	154	100	95	0.72	-4	-0.31
Tuscany Estates	Merced	No	5,000	1,551	\$302,150	\$197.74	92	92	72	0.69	2	0.15
La Paloma	Atwater	No	5,000	1,596	\$309,300	\$196.98	33	29	21	0.31	21	1.62
Cottages at Compass Point	Merced	No	2,500	1,700	\$315,157	\$187.08	138	48	36	1.13	-2	-0.15
Winfield Station	Winton	No	6,200	1,637	\$317,500	\$200.29	74	39	31	0.62	0	0.00
Tatum Ranch	Dos Palos	No	6,000	1,839	\$326,567	\$179.75	129	45	45	0.45	0	0.00
Renaissance	Merced	No	5,500	1,660	\$328,157	\$199.75	166	36	17	0.40	5	0.38
Mariposa Collection at Moraga	Merced	No	5,085	1,885	\$343,150	\$184.46	206	5	2	0.18	2	0.15
The Crossing at Fahren's Creek	Merced	No	4,725	1,973	\$343,790	\$177.09	253	28	17	1.13	11	0.85
Reverie at Bellevue Ranch	Merced	Bellevue Ranch	5,250	1,677	\$344,240	\$205.36	164	82	68	1.17	-3	-0.23
Landmark	Dos Palos	No	6,000	1,964	\$345,136	\$176.58	119	76	64	1.73	13	1.00
The Meadows at Bellevue Ranch	Merced	Bellevue Ranch	4,725	1,944	\$348,240	\$181.33	245	50	40	1.08	7	0.54
Totals/Averages:			5,082	1,742	\$326,744	\$190.84	1,773	630	508	0.83	52	0.35

Project	Community	Master Plan	Lot Size	Average Square Footage	Average Base Price	Average Price/Sq. Ft.	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
							Planned	Offered	Sold			
\$350,000 to \$399,999												
The Crossing at River Oaks	Merced	No	6,000	1,909	\$351,650	\$188.52	72	7	0	0.00	0	0.00
Parkside	Livingston	No	6,000	1,861	\$355,323	\$193.28	184	90	67	1.34	3	0.23
Sandcastle	Merced	No	5,000	1,846	\$355,490	\$198.47	334	168	136	1.26	-1	-0.08
El Capitan	Merced	No	6,000	1,795	\$358,943	\$203.09	229	170	146	1.04	-9	-0.69
Northgate	Los Banos	No	6,000	1,517	\$359,150	\$219.33	544	352	352	1.49	31	2.38
Countryside	Delhi	No	5,000	2,088	\$360,157	\$180.08	148	148	137	1.34	-1	-0.08
Sundance II	Livingston	No	6,000	2,225	\$361,774	\$165.52	97	24	12	0.55	2	0.15
Quail Hollow	Winton	No	6,300	2,215	\$361,990	\$164.64	270	78	76	1.03	5	0.38
Fairview Meadows	Merced	No	4,750	2,292	\$368,000	\$161.55	112	28	5	0.15	-3	-0.23
Redhawk at Bellevue Ranch	Merced	Bellevue Ranch	6,500	2,304	\$371,490	\$161.44	148	98	66	1.27	2	0.15
The Prairies at Bellevue Ranch	Merced	Bellevue Ranch	5,500	2,139	\$373,990	\$167.37	139	20	12	0.32	1	0.08
Presidio Collection at Moraga	Merced	No	6,215	2,236	\$454,650	\$204.37	173	6	4	0.36	4	0.31
Alfarata Ranch	Merced	No	6,000	2,014	\$376,617	\$188.49	12	12	6	0.04	1	0.08
Country Lane	Livingston	No	5,500	2,281	\$380,704	\$169.35	213	26	14	0.38	1	0.08
Stonecreek	Atwater	No	6,000	2,201	\$382,263	\$176.35	186	43	31	0.49	4	0.31
Copper Creek	Merced	Fahren's Creek	5,500	1,837	\$388,925	\$216.17	279	259	251	1.18	7	0.54
Sierra Vista	Merced	No	4,700	2,461	\$390,615	\$166.88	43	43	25	0.46	-1	-0.08
Windsong at Bellevue Ranch	Merced	Bellevue Ranch	5,000	1,988	\$390,990	\$196.69	158	48	29	0.56	0	0.00
University Park	Merced	No	5,500	2,177	\$394,590	\$185.26	131	84	76	1.17	2	0.15
Totals/Averages:			5,656	2,091	\$371,409	\$183.09	3,472	1,704	1,445	0.78	48	0.20
\$400,000 to \$449,999												
Mayors Collection	Dos Palos	No	6,000	2,303	\$403,186	\$177.50	71	13	6	1.20	6	0.46
Vineyards	Los Banos	No	6,000	2,051	\$410,900	\$210.80	1,260	960	928	2.08	4	0.31
Summercreek	Merced	No	6,000	1,994	\$412,561	\$210.45	133	133	113	1.27	2	0.15
Shadow Creek	Merced	Compass Point	5,000	2,282	\$420,657	\$190.99	160	110	91	1.08	-4	-0.31
Somerset	Livingston	No	5,500	2,559	\$426,615	\$168.35	160	6	2	0.06	0	0.00
Meadow Glen	Los Banos	Meadowlands	4,500	2,127	\$428,490	\$206.87	245	161	138	1.10	13	1.00
The Willows at Bellevue Ranch	Merced	Bellevue Ranch	5,775	2,693	\$438,657	\$164.38	100	53	41	0.76	14	1.08
Las Casas	Atwater	No	6,300	2,608	\$438,740	\$171.44	130	92	78	1.16	1	0.08
Sandstone	Los Banos	No	5,000	2,282	\$443,323	\$201.39	154	46	30	0.73	1	0.08
Totals/Averages:			5,564	2,283	\$422,608	\$191.38	2,413	1,574	1,427	1.05	37	0.32

Project	Community	Master Plan	Lot Size	Average Square Footage	Average Base Price	Average Price/ Sq. Ft.	Units			Total Weekly Sales Rate	2006	Third
							Planned	Offered	Sold		Third Quarter Sales	Quarter Weekly Sales Rate
\$450,000 and Greater												
Claremont Reserve	Atwater	No	6,180	3,037	\$452,472	\$152.14	302	181	161	1.56	3	0.23
Mercedes Collection at Moraga	Merced	No	7,345	2,903	\$458,750	\$160.07	141	4	1	0.09	1	0.08
Teal Landing	Los Banos	No	6,000	2,068	\$462,400	\$226.47	161	119	80	1.19	12	0.92
Meadow Vista	Los Banos	No	6,000	2,498	\$464,657	\$191.07	242	140	139	1.10	3	0.23
Gardenstone at Bellevue Ranch	Merced	Bellevue Ranch	7,865	2,813	\$472,400	\$168.42	111	61	52	0.96	10	0.77
Mission Village	Los Banos	No	6,500	2,474	\$472,900	\$195.64	400	100	64	0.60	5	0.38
Borelli Ranch	Gustine	No	6,000	2,458	\$482,900	\$200.23	70	8	5	0.13	0	0.00
Orchard Terrace	Los Banos	No	7,000	2,474	\$487,900	\$201.29	78	78	32	0.64	-6	-0.46
Magnolia Grove	Los Banos	No	7,000	2,474	\$527,900	\$218.64	31	25	18	0.17	5	0.38
Mill House at Fahren's Creek	Merced	No	6,700	3,078	\$540,190	\$177.88	215	87	78	1.07	10	0.77
The Heirloom Collection	Atwater	No	43,560	3,097	\$738,250	\$239.20	114	39	27	0.39	4	0.31
Totals/Averages:			10,014	2,675	\$502,681	\$192.41	1,865	842	657	0.74	47	0.34

**EXHIBIT II - 10B
 LOT SIZE SUMMARY TABLE
 MERCED COUNTY MARKET AREA**

**The Gregory Group
 CA06.07003Merced**

Project	Community	Master Plan	Lot Size/ Density	Average Square Footage	Average Base Price	Average Price/ Sq. Ft.	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
							Planned	Offered	Sold			
Attached Homes												
None												
Totals/Averages:			--	--	--	--	--	--	--	--	--	--
Less Than 4,000 SF												
Four Seasons at Los Banos	Los Banos	No	2,000	1,680	\$281,660	\$169.89	185	40	3	0.23	3	0.23
The Villages at Bellevue Ranch	Merced	Bellevue Ranch	2,275	1,620	\$279,657	\$173.30	227	24	15	0.56	12	0.92
Cottages at Compass Point	Merced	No	2,500	1,700	\$315,157	\$187.08	138	48	36	1.13	-2	-0.15
Silverleaf	Merced	Bellevue Ranch	3,120	1,396	\$245,990	\$184.49	82	54	40	1.82	13	1.00
Avalon	Los Banos	No	3,600	1,296	\$271,617	\$209.90	101	101	87	0.66	1	0.08
Totals/Averages:			2,699	1,558	\$280,811	\$183.66	733	267	181	0.88	27	0.42
4,000 to 4,499 SF												
None												
Totals/Averages:			--	--	--	--	--	--	--	--	--	--
4,500 to 4,999 SF												
Meadow Glen	Los Banos	Meadowlands	4,500	2,127	\$428,490	\$206.87	245	161	138	1.10	13	1.00
Sierra Vista	Merced	No	4,700	2,461	\$390,615	\$166.88	43	43	25	0.46	-1	-0.08
The Meadows at Bellevue Ranch	Merced	Bellevue Ranch	4,725	1,944	\$348,240	\$181.33	245	50	40	1.08	7	0.54
The Crossing at Fahren's Creek	Merced	No	4,725	1,973	\$343,790	\$177.09	253	28	17	1.13	11	0.85
Fairview Meadows	Merced	No	4,750	2,292	\$368,000	\$161.55	112	28	5	0.15	-3	-0.23
Totals/Averages:			4,680	2,204	\$376,569	\$176.19	898	310	225	0.78	27	0.42

Project	Community	Master Plan	Lot Size/ Density	Average Square Footage	Average Base Price	Average Price/ Sq. Ft.	Units			Total Weekly Sales Rate	2006 Third Quarter Sales	Third Quarter Weekly Sales Rate
							Planned	Offered	Sold			
5,000 to 5,499 SF												
Cypress Terrace	Merced	No	5,000	1,479	\$255,120	\$175.70	303	220	213	1.15	3	0.23
Summit Meadows	Merced	No	5,000	1,506	\$300,400	\$201.42	154	100	95	0.72	-4	-0.31
Countryside	Delhi	No	5,000	2,088	\$360,157	\$180.08	148	148	137	1.34	-1	-0.08
Tuscany Estates	Merced	No	5,000	1,551	\$302,150	\$197.74	92	92	72	0.69	2	0.15
Shadow Creek	Merced	Compass Point	5,000	2,282	\$420,657	\$190.99	160	110	91	1.08	-4	-0.31
Sandcastle	Merced	No	5,000	1,846	\$355,490	\$198.47	334	168	136	1.26	-1	-0.08
Monte Vista	Planada	No	5,000	1,270	\$267,075	\$213.46	109	100	92	1.18	1	0.08
Sandstone	Los Banos	No	5,000	2,282	\$443,323	\$201.39	154	46	30	0.73	1	0.08
Windsong at Bellevue Ranch	Merced	Bellevue Ranch	5,000	1,988	\$390,990	\$196.69	158	48	29	0.56	0	0.00
La Paloma	Atwater	No	5,000	1,596	\$309,300	\$196.98	33	29	21	0.31	21	1.62
Mariposa Collection at Moraga	Merced	No	5,085	1,885	\$343,150	\$184.46	206	5	2	0.18	2	0.15
Reverie at Bellevue Ranch	Merced	Bellevue Ranch	5,250	1,677	\$344,240	\$205.36	164	82	68	1.17	-3	-0.23
Totals/Averages:			5,028	1,784	\$339,772	\$195.51	2,015	1,148	986	0.86	17	0.11

5,500 to 5,999 SF												
Copper Creek	Merced	Fahren's Creek	5,500	1,837	\$388,925	\$216.17	279	259	251	1.18	7	0.54
University Park	Merced	No	5,500	2,177	\$394,590	\$185.26	131	84	76	1.17	2	0.15
Somerset	Livingston	No	5,500	2,559	\$426,615	\$168.35	160	6	2	0.06	0	0.00
Renaissance	Merced	No	5,500	1,660	\$328,157	\$199.75	166	36	17	0.40	5	0.38
Country Lane	Livingston	No	5,500	2,281	\$380,704	\$169.35	213	26	14	0.38	1	0.08
The Prairies at Bellevue Ranch	Merced	Bellevue Ranch	5,500	2,139	\$373,990	\$167.37	139	20	12	0.32	1	0.08
The Willows at Bellevue Ranch	Merced	Bellevue Ranch	5,775	2,693	\$438,657	\$164.38	100	53	41	0.76	14	1.08
Totals/Averages:			5,539	2,136	\$385,230	\$185.60	1,188	484	413	0.61	30	0.33

6,000 to 6,499 SF												
Vineyards	Los Banos	No	6,000	2,051	\$410,900	\$210.80	1,260	960	928	2.08	4	0.31
Northgate	Los Banos	No	6,000	1,517	\$359,150	\$219.33	544	352	352	1.49	31	2.38
El Capitan	Merced	No	6,000	1,795	\$358,943	\$203.09	229	170	146	1.04	-9	-0.69
Meadow Vista	Los Banos	No	6,000	2,498	\$464,657	\$191.07	242	140	139	1.10	3	0.23
Tatum Ranch	Dos Palos	No	6,000	1,839	\$326,567	\$179.75	129	45	45	0.45	0	0.00
Summercreek	Merced	No	6,000	1,994	\$412,561	\$210.45	133	133	113	1.27	2	0.15
Teal Landing	Los Banos	No	6,000	2,068	\$462,400	\$226.47	161	119	80	1.19	12	0.92
Stonecreek	Atwater	No	6,000	2,201	\$382,263	\$176.35	186	43	31	0.49	4	0.31
Alfarata Ranch	Merced	No	6,000	2,014	\$376,617	\$188.49	12	12	6	0.04	1	0.08

Project	Community	Master Plan	Lot Size/ Density	Average Square Footage	Average Base Price	Average Price/ Sq. Ft.	Units			Total Weekly Sales Rate	2006	Third
							Planned	Offered	Sold		Third Quarter Sales	Quarter Weekly Sales Rate
Borelli Ranch	Gustine	No	6,000	2,458	\$482,900	\$200.23	70	8	5	0.13	0	0.00
Mayors Collection	Dos Palos	No	6,000	2,303	\$403,186	\$177.50	71	13	6	1.20	6	0.46
Sundance II	Livingston	No	6,000	2,225	\$361,774	\$165.52	97	24	12	0.55	2	0.15
Landmark	Dos Palos	No	6,000	1,964	\$345,136	\$176.58	119	76	64	1.73	13	1.00
The Crossing at River Oaks	Merced	No	6,000	1,909	\$351,650	\$188.52	72	7	0	0.00	0	0.00
Parkside	Livingston	No	6,000	1,861	\$355,323	\$193.28	184	90	67	1.34	3	0.23
Claremont Reserve	Atwater	No	6,180	3,037	\$452,472	\$152.14	302	181	161	1.56	3	0.23
Winfield Station	Winton	No	6,200	1,637	\$317,500	\$200.29	74	39	31	0.62	0	0.00
Presidio Collection at Moraga	Merced	No	6,215	2,236	\$454,650	\$204.37	173	6	4	0.36	4	0.31
Quail Hollow	Winton	No	6,300	2,215	\$361,990	\$164.64	270	78	76	1.03	5	0.38
Las Casas	Atwater	No	6,300	2,608	\$438,740	\$171.44	130	92	78	1.16	1	0.08
Totals/Averages:			6,060	2,136	\$394,030	\$190.06	4,458	2,588	2,344	0.94	85	0.33
6,500 to 6,999 SF												
Mission Village	Los Banos	No	6,500	2,474	\$472,900	\$195.64	400	100	64	0.60	5	0.38
Redhawk at Bellevue Ranch	Merced	Bellevue Ranch	6,500	2,304	\$371,490	\$161.44	148	98	66	1.27	2	0.15
Mill House at Fahren's Creek	Merced	No	6,700	3,078	\$540,190	\$177.88	215	87	78	1.07	10	0.77
Totals/Averages:			6,567	2,654	\$467,578	\$178.28	763	285	208	0.98	17	0.44
7,000 to 7,499 SF												
Magnolia Grove	Los Banos	No	7,000	2,474	\$527,900	\$218.64	31	25	18	0.17	5	0.38
Orchard Terrace	Los Banos	No	7,000	2,474	\$487,900	\$201.29	78	78	32	0.64	-6	-0.46
Mercedes Collection at Moraga	Merced	No	7,345	2,903	\$458,750	\$160.07	141	4	1	0.09	1	0.08
Totals/Averages:			7,115	2,617	\$490,150	\$192.63	250	107	51	0.30	0	0.00
7,500 to 7,999 SF												
Gardenstone at Bellevue Ranch	Merced	Bellevue Ranch	7,865	2,813	\$472,400	\$168.42	111	61	52	0.96	10	0.77
Totals/Averages:			7,865	2,813	\$472,400	\$168.42	111	61	52	0.96	10	0.77
8,000 SF and Greater												
The Heirloom Collection	Atwater	No	43,560	3,097	\$738,250	\$239.20	114	39	27	0.39	4	0.31
Totals/Averages:			43,560	3,097	\$738,250	\$239.20	114	39	27	0.39	4	0.31

Community	Units Planned	Units Sold	Total Inventory	Average Weekly Sales Rate	Estimated Units Sold Per Quarter	Total Units Sold								
						04/06	01/07	02/07	03/07	04/07	01/08	02/08	3/08	4/08
Winfield Station	74	31	43	0.62	8	8	8	8	8	8	3	0	0	0
Total Units Sold:						563	526	480	447	408	348	277	211	197
Merced Total Units Sold:						292	270	229	208	201	161	107	84	76

**EXHIBIT II - 12
PROPOSED PROJECT SUMMARY
MERCED MARKET AREA**

**The Gregory Group
CA06.07003Merced**

Project Name	Master Plan	Developer	Total Units Planned	Total Units With Final Approval	Total Units With Tentative Approval	Total Units Submitted	Total Acres	Lot Size/Density/	Comments
City of Merced									
The Meadows	--	H/S Development	95	0	0	95	19.9		Pending tentative map approval.
Mansionette Palisades - Unit 1	--	--	136	0	0	136	9.3		On hold.
Lantana Estates (South)	--	--	159	0	159	0	32.2		Pending annexation.
Lantana Estates (North)	--	--	81	0	81	0	17.5		Pending annexation.
Liberty Park	--	--	84	0	0	84	18.0		--
Sage Creek	--	--	118	0	118	0	13.6		--
Amberly Court	--	--	164	0	164	0	16.0		--
Highland Park	--	--	134	0	134	0	17.3		Pending annexation.
--	--	Laferty Homes	188	0	188	0	19.6		Pending annexation.
Sierra Vista	--	--	224	0	0	224	41.0		--
Renaissance II	--	California Homes	158	0	0	158	26.0		--
The Crossing at River Oaks	--	--	277	0	0	277	66.8		--
Hartley Crossing	--	--	28	0	0	28	5.7		--
Tuscany East	--	--	47	0	0	47	8.6		--
Mission Ranch	--	--	138	0	138	0	19.6		Pending annexation.
University Village	--	--	103	0	103	0	17.6		--

Project Name	Master Plan	Developer	Total Units Planned	Total Units With Final Approval	Total Units With Tentative Approval	Total Units Submitted	Total Acres	Lot Size/ Density/	Comments
--	--	Jeff May	12	0	12	0	3.1		--
Pleasant Pointe Estates	--	--	14	0	14	0	3.4		--
Cypress Terrace East	--	--	101	0	101	0	19.7		Pending annexation.
Loughborough Residences	--	--	78	0	0	78	16.9		Pending tentative map approval.
Terrazzo	--	--	70	0	0	70	11.8		Pending tentative map approval.
Cypress Terrace - Phases 6 & 7	--	--	260	0	0	260	46.2		Pending tentative map approval.
Paulson Estates	--	--	10	0	0	10	2.5		Pending tentative map approval.
University Community Plan	University Community Plan	Lennar Communities	750	0	0	750	--	Attached 15.0 du/ac 20.0 du/ac	--
University Community Plan	University Community Plan	Lennar Communities	400	0	0	400	--	Detached 8.0 du/ac 10.0 du/ac	Cluster configuration.
University Community Plan	University Community Plan	Lennar Communities	675	0	0	675	--	4,200 40 X 105	--
University Community Plan	University Community Plan	Lennar Communities	675	0	0	675	--	4,725 45 X 105	--
University Community Plan	University Community Plan	Lennar Communities	1,025	0	0	1,025	--	5,250 50 X 105	--
University Community Plan	University Community Plan	Lennar Communities	1,025	0	0	1,025	--	5,775 55 X 105	--
University Community Plan	University Community Plan	Lennar Communities	1,025	0	0	1,025	--	6,300 60 X 105	--

Project Name	Master Plan	Developer	Total Units Planned	Total Units With Final Approval	Total Units With Tentative Approval	Total Units Submitted	Total Acres	Lot Size/ Density/	Comments
University Community Plan	University Community Plan	Lennar Communities	750	0	0	750	--	6,825 65 X 105	--
University Community Plan	University Community Plan	Lennar Communities	675	0	0	675	--	7,350 70 X 105	--
University Community Plan	University Community Plan	Lennar Communities	450	0	0	450	--	7,875 75 X 105	--
University Community Plan	University Community Plan	Lennar Communities	400	0	0	400	--	8,400 80 X 105	--
--	Castle Farms	Brookfield	975	0	0	975	--	Attached 15.0 du/ac 20.0 du/ac	For sale/for rent units.
--	Castle Farms	Brookfield	488	0	0	488	--	Detached 9.0 du/ac	Cluster configuration.
--	Castle Farms	Brookfield	975	0	0	975	--	4,200 40 X 105	--
--	Castle Farms	Brookfield	1,136	0	0	1,136	--	4,725 45 X 105	--
--	Castle Farms	Brookfield	1,463	0	0	1,463	--	5,250 50 X 105	--
--	Castle Farms	Brookfield	1,561	0	0	1,561	--	5,775 55 X 105	--
--	Castle Farms	Brookfield	1,463	0	0	1,463	--	6,300 60 X 105	--
--	Castle Farms	Brookfield	1,329	0	0	1,329	--	6,825 65 X 105	--

Project Name	Master Plan	Developer	Total Units Planned	Total Units With Final Approval	Total Units With Tentative Approval	Total Units Submitted	Total Acres	Lot Size/ Density/	Comments
--	Castle Farms	Brookfield	1,097	0	0	1,097	--	7,350 70 X 105	--
--	Castle Farms	Brookfield	1,097	0	0	1,097	--	7,875 75 X 105	--
--	Castle Farms	Brookfield	610	0	0	610	--	8,400 80 X 105	--
Village 11	Bellevue Ranch West	--	--	--	--	--	--	6,300 60 X 105	--
Village 12	Bellevue Ranch West	--	211	0	211	0	46.5	5,500 50 X 110	--
Village 13	Bellevue Ranch West	--	--	--	--	--	--	6,300 60 X 105	--
Village 17	Bellevue Ranch West	--	175	0	175	0	338.0	4,725 45 X 105	--
Village 18A	Bellevue Ranch West	--	23	0	23	0	7.2	4,725 45 X 105	--
Village 18B	Bellevue Ranch West	--	134	0	134	0	16.5	2,380 35 X 68	--
Village 19B	Bellevue Ranch West	--	49	0	49	0	6.5	2,380 35 X 68	--
--	Bellevue Ranch East	--	416	0	416	0	--	Attached 20.0 du/ac	--
--	Bellevue Ranch East	--	81	0	81	0	--	3,200 40 X 80	--
--	Bellevue Ranch East	--	126	0	126	0	--	4,725 45 X 105	--

Project Name	Master Plan	Developer	Total Units Planned	Total Units With Final Approval	Total Units With Tentative Approval	Total Units Submitted	Total Acres	Lot Size/ Density/	Comments
--	Bellevue Ranch East	--	82	0	82	0	--	5,250 50 X 105	--
--	Bellevue Ranch East	--	107	0	107	0	--	6,300 60 X 105	--
City of Atwater									
The Meridian - Phase III	--	Rolfe Construction	25	25	0	0	9.2	--	--
Stone Creek II	--	Dunmore Homes	29	29	0	0	13.3	--	--
Carmellia Meadows	--	Frisone Management	31	31	0	0	11.9	--	--
Legacy Estates	--	Atwal & Sahota	39	39	0	0	14.6	--	--
Juniper Meadows - Phase II	--	Sierra Del Pacifico Engineering	12	12	0	0	2.5	--	--
Meadowview Estates	--	Sunset Development	129	129	0	0	46.5	--	--
Vargas Estates	--	Nicholas Vargas	20	20	0	0	7.2	--	--
Meadowview Estates 2	--	Sunset Development	62	62	0	0	15.2	--	--
The Reserve	--	Craig Mooneyham	20	20	0	0	6.1	--	--
Atwater Ranch - A	Atwater Ranch	Florsheim Homes	95	0	0	95	15.5	Medium- Low Density	--
Atwater Ranch - B	Atwater Ranch	Florsheim Homes	138	0	0	138	13.3	Medium- Low Density	--
Atwater Ranch - C	Atwater Ranch	Florsheim Homes	115	0	0	115	20.1	Medium- Low Density	--
Atwater Ranch - D	Atwater Ranch	Florsheim Homes	123	0	0	123	28.5	Low Density	--
Atwater Ranch - E	Atwater Ranch	Florsheim Homes	117	0	0	117	21.2	Low Density	--

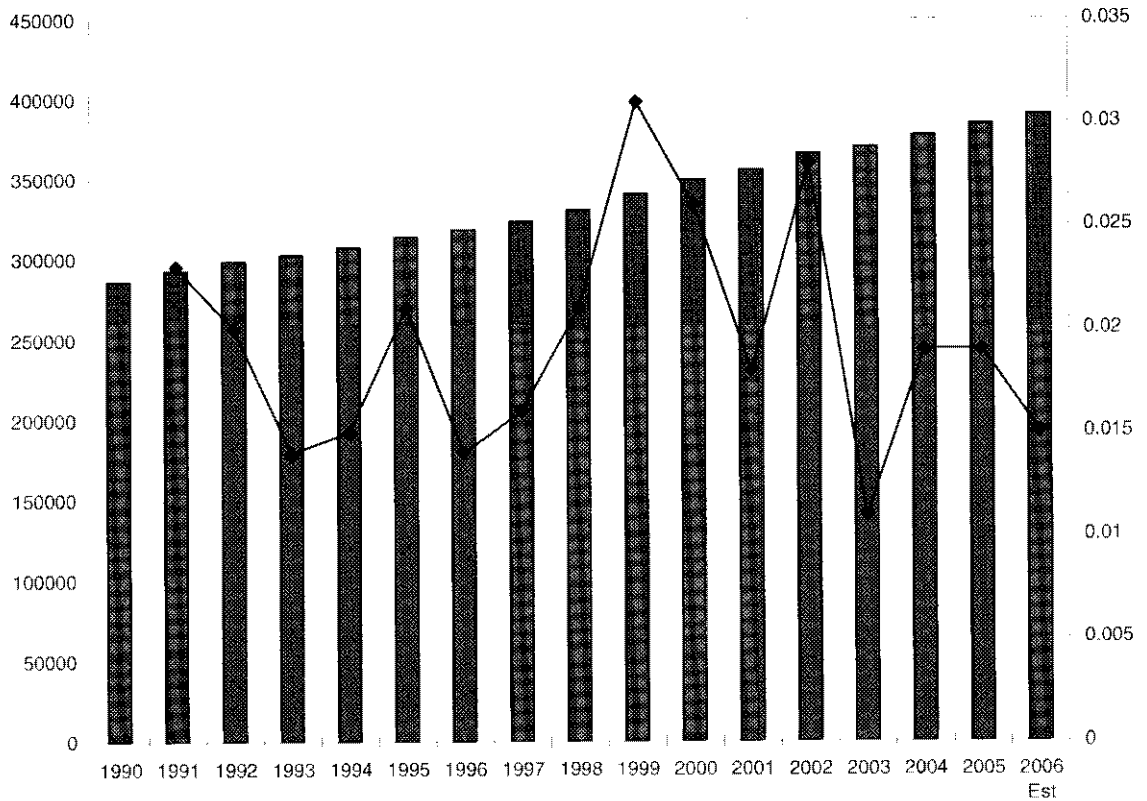
Project Name	Master Plan	Developer	Total Units Planned	Total Units With Final Approval	Total Units With Tentative Approval	Total Units Submitted	Total Acres	Lot Size/ Density/	Comments
Atwater Ranch - J1	Atwater Ranch	Florsheim Homes	30	0	0	30	25.6	Low Density	--
Atwater Ranch - J2	Atwater Ranch	Florsheim Homes	3	0	0	3	4.1	Low Density	--
Atwater Ranch	Atwater Ranch	Florsheim Homes	298	0	0	298	68.0	Low Density	--
Atwater Ranch - F	Atwater Ranch	Florsheim Homes	129	0	0	129	23.1	Medium-Low Density	--
Atwater Ranch - G	Atwater Ranch	Florsheim Homes	162	0	0	162	30.3	Low Density	--
Atwater Ranch - H	Atwater Ranch	Florsheim Homes	122	0	0	122	27.5	Low Density	--
Atwater Ranch - I	Atwater Ranch	Florsheim Homes	94	0	0	94	16.9	Low Density	--
Atwater Ranch - J2	Atwater Ranch	Florsheim Homes	44	0	0	44	35.0	Low Density	--
Atwater Ranch	Atwater Ranch	Florsheim Homes	114	0	0	114	26.0	Low Density	--
Total Units:			26,078	367	2,616	23,095			
Merced Units:			24,127	0	2,616	21,511			
Atwater Units:			1,951	367	0	1,584			

**EXHIBIT II - 13A
 EMPLOYMENT (Non-Farm)
 (Fresno MSA/Madera MSA/Merced MSA)
 MERCED COUNTY MARKET AREA**

**The Gregory Group
 CA06.07003Merced**

	March	June	September	December	YTD	Year	Change	% Change
Total Non-Farm								
1990	279,600	287,000	297,700	293,200	--	286,500	--	--
1991	292,300	294,000	299,000	292,100	--	293,100	6,600	2.3%
1992	291,800	299,500	309,000	300,200	--	299,000	5,900	2.0%
1993	297,100	303,400	312,200	306,700	--	303,100	4,100	1.4%
1994	302,000	311,100	316,000	311,300	--	307,700	4,600	1.5%
1995	307,200	316,600	324,900	317,900	--	314,200	6,500	2.1%
1996	312,200	322,600	326,700	318,600	--	318,500	4,300	1.4%
1997	316,800	325,600	332,300	325,600	--	323,700	5,200	1.6%
1998	321,400	332,900	341,400	337,900	--	330,600	6,900	2.1%
1999	331,100	345,900	350,100	347,000	--	340,800	10,200	3.1%
2000	345,000	352,200	355,600	354,700	--	349,800	9,000	2.6%
2001	351,600	358,900	359,500	359,700	--	356,000	6,200	1.8%
2002	359,300	369,000	372,700	370,400	--	366,000	10,000	2.8%
2003	365,600	375,900	376,000	372,600	--	370,200	4,200	1.1%
2004	370,600	379,200	384,500	380,700	--	377,300	7,100	1.9%
2005	379,300	388,400	389,300	389,100	389,300	384,400	7,100	1.9%
2006	388,400	390,500	390,200	--	390,200	--	--	--
<i>Percent Change</i>	<i>2.4%</i>	<i>0.5%</i>	<i>0.2%</i>	<i>--</i>	<i>0.2%</i>	<i>--</i>	<i>--</i>	<i>--</i>

TOTAL NON-FARM EMPLOYMENT AND PERCENT CHANGE



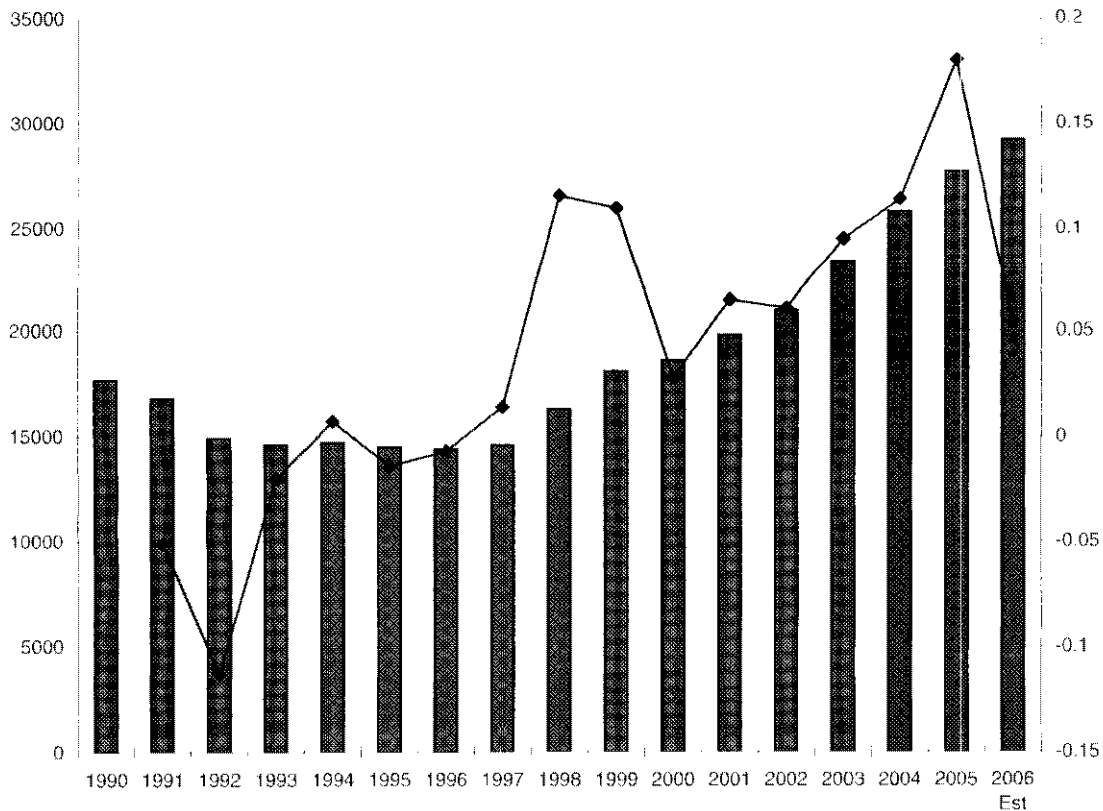
Source: California Department of Finance

**EXHIBIT II - 13B
EMPLOYMENT (Non-Farm)
(Fresno MSA/Madera MSA/Merced MSA)
MERCED MARKET AREA**

**The Gregory Group
CA06.07003Merced**

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD	Year	Change	% Change
Construction								
1990	16,800	18,200	18,600	17,800	--	17,700	--	--
1991	16,600	17,500	17,100	15,900	--	16,800	-900	-5.1%
1992	14,500	15,500	15,500	14,600	--	14,900	-1,900	-11.3%
1993	14,000	15,300	15,300	14,800	--	14,600	-300	-2.0%
1994	14,600	15,400	15,100	14,000	--	14,700	100	0.7%
1995	13,200	15,200	15,400	14,600	--	14,500	-200	-1.4%
1996	13,700	15,300	14,900	13,600	--	14,400	-100	-0.7%
1997	14,000	14,800	15,800	14,700	--	14,600	200	1.4%
1998	14,500	16,600	17,800	17,600	--	16,300	1,700	11.6%
1999	17,200	18,600	18,900	18,700	--	18,100	1,800	11.0%
2000	17,400	19,100	19,900	19,300	--	18,600	500	2.8%
2001	18,900	20,700	20,500	20,000	--	19,800	1,200	6.5%
2002	20,400	21,300	21,300	21,300	--	21,000	1,200	6.1%
2003	22,100	24,200	24,300	24,000	--	23,400	2,400	9.5%
2004	24,600	26,100	26,900	26,100	--	25,800	2,400	11.4%
2005	26,200	27,800	29,200	28,900	29,200	27,700	1,900	18.0%
2006	28,700	28,800	29,200	--	29,200	--	--	--
<i>Percent Change</i>	<i>9.5%</i>	<i>3.6%</i>	<i>0.0%</i>	<i>--</i>	<i>0.0%</i>	<i>--</i>	<i>--</i>	<i>--</i>

CONSTRUCTION EMPLOYMENT AND PERCENT CHANGE



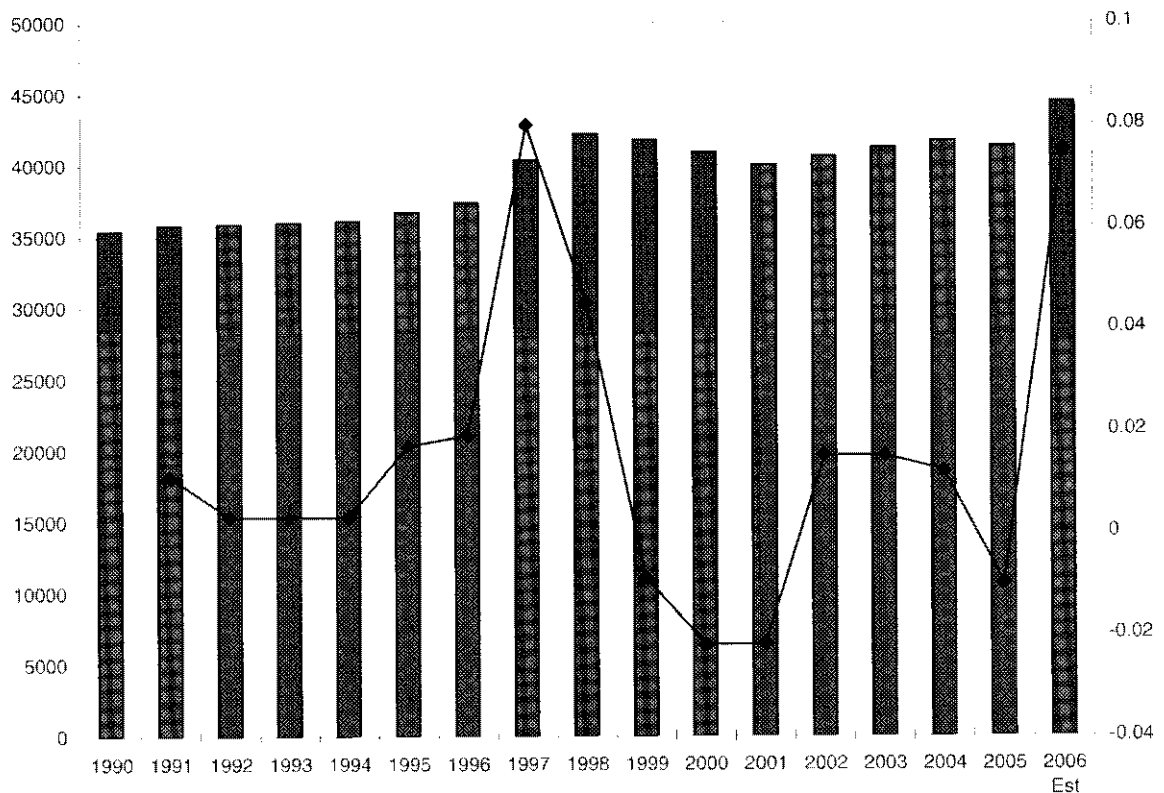
Source: California Department of Finance

**EXHIBIT II - 13C
 EMPLOYMENT (Non-Farm)
 (Fresno MSA/Madera MSA/Merced MSA)
 MERCED MARKET AREA**

**The Gregory Group
 CA06.07003Merced**

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD	Year	Change	% Change
Manufacturing								
1990	33,500	34,500	39,200	34,900	--	35,400	--	--
1991	33,800	34,400	40,100	34,600	--	35,800	400	1.1%
1992	34,100	35,800	39,800	34,300	--	35,900	100	0.3%
1993	33,200	36,100	40,100	35,200	--	36,000	100	0.3%
1994	33,900	36,000	40,100	36,000	--	36,100	100	0.3%
1995	34,400	35,400	41,300	36,400	--	36,700	600	1.7%
1996	34,300	37,100	41,900	37,300	--	37,400	700	1.9%
1997	36,600	40,100	44,900	40,200	--	40,400	3,000	8.0%
1998	38,700	42,300	46,500	42,900	--	42,200	1,800	4.5%
1999	39,000	41,600	45,900	41,000	--	41,800	-400	-0.9%
2000	39,200	40,200	43,200	39,800	--	40,900	-900	-2.2%
2001	38,800	38,900	43,100	38,400	--	40,000	-900	-2.2%
2002	37,800	40,400	46,300	39,800	--	40,600	600	1.5%
2003	38,600	41,800	46,800	40,000	--	41,200	600	1.5%
2004	38,400	41,200	46,900	40,600	--	41,700	500	1.2%
2005	39,100	41,500	44,400	40,300	44,400	41,300	-400	-1.0%
2006	39,200	41,000	44,400	--	44,400	--	--	--
<i>Percent Change</i>	<i>0.3%</i>	<i>-1.2%</i>	<i>0.0%</i>	<i>--</i>	<i>0.0%</i>	<i>--</i>	<i>--</i>	<i>--</i>

MANUFACTURING EMPLOYMENT AND PERCENT CHANGE



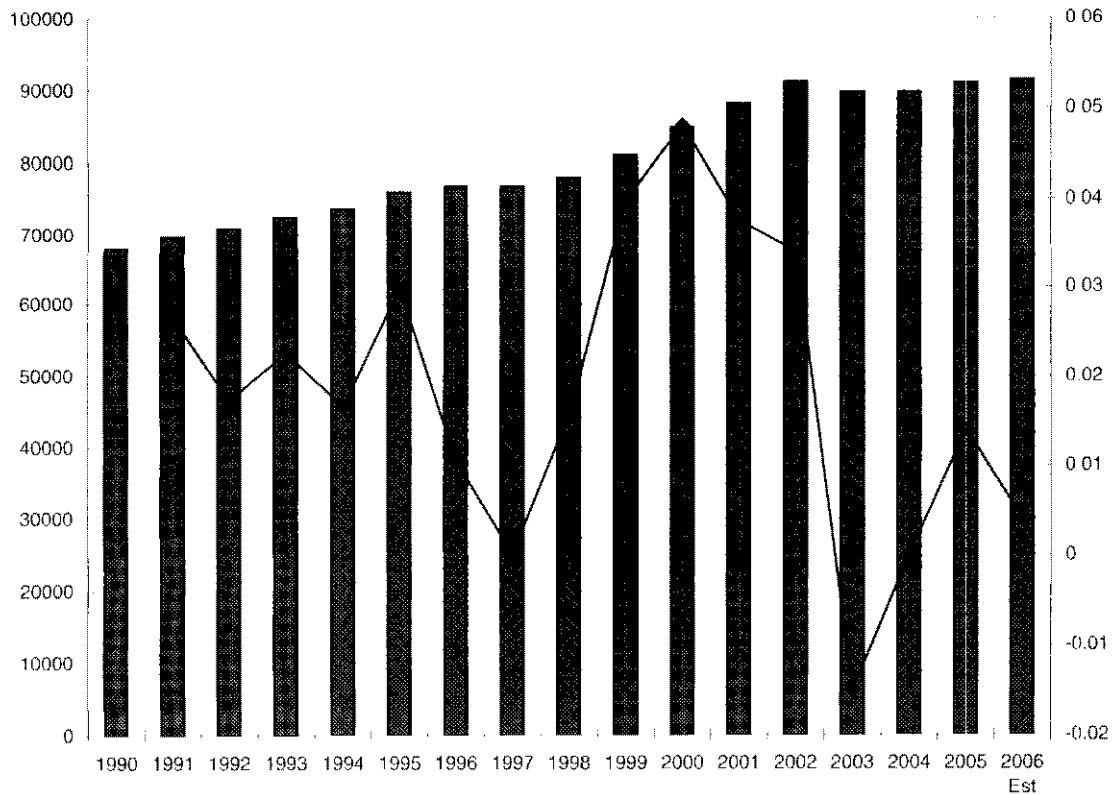
Source: California Department of Finance

**EXHIBIT II - 13D
EMPLOYMENT (Non-Farm)
(Fresno MSA/Madera MSA/Merced MSA)
MERCED MARKET AREA**

**The Gregory Group
CA06.07003Merced**

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD	Year	Change	% Change
Government								
1990	68,800	69,000	68,700	70,200	--	67,900	--	--
1991	72,400	71,400	69,500	70,200	--	69,700	1,800	2.7%
1992	72,000	70,500	71,200	72,300	--	70,900	1,200	1.7%
1993	74,100	71,700	72,100	74,200	--	72,500	1,600	2.3%
1994	75,200	75,700	72,700	73,900	--	73,700	1,200	1.7%
1995	77,100	77,600	74,900	76,800	--	75,900	2,200	3.0%
1996	78,300	78,200	76,400	76,700	--	76,700	800	1.1%
1997	77,800	77,800	75,400	77,400	--	76,700	0	0.0%
1998	78,300	79,400	76,800	80,200	--	77,900	1,200	1.6%
1999	81,800	82,000	79,700	83,300	--	81,000	3,100	4.0%
2000	86,000	85,400	83,700	86,900	--	84,900	3,900	4.3%
2001	89,100	89,900	86,100	89,800	--	88,100	3,200	3.3%
2002	92,200	92,900	88,800	92,000	--	91,100	3,000	3.4%
2003	91,500	92,400	86,800	89,200	--	89,700	-1,400	-1.5%
2004	91,300	90,700	88,100	90,500	--	89,700	0	0.0%
2005	93,300	92,700	89,400	92,100	89,400	91,000	1,300	1.4%
2006	95,900	95,600	91,400	--	91,400	--	--	--
<i>Percent Change</i>	2.8%	3.1%	2.2%	--	2.2%	--	--	--

GOVERNMENT EMPLOYMENT AND PERCENT CHANGE



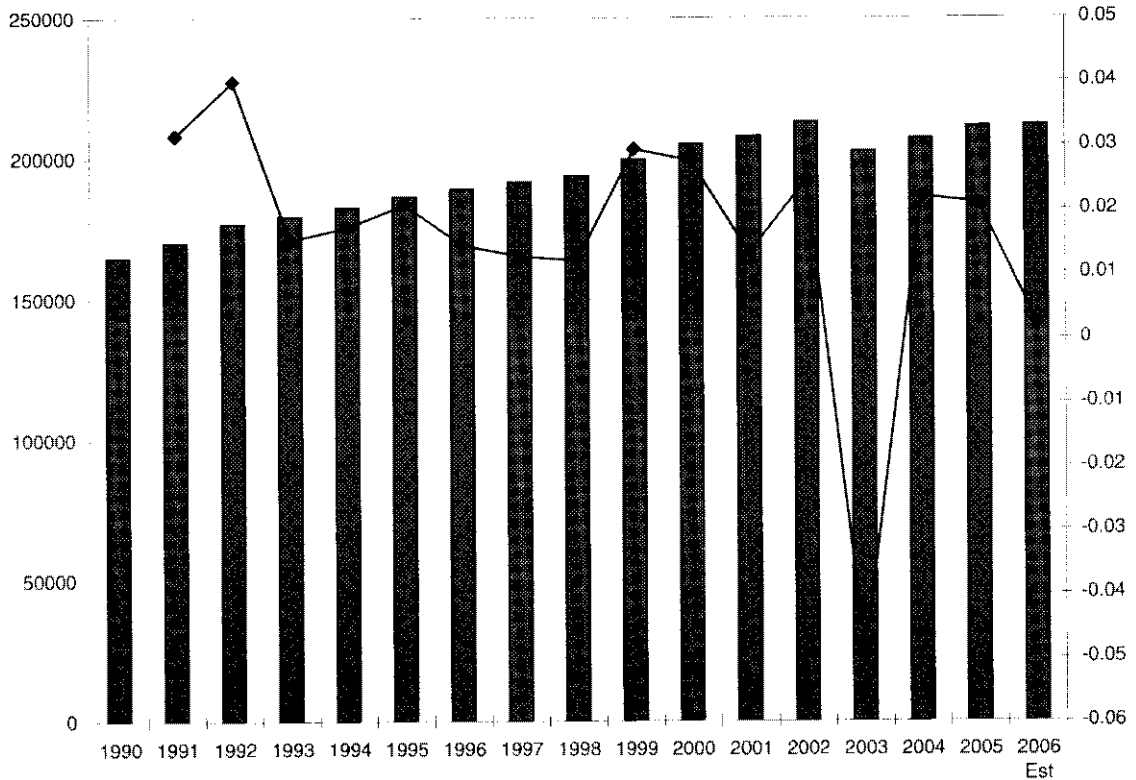
Source: California Department of Finance

**EXHIBIT II - 13E
EMPLOYMENT (Non-Farm)
(Fresno MSA/Madera MSA/Merced MSA)
MERCED MARKET AREA**

**The Gregory Group
CA06.07003Merced**

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD	Year	Change	% Change
Services								
1990	159,700	164,300	170,200	169,400	--	164,800	--	--
1991	168,700	169,800	171,400	170,600	--	170,000	5,200	3.2%
1992	170,500	176,900	181,700	178,300	--	176,800	6,800	4.0%
1993	175,200	179,600	184,000	181,900	--	179,500	2,700	1.5%
1994	177,700	183,400	187,500	186,800	--	182,600	3,100	1.7%
1995	181,900	187,700	192,600	189,400	--	186,400	3,800	2.1%
1996	185,300	191,400	192,900	190,500	--	189,100	2,700	1.4%
1997	187,800	192,300	195,500	192,800	--	191,500	2,400	1.3%
1998	189,400	194,200	199,900	196,800	--	193,800	2,300	1.2%
1999	192,800	203,300	205,100	203,500	--	199,500	5,700	2.9%
2000	202,000	207,000	208,300	208,300	--	205,000	5,500	2.8%
2001	204,400	208,900	209,300	211,100	--	207,700	2,700	1.3%
2002	208,600	214,000	215,900	217,000	--	212,800	5,100	2.5%
2003	199,200	203,700	204,500	206,000	--	202,300	-10,500	-4.9%
2004	202,900	207,600	209,000	210,400	--	206,800	4,500	2.2%
2005	207,400	212,600	213,000	214,300	213,000	211,200	4,400	2.1%
2006	211,200	211,600	211,700	--	211,700	--	--	--
<i>Percent Change</i>	1.8%	-0.5%	-0.6%	--	-0.6%	--	--	--

SERVICES EMPLOYMENT AND PERCENT CHANGE



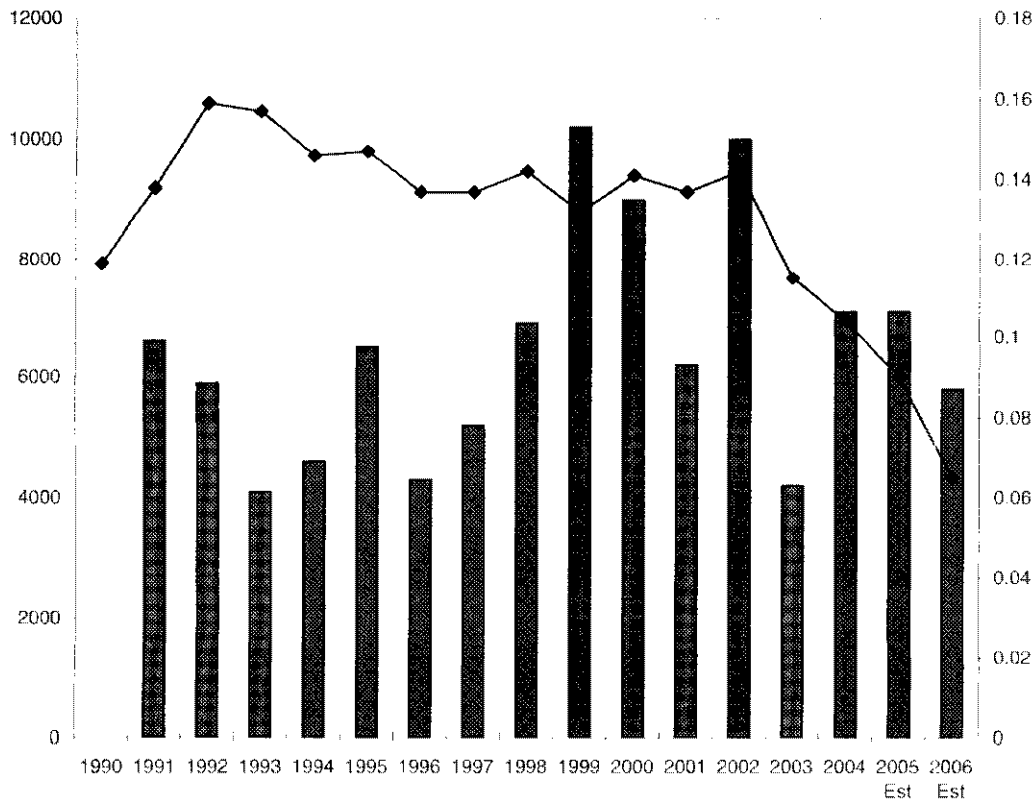
Source: California Department of Finance

**EXHIBIT II - 13F
 EMPLOYMENT (Non-Farm)
 (Fresno MSA/Madera MSA/Merced MSA)
 MERCED MARKET AREA**

**The Gregory Group
 CA06.07003Merced**

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD	Year	Job Growth	% Change
Unemployment Rate								
1990	14.5%	10.7%	8.8%	13.7%	--	11.9%	--	--
1991	17.4%	13.1%	9.3%	14.7%	--	13.8%	6,600	2%
1992	18.4%	15.0%	13.5%	17.2%	--	15.9%	5,900	2.0%
1993	18.7%	15.4%	12.3%	15.4%	--	15.7%	4,100	1.4%
1994	17.6%	13.8%	11.4%	14.4%	--	14.6%	4,600	1.5%
1995	17.5%	14.4%	10.9%	15.1%	--	14.7%	6,500	2.1%
1996	17.1%	12.8%	10.3%	14.3%	--	13.7%	4,300	1.4%
1997	16.4%	12.9%	10.2%	15.0%	--	13.7%	5,200	1.6%
1998	17.4%	13.9%	10.5%	14.1%	--	14.2%	6,900	2.1%
1999	16.7%	13.1%	9.0%	13.3%	--	13.2%	10,200	3.1%
2000	17.1%	14.5%	10.7%	14.0%	--	14.1%	9,000	2.6%
2001	16.9%	13.3%	10.4%	14.3%	--	13.7%	6,200	1.8%
2002	16.7%	13.6%	10.9%	15.2%	--	14.2%	10,000	2.8%
2003	13.9%	11.2%	8.9%	11.3%	--	11.5%	4,200	1.1%
2004	13.0%	10.1%	8.1%	10.2%	--	10.4%	7,100	1.9%
2005	10.9%	8.5%	7.2%	8.4%	--	9.0%	7,100	1.9%
2006	9.6%	8.8%	6.5%		--	--	--	--

UNEMPLOYMENT RATE AND JOB GROWTH



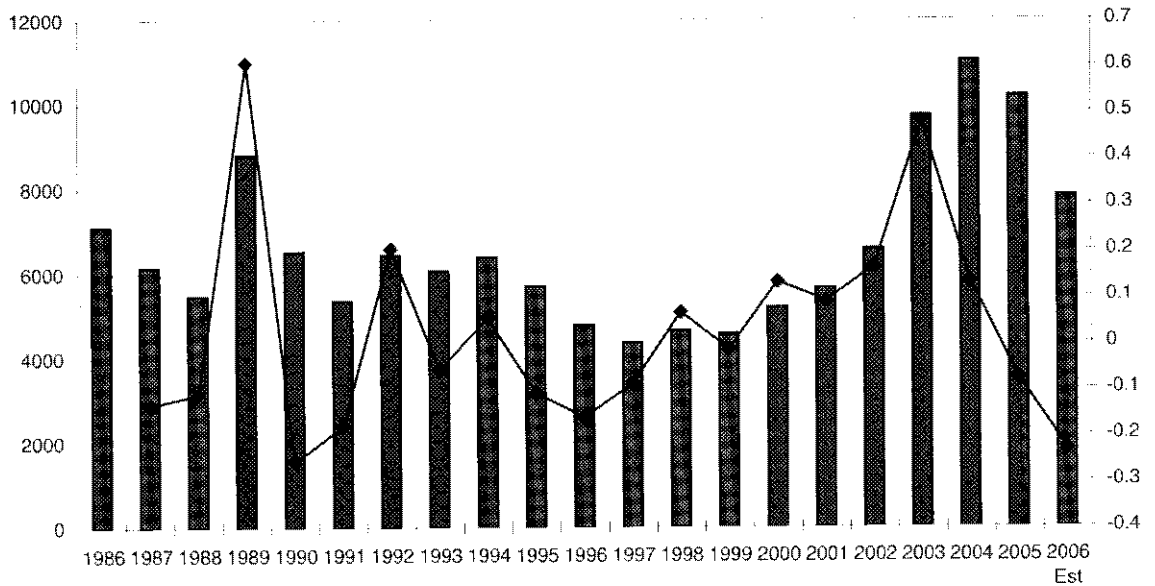
Source: California Department of Finance

**EXHIBIT II - 14A
BUILDING PERMITS
(Fresno MSA/Madera MSA/Merced MSA)
MERCED MARKET AREA**

**The Gregory Group
CA06.07003Merced**

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD	Year	% Change
Total Permits							
1986	--	--	--	--	--	7,105	--
1987	--	--	--	--	--	6,152	-13.4%
1988	--	--	--	--	--	5,475	-11.0%
1989	--	--	--	--	--	8,796	60.7%
1990	--	--	--	--	--	6,531	-25.8%
1991	--	--	--	--	--	5,355	-18.0%
1992	--	--	--	--	--	6,447	20.4%
1993	--	--	--	--	--	6,073	-5.8%
1994	--	--	--	--	--	6,395	5.3%
1995	1,304	1,584	1,469	1,331	--	5,698	-10.9%
1996	1,186	1,358	1,189	852	--	4,785	-16.0%
1997	1,008	1,112	1,052	1,114	--	4,362	-8.8%
1998	1,009	1,282	1,108	1,266	--	4,646	6.5%
1999	999	1,158	1,060	1,122	--	4,579	-1.4%
2000	933	1,354	1,561	1,214	--	5,184	13.2%
2001	1,088	1,632	1,266	1,607	--	5,649	9.0%
2002	1,141	1,474	1,810	1,994	--	6,571	16.3%
2003	2,062	2,216	2,387	3,015	--	9,722	48.0%
2004	2,591	2,969	2,811	2,644	--	11,015	13.3%
2005	1,879	2,806	2,914	2,573	7,599	10,172	-7.7%
2006	2,123	2,319	1,425	--	5,867	--	--
<i>Percent Change</i>	13.0%	-17.4%	-51.1%	--	-22.8%	--	--

TOTAL BUILDING PERMITS AND PERCENT CHANGE



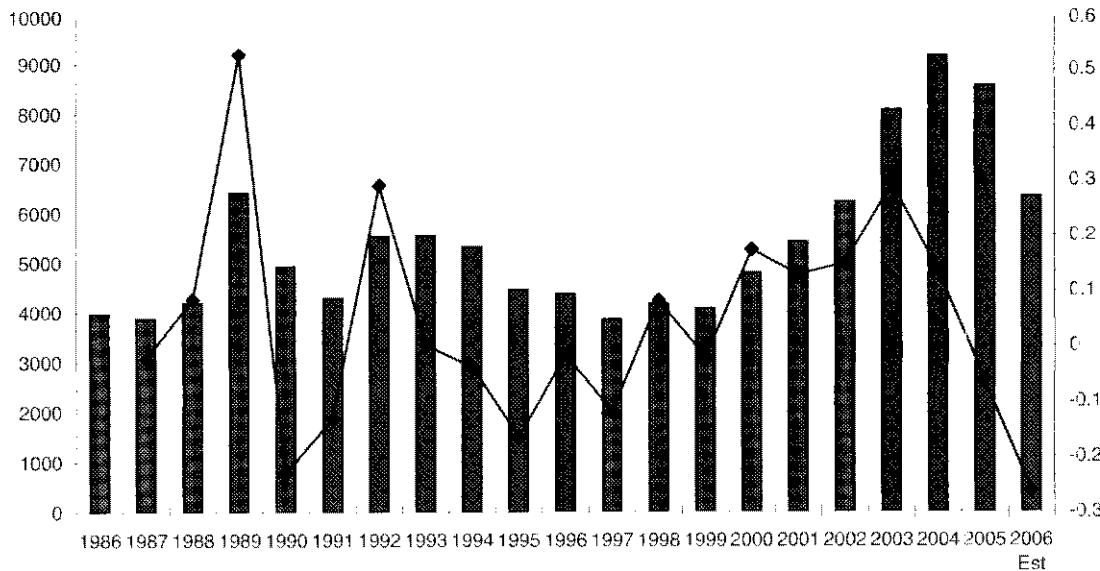
Source: California Department of Finance

**EXHIBIT II - 14B
BUILDING PERMITS
(Fresno MSA/Madera MSA/Merced MSA)
MERCED MARKET AREA**

**The Gregory Group
CA06.07003Merced**

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD	Year	% Change
Single-Family Permits							
1986	--	--	--	--	--	3,970	--
1987	--	--	--	--	--	3,875	-2.4%
1988	--	--	--	--	--	4,200	8.4%
1989	--	--	--	--	--	6,417	52.8%
1990	--	--	--	--	--	4,933	-23.1%
1991	--	--	--	--	--	4,289	-13.1%
1992	--	--	--	--	--	5,535	29.1%
1993	--	--	--	--	--	5,542	0.1%
1994	--	--	--	--	--	5,330	-3.8%
1995	943	1,271	1,134	1,087	--	4,453	-16.5%
1996	1,103	1,336	1,010	773	--	4,382	-1.6%
1997	993	975	1,000	890	--	3,865	-11.8%
1998	851	1,242	1,102	1,003	--	4,183	8.2%
1999	925	1,146	976	992	--	4,089	-2.2%
2000	849	1,287	1,418	1,126	--	4,802	17.4%
2001	980	1,537	1,241	1,593	--	5,421	12.9%
2002	1,105	1,387	1,758	1,832	--	6,238	15.1%
2003	1,743	2,095	2,151	2,104	--	8,074	29.4%
2004	2,057	2,629	2,329	2,150	--	9,165	13.5%
2005	1,541	2,336	2,530	2,179	6,407	8,586	-6.3%
2006	1,714	1,945	1,106	--	4,765	--	--
<i>Percent Change</i>	<i>11.2%</i>	<i>-16.7%</i>	<i>-56.3%</i>	<i>--</i>	<i>-25.6%</i>	<i>--</i>	<i>--</i>

SINGLE-FAMILY BUILDING PERMITS AND PERCENT CHANGE



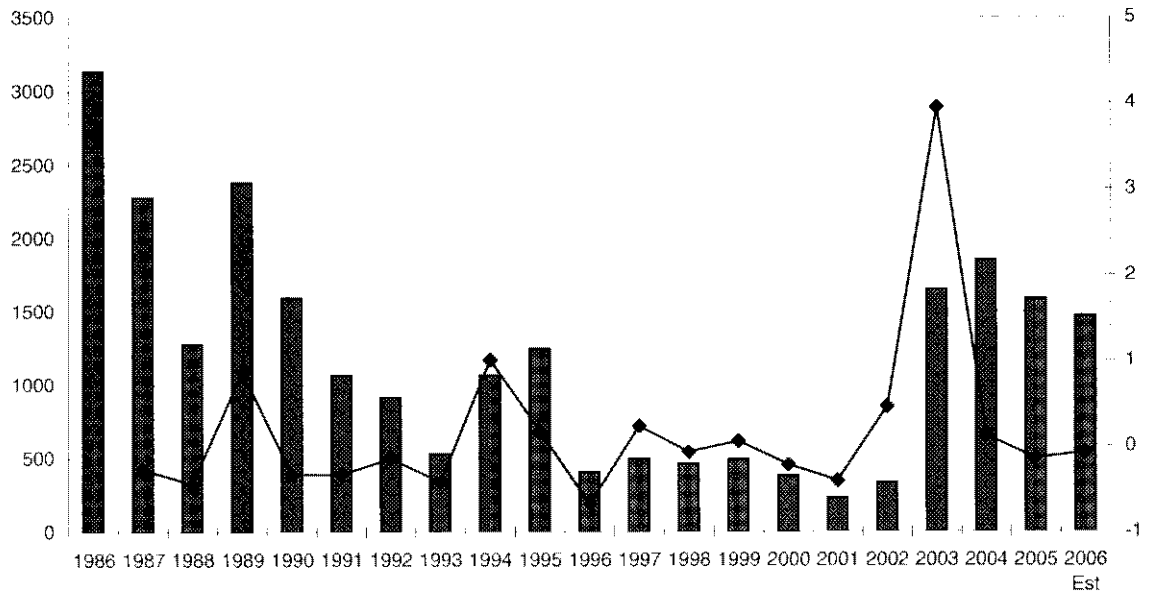
Source: California Department of Finance

**EXHIBIT II - 14C
BUILDING PERMITS
(Fresno MSA/Madera MSA/Merced MSA)
MERCED MARKET AREA**

**The Gregory Group
CA06.07003Merced**

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD	Year	% Change
Multi-Family Permits							
1986	--	--	--	--	--	3,135	--
1987	--	--	--	--	--	2,277	-27.4%
1988	--	--	--	--	--	1,275	-44.0%
1989	--	--	--	--	--	2,379	86.6%
1990	--	--	--	--	--	1,598	-32.8%
1991	--	--	--	--	--	1,066	-33.3%
1992	--	--	--	--	--	912	-14.4%
1993	--	--	--	--	--	531	-41.8%
1994	--	--	--	--	--	1,065	100.6%
1995	361	313	335	244	--	1,245	16.9%
1996	83	22	179	79	--	403	-67.6%
1997	15	137	52	224	--	497	23.3%
1998	158	40	6	263	--	463	-6.8%
1999	74	12	84	130	--	490	5.8%
2000	84	67	143	88	--	382	-22.0%
2001	108	95	25	14	--	228	-40.3%
2002	36	87	52	162	--	333	46.1%
2003	319	121	236	911	--	1,648	394.9%
2004	534	340	482	494	--	1,850	12.3%
2005	338	470	384	394	1,192	1,586	-14.3%
2006	409	374	319	--	1,102	--	--
<i>Percent Change</i>	<i>21.0%</i>	<i>-20.4%</i>	<i>-16.9%</i>	<i>--</i>	<i>-7.6%</i>	<i>--</i>	<i>--</i>

MULTI-FAMILY BUILDING PERMITS AND PERCENT CHANGE



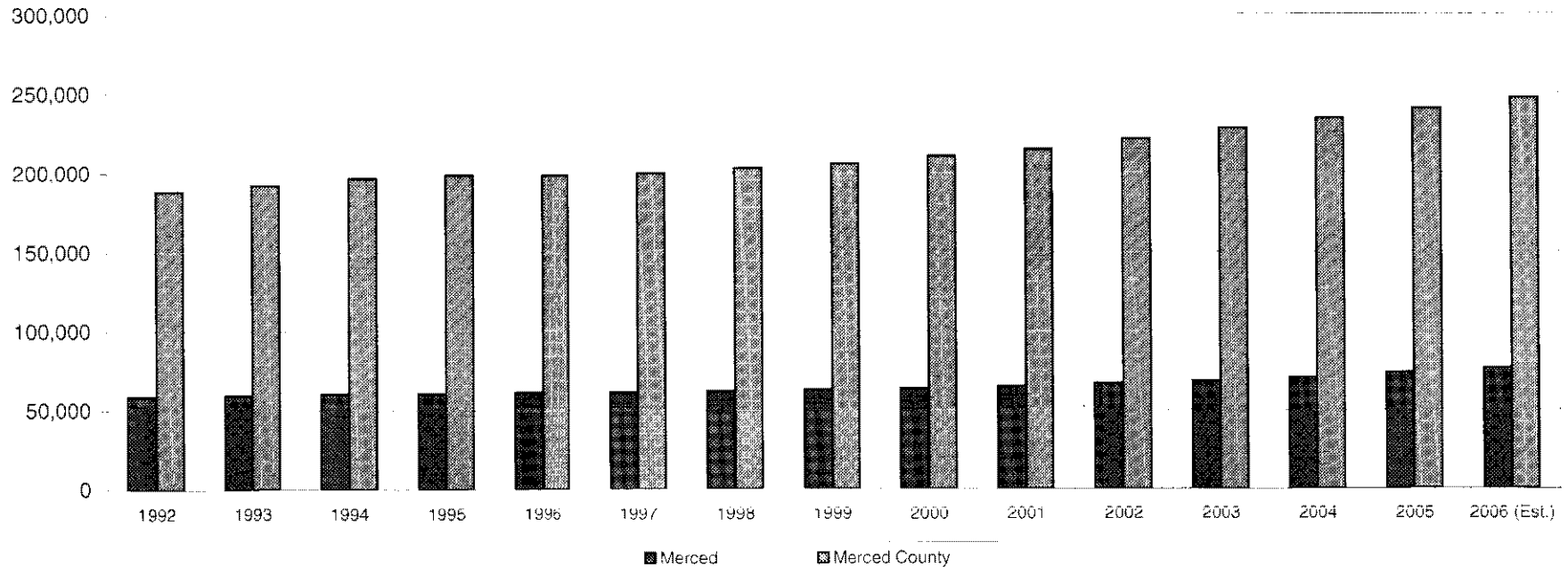
Source: California Department of Finance

**EXHIBIT II - 15
POPULATION SUMMARY
MERCED MARKET AREA**

The Gregory Group
CA06.07003Merced

Market Area	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 (Est.)
Merced															
Population	58,700	59,600	60,400	60,700	61,300	61,500	62,100	63,000	63,500	64,709	66,780	68,395	70,415	73,610	76,113
Change	--	900	800	300	600	200	600	900	500	1,209	2,071	1,615	2,020	3,195	2,502
Percent Change	--	1.5%	1.3%	0.5%	1.0%	0.3%	1.0%	1.5%	0.8%	1.9%	3.2%	2.4%	3.0%	4.5%	3.4%
Merced County															
Population	188,300	192,500	196,600	198,700	198,600	200,100	203,200	205,900	210,554	214,652	221,274	227,752	234,169	240,162	246,842
Change	--	4,200	4,100	2,100	-100	1,500	3,100	2,700	4,650	4,098	6,622	6,478	6,417	5,993	6,680
Percent Change	--	2.2%	2.1%	1.1%	-0.1%	0.8%	1.6%	1.3%	2.3%	2.0%	3.1%	3.0%	2.8%	3.0%	2.8%

MERCED MARKET AREA TOTAL POPULATION



Source: California Department of Finance

EXHIBIT II - 16A
DETACHED HOME RESALE MARKET SUMMARY
 (Zip Codes: 95340, 95341, 95343, 95344 & 95348)
MERCED MARKET AREA

The Gregory Group
 CA06.07003Merced

Sale Date	Street Address	Street Name	Home Size	Sale Price	Price Per			Lot Size	Year Built
					Square Foot	Bed	Bath		
6/27/2006	2292	N Meadowbrook Ave	999	\$150,000	\$150.15	--	--	10,098	1954
4/18/2006	2087	W Lobo Ave	1,287	\$184,000	\$142.97	--	--	--	2004
6/2/2006	464	Carmel Rd	1,575	\$185,000	\$117.46	3	3	7,245	1959
5/11/2006	1931	Warren Ct	2,660	\$188,000	\$70.68	3	2	8,200	1973
6/2/2006	3047	Colony Park Dr	1,146	\$194,000	\$169.28	--	--	--	1987
5/30/2006	1419	O St	672	\$200,000	\$297.62	2	1	1,500	1947
4/19/2006	615	Barney St	1,087	\$202,000	\$185.83	2	1	7,000	1953
4/11/2006	2228	P St	1,022	\$205,000	\$200.59	2	1	5,000	1925
4/19/2006	2073	W Lobo Ave	1,380	\$208,000	\$150.72	--	--	--	2004
4/19/2006	2065	W Lobo Ave	1,515	\$210,000	\$138.61	--	--	--	2004
5/24/2006	728	W 25th St	760	\$212,000	\$278.95	2	1	7,500	1947
5/16/2006	1640	Juneau Ct	980	\$222,000	\$226.53	--	--	7,650	1972
4/18/2006	2059	W Lobo Ave	--	\$225,000	--	--	--	--	--
4/17/2006	972	E Olive Ave	1,047	\$228,000	\$217.77	--	--	--	1985
5/3/2006	1740	D St	1,272	\$230,000	\$180.82	2	2	6,000	1948
5/10/2006	2408	Meadowbrook Ave	1,495	\$231,000	\$154.52	--	--	--	1974
4/4/2006	1844	Merced Ave	1,004	\$232,000	\$231.08	2	2	--	1988
6/1/2006	1168	S State Highway 59	560	\$235,000	\$419.64	--	--	47,916	1946
4/25/2006	2346	T St	936	\$235,000	\$251.07	2	1	6,500	1955
5/9/2006	156	W 26th St	925	\$238,000	\$257.30	2	1	7,500	1920
6/13/2006	11	Skylark Ct	1,095	\$239,000	\$218.26	--	--	--	1989
4/6/2006	1341	Tide Dr	2,314	\$239,000	\$103.28	--	--	--	2005
4/11/2006	344	W 23rd St	1,058	\$240,000	\$226.84	3	2	7,500	1900
6/13/2006	613	Moomjean Ave	848	\$240,000	\$283.02	3	1	7,250	1951
5/2/2006	2894	N Elm Ave	1,328	\$241,000	\$181.48	--	--	9,500	1960
6/28/2006	1048	W 22nd St	1,191	\$245,000	\$205.71	2	1	7,500	1939
6/13/2006	2360	Fir Ave	896	\$245,000	\$273.44	--	--	--	1950
5/18/2006	1015	E 22nd St	1,296	\$245,000	\$189.04	3	2	9,300	1951
5/30/2006	1425	Loughborough Dr	1,332	\$245,000	\$183.93	--	--	6,000	1977
4/27/2006	50	Skylark Ct	999	\$245,000	\$245.25	--	--	--	1989
4/21/2006	1655	Laurel Ave	957	\$247,000	\$258.10	2	1	6,000	1941
5/9/2006	3021	Oleander Ave	1,005	\$249,000	\$247.76	2	1	8,100	1949
5/19/2006	920	W 23rd St	1,112	\$250,000	\$224.82	3	2	7,500	1940
5/24/2006	1761	Almond Ave	884	\$250,000	\$282.81	2	1	6,000	1941
5/31/2006	1010	R St	1,492	\$250,000	\$167.56	3	1	7,500	1950
5/31/2006	1538	W 12th St	1,044	\$250,000	\$239.46	3	1	9,000	1957
4/21/2006	3125	N Parsons Ave	1,569	\$258,000	\$164.44	4	2	6,700	1968
5/3/2006	1120	E 21st St	1,284	\$260,000	\$202.49	2	1	10,400	1948
5/12/2006	2903	N Gurr Rd	1,143	\$260,000	\$227.47	--	--	--	1950
4/24/2006	877	Carol Ave	1,342	\$265,000	\$197.47	3	2	8,100	1961
6/7/2006	526	Mustang Ct	1,487	\$265,000	\$178.21	--	--	--	1991
4/7/2006	2309	Circle Dr	1,104	\$280,000	\$253.62	2	1	6,630	1940
6/2/2006	424	Occidental Ct	1,120	\$285,000	\$254.46	--	--	6,000	1993
5/16/2006	429	Gail Ct	1,358	\$289,000	\$212.81	--	--	6,944	1969
6/13/2006	1784	N Coffee St	1,164	\$290,000	\$249.14	2	1	12,638	1940
4/20/2006	3113	Poplar Dr	1,165	\$290,000	\$248.93	--	--	8,775	1982

Sale Date	Street Address	Street Name	Home Size	Sale Price	Price Per			Lot Size	Year Built
					Square Foot	Bed	Bath		
5/15/2006	413	Vargus Ct	1,187	\$290,000	\$244.31	3	2	--	2004
5/10/2006	470	Vargus Ct	1,187	\$290,000	\$244.31	3	2	--	2004
5/18/2006	3405	Vernal Ave	1,178	\$291,500	\$247.45	3	2	7,500	1978
6/14/2006	2595	W Fir Ave	1,460	\$292,500	\$200.34	--	--	6,161	1994
4/3/2006	3332	El Dorado Ct	1,412	\$293,000	\$207.51	3	2	6,000	1974
4/27/2006	2643	Vega Ct	1,187	\$295,000	\$248.53	--	--	4,500	1994
4/3/2006	578	Monique Ct	1,080	\$295,000	\$273.15	--	--	--	2005
6/5/2006	2417	Elderberry Dr	1,197	\$298,000	\$248.96	--	--	7,100	1993
4/24/2006	379	E 18th St	1,127	\$298,500	\$264.86	2	1	9,000	1946
6/12/2006	1545	W 23rd St	1,154	\$300,000	\$259.97	3	1	8,400	1954
4/10/2006	505	E Vassar Ave	1,134	\$300,000	\$264.55	--	--	--	1995
4/28/2006	3389	M St	1,589	\$307,000	\$193.20	--	--	7,000	1967
5/10/2006	2234	E Childs Ave	1,320	\$308,000	\$233.33	--	--	--	2002
4/7/2006	2636	Mira Ct	1,252	\$310,000	\$247.60	--	--	--	2004
4/13/2006	107	San Clemente Dr	1,313	\$315,000	\$239.91	--	--	--	2002
5/16/2006	3740	Morning Glory Ave	1,258	\$315,000	\$250.40	--	--	--	2004
4/26/2006	682	John Ct	1,250	\$315,000	\$252.00	3	2	--	2005
5/1/2006	1262	Vivaz Ct	1,132	\$317,500	\$280.48	--	--	--	1994
4/17/2006	24	E Sonoma St	1,313	\$320,000	\$243.72	--	--	--	2004
5/8/2006	1850	Cheyenne Dr	1,335	\$322,500	\$241.57	--	--	6,400	1976
4/5/2006	351	W 5th St	1,304	\$325,000	\$249.23	3	1	7,500	1945
4/14/2006	1222	Villa Dr	1,194	\$325,000	\$272.19	4	2	6,400	1974
5/16/2006	2596	Pauline Ct	1,361	\$325,000	\$238.80	--	--	--	1994
5/8/2006	2740	Saratoga Ave	1,560	\$330,000	\$211.54	3	2	6,100	1978
4/5/2006	1028	E Century Dr	1,405	\$334,000	\$237.72	3	2	--	2002
4/19/2006	2755	Branco Ave	1,717	\$335,000	\$195.11	3	2	6,000	1976
4/17/2006	420	E South Bear Creek Dr	1,519	\$339,000	\$223.17	2	1	5,490	1947
4/3/2006	3025	Marie Ct	1,570	\$340,000	\$216.56	3	2	7,680	1975
4/28/2006	23	Sunset Ct	1,615	\$340,000	\$210.53	4	2	9,000	1976
5/9/2006	2643	Antares Ct	1,252	\$340,000	\$271.57	--	--	--	2005
5/1/2006	3324	Columbia Ave	1,615	\$341,000	\$211.15	4	2	7,875	1978
5/19/2006	61	E 21st St	1,980	\$344,000	\$173.74	3	2	9,750	1940
5/24/2006	3625	Dove Ct	1,338	\$345,000	\$257.85	--	--	--	1990
5/23/2006	1890	Rogina Ct	1,936	\$345,000	\$178.20	4	3	7,500	1993
6/7/2006	435	Joleen Ct	1,833	\$345,000	\$188.22	4	2	--	2004
5/3/2006	162	Antonio De Padua Ct	1,313	\$345,000	\$262.76	--	--	--	2004
4/10/2006	2451	N Myrtle Ave	1,891	\$350,000	\$185.09	2	2	--	1991
4/6/2006	474	Las Brisas Ct	1,313	\$350,000	\$266.57	--	--	--	2000
6/27/2006	321	Edan Ct	1,511	\$350,000	\$231.63	--	--	--	2002
4/25/2006	486	Vargus Ct	1,617	\$352,000	\$217.69	4	2	--	2004
6/15/2006	3424	Sueno Ct	1,350	\$355,000	\$262.96	--	--	--	1991
4/5/2006	1844	Springfield Ct	1,281	\$355,000	\$277.13	--	--	--	1993
4/21/2006	1838	Demoss Ct	1,400	\$359,000	\$256.43	3	2	--	2002
4/18/2006	1170	W Donna Dr	1,429	\$365,000	\$255.42	--	--	--	1997
4/13/2006	1972	Woodhaven Ct	1,917	\$367,000	\$191.44	4	3	--	1997
6/12/2006	1776	Poppy Hills Ct	1,434	\$369,000	\$257.32	3	2	9,148	2000
4/27/2006	2128	Fern St	--	\$370,000	--	--	--	--	--
4/24/2006	3372	Wawona Ct	1,766	\$380,000	\$215.18	3	2	6,825	1974
5/16/2006	2111	Hampden Ct	1,942	\$380,000	\$195.67	4	3	--	1989
6/1/2006	3062	Beverly Ct	1,386	\$381,000	\$274.89	3	3	--	1987
4/18/2006	665	Dennis Ct	1,900	\$385,000	\$202.63	4	2	7,006	1968
4/12/2006	3402	Tres Logos Dr	1,965	\$387,500	\$197.20	--	--	9,840	1995

Sale Date	Street Address	Street Name	Home Size	Sale Price	Price Per Square Foot	Bed	Bath	Lot Size	Year Built
4/4/2006	580	Santa Clara St	1,705	\$388,000	\$227.57	--	--	--	2005
5/1/2006	1163	Teal Ct	1,824	\$389,000	\$213.27	--	--	--	1998
4/20/2006	3591	Sepulveda Ave	2,060	\$390,000	\$189.32	--	--	--	2004
5/11/2006	1105	E 21st St	1,665	\$395,000	\$237.24	2	2	9,450	1952
6/13/2006	815	Modoc St	1,573	\$398,000	\$253.02	3	2	7,500	1965
4/18/2006	1036	W 21st St	2,754	\$400,000	\$145.24	3	2	10,950	1925
4/3/2006	1995	N Buhach Rd	2,020	\$400,000	\$198.02	2	1	--	1958
5/2/2006	1873	Valley Forge Ave	1,677	\$400,000	\$238.52	3	2	6,000	1978
6/8/2006	3724	Beam Ave	2,352	\$400,000	\$170.07	--	--	--	2004
5/10/2006	1388	Cormorant Dr	--	\$410,000	--	--	--	--	--
4/18/2006	1082	Vermont Dr	2,385	\$415,000	\$174.00	4	3	15,000	1964
5/9/2006	793	E Redwing Dr	--	\$415,000	--	--	--	--	--
5/16/2006	232	W 23rd St	2,140	\$432,000	\$201.87	2	3	11,250	1920
5/21/2006	1172	Pinnacle Dr	--	\$435,000	--	--	--	--	--
4/10/2006	916	Antler Ct	1,850	\$440,000	\$237.84	3	2	--	1991
4/25/2006	864	Vanderbilt Ct	1,821	\$450,000	\$247.12	--	--	--	1988
5/31/2006	1230	Brightday Dr	1,859	\$455,000	\$244.76	--	--	--	2004
4/3/2006	1259	Glacier Point Ct	1,855	\$460,000	\$247.98	3	2	7,721	1998
4/12/2006	3762	Beam Ave	1,859	\$460,000	\$247.44	--	--	--	2004
4/11/2006	3733	Beam Ave	2,023	\$460,000	\$227.39	--	--	--	2004
4/25/2006	3071	Silver Elm Ct	2,013	\$470,000	\$233.48	4	3	--	1990
4/17/2006	3569	Sepulveda Ave	2,300	\$475,000	\$206.52	--	--	--	2004
4/5/2006	3734	Morning Glory Ave	2,023	\$475,000	\$234.80	--	--	--	2004
4/13/2006	1238	Brightday Dr	2,352	\$480,000	\$204.08	--	--	--	2004
6/1/2006	1867	Vassar Ave	534	\$500,000	\$936.33	3	1	217,800	1900
5/15/2006	1060	Colorado Dr	1,970	\$505,000	\$256.35	3	2	18,000	1965
5/8/2006	3533	Temecula Ct	2,819	\$534,000	\$189.43	--	--	--	2003
4/26/2006	1337	Esplanade Dr	2,300	\$542,000	\$235.65	--	--	--	2004
5/16/2006	1229	Catalina Dr	2,300	\$554,000	\$240.87	--	--	--	2003
5/16/2006	1161	Carolina Dr	4,134	\$577,000	\$139.57	5	5	13,200	1968
4/24/2006	409	N Coffee St	1,755	\$599,000	\$341.31	2	1	52,272	1946
4/14/2006	2815	E Childs Ave	1,242	\$680,000	\$547.50	3	1	209,088	1924
4/11/2006	2483	E Remington Ct	2,303	\$730,000	\$316.98	--	--	43,560	1996
4/19/2006	777	Rambler Rd	3,830	\$800,000	\$208.88	--	--	20,720	1955
4/4/2006	3321	Doncaster Ct	3,065	\$827,000	\$269.82	4	3	--	2005
5/11/2006	2433	Tuscany Ave	3,186	\$865,000	\$271.50	3	3	43,560	1987
4/7/2006	260	E Bellevue Rd	1,424	\$870,000	\$610.96	--	--	200,376	1972

Averages:	1,543	\$348,726	\$235.98	--	--	18,790	1976
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Built After 2000 Averages:	1,707	\$376,567	\$224.06	--	--	9,148	2004
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EXHIBIT II - 16B
DETACHED HOME RESALE ANALYSIS
 (Zip Codes: 95340, 95341, 95343, 95344 & 95348)
MERCED MARKET AREA

The Gregory Group
 CA06.07003Merced

Price Range	Number of Sales	Percent Market Share	Average Price
Less Than \$200,000	5	3.7%	\$180,200
\$200,000 - \$299,999	50	37.0%	\$252,370
\$300,000 - \$399,999	48	35.6%	\$346,740
\$400,000 - \$499,999	19	14.1%	\$438,526
\$500,000 - \$599,999	7	5.2%	\$544,429
\$600,000 and Greater	6	4.4%	\$795,333
TOTALS:	135	100.0%	\$348,726

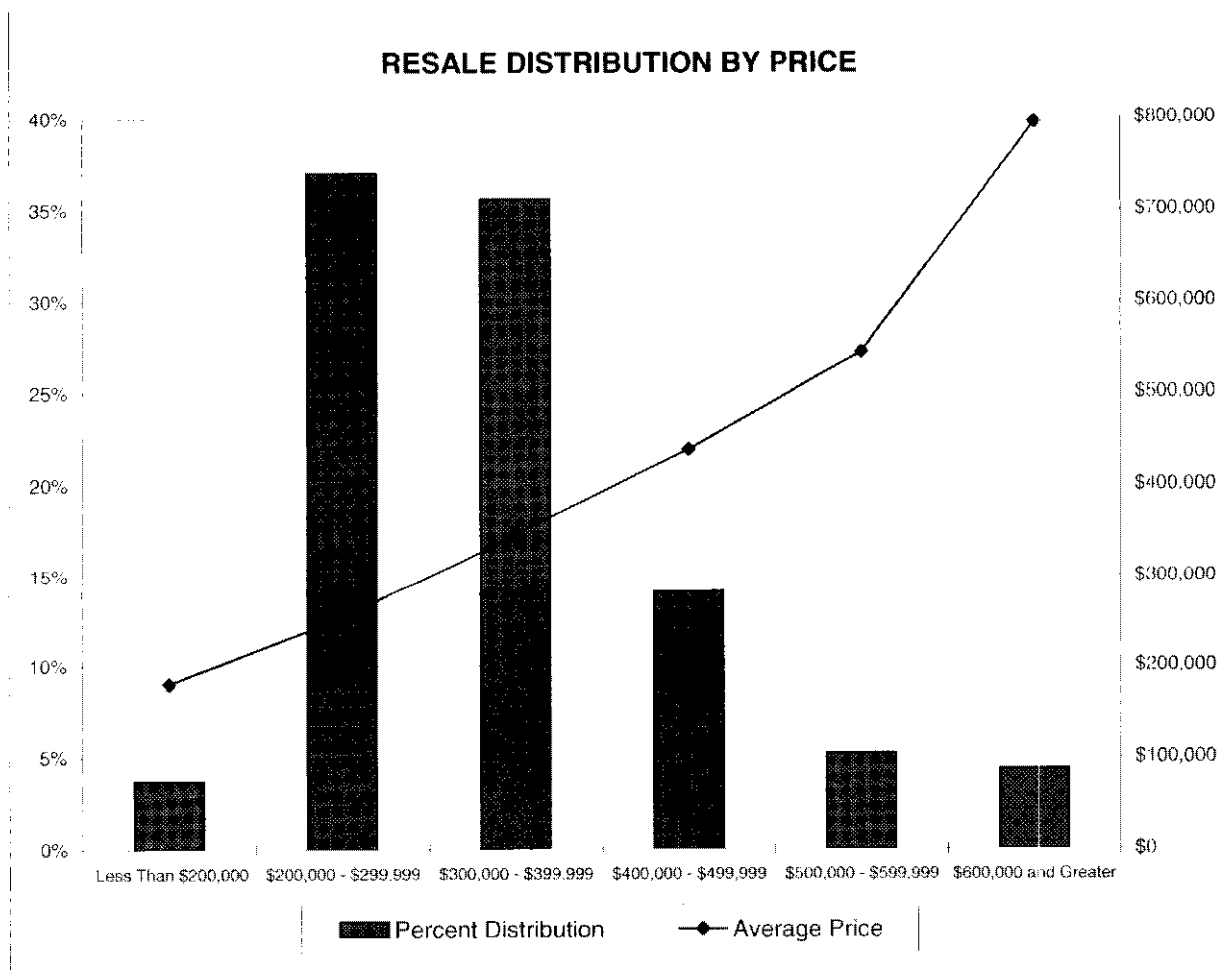


EXHIBIT II - 17A
DETACHED HOME LISTINGS MARKET SUMMARY
 (Zip Codes: 95340, 95341, 95343, 95344 & 95348)
MERCED MARKET AREA

The Gregory Group
CA06.07003Merced

Street Address	Street Name	Home Size	Sale Price	Price Per Square Foot	Bed	Bath	Lot Size	Year Built
216	E 9th Street	980	\$145,000	\$147.96	3	1	--	1903
1455	Rita Mae	732	\$150,000	\$204.92	2	1	--	1979
512	W 11th Street	450	\$174,000	\$386.67	1	1	--	1938
927	W 8th Street	480	\$174,900	\$364.38	2	1	--	1949
323	Harrison Street	716	\$175,000	\$244.41	2	1	--	1944
503	R Street	750	\$185,000	\$246.67	3	1	--	1940
1032	R Street	546	\$189,000	\$346.15	1	1	--	1948
47	E 11th Street	888	\$189,000	\$212.84	2	1	--	1960
2078	Lobo Avenue	791	\$199,000	\$251.58	2	1	--	1937
2646	Beachwood Drive	768	\$224,000	\$291.67	2	1	--	1947
27	South S	816	\$224,900	\$275.61	2	1	--	1959
23	E. Main	688	\$225,000	\$327.03	1	1	--	1920
1726	Almond	796	\$225,000	\$282.66	2	1	--	1,947
1731	Rose Avenue	1,100	\$225,000	\$204.55	3	1	--	--
816	12th	772	\$225,900	\$292.62	2	1	--	1938
526	Stratford Court	977	\$228,000	\$233.37	3	2	--	1984
936	24th	1,044	\$229,000	\$219.35	3	1	--	1957
511	Seville	977	\$229,000	\$234.39	3	2	--	1987
909	W 21st St	1,025	\$229,500	\$223.90	2	1	--	1920
1928	Q Street	944	\$229,500	\$243.11	2	1	--	1925
730	W 12th St	956	\$229,500	\$240.06	2	2	--	1977
40	W 25th St	896	\$230,000	\$256.70	3	2	--	1922
3048	Oleander Avenue	1,249	\$230,000	\$184.15	3	2	--	1956
534	Stratford	977	\$230,000	\$235.41	3	2	--	1984
120	S Street	800	\$235,000	\$293.75	2	1	--	1949
536	W. 8th street	1,322	\$235,000	\$177.76	3	1	--	1957
37	W 26th St	995	\$237,500	\$238.69	2	1	--	1920
122	25th Street	1,254	\$237,500	\$189.39	2	1	7,405	1924
422	Jonathon Street	920	\$239,500	\$260.33	3	2	--	1996
1314	W. 22nd St.	915	\$239,900	\$262.19	2	1	--	1951
2331	R Street	840	\$239,900	\$285.60	2	1	--	1952
602	Brimmer Road	1,065	\$239,900	\$225.26	2	1	6,970	1956
1340	Rita Mae Avenue	1,440	\$240,000	\$166.67	2	2	--	1930
705	T St.	952	\$240,000	\$252.10	2	2	--	1951
1252	W. 20th St.	1,071	\$240,000	\$224.09	2	1	--	1951
852	W 25th St.	1,000	\$244,900	\$244.90	3	1	7,841	1951
2160	Calimyrna Avenue	1,313	\$245,000	\$186.60	3	1	--	1945
124	Colony Lane	1,063	\$245,000	\$230.48	3	2	--	1981
1153	Independence	1,027	\$245,000	\$238.56	3	2	--	1990
649	Gannet Court	977	\$247,950	\$253.79	3	2	--	1986
6	East Starling	1,095	\$249,000	\$227.40	3	2	--	1957
1243	W.Santa Fe Avenue	1,044	\$249,000	\$238.51	3	1	--	1957
415	Canal	1,025	\$249,000	\$242.93	3	1	--	1960
157	23rd Street East	720	\$249,900	\$347.08	2	1	--	1934
204	Colony Lane	1,063	\$249,900	\$235.09	3	2	--	1981
25	E.Sugarbird Street	1,008	\$249,900	\$247.92	3	2	--	1990

Street Address	Street Name	Home Size	Sale Price	Price Per			Lot Size	Year Built
				Square Foot	Bed	Bath		
2234	T Street	1,027	\$249,950	\$243.38	2	1	--	1951
1062	Mt Vernon	1,008	\$249,999	\$248.01	3	2	4,356	1987
919	W. 20th	1,134	\$250,000	\$220.46	2	2	7,405	1915
919	20th West Street	1,134	\$250,000	\$220.46	2	2	--	1915
75	E Santa Fe Street	1,200	\$250,000	\$208.33	2	1	5,227	1950
2317	Meadowbrook	933	\$250,000	\$267.95	3	2	--	1950
33	N. Parsons	859	\$250,000	\$291.04	2	1	--	1,950
1420	W. 11th Street	1,258	\$250,000	\$198.73	3	1	7,405	1953
1660	Echo Avenue	1,331	\$250,000	\$187.83	3	2	--	1955
2105	T Street	1,540	\$252,500	\$163.96	2	2	--	1,950
1650	Union Avenue	1,091	\$253,997	\$232.81	3	1	--	1949
1104	N Street	1,072	\$254,900	\$237.78	4	1	--	1924
1035	W. 20th Street	1,080	\$255,000	\$236.11	2	1	6,534	1920
2894	Elm Street	1,328	\$255,000	\$192.02	3	1	--	1960
1777	Heritage	1,030	\$255,000	\$247.57	3	2	--	1988
1923	E. Stretch Road	1,436	\$255,000	\$177.58	3	2	--	--
1341	25th Street West	1,032	\$257,000	\$249.03	2	1	--	1938
73	R. Street	1,123	\$260,000	\$231.52	3	2	--	1945
2180	Cabot Avenue	1,265	\$262,500	\$207.51	3	2	--	1958
3067	Nottingham Lane	1,008	\$262,500	\$260.42	3	2	--	1961
155	W. 25th Street	1,800	\$263,500	\$146.39	3	2	--	1923
36	E. Sugarbird Court	1,008	\$264,000	\$261.90	3	2	7,405	1990
2494	Ballantyne	1,096	\$264,950	\$241.74	3	1	--	1956
671	Suzanne Court	1,474	\$264,988	\$179.77	3	2	--	2,003
1745	Orchard Lane	1,488	\$265,000	\$178.09	3	2	--	1,941
832	N Street	1,020	\$265,000	\$259.80	3	1	7,405	1944
2582	Mcelvaney Avenue	1,065	\$265,000	\$248.83	2	1	8,276	1957
420	Q Street	1,136	\$265,000	\$233.27	3	1	7,405	1,958
1062	Mt. Vernon Street	1,008	\$265,000	\$262.90	3	2	--	1987
2586	Beachwood Drive	1,200	\$265,000	\$220.83	3	2	--	2002
87	E. San Pedro Street	1,277	\$265,000	\$207.52	4	2	--	2004
79	Barbados Court	1,020	\$265,000	\$259.80	3	3	--	2004
1005	W 21st Street	1,432	\$267,000	\$186.45	3	1	--	1923
1760	Lopes Avenue	1,296	\$267,000	\$206.02	3	2	7,841	1958
1647	Mitchell Lane Unit:1	1,070	\$267,000	\$249.53	3	2	10,890	1990
2985	Hampshire Court	1,027	\$267,000	\$259.98	3	2	--	1996
3166	Juneau Court	1,414	\$267,500	\$189.18	4	2	--	1973
2395	Fern Street	1,193	\$267,500	\$224.22	3	2	6,098	1979
265	E. 23rd Street	1,012	\$268,000	\$264.82	3	2	7,405	1928
808	V Street	1,098	\$268,000	\$244.08	3	1	--	1958
38	E. Purisima Street	1,320	\$268,000	\$203.03	3	2	6,098	2004
3138	W. Tupelo Drive	1,165	\$268,950	\$230.86	3	2	8,712	1983
51	W 21st Street	1,735	\$269,000	\$155.04	3	2	--	1928
1455	W 10th Street	841	\$269,000	\$319.86	2	1	--	1951
1735	Stretch Road	1,176	\$269,000	\$228.74	3	2	--	1976
3523	Placer Court	1,175	\$269,000	\$228.94	3	2	--	1977
611	Jonathon Court	1,054	\$269,000	\$255.22	4	2	--	1995
575	Siant Tersea	990	\$269,000	\$271.72	3	1	--	2005
3277	Juneau	1,414	\$269,500	\$190.59	4	2	--	1974
435	W. 27th Street	1,124	\$269,750	\$239.99	2	1	--	1925
604	Rensselaer Court	1,649	\$269,950	\$163.71	3	2	--	1988
304	E Main Street	952	\$270,000	\$283.61	2	1	8,712	1925

Street Address	Street Name	Home Size	Sale Price	Price Per			Lot Size	Year Built
				Square Foot	Bed	Bath		
1626	E. 23rd Street	1,100	\$270,000	\$245.45	3	2	--	1952
236	E 23rd Street	1,199	\$270,000	\$225.19	2	1	10,454	1953
2591	Beachwood	1,446	\$270,000	\$186.72	3	2	6,098	1963
2641	Capella Drive	1,000	\$270,000	\$270.00	3	1	--	1997
1012	W. 2nd Street	1,092	\$272,500	\$249.54	3	2	7,405	1959
1012	2nd Street	1,092	\$272,500	\$249.54	3	2	--	1959
1780	Orchard Lane	1,334	\$274,900	\$206.07	2	1	--	1955
1435	Loughborough	1,561	\$274,995	\$176.17	3	2	--	1977
1777	Dale Street	1,296	\$275,000	\$212.19	3	1	--	1920
2874	Oleander	816	\$275,000	\$337.01	2	1	--	1927
2584	Baker Drive	728	\$275,000	\$377.75	1	1	--	1948
1437	Herman Street	939	\$275,000	\$292.86	2	1	--	1950
1735	E 22nd Street	1,082	\$275,000	\$254.16	3	1	--	1952
2644	7th Avenue	2,107	\$275,000	\$130.52	3	2	--	1955
1575	Primrose Avenue	1,409	\$275,000	\$195.17	3	2	--	1955
380	Carmel Road	1,282	\$275,000	\$214.51	3	2	6,098	1959
1228	W 2nd Street	1,044	\$275,000	\$263.41	3	1	7,405	1959
3706	Langtry Avenue	1,170	\$275,000	\$235.04	3	2	--	1961
915	R Street	1,232	\$275,000	\$223.21	3	1	--	1984
544	Spur Street	1,462	\$275,000	\$188.10	3	2	--	1989
461	Las Brisas	1,277	\$275,000	\$215.35	3	1	--	1998
2876	Oleander	980	\$277,000	\$282.65	2	1	--	1928
222	22nd Street	7,500	\$278,500	\$37.13	3	2	--	1914
1481	Hansen Avenue	1,027	\$278,888	\$271.56	3	2	--	--
111	W. 23rd	1,202	\$278,900	\$232.03	2	1	--	1938
904	10th Avenue	888	\$279,000	\$314.19	2	1	--	1950
2745	10th Avenue	1,152	\$279,000	\$242.19	3	2	--	1960
345	E. 19th Street	1,320	\$279,000	\$211.36	3	2	--	1961
2885	Dan Ward Road	1,080	\$279,000	\$258.33	3	2	--	1963
3514	Oakhurst Avenue	1,176	\$279,000	\$237.24	3	2	--	1976
226	Julian Court	1,475	\$279,000	\$189.15	3	2	--	2005
3209	Parsons Avenue	1,393	\$279,900	\$200.93	3	2	--	1965
1119	Sydney	1,469	\$279,900	\$190.54	3	2	7,841	1966
147	Concord Square	1,320	\$279,950	\$212.08	3	2	--	1998
3238	Phoenix Way	1,282	\$279,988	\$218.40	3	2	6,970	1976
60	28th Street West	900	\$280,000	\$311.11	2	1	--	1918
240	W. 25th Street	890	\$280,000	\$314.61	2	1	--	1941
3280	Austin Avenue	1,493	\$280,000	\$187.54	3	2	6,970	1979
2633	Cowden	1,361	\$280,000	\$205.73	3	2	--	1993
2677	9th Avenue	1,401	\$282,000	\$201.28	3	2	--	1960
349	Amy Court	1,091	\$282,000	\$258.48	3	2	5,227	2001
1525	Primrose Avenue	1,024	\$284,000	\$277.34	3	2	--	1955
1009	Vernal	1,413	\$284,900	\$201.63	3	2	6,534	1978
3288	Sacramento Drive	1,147	\$284,900	\$248.39	3	2	--	--
2630	8th Avenue	1,227	\$285,000	\$232.27	3	2	--	1956
1221	W. 1st Street	1,044	\$285,000	\$272.99	3	1	7,405	1961
3301	El Capitan	1,463	\$285,000	\$194.81	3	2	10,019	1961
1225	E. Olive Avenue	1,576	\$285,000	\$180.84	3	2	--	1961
133	W. 22nd St.	957	\$285,000	\$297.81	2	1	--	--
1849	Salam Court	1,282	\$287,000	\$223.87	3	2	--	1975
2054	Wind Rose Court	1,268	\$287,000	\$226.34	3	2	--	1989
96	Sonoma Street	1,330	\$287,000	\$215.79	3	2	--	2003

Street Address	Street Name	Home Size	Sale Price	Price Per			Lot Size	Year Built
				Square Foot	Bed	Bath		
3101	Lucich Drive	1,485	\$287,000	\$193.27	3	2	--	2003
2686	7th Street	1,278	\$288,000	\$225.35	3	2	--	1956
143	W. 21st Street	1,553	\$288,400	\$185.71	3	2	7,405	1939
810	Carol Street	1,437	\$289,000	\$201.11	3	2	--	1961
3235	Nottingham	1,253	\$289,000	\$230.65	3	2	--	1964
2976	Yorkshire Court	1,357	\$289,000	\$212.97	4	2	4,792	2002
420	Brittany Way	1,250	\$289,000	\$231.20	3	2	--	2004
2662	Mira	1,240	\$289,000	\$233.06	3	2	--	2004
545	Santa Clara Street	1,095	\$289,000	\$263.93	3	2	3,920	2005
1730	Cheyenne Drive	1,263	\$289,900	\$229.53	3	2	--	1976
458	Amy Street	1,091	\$289,900	\$265.72	3	2	--	2001
2310	Ash Avenue	1,110	\$290,000	\$261.26	2	2	--	1945
1971	Glen Avenue	1,082	\$292,000	\$269.87	2	1	--	1940
850	22nd Street East	1,470	\$294,000	\$200.00	2	2	--	--
3243	Shamrock	1,250	\$294,900	\$235.92	3	2	--	1968
636	Northwood Drive	1,358	\$295,000	\$217.23	3	2	--	1971
36	West Swallow Street	1,095	\$295,000	\$269.41	3	2	--	1989
2794	Stretch Road	2,100	\$295,000	\$140.48	4	3	--	2005
2036	Patty Drive	1,459	\$295,000	\$202.19	3	2	--	--
200	Watertown	1,086	\$295,900	\$272.47	3	2	--	1995
3487	Arch Rock Street	1,534	\$297,900	\$194.20	3	2	--	1989
198	San Pedro Way	1,313	\$297,999	\$226.96	3	2	6,098	2003
171	E Main Street	1,558	\$298,000	\$191.27	3	1	7,405	1946
2695	Agnes Way	1,330	\$298,000	\$224.06	3	2	6,098	1962
892	San Pablo	1,665	\$298,000	\$178.98	3	2	--	1986
2901	Village Drive	2,015	\$298,500	\$148.14	3	2	--	1965
21	W 20th Street West	1,633	\$298,500	\$182.79	3	2	--	1975
429	Halley Avenue	1,252	\$298,700	\$238.58	3	2	4,792	2004
922	W. 20th Street	1,404	\$299,000	\$212.96	3	2	7,405	1916
1022	Lawndale Avenue	1,264	\$299,000	\$236.55	3	1	--	1955
1436	W. 9th Street	1,594	\$299,000	\$187.58	4	2	--	1956
1436	W. 9th Street	1,594	\$299,000	\$187.58	4	2	--	1956
1530	Hansen Avenue	1,830	\$299,000	\$163.39	2	3	8,276	1961
2385	Dan Ward Road	1,388	\$299,000	\$215.42	3	1	--	1963
2734	Midge Avenue	1,200	\$299,000	\$249.17	4	2	6,534	1974
1506	Denver Way	1,466	\$299,000	\$203.96	4	2	6,098	1977
3430	La Jolla Way	1,468	\$299,000	\$203.68	3	2	6,098	1977
2385	Lance	1,140	\$299,000	\$262.28	3	2	6,098	1980
3613	Dove Court	1,600	\$299,000	\$186.88	4	2	--	1990
2524	Pinedale Avenue	1,460	\$299,000	\$204.79	3	2	6,098	1992
1882	De Moss Court	1,458	\$299,000	\$205.08	3	2	4,792	2002
2671	Valley Drive	1,389	\$299,000	\$215.26	3	2	--	--
2573	Parsons Avenue	1,448	\$299,500	\$206.84	4	2	--	1967
3254	Shamrock Avenue	1,393	\$299,500	\$215.00	3	2	6,534	1968
2621	Mira Court	1,251	\$299,500	\$239.41	3	2	5,227	2004
2475	Myrtle Avenue	1,240	\$299,500	\$241.53	3	2	2	--
1323	W 1st Street	1,121	\$299,880	\$267.51	3	3	--	1974
1421	20th Street	1,413	\$299,900	\$212.24	3	2	12,197	1951
1252	Villa Street	1,256	\$299,900	\$238.77	3	2	--	1974
2924	Autumn Drive	1,212	\$299,900	\$247.44	3	3	--	1997
3725	Morning Dove Avenue	1,278	\$299,900	\$234.66	3	3	--	2004
177	W. San Pedro	1,313	\$299,950	\$228.45	3	2	--	2003

Street Address	Street Name	Home Size	Sale Price	Price Per Square Foot	Bed	Bath	Lot Size	Year Built
2873	Elm Street	1,426	\$299,950	\$210.34	4	2	--	2006
2497	N. Parsons Avenue	1,268	\$299,990	\$236.59	3	2	6,098	1963
37	El Verano	1,091	\$299,995	\$274.97	3	2	--	2002
3368	San Fernando Court	1,507	\$299,999	\$199.07	3	2	--	1971
659	Junipero Court	1,496	\$299,999	\$200.53	3	2	--	1971
328	Silver Star Court	1,320	\$300,000	\$227.27	3	2	6,534	1981
2940	N. State Highway 59	1,188	\$300,000	\$252.53	3	2	--	1986
2831	Marietta	916	\$300,000	\$327.51	3	2	--	2002
2532	Fir	1,151	\$305,000	\$264.99	3	2	--	1994
3157	Dr Lucich	1,143	\$309,000	\$270.34	3	2	--	2003
2217	Sweetwater Court	1,572	\$309,000	\$196.56	3	2	--	2004
191	San Clemente Drive	1,275	\$309,000	\$242.35	4	2	--	--
2867	Mountain Springs	1,387	\$309,950	\$223.47	4	2	10,019	2002
2659	Polaris Court	1,300	\$309,950	\$238.42	4	2	4,792	2004
3376	Tuolumne Court	1,412	\$309,997	\$219.54	3	2	--	1976
1810	Glen Avenue	2,270	\$310,000	\$136.56	3	2	8,712	1941
2455	Pinedale Avenue	1,333	\$310,000	\$232.56	3	2	7,841	1993
1572	La Mirada	1,324	\$310,000	\$234.14	4	2	--	2001
918	Alexis Avenue	1,358	\$310,000	\$228.28	4	2	6,098	2003
2655	Capella Drive	1,408	\$310,000	\$220.17	3	2	--	2004
540	Buckner Road	1,168	\$313,900	\$268.75	3	2	--	1996
2542	Pinedale Avenue	1,361	\$314,000	\$230.71	3	2	6,098	1992
426	Petunia Court	1,554	\$314,500	\$202.38	3	3	--	2005
3308	Cherokee Avenue	1,175	\$314,900	\$268.00	3	2	--	1974
1463	HuntersDrive	1,265	\$314,900	\$248.93	3	2	--	1995
2958	Autumn	1,212	\$314,900	\$259.82	3	2	6,098	1996
2661	Polaris Court	1,252	\$314,900	\$251.52	3	2	4,356	2004
1268	Sunup Drive	1,637	\$314,900	\$192.36	3	3	4,792	2004
416	Las Brisas	1,320	\$314,995	\$238.63	3	2	--	1999
1272	Villa Road	1,400	\$314,999	\$225.00	4	2	--	1975
3616	Langtry Avenue	1,324	\$315,000	\$237.92	3	2	--	1953
2367	Pinedale Avenue	1,446	\$315,000	\$217.84	3	2	7,405	1964
3376	San Luis Rey Court	1,821	\$315,000	\$172.98	3	2	--	1974
1543	Ronnie Court	1,388	\$319,240	\$230.00	4	2	--	2006
51	Mazanita	1,500	\$319,500	\$213.00	4	2	--	2003
1710	E 26th Street	1,360	\$319,900	\$233.16	4	2	--	1956
2540	Parsons Street	1,489	\$319,900	\$214.84	4	2	--	1961
448	Sonora	1,602	\$319,900	\$216.92	4	2	--	1974
1410	Citation	1,372	\$319,900	\$218.28	3	2	--	1980
420	Brittany Way	1,250	\$319,900	\$189.35	3	2	--	2004
491	Vargus Court	1,475	\$319,950	\$216.92	3	2	4,792	2003
3336	Carson Court	1,466	\$319,999	\$218.28	3	2	10,019	1977
2115	Cedar Crest Drive	1,690	\$320,000	\$189.35	3	3	--	1964
3517	Trinity Court	1,175	\$320,000	\$272.34	3	2	--	1977
570	San Xavier	1,320	\$320,000	\$242.42	3	2	--	2005
530	Monique	1,715	\$320,000	\$186.59	3	2	--	2005
3771	Swan Avenue	1,259	\$320,000	\$254.17	3	2	--	2005
3541	Solano Court	1,615	\$321,500	\$199.07	4	2	--	1977
2702	Laughlin Court	1,390	\$322,000	\$231.65	3	2	6,098	1991
2069	Spy Glass Court	1,273	\$322,000	\$252.95	3	2	6,098	--
368	La Mesa Court	1,275	\$323,995	\$254.11	4	2	--	1999
2715	Story Avenue	1,380	\$324,000	\$234.78	4	2	7,405	1971

Street Address	Street Name	Home Size	Sale Price	Price Per			Lot Size	Year Built
				Square Foot	Bed	Bath		
920	E 21st	1,861	\$324,900	\$174.58	2	2	--	1954
3069	Oleander Avenue	1,323	\$324,900	\$245.58	4	2	--	1955
1596	E Olive Avenue	1,105	\$324,900	\$294.03	3	2	8,276	1965
551	Margaret Court	1,474	\$324,900	\$220.42	3	2	4,792	2003
360	W 23rd Street	1,788	\$325,000	\$181.77	3	2	7,405	1900
725	E. Alexander Avenue	1,622	\$325,000	\$200.37	3	2	--	1900
712	W 28th Street	2,023	\$325,000	\$160.65	4	2	7,405	1928
3840	Quail Avenue	1,510	\$325,000	\$215.23	2	2	--	1990
346	La Mesa Court	1,148	\$325,000	\$283.10	4	2	--	2000
317	Ian Court	1,320	\$325,000	\$246.21	3	2	--	2001
1930	Jurgensen Street	1,528	\$325,000	\$212.70	3	2	--	2002
535	San Benicio Court	1,435	\$325,000	\$226.48	4	2	--	--
1559	Ronnie Court	1,476	\$326,900	\$221.48	3	2	--	2006
674	Trudy Way	1,617	\$329,800	\$203.96	4	2	--	2003
885	Semisole Drive	1,454	\$329,900	\$226.89	4	2	--	1964
3031	Marie Court	1,511	\$329,900	\$218.33	3	2	--	1975
2800	Story Avenue	1,838	\$329,900	\$179.49	3	2	--	1980
3375	San Felipe Court	1,660	\$329,900	\$198.73	3	2	6,098	1984
1837	Creekside Drive	1,390	\$329,900	\$237.34	3	2	--	1994
1847	Demoss Court	1,400	\$329,900	\$235.64	3	2	--	2002
2645	Mira Road	1,500	\$329,900	\$219.93	4	2	--	2004
3375	De Anza Court	1,790	\$329,950	\$184.33	4	2	--	1972
431	La Mesa Street	1,080	\$329,999	\$305.55	3	2	--	1999
3102	Lincoln Avenue	1,755	\$330,000	\$188.03	4	2	--	1960
1143	Bel Air	1,359	\$330,000	\$242.83	3	2	--	1961
3109	Nottingham	1,804	\$330,000	\$182.93	3	2	--	1964
1372	Tipperary	1,250	\$330,000	\$264.00	3	2	--	1968
1989	Sierra Court	1,752	\$330,000	\$188.36	3	2	--	1972
1950	Rogina Avenue	1,400	\$330,000	\$235.71	3	2	--	1994
143	El Verano	1,161	\$330,000	\$284.24	4	2	6,534	2002
2106	Granite Creek	1,379	\$330,000	\$239.30	3	2	--	2005
547	E. Margaret Court	1,251	\$330,000	\$263.79	4	2	--	--
1375	Carisbad Drive	1,806	\$332,615	\$184.17	4	3	--	2006
1390	Olive Avenue East	1,903	\$333,000	\$174.99	3	2	--	1963
2102	W. Antley Street	1,515	\$333,000	\$219.80	4	2	4,792	2004
2669	Antares Court	1,402	\$333,000	\$237.52	3	2	--	2005
943	W 20th Street	1,234	\$334,500	\$271.07	2	1	--	1915
562	Sunset Drive	1,615	\$334,900	\$207.37	4	2	--	1977
2394	White Birch	1,559	\$334,900	\$214.82	3	2	--	1990
618	Brittany Way	1,619	\$334,900	\$206.86	4	2	--	2005
2844	La Palma	1,458	\$334,999	\$229.77	4	2	--	1997
3036	Sequoia Court	1,692	\$335,000	\$197.99	4	2	--	1976
2698	Laughlin Court	1,374	\$335,000	\$243.81	3	2	6,098	1991
2634	Vega	1,327	\$335,000	\$252.45	3	2	--	1996
1416	Partridge Street	1,487	\$335,000	\$225.29	3	2	--	1997
413	Connie Court	1,200	\$335,000	\$279.17	4	2	--	2001
2668	Polaris Court	1,402	\$335,000	\$238.94	3	2	--	2004
2033	Lynmarie Drive	1,506	\$335,000	\$222.44	3	2	--	2004
1588	Thurman Road	1,528	\$335,000	\$219.24	3	2	--	2005
190	Antonio De Padua Court	1,320	\$335,000	\$253.79	3	2	--	2005
2155	Cold Springs Avenue	1,308	\$337,000	\$257.65	3	2	7,841	1985
3148	Nottingham Avenue	1,846	\$338,000	\$183.10	4	2	--	1964

Street Address	Street Name	Home Size	Sale Price	Price Per			Lot Size	Year Built
				Square Foot	Bed	Bath		
590	E. San Javier Court	1,715	\$338,500	\$197.38	3	2	6,098	2005
893	E Alexander	1,498	\$339,000	\$226.30	3	2	--	1955
1049	Olive Avenue	1,735	\$339,000	\$195.39	3	2	--	1961
3432	Beals Court	1,749	\$339,000	\$193.83	3	2	7,841	1977
3095	Sharon Court	1,508	\$339,000	\$224.80	3	2	--	1979
538	West Avenue	1,390	\$339,000	\$243.88	3	2	--	1983
878	Redlands Court	1,876	\$339,000	\$180.70	3	2	7,405	1987
3125	Campus Drive	1,479	\$339,000	\$229.21	3	2	--	2003
3729	Beam Avenue	1,617	\$339,000	\$209.65	3	3	--	2004
674	Trudy Way	1,617	\$339,888	\$210.20	4	2	--	--
5595	McHenry	1,144	\$339,900	\$297.12	3	2	--	1958
948	Columbia Avenue	1,543	\$339,900	\$220.29	4	2	--	1978
2936	Autumn Drive	1,488	\$339,900	\$228.43	3	2	6,098	1998
2741	Lexington Avenue	1,660	\$339,900	\$204.76	3	2	--	--
3133	Kingsland	1,746	\$339,999	\$194.73	4	2	--	1970
2737	Lexington	1,708	\$339,999	\$199.06	3	2	--	1991
3193	Erie Avenue	1,420	\$340,000	\$239.44	3	2	7,405	1960
4890	Elliott	1,400	\$340,000	\$242.86	3	2	--	1973
648	Vallie Court	1,900	\$340,000	\$178.95	4	2	--	2000
2821	La Cresenta Avenue	1,324	\$340,000	\$256.80	4	2	--	2000
631	Brittany Way	1,617	\$340,000	\$210.27	4	2	--	2005
2841	Bea Court	1,390	\$342,000	\$246.04	4	2	--	2003
563	Margaret Court	1,617	\$342,000	\$211.50	4	2	--	2003
795	Wren Court	1,365	\$344,500	\$252.38	3	2	--	1999
520	N. Luna Court	1,715	\$344,888	\$201.10	4	2	--	--
935	Brookdale Drive	1,565	\$345,000	\$220.45	3	2	8,712	1975
1820	Cheyenne Drive	1,332	\$345,000	\$259.01	3	2	--	1975
2	Sunset Court	1,766	\$345,000	\$195.36	3	2	--	1976
125	Yew	1,350	\$345,000	\$255.56	3	2	--	2003
2646	Polaris Court	1,600	\$345,000	\$215.63	3	2	--	2004
257	Brimmer Road	1,494	\$345,000	\$230.92	3	2	--	2005
2325	Florence Street	1,465	\$345,000	\$235.49	3	2	--	2005
127	W. 21st Street	1,799	\$347,500	\$193.16	4	3	7,405	1910
948	Emory Way	1,614	\$348,000	\$215.61	4	2	--	1990
3056	Bea Drive	1,387	\$348,750	\$251.44	4	2	--	2002
869	Groveland Court	1,536	\$348,888	\$227.14	4	2	--	1976
700	E. Street	1,747	\$348,900	\$199.71	3	2	13,068	1942
548	Sonora	1,539	\$348,900	\$226.71	4	2	--	1973
3848	N HWY 59	1,494	\$349,000	\$233.60	3	2	2	1950
845	Seminole Drive	1,579	\$349,000	\$221.03	3	2	--	1964
845	Semisole Drive	1,579	\$349,000	\$221.03	3	2	--	1964
835	Modoc Street	1,706	\$349,000	\$204.57	4	2	--	1965
1944	E. Alexander	1,680	\$349,000	\$207.74	4	2	--	1972
327	Sonora Avenue	1,981	\$349,000	\$180.55	3	2	--	1976
1757	Shady Hollow Court	1,933	\$349,000	\$180.55	4	2	9,148	1977
1757	349000	1,933	\$349,000	\$180.55	4	2	--	1977
3775	White Dove	1,373	\$349,000	\$254.19	3	2	6,534	1995
2074	Pinehurst	1,306	\$349,000	\$267.23	3	2	--	1999
402	S. Connie Court	1,511	\$349,000	\$230.97	3	2	--	2000
402	Connie	1,538	\$349,000	\$226.92	4	2	--	2000
453	Lucas	1,511	\$349,000	\$230.97	4	2	--	2002
635	Dartmouth Court	1,760	\$349,000	\$198.30	3	2	7,405	--

Street Address	Street Name	Home Size	Sale Price	Price Per Square Foot	Bed	Bath	Lot Size	Year Built
1976	Teak Avenue	1,830	\$349,000	\$190.71	3	2	--	--
2665	Altair Court	1,400	\$349,500	\$249.64	3	2	--	--
363	Halley Drive	1,400	\$349,500	\$249.64	3	2	--	--
138	El Verano Court	1,275	\$349,888	\$274.42	4	2	--	--
565	Olive	1,956	\$349,900	\$178.89	3	2	--	1957
687	Sonora	1,980	\$349,900	\$176.72	4	2	--	1974
3404	Terri	1,721	\$349,900	\$203.31	4	2	--	1978
3640	Syracuse Court	1,760	\$349,900	\$198.81	3	2	8,276	1985
1254	La Playa Court	1,350	\$349,900	\$259.19	3	2	--	1991
2571	Hays Drive	1,460	\$349,900	\$239.66	3	2	--	1993
1580	Thurman Court	1,685	\$349,900	\$207.66	3	2	--	2004
551	San Xavier Court	1,538	\$349,900	\$227.50	4	2	--	2005
1349	Riverside Court	1,531	\$349,900	\$228.54	3	2	--	2006
3640	Syracuse Court	1,760	\$349,900	\$198.81	3	2	--	--
2778	W. Rock Creek	1,379	\$349,950	\$253.77	3	2	4,792	2004
2091	W. Antley Street	1,758	\$349,950	\$199.06	4	2	--	2004
506	Columbia Avenue	1,412	\$350,000	\$247.88	3	2	--	1972
2755	Villa	1,400	\$350,000	\$250.00	4	2	--	1974
3335	Vernal Avenue	1,774	\$350,000	\$197.29	3	2	--	1978
2745	Lexington Avenue	1,932	\$350,000	\$181.16	3	2	--	1987
3054	Ironwood Court	1,530	\$350,000	\$228.76	3	2	--	1990
257	Olivia Court	1,474	\$350,000	\$237.45	3	2	--	--
3635	Quail Avenue	1,716	\$351,000	\$204.55	3	2	--	1990
3408	De Anza Avenue	1,755	\$351,900	\$200.51	4	2	7,405	1972
1570	Thurman	1,685	\$354,000	\$210.09	3	2	--	2004
671	E. Olive Avenue	1,616	\$354,950	\$219.65	3	2	9,583	1963
1609	Evette Court	1,953	\$355,000	\$181.77	4	2	--	1967
2959	Wainwright	1,742	\$355,000	\$203.79	4	2	--	1968
3563	Beals Court	1,721	\$355,000	\$206.28	4	2	--	1977
497	Occidental Court	1,440	\$355,000	\$246.53	3	2	--	1993
3680	Black Hawk	1,367	\$355,000	\$259.69	3	2	6,098	1995
3527	Sarasota Avenue	1,457	\$355,000	\$243.65	3	2	6,098	2003
3142	Lucich Drive	1,475	\$355,000	\$240.68	3	2	--	2003
1219	Sunrise Drive	1,637	\$355,000	\$216.86	3	3	--	2004
3527	Sarasota Avenue	1,457	\$355,000	\$243.65	3	2	--	--
2963	Tenaya	1,375	\$355,900	\$258.84	3	2	--	1950
224	Olivia Court	1,833	\$356,000	\$194.22	4	2	8,712	2005
224	Olivia Court	1,833	\$356,000	\$194.22	4	2	--	2005
1570	Thurman Drive	1,685	\$358,000	\$212.46	3	2	4,792	2004
143	El Verano	1,538	\$358,888	\$233.35	4	2	--	--
98	Sandy Lane	1,548	\$359,000	\$231.91	3	2	--	1959
1388	Breezeway Lane	1,434	\$359,000	\$250.35	3	2	--	2003
539	John Court	1,633	\$359,000	\$219.84	4	2	7,841	2004
598	John Court	1,846	\$359,000	\$194.47	4	2	5,227	2005
235	Brimmer Road	1,846	\$359,000	\$194.47	4	2	--	2005
448	Azalea Court	1,277	\$359,000	\$281.13	3	2	--	2005
654	John Street	1,846	\$359,000	\$194.47	4	2	--	--
1984	Pinehurst	1,442	\$359,500	\$249.31	3	2	--	1999
206	Craig Drive	1,884	\$359,900	\$191.03	3	2	--	1957
1610	Evette Court	1,522	\$359,900	\$236.47	3	3	6,098	1968
3375	De Anza Court	1,790	\$359,950	\$201.09	4	2	--	1972
3324	Fairfax Court	1,440	\$359,950	\$249.97	4	2	10,019	1999

Street Address	Street Name	Home Size	Sale Price	Price Per			Lot Size	Year Built
				Square Foot	Bed	Bath		
1284	Brightday Drive	2,346	\$359,950	\$153.43	3	3	--	2004
2094	Antley Street	1,758	\$359,999	\$204.78	4	2	--	2004
1614	Evette Court	1,471	\$360,000	\$244.73	4	2	--	1967
3515	W. Beals Avenue	1,721	\$360,000	\$209.18	4	2	--	1977
3418	Wathen	2,061	\$360,000	\$174.67	3	2	--	1977
2939	Balsam Way	1,763	\$360,000	\$204.20	4	4	--	1982
46	W. Donna	1,760	\$360,000	\$204.55	4	2	--	1983
2534	Drake	1,572	\$360,000	\$229.01	3	2	--	2003
2456	Drake Avenue	1,380	\$360,000	\$260.87	3	2	--	2004
2155	Chesler Street	1,536	\$360,000	\$234.38	4	2	--	2005
54	Westmount Court	1,440	\$360,500	\$250.35	4	2	--	1993
300	W. Alexander Avenue	1,942	\$363,900	\$187.38	4	2	6,970	1970
4310	Mariposa Way	1,905	\$365,000	\$191.60	3	2	--	1940
1323	Villa Drive	1,400	\$365,000	\$260.71	4	2	--	1974
1056	Mirror Lake Drive	1,774	\$365,000	\$205.75	3	2	--	1978
74	Snowmass Court	1,760	\$365,000	\$207.39	3	2	--	1981
3613	Baylor Court	1,575	\$365,000	\$231.75	3	2	--	1987
2778	Madrid Avenue	1,450	\$365,000	\$251.72	4	2	4,356	1997
3959	Robin Court	1,652	\$365,000	\$220.94	3	2	--	1998
2175	Pinehurst Court	1,434	\$365,000	\$254.53	3	2	--	1998
197	La Purisma Court	1,528	\$365,000	\$238.87	3	2	6,098	2003
2063	Lynmarie Drive	1,588	\$365,000	\$229.85	4	2	--	2004
38401	Solstice	2,023	\$365,000	\$180.43	4	4	5,227	2005
638	John Court	1,474	\$365,000	\$247.63	3	2	--	2005
3059	Merced	1,637	\$365,000	\$222.97	3	3	--	2005
1904	Harnisch Drive	1,528	\$366,000	\$239.53	3	2	7,405	2003
1177	Mazatlan Plaza	2,219	\$366,950	\$165.37	4	3	5,227	2006
1233	Cathedral Creek Court	1,860	\$367,500	\$197.58	3	2	--	2000
1560	Little Rock Court	1,675	\$368,000	\$219.70	3	2	14,810	1979
668	Brittany Way	1,846	\$368,000	\$199.35	4	2	4,792	2005
2975	McKee Road	1,875	\$368,800	\$196.69	3	2	--	--
1049	E.Olive Avenue	1,735	\$369,000	\$212.68	3	2	7,841	1961
3283	Sutter Court	1,602	\$369,000	\$230.34	4	2	--	1972
77	Donna	1,760	\$369,000	\$209.66	3	2	--	1979
3597	Cabrillo Court	1,665	\$369,000	\$221.62	3	2	--	1989
3554	Santa Maria	1,708	\$369,000	\$216.04	3	2	5,227	2004
1437	Partridge Street	1,700	\$369,900	\$217.59	3	2	6,970	1996
492	Serano Court	1,575	\$369,900	\$234.86	4	2	6,098	2000
141	Antonio De Padua Court	1,313	\$370,000	\$281.80	3	2	6,098	1988
3051	Ironwood Court	1,426	\$370,000	\$259.47	3	4	6,534	1988
2115	Chesler	1,759	\$372,000	\$211.48	4	2	--	2005
3852	Colma Avenue	1,600	\$372,500	\$232.81	3	2	--	2005
3172	Dublin Avenue	1,661	\$375,000	\$225.77	3	2	--	1967
2021	Normandy Lane	1,683	\$375,000	\$222.82	4	2	--	1972
1766	Shady Hollow Court	1,760	\$375,000	\$213.07	3	2	6,970	1977
1754	Wildwood	1,760	\$375,000	\$213.07	3	2	6,970	1977
1073	El Portal Drive	1,413	\$375,000	\$265.39	3	2	--	1978
894	La Jolla Way	1,906	\$375,000	\$196.75	3	2	--	1989
3801	Quial Avenue	1,687	\$375,000	\$222.29	3	2	4,356	1990
3573	Bodega Court	1,724	\$375,000	\$217.52	3	2	--	1992
2546	Sunrise Avenue	1,496	\$375,000	\$250.67	3	2	--	1999
1820	Poppyhills	1,823	\$375,000	\$205.70	4	2	9,148	2001

Street Address	Street Name	Home Size	Sale Price	Price Per		Lot Size	Year Built
				Square Foot	Bed Bath		
1441	San Simeon	1,457	\$375,000	\$257.38	3 2	6,098	2003
320	E. Santa Fe Avenue	2,377	\$375,000	\$157.76	4 3	9,583	2006
3345	Happy Isles	1,774	\$379,000	\$213.64	3 2	--	1979
1255	Day Light Drive	2,387	\$379,888	\$159.15	4 4	4,792	2005
2050	Calimyrna Avenue	2,119	\$380,000	\$179.33	4 3	--	1939
3114	Gary Avenue	1,604	\$380,000	\$236.91	3 2	6,970	1964
2963	Evelyn Avenue	1,690	\$380,000	\$224.85	4 3	--	1970
3015	McKee	1,656	\$380,000	\$229.47	3 2	--	1976
2700	H Street	1,640	\$380,000	\$231.71	3 2	--	1980
409	Barclay Way	1,723	\$382,990	\$222.28	4 3	6,970	2006
1272	Brightday Drive	2,346	\$383,000	\$163.26	5 3	--	2004
222	27th Street	1,668	\$385,000	\$230.82	3 2	--	1965
2963	Evelyn Avenue	1,690	\$385,000	\$227.81	3 3	1	1970
1161	Julie Drive	1,650	\$385,000	\$233.33	3 2	--	1974
1763	Forest Grove Court	1,920	\$385,000	\$200.52	4 2	--	1977
852	San Pablo Avenue	1,901	\$385,000	\$202.52	3 2	--	1988
1139	Sentinel Court	2,050	\$385,000	\$187.80	4 2	--	1989
927	Antler Court	1,645	\$385,000	\$234.04	3 2	--	1991
1962	DR. Pinehurst	1,434	\$385,000	\$268.48	3 2	--	2001
2651	N. Big Sandy Avenue	1,960	\$385,000	\$196.43	4 2	6,098	2004
2628	Mira Court	1,402	\$385,000	\$274.61	3 2	--	2004
2477	Showmaker	1,536	\$385,000	\$250.65	4 2	--	2004
1114	Pinnacle Drive	2,346	\$385,000	\$164.11	3 3	6,098	2005
2120	Granite Creek	1,725	\$385,000	\$223.19	4 2	--	2005
401	Brian Court	2,353	\$387,500	\$164.68	5 3	9,148	1970
2902	Lakewood Court	1,662	\$387,500	\$233.15	4 2	--	1972
2281	Childs Avenue	1,132	\$389,000	\$343.64	2 1	--	1949
1038	Kiwi Court	1,700	\$389,000	\$228.82	3 2	--	2002
2602	N Drake	1,565	\$389,000	\$248.56	3 2	--	2004
177	W. Donna Drive	1,577	\$389,500	\$246.99	3 2	--	1981
936	Antler Court	1,645	\$389,900	\$237.02	3 2	--	1991
1903	Fallbrook	1,265	\$389,900	\$308.22	3 2	--	--
1118	Mazatlan Plaza	2,408	\$389,950	\$161.94	4 3	6,970	2006
1941	Woodhaven Court	1,481	\$389,990	\$263.33	3 2	--	1998
544	Della Court	1,605	\$390,000	\$242.99	3 2	--	1977
3312	Rods Court	1,896	\$390,000	\$205.70	4 2	6,970	1979
958	Doe Court	1,724	\$390,000	\$226.22	3 2	--	1990
3801	Quail	1,687	\$390,000	\$231.18	3 2	--	1990
403	Lily Court	1,922	\$390,000	\$202.91	4 3	--	2005
2105	Brookdale Drive	2,076	\$393,500	\$189.55	3 2	--	1961
2390	Fir Avenue	1,829	\$395,000	\$215.97	3 2	--	1950
1977	Edmund	2,027	\$395,000	\$194.87	4 3	--	1969
3860	Quail	1,601	\$395,000	\$246.72	3 2	9,148	1992
3754	Avocet	1,629	\$395,000	\$242.48	3 2	--	1996
3494	Paseo Verde	2,010	\$395,000	\$196.52	4 2	--	1997
3534	Sarasota Avenue	1,708	\$395,000	\$231.26	3 2	--	2003
1420	Capitola Court	1,708	\$395,000	\$231.26	3 2	--	2005
2518	N Drake Avenue	2,053	\$395,000	\$192.40	3 3	--	2005
3254	Thrift Road	950	\$395,000	\$415.79	2 1	43,560	--
2856	Arden Lane	2,248	\$397,500	\$176.82	3 2	--	1955
3663	Avocet Court	1,600	\$398,000	\$248.75	4 2	--	1995
1150	Julie Drive	2,026	\$398,900	\$196.89	3 2	--	1974

Street Address	Street Name	Home Size	Sale Price	Price Per			Lot Size	Year Built
				Square Foot	Bed	Bath		
4115	Canopy Court	1,434	\$399,000	\$278.24	3	2	--	2003
1216	Sunup Drive	2,000	\$399,000	\$199.50	3	3	6,098	2004
1160	Solstice Avenue	2,346	\$399,000	\$170.08	5	4	6,098	2004
1195	Pinnacle Drive	2,346	\$399,000	\$170.08	5	3	6,970	2005
1163	Crescent Drive	3,250	\$399,000	\$122.77	5	4	6,970	2005
603	Junipero Court	1,775	\$399,500	\$225.07	4	2	--	1972
3538	Cordova Avenue	1,981	\$399,500	\$201.67	4	2	6,970	1977
3653	Santiago Street	1,980	\$399,888	\$201.96	4	2	4,792	2006
328	W. 21st Street	2,154	\$399,900	\$185.65	4	2	7,405	1905
2815	Corona Court	1,458	\$399,900	\$274.28	4	2	6,098	2001
3457	San Lorenzo Way	1,706	\$399,900	\$234.41	3	2	--	2001
3642	Pointer Court	1,631	\$399,900	\$245.19	3	2	--	2002
3863	Twilight Avenue	2,352	\$399,900	\$170.03	4	3	5,227	2005
3061	Aspen Street	2,048	\$399,990	\$195.31	4	3	--	1989
1035	W. 14th Street	728	\$400,000	\$549.45	2	1	--	1920
259	El Portal Drive (East)	1,982	\$405,000	\$204.34	4	2	6,098	1976
1147	Mallard Drive	1,446	\$405,000	\$280.08	3	2	6,534	1995
3469	San Gregario	1,708	\$405,000	\$237.12	3	2	6,098	2002
1306	Jenner Drive	1,761	\$405,000	\$229.98	4	2	--	2005
2953	Parker Drive	2,005	\$409,000	\$203.99	4	2	--	1993
3571	Santa Maria Avenue	2,060	\$409,000	\$198.54	4	2	6,098	2004
3568	Tammy Court	1,846	\$409,900	\$222.05	3	2	8,276	1977
3915	Quail Avenue	1,694	\$409,900	\$241.97	3	2	--	1999
2021	Brookdale Drive	2,214	\$410,000	\$185.19	3	2	--	1964
3875	Black Hawk	1,694	\$410,000	\$242.03	3	2	--	2002
2638	Capella Drive	1,252	\$410,000	\$327.48	4	3	6,098	2004
2131	Little Sandy Drive	1,976	\$410,000	\$207.49	4	2	5,227	2005
3455	San Gregario	1,830	\$410,000	\$224.04	4	2	--	--
227	22nd Street	1,669	\$411,000	\$246.26	3	2	--	1921
3623	Swan Court	1,827	\$414,500	\$226.87	3	2	--	2002
1162	Brownie Court	2,103	\$414,900	\$197.29	4	2	7,405	1997
575	E. 20th Street	1,805	\$415,000	\$229.92	2	1	16,117	1950
893	Valparaiso	2,114	\$415,000	\$196.31	4	2	--	1987
1226	North Dome Court	1,863	\$415,000	\$222.76	3	2	--	1997
4124	Canopy Court	2,032	\$415,000	\$204.23	4	2	--	2003
1166	Solstice Avenue	2,637	\$415,000	\$157.38	4	4	6,534	2004
3524	Paseo Verde	2,241	\$415,900	\$185.59	5	3	7,841	2005
3934	Alviso Drive	2,276	\$417,371	\$183.38	4	3	5,227	--
912	Clemson Court	2,150	\$418,000	\$194.42	4	2	--	1989
1373	Esplanade Drive	2,060	\$419,800	\$203.79	4	2	--	--
1265	Sunrise Drive	2,356	\$419,888	\$178.22	5	3	4,792	2005
3896	Pintail Court	2,075	\$419,900	\$202.36	4	2	--	2002
1010	Colombia Avenue	1,976	\$420,000	\$212.55	4	2	9,148	1978
1470	Favier Drive	1,701	\$424,900	\$249.79	3	2	--	2004
1128	Crescent Drive	3,288	\$424,900	\$129.23	4	3	--	2005
214	E. 22nd Street	2,570	\$425,000	\$165.37	3	3	--	1948
690	El Portal	1,981	\$425,000	\$214.54	4	2	--	1976
3581	Sepulveda	2,060	\$425,000	\$206.31	4	2	--	2004
1411	Esplanade Drive	1,708	\$425,000	\$248.83	3	2	6,534	2005
3513	Santiago Court	2,638	\$425,000	\$161.11	5	3	--	2005
1265	Sunrise Drive	2,356	\$429,888	\$182.47	5	3	--	--
3930	Alviso Drive	2,468	\$429,891	\$174.19	4	3	5,227	--

Street Address	Street Name	Home Size	Sale Price	Price Per			Lot Size	Year Built
				Square Foot	Bed	Bath		
1172	Mazatlan Plaza	2,239	\$429,900	\$192.01	5	3	5,227	2005
1151	Mazatlan Place	2,240	\$429,950	\$191.94	5	3	6,534	2005
1277	Sunrise Drive	2,346	\$430,000	\$183.29	4	4	4,356	2004
839	Lehigh Drive	2,112	\$432,000	\$204.55	4	2	--	1988
3628	Los Gatos Court	1,706	\$435,000	\$254.98	3	2	--	2001
1162	W. Donna Drive	1,985	\$437,500	\$220.40	3	2	--	1995
1137	Julie Drive	1,812	\$439,000	\$242.27	4	2	10,019	1973
3402	Tres Logos Drive	2,000	\$439,000	\$219.50	3	3	10,019	1995
3871	Twilight Avenue	3,553	\$439,000	\$123.56	5	4	4,792	2004
1326	Tide Drive	2,300	\$439,000	\$190.87	4	3	5,227	2005
1107	Pinnacle Drive	3,545	\$439,000	\$123.84	4	3	6,098	2005
1127	Solstice Avenue	3,288	\$439,000	\$133.52	4	3	--	2005
389	St. Michelle Court	2,143	\$439,900	\$205.27	3	3	--	1985
1490	Davenport	2,472	\$440,000	\$177.99	4	3	--	2004
94	Aldrich Drive	2,484	\$441,706	\$177.82	3	2	6,534	2006
1325	Derby Drive	2,468	\$445,000	\$180.31	4	3	--	--
1321	Jenner Drive	2,499	\$448,990	\$179.67	5	3	7,841	--
4009	Notre Dame	2,463	\$449,000	\$182.30	4	2	--	1981
220	E. Santa Fe Avenue	2,045	\$449,000	\$219.56	4	3	--	--
3570	San Moritz Avenue	2,371	\$449,000	\$189.37	4	3	--	--
3575	San Vincent Avenue	2,374	\$449,800	\$189.47	4	3	--	--
1604	Pettinotti	2,200	\$450,000	\$204.55	4	2	--	1959
1167	Cabana Court	2,080	\$450,000	\$216.35	4	3	--	1991
3513	Santiago Court	2,650	\$450,000	\$169.81	5	3	3,920	2005
1351	Luke Drive	2,447	\$454,000	\$185.53	4	3	--	2003
3920	Palmer Court	1,964	\$454,500	\$231.42	4	3	6,970	2004
562	Katheryn Court	1,734	\$454,950	\$262.37	3	2	7,841	1976
3198	Kernland Avenue Unit: 1	1,996	\$455,000	\$227.96	4	2	7,841	1977
1645	Patricia Lane	2,469	\$457,000	\$185.10	3	3	--	1955
639	Royal Arch Court	1,828	\$457,900	\$250.49	3	2	--	1990
3828	Avocet Drive	2,034	\$459,000	\$225.66	3	2	--	2006
2049	Spy Glass Court	1,914	\$459,900	\$240.28	4	2	6,098	1997
2426	Man O War	1,860	\$459,950	\$247.28	4	2	--	1975
1441	Caraway Court	2,036	\$459,997	\$225.93	4	2	--	2003
953	Gazelle Court	2,347	\$463,000	\$197.27	3	2	--	2004
1556	San Luis Obispo Court	2,024	\$469,000	\$231.72	3	2	--	1984
3180	E. Childs Avenue	2,237	\$469,900	\$210.06	4	2	--	1960
1433	Massasso	2,200	\$469,900	\$213.59	4	3	--	1971
2078	Spy Glass Court	1,917	\$470,000	\$245.17	4	3	6,970	1997
70	Aldrich Drive	2,631	\$470,239	\$178.73	4	3	6,534	2006
3597	Sepulveda Avenue	2,795	\$475,000	\$169.95	5	4	6,098	2004
3597	Sepulveda Avenue	2,795	\$475,000	\$169.95	5	4	--	2004
12	Aldrich Drive	2,699	\$481,049	\$178.23	4	3	6,970	2006
1209	Del Sol Court	2,112	\$484,500	\$229.40	3	3	--	1980
2611	Ranchero Lane	1,681	\$485,000	\$288.52	3	2	--	1982
1287	Panorama Point Court	2,242	\$485,000	\$216.32	4	2	8,712	1997
627	E. Donna Drive	2,250	\$489,000	\$217.33	4	3	--	1990
1192	Tampico Court	1,822	\$489,000	\$268.39	4	2	--	1990
3559	Laguna Court	2,795	\$489,000	\$174.96	5	4	--	2004
1347	Jenner	1,976	\$489,000	\$247.47	4	2	--	2005
3733	Danco Avenue	2,499	\$489,000	\$195.68	5	3	--	2005
1029	Mallard Drive	2,317	\$489,900	\$211.44	4	3	--	2002

Street Address	Street Name	Home Size	Sale Price	Price Per Square Foot	Bed	Bath	Lot Size	Year Built
3570	San Moritz Avenue	2,371	\$489,900	\$206.62	4	3	5,227	2005
2358	Mariner Way	1,936	\$492,000	\$254.13	4	3	7,841	2005
106	Aldrich	2,930	\$494,335	\$168.72	5	4	6,534	2005
1247	Panorama Point Court	2,251	\$494,900	\$219.86	4	3	7,841	2005
2879	Oleander	2,803	\$495,000	\$176.60	5	3	--	1960
3535	Sarasota Avenue	2,374	\$495,000	\$208.51	4	3	--	2003
4116	Sunshine Court	2,131	\$495,000	\$232.29	4	3	--	2003
3581	Sepulveda Avenue	2,060	\$495,000	\$240.29	4	2	6,970	2005
3581	San Augustine Avenue	2,372	\$495,000	\$208.68	4	3	6,970	2005
4497	Everson Court	2,172	\$495,000	\$227.90	4	3	--	2006
5606	Oak Avenue	1,704	\$497,000	\$291.67	3	2	--	1974
1370	Tide Drive	2,500	\$498,000	\$199.20	5	3	5,227	2005
630	E. 21st Street	2,322	\$498,900	\$214.86	3	2	10,019	1950
246	21st Street West	2,561	\$499,000	\$194.85	4	3	--	1900
1243	Billie Court	1,945	\$499,000	\$256.56	3	2	--	1994
1231	E. Donna Drive	2,251	\$499,000	\$221.68	4	2	--	1997
1445	Esplanade Drive	2,338	\$499,000	\$213.43	5	3	--	2004
3745	Danco Avenue	2,499	\$499,000	\$199.68	5	3	--	--
1222	E. El Portal	1,937	\$499,400	\$257.82	3	2	--	2001
1555	Santa Inez	2,170	\$499,500	\$230.18	3	3	--	1984
1248	El Portal Drive	2,284	\$499,900	\$218.87	4	2	--	2001
2265	Keely Avenue	1,400	\$499,950	\$357.11	3	2	--	2004
3875	Colma	2,749	\$499,999	\$181.88	4	3	6,098	2005
1466	Davenport Drive	2,416	\$500,000	\$206.95	4	2	--	2004
1549	Oregon Drive	2,178	\$509,000	\$233.70	3	2	--	1986
2858	El Camino Real	2,055	\$514,500	\$250.36	3	2	--	1972
3411	San Martin Court	2,539	\$515,000	\$202.84	4	3	--	2001
1282	Lurs Court	3,291	\$515,000	\$156.49	5	5	6,970	2005
3566	Santa Monica	2,795	\$519,000	\$185.69	5	4	7,841	2004
3575	San Vincent Avenue	2,371	\$519,900	\$219.27	4	3	5,227	2005
3559	Santa Maria	2,374	\$528,000	\$222.41	4	2	--	2004
3566	Santa Maria Avenue	2,355	\$528,000	\$224.20	4	3	--	--
1227	Weaver Avenue	2,265	\$530,000	\$234.00	3	3	--	1976
2857	Santa Cruz Avenue	2,645	\$530,000	\$200.38	4	2	10,019	1987
1321	Derby Drive	3,101	\$530,000	\$170.91	5	3	5,663	2005
831	En Bear Creek	2,748	\$535,000	\$194.69	3	2	--	1955
2035	Landram Street	1,735	\$535,000	\$308.36	3	2	43,560	2002
3478	San Martin Court	2,795	\$545,000	\$194.99	4	3	8,276	2002
3843	Colma Avenue	3,101	\$545,000	\$175.75	4	3	--	2005
1382	El Portal	2,293	\$549,000	\$239.42	4	2	--	2003
2675	B&B Blvd	1,794	\$549,500	\$306.30	3	2	--	1981
9208	Price Road	2,000	\$550,000	\$275.00	3	1	--	1865
2788	N. Parsons	2,113	\$550,000	\$260.29	4	3	--	1990
1732	Presidio	2,297	\$550,000	\$239.44	4	3	--	2000
3579	San Augustine	2,539	\$559,000	\$220.17	4	3	--	2005
5672	Elliott Avenue	2,351	\$559,500	\$237.98	4	3	--	1987
3539	Miramar Court	2,795	\$559,900	\$200.32	5	4	6,098	2004
314	W. 21st Street	2,238	\$560,000	\$250.22	4	2	--	1900
1167	Del Rio Court	2,508	\$564,500	\$225.08	4	3	--	1991
260	W. 22nd Street	2,803	\$574,900	\$205.10	5	2	14,810	1936
3922	Nicklaus Court	2,581	\$575,000	\$222.78	4	3	--	2005
1348	Ahwahnee	2,450	\$575,000	\$234.69	4	2	--	--

Street Address	Street Name	Home Size	Sale Price	Price Per Square Foot	Bed	Bath	Lot Size	Year Built
3558	Miramar Court	2,795	\$579,000	\$207.16	5	4	--	2004
2200	Quinley Avenue	2,081	\$579,000	\$278.23	3	3	--	--
1969	Augusta Court	2,375	\$584,000	\$245.89	4	3	9,148	1999
2121	Legends Court	2,313	\$585,000	\$252.92	4	3	--	2002
1410	E.South Bear Creek Drive	1,909	\$589,000	\$308.54	3	2	24,829	1947
6020	Country Club Place	1,815	\$589,000	\$324.52	2	2	--	1977
1272	Esplande	2,799	\$589,700	\$210.68	5	4	--	2005
1055	E 21st Street	2,200	\$595,000	\$270.45	4	3	--	1956
2058	El Portal Drive	2,280	\$597,500	\$262.06	4	3	--	1994
2041	Legends Court	2,294	\$599,000	\$261.12	4	3	--	2001
3752	Crane Avenue	2,499	\$599,000	\$239.70	5	3	--	2005
530	E. Bear Creek	3,770	\$599,900	\$159.12	3	3	--	1953
5810	Elliott Avenue	1,218	\$599,900	\$492.53	--	--	--	1974
2121	Legends Court	2,113	\$599,900	\$283.91	4	3	--	2002
3062	Belcher Avenue	1,874	\$605,000	\$322.84	3	2	--	1962
659	Mokingbird Court	2,523	\$609,000	\$241.38	4	3	10,019	2004
5573	Michelle Court	2,573	\$610,000	\$237.08	4	3	--	1993
575	21st Street East	3,577	\$615,000	\$171.93	4	4	--	1948
14427	N. Hwy 59	2,130	\$615,000	\$288.73	3	3	--	1962
5122	Landram Avenue	2,622	\$615,000	\$234.55	5	4	--	1986
3024	Belcher Avenue	1,504	\$620,000	\$412.23	3	2	--	1962
2545	Stretch Road	1,850	\$630,000	\$340.54	4	3	--	1920
5056	Queen Elizabeth Drive	2,326	\$635,000	\$273.00	3	3	43,560	2002
1398	El Portal Drive	2,400	\$635,000	\$264.58	4	2	--	2004
1565	Mondo Drive	2,704	\$649,000	\$240.01	4	3	--	2006
2380	E. Childs Avenue	1,450	\$650,000	\$448.28	4	1	--	1946
1378	Moraine Dome Court	2,450	\$655,000	\$267.35	4	3	--	2004
3894	Avocet Drive	3,140	\$675,000	\$214.97	4	3	--	2002
1685	N Buhach	1,958	\$675,000	\$344.74	3	2	--	2004
1078	Prince Charles	2,465	\$677,000	\$274.65	4	3	--	2003
5653	White Crane Road	2,630	\$685,000	\$260.46	3	3	43,560	2003
2836	Santa Cruz Avenue	2,861	\$689,000	\$240.82	3	4	--	1988
2837	Whitegate Drive	2,400	\$695,000	\$289.58	2	3	43,560	1965
1511	E. North Bear Creek	3,152	\$695,000	\$220.49	4	4	--	1969
1975	Gibbs Avenue	2,350	\$695,000	\$295.74	3	2	43,560	2002
1494	Gove Road	1,500	\$699,000	\$466.00	3	2	--	1937
2273	E. Childs Avenue	1,676	\$699,000	\$417.06	2	2	--	1980
2917	Pandit Noor Way	2,911	\$699,000	\$240.12	4	32	44,431	2006
605	Kingfisher Court	2,523	\$699,900	\$277.41	4	3	11,326	2003
2966	Yosemite Avenue	1,950	\$725,000	\$371.79	3	2	--	1934
2056	Av Station	2,360	\$729,000	\$308.90	3	2	--	1983
1477	Almond Crest	2,470	\$729,000	\$295.14	4	3	--	2002
5700	Kettle Rock Drive	2,750	\$739,000	\$268.73	4	3	--	2006
5077	Noah Drive	2,600	\$745,000	\$286.54	4	3	--	2005
5350	Queen Elizabeth Drive	2,640	\$749,000	\$283.71	4	3	--	2006
8134	Christian	1,240	\$750,000	\$604.84	3	1	--	1940
415	Buhach	1,134	\$750,000	\$661.38	2	1	--	1948
1846	Belcher Avenue	2,625	\$750,000	\$285.71	3	3	--	1984
1135	Prince Williams	3,074	\$750,000	\$243.98	5	3	43,560	2004
3526	N. Franklin	3,300	\$759,989	\$230.30	4	3	--	2005
2071	E. Bear Creek Drive	2,413	\$775,000	\$321.18	3	3	--	1921
2234	N. Buhach Road	1,988	\$775,000	\$389.84	4	2	--	1973

Street Address	Street Name	Home Size	Sale Price	Price Per Square Foot	Bed	Bath	Lot Size	Year Built
1862	Belcher	1,100	\$775,000	\$704.55	3	1	--	1988
3265	N. Bhupinder Sahota	3,300	\$780,000	\$236.36	5	3	--	2006
5656	Clear Creek	3,085	\$785,000	\$254.46	4	3	--	2006
1022	Ct. Lady Di	2,600	\$799,000	\$307.31	5	3	--	2002
3357	N. Bhupinder Sahota Avenue	3,780	\$799,000	\$211.38	5	5	50,094	2005
1405	Shady Cove Avenue	3,248	\$799,000	\$246.00	4	3	--	--
2479	Piedmont Drive	2,810	\$799,000	\$284.34	3	3	--	--
2850	Boardwalk Drive	2,450	\$799,900	\$326.49	4	3	--	1984
3156	N. Bhupinder Sahota	3,771	\$825,000	\$218.77	5	5	--	2006
2501	Seabreeze Court	2,721	\$829,000	\$304.67	3	3	10,019	1984
2479	Piedmont Drive	2,810	\$835,000	\$297.15	3	2	--	1997
2144	King Authur Court	2,844	\$835,000	\$293.60	3	3	--	2002
399	E. 21st Street	2,852	\$849,000	\$297.69	4	3	--	1941
3785	Lake Road	2,617	\$849,000	\$324.42	4	3	--	1974
2029	Robinhood Lane	3,007	\$850,000	\$282.67	4	4	--	2005
1889	Canyon	2,880	\$865,000	\$300.35	3	3	--	1992
5709	Chris Court	3,500	\$865,000	\$247.14	4	3	--	1993
2211	Tuscany	2,585	\$869,000	\$336.17	3	3	--	1990
2262	E. Bear Creek	3,260	\$875,000	\$268.40	3	3	--	1991
3801	Lake Road	3,312	\$879,000	\$265.40	4	5	--	1990
1550	E. South Bear Creek Drive	3,350	\$879,950	\$262.67	4	3	30,928	1966
4040	E. Vassar	2,610	\$890,000	\$341.00	4	3	--	2002
2925	Greenfield	4,641	\$899,000	\$193.71	5	5	--	1987
117	21st Street East	4,176	\$949,000	\$227.25	4	4	--	1903
4551	W. Hwy 140	1,619	\$950,000	\$586.78	3	2	--	--
2536	Piedmont Drive	3,326	\$990,000	\$297.65	4	3	--	1987
5283	Lucille Avenue	3,256	\$995,000	\$305.59	3	4	--	2003
1695	Knoll Court	2,690	\$1,100,000	\$408.92	4	3	--	1985
3969	Hatch Road	2,221	\$1,150,000	\$517.78	3	3	--	1977
5671	Carmella Court	3,026	\$1,150,000	\$380.04	3	3	--	1996
6492	Hwy 59	2,200	\$1,150,000	\$522.73	3	2	--	2004
1187	Farmland	2,927	\$1,200,000	\$409.98	4	3	--	1979
5654	Hillcrest	3,645	\$1,200,000	\$329.22	4	3	--	1989
2463	Lecco Way	3,800	\$1,200,000	\$315.79	5	4	--	1997
5649	W. Leland Court	3,801	\$1,200,000	\$315.71	5	5	50,094	2003
2187	Leeward Court	3,394	\$1,200,000	\$353.57	4	4	43,560	2006
1471	Club Drive	3,450	\$1,250,000	\$362.32	3	3	--	1998
Averages:		1,747	\$401,199	\$234.36	--	--	9,137	1981
Built After 2000 Averages:		1,976	\$438,998	\$225.65	--	--	10,024	2004

EXHIBIT II - 17B
DETACHED HOME LISTINGS ANALYSIS
 (Zip Codes: 95340, 95341, 95343, 95344 & 95348)
MERCED MARKET AREA

The Gregory Group
 CA06.07003Merced

Price Range	Number of Listings	Percent Market Share	Average Price
Less Than \$200,000	9	1.2%	\$175,656
\$200,000 - \$299,999	198	26.1%	\$271,498
\$300,000 - \$399,999	321	42.3%	\$352,443
\$400,000 - \$499,999	113	14.9%	\$451,441
\$500,000 - \$599,999	43	5.6%	\$557,200
\$600,000 - \$699,999	25	3.3%	\$657,036
\$700,000 - \$799,999	21	2.8%	\$764,852
\$800,000 and Greater	29	3.8%	\$985,447
Totals:	759	100.0%	\$401,199

LISTING DISTRIBUTION BY PRICE

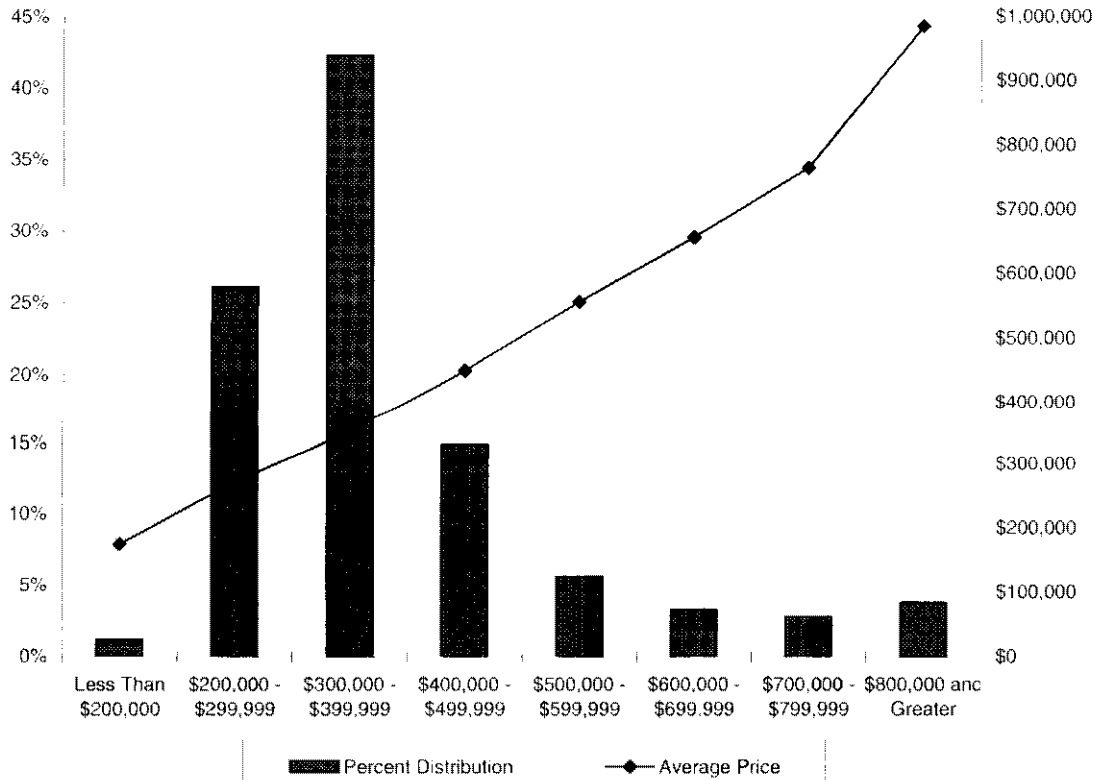
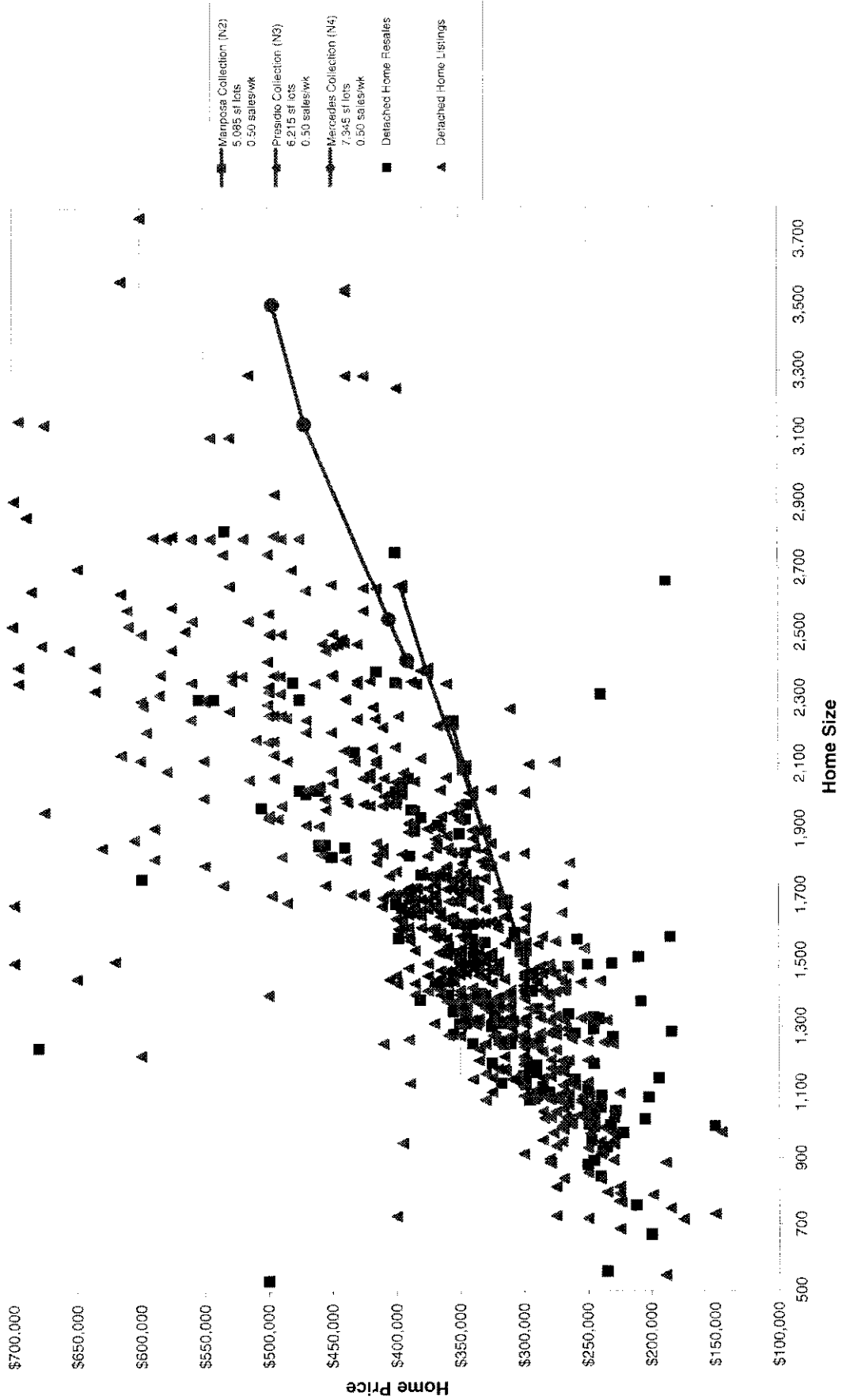


EXHIBIT II - 17C
SUBJECT PROJECT VERSUS LISTINGS AND REALES -- NET PRICING
MERCED MARKET AREA
OCTOBER, 2006



APPENDIX F
FORM OF BOND COUNSEL OPINION

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APPENDIX F
FORM OF BOND COUNSEL OPINION

Date of Delivery

City Council
City of Merced
678 West 18th Street
Merced, California 95340

Re: \$5,840,000 Community Facilities District No. 2006-1 (Moraga of Merced) of
the City of Merced 2006 Special Tax Bonds

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Merced (the "City") for Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced, County of Merced, State of California (the "District"), of \$5,840,000 aggregate principal amount of the Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced 2006 Special Tax Bonds (the "Bonds"). The Bonds are issued pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Act"), a resolution adopted by the City Council of the City of Merced on November 6, 2006 (the "Resolution"), and a Fiscal Agent Agreement, dated as of December 1, 2006 (the "Agreement"), between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent").

We have examined the Act, the Resolution, the Agreement and certified copies of the proceedings taken for the issuance and sale of the Bonds. As to questions of fact which are material to our opinions, we have relied upon the representations of the City contained in the Agreement and in certificates of its authorized officers which have been delivered to us for the purpose of supplying such facts, without having undertaken to verify the accuracy of any such representations by independent investigation.

Based upon such examination, we are of the opinion, as of the date hereof, that the proceedings referred to above have been taken in accordance with the laws and the Constitution of the State of California, and that the Bonds, having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchaser thereof, and the Agreement having been duly authorized and executed by the proper officials, constitute the legally valid and binding obligations of the District enforceable in accordance with their terms subject to the qualifications specified below. Except where funds are otherwise available, as may be permitted by law, the Bonds are payable, as to both principal and interest, solely from certain special taxes to be levied and collected within the District and other funds available therefor held under the Agreement.

The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the issuance and delivery of the Bonds for the interest on the Bonds to be and remain exempt from federal income taxation. Noncompliance with such requirements could cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of issuance of the Bonds. Pursuant to the Agreement, the City has covenanted to comply with the requirements of the Code and applicable regulations promulgated thereunder.

We are of the opinion that, under existing statutes, regulations, rulings and court decisions, and assuming compliance by the City with the aforementioned covenants, the interest on the Bonds is excluded from gross income for purposes of federal income taxation and is exempt from personal income taxation imposed by the State of California.

We are further of the opinion that interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. However, interest on the Bonds received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations.

Although interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The opinions expressed herein may be affected by actions which may be taken (or not taken) or events which may occur (or not occur) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur or are not taken or do not occur.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Agreement may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

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**FORM OF
ISSUER CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of December 1, 2006, is executed and delivered by the City of Merced (the "City"), for and on behalf of Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced (the "District") and MuniFinancial, as Dissemination Agent hereunder (the "Dissemination Agent"), in connection with the issuance of the \$5840,000 Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced, 2006 Special Tax Bonds (the "Bonds"). The Bonds are being issued pursuant to provisions of a Fiscal Agent Agreement, dated as of December 1, 2006 (the "Fiscal Agent Agreement"), by and between the City, for and on behalf of the CFD (the "Issuer") and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"). The City, the CFD and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer and the Dissemination Agent for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report or any addendum thereto provided by the CFD pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

"CFD" means Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced, a community facilities district organized and existing under the laws of the State of California, and such area of land comprising that community facilities district.

"City" means the City of Merced.

"Disclosure Representative" shall mean the Finance Director of the City of Merced or his or her designee, or such other officer or employee as the City Council of the City (the "City Council") shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean MuniFinancial, as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the CFD and which has filed with the Fiscal Agent a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in the SEC website located at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

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

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The CFD shall, or shall cause the Dissemination Agent to, not later than January 31 of each year, commencing with the January 31 following the fiscal year ending June 30, 2006, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement. If the CFD’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f). Furthermore, upon receipt of a written request of any Beneficiary Owner, the Dissemination Agent shall provide a copy of the Annual Report to such Beneficial Owner.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the CFD shall provide the Annual Report to the Dissemination Agent and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the CFD and the Fiscal Agent of such failure to receive the Annual Report. The CFD shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Fiscal Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Fiscal Agent may conclusively rely upon such certification of the CFD and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) to the extent information is known to it, file a report with the CFD and (if the Dissemination Agent is not the Fiscal Agent) the Fiscal Agent 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 (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretative release to the MAC dated September 7, 2004.

SECTION 4. Content of Annual Reports. The CFD's Annual Report shall contain or include by reference the following:

(i) The audited financial statements of the City, prepared in accordance with generally accepted accounting principles in effect from time to time. If the City's 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 and the audited financial statements shall be filed in the same manner as the Annual Report when they become available, and provided, further that in each Annual Report or other filing containing the financial statements, the following statement shall be included in bold type:

"THE FOLLOWING FINANCIAL STATEMENT IS PROVIDED SOLELY TO COMPLY WITH THE SECURITIES AND EXCHANGE COMMISSION STAFF'S INTERPRETATION OF RULE 15c2-12. NO FUNDS OR ASSETS OF THE CITY OF MERCED (OTHER THAN THE SPECIAL TAXES LEVIED IN THE COMMUNITY FACILITIES DISTRICT) ARE REQUIRED TO BE USED TO PAY DEBT SERVICE ON THE BONDS AND THE CITY IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS FROM THE CITY TREASURY TO COVER ANY DELINQUENCIES. INVESTORS SHOULD NOT RELY ON THE FINANCIAL CONDITION OF THE CITY IN EVALUATING WHETHER TO BUY, HOLD OR SELL THE BONDS."

(ii) The balance in the Reserve Fund held under the Fiscal Agent Agreement.

(iii) The principal amount of the Bonds outstanding.

(iv) The amount of prepayments of the Special Tax, if any.

(v) Total assessed valuation (per the Merced County Assessor records) of all parcels currently subject to the Special Tax within the CFD, showing the total assessed valuation for all land and the total assessed valuation for all improvements within the CFD and distinguishing between the assessed value of developed property and undeveloped property.

(vi) Identification of each parcel within the CFD for which any Special Tax payment is delinquent, together with the following information respecting each such parcel: (A) the amount delinquent; (B) the date of each delinquency; (C) in the event a foreclosure complaint has been filed respecting such delinquent parcel and such complaint has not yet been dismissed, the date on which the complaint was filed; and (D) in the event a foreclosure sale has occurred respecting such delinquent parcel, a summary of the results of such foreclosure sale.

(vii) A land ownership summary listing property owners responsible for more than ten percent (10%) of the annual Special Tax levy, as shown on the Merced County Assessor's last equalized tax roll prior to the September next preceding the Annual Report date.

(viii) A description of the status of the facilities being constructed with proceeds of the Bonds as of the date of the Annual Report (but only so long as such facilities are not completed).

(ix) Changes, if any to the rate and method of apportionment.

(x) The amount of Special Taxes generated by the developed parcels and undeveloped parcels within the CFD.

(xi) To the extent not provided pursuant to (i) through (ix) above, the annual information required to be filed with the California Debt and Investment Advisory Commission.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the 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 CFD shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the CFD 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. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds.

(b) The Dissemination Agent shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter, contact the Disclosure Representative, inform such person of the event, and request that the CFD promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Fiscal Agent whether or not to report such event to the Bondholders. In the absence of such direction the Dissemination Agent shall not report such event unless otherwise required to be reported by the Fiscal Agent to the Bondholders under the Fiscal Agent

Agreement. The Dissemination Agent may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Fiscal Agent or the Dissemination Agent with regular responsibility for the administration of matters related to the Fiscal Agent Agreement. Neither the Fiscal Agent nor the Dissemination Agent shall have any responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the CFD obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the CFD shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the CFD has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the CFD shall promptly notify the Dissemination Agent 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 CFD determines that the Listed Event would not be material under applicable federal securities laws, the CFD 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 CFD to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Fiscal Agent Agreement.

SECTION 6. Termination of Reporting Obligation. The CFD'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 CFD shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The CFD may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the CFD pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be MuniFinancial. The Dissemination Agent may resign by providing thirty days written notice to the CFD and the Fiscal Agent. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the CFD in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the CFD, Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the CFD) provided, the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

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

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the CFD shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the CFD.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the CFD 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 CFD 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 CFD shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the CFD or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent (at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall but only to the extent funds in an amount satisfactory to the Fiscal Agent have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Fiscal Agent whatsoever, including, without limitation, fees and expenses of its attorneys), 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 CFD or Fiscal 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 Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the CFD or the Fiscal Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the CFD agrees to indemnify and hold the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of 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 Dissemination Agent shall be paid compensation by the CFD for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of

its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the CFD, the Bondholders, or any other party. The Dissemination Agent shall have no liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Agreement. The obligations of the CFD under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Issuer: City of Merced
678 West 18th Street
Merced, CA 95340
Attn: City Manager

To the Dissemination Agent: MuniFinancial
27368 Via Industria, Suite 110
Temecula, CA 92590

To the Fiscal Agent: U.S. Bank National Association
One California Street, Suite 2100
San Francisco, CA 94111
Attn: Corporate Trust Department

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the CFD, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

CITY OF MERCED ON BEHALF OF THE
COMMUNITY FACILITIES DISTRICT NO. 2006-
1 (MORAGA OF MERCED) OF THE CITY OF
MERCED

By _____
City Manager

ATTEST:
JAMES G. MARSHALL, CITY CLERK

BY: _____
Deputy City Clerk

APPROVED AS TO FORM:

BY: _____
City Attorney

ACCOUNT DATA:

BY: _____
Verified by Finance Officer

MUNIFINANCIAL, as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced
Name of Bond Issue: \$5,840,000 Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced, 2006 Special Tax Bonds
Date of Issuance: December 14, 2006

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of December 1, 2006, with respect to the Bonds. [The Issuer anticipates that the Annual Report will be filed by _____.]

Dated: _____

MUNIFINANCIAL, on behalf of Issuer

cc: Issuer

EXHIBIT B

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer: City of Merced, on behalf of Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced

Name of Obligated Party: Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced

Name of Issue: \$5,840,000 Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced, 2006 Special Tax Bonds

Date of Issuance: December 14, 2006

Date of Official Statement: November 30, 2006

<i>CUSIP Number:</i>	587626BG6	<i>CUSIP Number:</i>	587626BQ4
<i>CUSIP Number:</i>	587626BH4	<i>CUSIP Number:</i>	587626BR2
<i>CUSIP Number:</i>	587626BJ0	<i>CUSIP Number:</i>	587626BS0
<i>CUSIP Number:</i>	587626BK7	<i>CUSIP Number:</i>	587626BT8
<i>CUSIP Number:</i>	587626BL5	<i>CUSIP Number:</i>	587626BU5
<i>CUSIP Number:</i>	587626BM3	<i>CUSIP Number:</i>	587626BV3
<i>CUSIP Number:</i>	587626BN1	<i>CUSIP Number:</i>	587626CA8
<i>CUSIP Number:</i>	587626BP6	<i>CUSIP Number:</i>	587626CL4

**FORM OF
PROPERTY OWNER CONTINUING DISCLOSURE AGREEMENT**

This Developer Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of December 1, 2006, is executed and delivered by Lakemont LWH, LLC, a Delaware limited liability company (the "Property Owner") and MuniFinancial, as Dissemination Agent hereunder (the "Dissemination Agent"), in connection with the issuance of the \$5,840,000 Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced, 2006 Special Tax Bonds (the "Bonds"). The Bonds are being issued pursuant to provisions of a Fiscal Agent Agreement, dated as of December 1, 2006 (the "Fiscal Agent Agreement"), by and between the City of Merced (the "City"), for and on behalf of Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced (the "District") (the "Issuer") and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"). The Property Owner and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Property Owners and the Dissemination Agent for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Affiliate" of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, five percent (5%) or more of the outstanding voting securities of such other Person, (b) any Person whose outstanding voting securities of five percent (5%) or more 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.

"Assumption Agreement" means an undertaking of a Major Owner, or an Affiliate thereof, for the benefit of the holders and beneficial owners of the Bonds containing terms substantially similar to this Disclosure Agreement (as modified for such Major Owner's development and financing plans with respect to the CFD), whereby such Major Owner or Affiliate agrees to provide semi-annual reports and notices of significant events, setting forth the information described in sections 4 and 5 hereof, respectively, with respect to the portion of the property in the CFD owned by such Major Owner and its Affiliates and, at the option of the Property Owner or such Major Owner, agrees to indemnify the Dissemination Agent pursuant to a provision substantially in the form of Section 11 hereof.

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

"CFD" shall mean Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced.

“Disclosure Representative” shall mean the _____ of the Property Owner or his or her designee, or such other officer or employee as the Property Owner shall designate in writing to the Fiscal Agent and Dissemination Agent from time to time.

“Dissemination Agent” shall mean MuniFinancial, as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Property Owners and which has filed with the Fiscal Agent a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“Major Owner” shall mean an owner (including all Affiliates of such owner) of land in the CFD responsible in the aggregate for 10% or more of the annual special taxes levied in the CFD.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in the SEC website located at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

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

“Property” means the property within the CFD owned by the Property Owner and all of its Affiliates.

“Repository” shall mean each National Repository and each State Repository.

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

“Semi-Annual Report” shall mean any Semi-Annual Report or its addendum provided by the Property Owners pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

SECTION 3. Provision of Semi-Annual Reports.

(a) The Property Owner shall, or cause the Dissemination Agent to, not later than 3 months and 9 months after the end of the Property Owner’s fiscal year, commencing with fiscal year ending December 31, 2006, provide to each Repository and the Participating Underwriter a Semi-Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement with a copy to the Fiscal Agent and the Issuer. Not later than fifteen (15) Business Days prior to said date, the Property Owner shall provide the Semi-Annual Report to the Dissemination Agent. The Property Owner shall provide a written certification with each Semi-Annual Report furnished to the Dissemination Agent

and the Fiscal Agent and the Issuer to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it hereunder. The Dissemination Agent, the Issuer and the Fiscal Agent may conclusively rely upon such certification of Property Owner and shall have no duty or obligation to review such Semi-Annual Report. The Semi-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. If the Property Owner's fiscal year changes, the Property Owner shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) If the Dissemination Agent is unable to verify that a Semi-Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Semi-Annual Reports the name and address of each National Repository and the State Repository, if any; and

(ii) to the extent information is known to it, file a report with the Issuer, the Property Owner and (if the Dissemination Agent is not the Fiscal Agent) the Fiscal Agent certifying that the Semi-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.

(d) Any filing under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretative release to the MAC dated September 7, 2004.

SECTION 4. Content of Semi-Annual Reports. The Property Owner's Semi-Annual Report shall contain or include by reference the following:

(i) Relating to all property owned by the Property Owner within the CFD (the "Property"), a summary of the Property Owner's development activity on the Property since the date of the last Semi-Annual Report: (A) number of acres/lots owned by the Property Owner or its Affiliates, (B) progress of construction activities on the Property, including number of building permits pulled, and (C) number of acres/lots sold by the Property Owner or its Affiliates to end users (homeowners) as of the end of the applicable reporting period.

(ii) Any material changes in the information relating to the Property Owner and/or the Property contained in the Official Statement under the caption "THE DEVELOPMENT - General, - CFD and Public Facilities," "- The Developer," including updates to Tables 10 -13.

(iii) A description of any change in the legal structure of the Property Owner and/or the financial condition of the Property Owner that would materially interfere with its ability to complete the development plan described in the Official Statement under the caption "THE DEVELOPMENT" or to pay its special taxes.

(iv) A description of any material changes in the Development Plan including any significant amendments to land use or development entitlements.

(v) A description of any previously undisclosed material amendment to the land use entitlement for the Property.

(vi) An update of the status of any previously reported Listed Event described in Section 5 hereof.

(vii) A statement as to whether or not the Property Owner and all of its Affiliates paid, prior to their becoming delinquent, all special taxes levied on the property owned by the Property Owner and such Affiliates within the CFD and if the Property Owner or any of such Affiliates is delinquent in the payment of such special taxes, a statement identifying each entity that is so delinquent, specifying the amount of each such delinquency and describing any plans to resolve such delinquency.

(viii) An update in the financing plan of the Property Owners for the Development Plan described in the Official Statement under the caption "THE DEVELOPMENT – General," and description of any material changes thereto and the causes or rationale for such changes.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Property Owner or related 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 Property Owner shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Property Owner 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. bankruptcy or insolvency proceedings commenced by or against the Property Owner or a partner or Affiliate thereof that would materially interfere with its ability to complete the Development Plan or to pay its special taxes;

2. failure by the Property Owner to pay any taxes, special taxes or assessments due with respect to the Property;

3. filing of a lawsuit against the Property Owner or a partner or Affiliate thereof seeking damages, or a judgment in a lawsuit against the Property Owner or a partner or Affiliate thereof, which could have a significant impact on the Property Owner's ability to pay Special Taxes or to sell or develop the Property;

4. any conveyance by the Property Owner of any portion of the Property to an entity that is not an Affiliate of the Property Owner, the result of which conveyance is to cause the transferee to become a Major Owner;

5. any denial or termination of credit, any denial or termination of, or default under, any line of credit or loan or any other loss of a source of funds that could have a material adverse affect on the Property Owner's most recently disclosed financing plan or the ability of the Property Owner or any Affiliate to pay Special Taxes when due;

6. any significant amendments to the land use entitlements for the Property;

7. any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development on the Property;

8. any previously undisclosed legislative, administrative or judicial challenges to development on the Property Owner's property;

9. any change in the alignment, design or likelihood of completion of significant public improvement affecting the Property Owner's property, including major thoroughfares, sewers, water conveyance systems and similar facilities; and

10. The assumption of any obligation by a Major Owner pursuant to Section 6.

(b) The Fiscal Agent shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter, contact the Disclosure Representative, inform such person of the event, and request that the Property Owner promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Dissemination Agent whether or not to report such event to the Bondholders. In the absence of such direction the Fiscal Agent shall not report such event unless otherwise required to be reported by the Fiscal Agent to the Bondholders under the Fiscal Agent Agreement. The Fiscal Agent may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Fiscal Agent with regular responsibility for the administration of matters related to the Fiscal Agent Agreement. The Fiscal Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the Property Owner obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Fiscal Agent pursuant to subsection (b) or otherwise, the Property Owner shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Property Owner has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Property Owner shall promptly notify the Dissemination Agent 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 Property Owner determines that the Listed Event would not be material under applicable federal securities laws, the Property Owner 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 Property Owner to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repositories.

SECTION 6. Duration of Reporting Obligation. (a) Each of the Property Owner's obligations hereunder shall commence on such date as the Property owned by a Property Owner is responsible for payment of 10% or more of the special taxes in the CFD and shall terminate (except as provided in Section 11) upon (i) the legal defeasance, prior redemption or payment in full of all the Bonds or (ii) so long as the Bonds are outstanding, at such time the Property Owner is no longer a Major Owner. Upon the occurrence of any such termination or suspension prior to the final maturity

of the Bonds, the Property Owner shall give notice of such termination or suspension in the same manner as for a Listed event under Section 5.

(b) If a portion of the Property, is conveyed to a Person that, upon such conveyance, will be a Major Owner, the obligations of the Property Owner hereunder with respect to such property owned by such Major Owner and its Affiliates shall be assumed by such Major Owner or by an Affiliate thereof and the Property Owner's obligations hereunder will be terminated. In order to effect such an assumption, such Major Owner or Affiliate shall enter into an Assumption Agreement. The Property Owner shall provide a copy of the executed Assumption Agreement to the Fiscal Agent and the City.

SECTION 7. Dissemination Agent. The Property Owners may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Property Owner pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be MuniFinancial. The Dissemination Agent may resign by providing thirty days written notice to the Property Owner, the Issuer and the Fiscal Agent. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Property Owner. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Property Owner in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Property Owner, Dissemination Agent and the Fiscal Agent may amend this Disclosure Agreement (and the Fiscal Agent and Dissemination Agent shall agree to any amendment so requested by the Property Owner) provided, neither the Fiscal Agent nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

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

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Property Owner shall describe such amendment in the next Semi-Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Property Owner.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Property Owner 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 Semi-Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Property Owner choose to include any information in any Semi-Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Property Owner shall have no obligation under this Agreement to update such information or include it in any future Semi-Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Property Owner or the Fiscal Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent (at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall but only to the extent funds in an amount satisfactory to the Fiscal Agent have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Fiscal Agent whatsoever, including, without limitation, fees and expenses of its attorneys), 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 Property Owner or Fiscal 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 Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Property Owner or the Fiscal Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Property Owner agrees to indemnify and hold the Dissemination Agent, their officers, directors, employees and agents (the "Indemnified Party"), harmless against any loss, expense and liabilities which they may incur arising out of or in the reasonable 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 or liabilities due to any Indemnified Party's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Property Owner for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all reasonable expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the Property Owner, the Bondholders, or any other party. The Dissemination Agent shall not have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Agreement. The obligations of the Property Owner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Issuer:	City of Merced 678 West 18 th Street Merced, CA 95340 Attn: City Manager
----------------	--

To the Dissemination Agent: MuniFinancial
 27368 Via Industria, Suite 110
 Temecula, CA 92590

To the Fiscal Agent: U.S. Bank National Association
 One California Street, Suite 2100
 San Francisco, CA 94111
 Attn: Corporate Trust Department

To the Property Owner: Lakemont LWH, LLC
 c/o Lakemont Homes Incorporated
 140 Diamond Creek Place
 Roseville, CA 95747
 Attn: Steve Thinglum

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Property Owner, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

LAKEMONT LWH, LLC, a Delaware limited liability company

By: _____

Its: _____

MUNIFINANCIAL
 as Dissemination Agent

By _____

Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE SEMI-ANNUAL REPORT

Name of Obligated Parties: Lakemont LWH, LLC
Name of Bond Issue: \$5,840,000 Community Facilities District No. 2006-1 of the City of Merced (Moraga of Merced) 2006 Special Tax Bonds
Date of Issuance: December 14, 2006

NOTICE IS HEREBY GIVEN that the Property Owner, Lakemont LWH, LLC, has not provided a Semi-Annual Report with respect to the above-named Bonds as required by the Developer Continuing Disclosure Agreement, dated as of December 1, 2006, with respect to the Bonds. [Such Property Owner anticipates that the Semi-Annual Report will be filed by _____.]

Dated: _____

MUNIFINANCIAL, on behalf of Property Owner,
Lakemont LWH, LLC

cc: Issuer

EXHIBIT B

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer: City of Merced on behalf of Community Facilities District No. 2006-1 of the City of Merced (Moraga of Merced) 2006 Special Tax Bonds

Name of Obligated Parties: Lakemont LWH, LLC

Name of Issue: \$5,840,000 Community Facilities District No. 2006-1 of the City of Merced (Moraga of Merced) 2006 Special Tax Bonds

Date of Issuance: December 14, 2006

Date of Official Statement: November 30, 2006

<i>CUSIP Number:</i>	587626BG6	<i>CUSIP Number:</i>	587626BQ4
<i>CUSIP Number:</i>	587626BH4	<i>CUSIP Number:</i>	587626BR2
<i>CUSIP Number:</i>	587626BJ0	<i>CUSIP Number:</i>	587626BS0
<i>CUSIP Number:</i>	587626BK7	<i>CUSIP Number:</i>	587626BT8
<i>CUSIP Number:</i>	587626BL5	<i>CUSIP Number:</i>	587626BU5
<i>CUSIP Number:</i>	587626BM3	<i>CUSIP Number:</i>	587626BV3
<i>CUSIP Number:</i>	587626BN1	<i>CUSIP Number:</i>	587626CA8
<i>CUSIP Number:</i>	587626BP6	<i>CUSIP Number:</i>	587626CL4

APPENDIX H

BOOK-ENTRY ONLY SYSTEM

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The foregoing internet address is included for reference only, and the information on this internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement.*

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership.

DTC has no knowledge of the actual Beneficial Owners of the Bonds: DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Issuer and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer (or the Fiscal Agent on behalf thereof) 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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



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